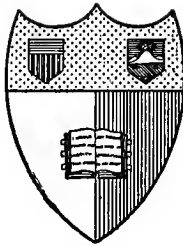


UNEMPLOYMENT



ARTHUR KITSON



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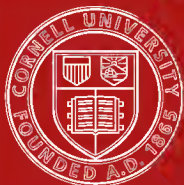
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UNEMPLOYMENT

The Cause and a Remedy

By

ARTHUR KITSON

Author of
THE MONEY PROBLEM
TRADE FALLACIES
A FRAUDULENT STANDARD
ETC.



LONDON

CECIL PALMER

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Foreword.

IN the month of February last the writer of the following articles was a guest at a dinner party in London at which several well-known financiers and merchants were present. The conversation soon turned upon the question of the country's industrial paralysis and each member was asked to express his opinion as to the cause and to suggest a remedy. The first speaker, a merchant, said that periods of trade depression and unemployment are the result of natural laws and have occurred every 10 or 12 years for the past century and are unavoidable. Another quoted with approval the statement of the Prime Minister that the crisis is the result of the war and that unemployment is inevitable and irremediable. A third member, a financier, said that our troubles were the direct consequence of currency inflation and the creation of paper money. He added, "If we had stuck to gold, all these difficulties might have been avoided." His remedy was to return to the gold-standard. A fourth attributed the cause to the unreasonable demands of labour.

"We must first reduce wages," he said, "and so bring about a fall in prices if we are to escape from the present morass into which the Government has driven us by its foolish panderings to labour"! A fifth member held the Government responsible by reason of their having retained so many restrictions upon trade since peace was declared. "Free and unrestricted trade," he added, "is the only remedy."

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One or two remaining members agreed with one or other of the opinions already given.

The writer's turn came last and he expressed himself as being in entire disagreement with every member present. Not one of the reasons so far urged for our industrial woes would stand even the most superficial investigation, and consequently the remedies suggested were not only worthless but foolish. To begin with, for at least 15 months after the war had ended the country enjoyed a period of great industrial activity and trade prosperity. The war left the world with a vast shortage of goods of every description and consequently no sooner had the guns ceased firing than orders began pouring in from every quarter of the globe. Factories were rapidly converted from the manufacture of war munitions to that of life-sustaining commodities, and extensions were soon made to cope with the extraordinary demand. Hundreds of thousands of men from our demobilised armies were absorbed into the various industries. New enterprises sprang into existence and the demand for money and credit for productive work grew proportionately. Every condition favourable to a long period of prosperity existed.

In spite of the foolish bonded-debt policy which our Government—under the influence of the Treasury officials and the professional money-lending classes,—had adopted throughout the war, Great Britain emerged from the conflict far wealthier so far as her productive ability and facilities are concerned than when she entered upon the great struggle. And it only required a comparatively short period, say ten years, of this prosperity which had then started to enable her to rid herself entirely of her national debt. Now if there were any truth

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in the opinions just expressed such as the war having been the cause of the present trade slump, or natural laws, or the demands of labour, or trade restrictions, or an inflated currency, why did these so-called causes which existed in 1919 and 1920 fail to operate until about the beginning of last summer? Why were they dormant for over 15 months? Such flimsy reasons wouldn't satisfy the curiosity of a child.

But now let us see what happened just about 12 months ago, viz., March 1920. After this brief period of prosperity the country was startled by the sudden announcement by the Chancellor of the Exchequer (Mr. Austen Chamberlain) that the Government had "set its heart upon gradually deflating the currency" and he called upon the bankers to assist him in restricting credit. The bank rate was advanced to 7 per cent, and the game of squeezing industry for the benefit of bond-holders and money-lenders commenced. It was no mere coincidence that the trade slump started the very day this amazing speech of the Chancellor was published. Realising that this deflation policy meant the slaughter of all values, the destruction of all enterprise, a drastic fall in prices and wholesale bankruptcy, the country took alarm and played for safety. No one cares to buy goods on a falling market. Orders began to be cancelled! Stocks were offered at prices below cost. The public demand commenced to slacken! Many workmen were put on short time whilst thousands more were discharged. And with the decrease in wages the public ability to buy goods also decreased. The idea that a policy of this nature could be undertaken without a disaster to trade and industry, that

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deflation might be proceeded with so gradually as to do the country no harm, could only emanate from a mind wholly ignorant of trade, commerce and history!

The writer maintained that industrial and social conditions would necessarily grow worse until this policy of credit contraction was reversed. He ventured to call attention to the numerous warnings he had sounded in the daily and weekly press and in various pamphlets and books published during and since the war as to the dangers of attempting to contract the currency after peace was declared. Many similar warnings have also been uttered, notably by Lord Milner in the House of Lords, by Lord Leverhulme and by Mr. McKenna, the Chairman of the London Joint City and Midland Bank, and others. In spite of these warnings the Chancellor and his Treasury officials, aided by the Bank of England, persisted in their mad course of raising the Bank rate and contracting the money and credit supplies with the terrible results we are now witnessing. Bankruptcies have increased more than 100 per cent. over those of 1919, whilst unemployment has risen to the incredible number of 3,000,000! The Coal Strike—the direct result of wages dispute and therefore of the Government's dear-money policy—is further evidence of the ruin wrought!

In short, we are now beginning to experience a repetition of that terrible period following the Napoleonic Wars commencing about 1820 and culminating in the "hungry forties" for which Lord Liverpool, Sir Robert Peel and his chief adviser, Lord Overstone (Chairman of Lloyds Bank) were—by reason of their currency deflation policy—directly responsible.

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Precisely the same results are being experienced in the United States and from a similar policy of currency contraction for which certain financiers of German and Hebrew origin are said to be the authors. According to the Manufacturers Record (a widely read American Trade Journal) this currency contraction has thrown out of employment some 4 million operatives and has cost the American people over £6,000,000,000 during the year of 1920 alone! The writer's estimate of the appalling losses which this country has experienced *directly* as the result of Mr. Austen Chamberlain's policy for the past year is equivalent to 1/6th of the estimated wealth of this country in January 1920 which then stood at £30,000,000,000! Hence the loss stands at fully £5,000,000,000! Now let us look at the other side of the question! The German Government refused to enslave their people during or since the war by borrowing from the world's money-lenders to the extent and in the manner our Government have done. They used and are still using their own national credit in the form of paper money instead of borrowing the credit of others, and, they were not afraid of meeting the usurers bogey - *inflation!* What have been the results? Although they suffered a terrible military defeat and are compelled to pay a war indemnity, they are to-day the most prosperous industrial nation in Europe. *They have escaped the ruinous interest charges with which we and France are burdened!* Their factories are running full time and they have but a very small percentage of unemployed—far, far less than any of the allied nations. Their industries are earning fabulous profits. They realise by experience that their cheap currency gives them an enormous advantage in trade competition over their rivals who

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are still deluded by the gold-standard dear-currency theories! Hence they are capturing the world's markets as fast as their factories are able to turn out the goods. In short, whilst our orthodox Economists, financiers and Government officials are doing their best to strangle British enterprise by reviving their old and exploded financial theories, our sworn foe is invading our markets, capturing our trade and that of our allies by adopting the very policy our orthodox Economists have condemned as impracticable and ruinous!

In regard to periods of trade stagnation and unemployment, the writer said that not only was there a remedy but he considered the mere assertion that these evils were "unavoidable and irremediable," was a disgrace to the Government that made it and ought to be sufficient to disqualify every member for ever holding a public office again. Political, social and economic events are the results of political, social and economic causes and there is no need or excuse for attempting to lay the blame for these evils upon Providence or Natural laws. Precisely the same assertions were made by the religious bigots of the middle ages regarding diseases with which whole communities were occasionally destroyed. These were all said to be visitations of an angry Providence and unavoidable until a number of intelligent men began to investigate the nature of these diseases and trace their origin.

After further discussion the writer was finally challenged by his opponents to furnish a remedy for unemployment and industrial depression. Hence these articles which recently appeared in the weekly trade supplement of the London Times. At the request of very many of the Times readers and

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through the kindness of the Times Publishing Co. and of the Editor of the Times Trade Supplement they are now reproduced together with the criticism of the Times City Editor.

These articles constitute the third set of a series on trade and finance contributed by the writer during and since the war. The first articles appeared in "Land and Water" during the year 1916 and were published the following year under the title of "Trade Fallacies" by Messrs King & Son. The second set appeared in the Times Trade Supplement in 1918 and 1919 and were republished together with a criticism by Mr. Hartley Withers (Editor of the Economist) last year by Messrs. Dolby Bros. (Stamford) under the title of "Money Problems." In addition to the above series in 1918 "A Fraudulent Standard" (which is an exposure of the fraud underlying the so-called "gold-standard") was also published by Messrs. King & Son, (London) and "A Criticism of the First Report of the Currency Committee presided over by Lord Cunliffe" (Dolby Bros.) appeared the same year.

These writings, which have entailed a vast amount of labour and considerable expense to one whose normal working hours are and have been for years fully taken up with inventions and engineering work of an absorbing character, were undertaken solely from a desire to save England especially, and the world generally from the dangers and perils with which we are now encompassed, and against which the writer has been warning the Government and the public in the writings above mentioned as well as in scores of letters to the press, in magazine articles and at numerous public meetings throughout the country for the past 6 or 7 years. Blinded by

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ignorance and conceit the Government has persisted in its ruinous course of wanton extravagance, crushing taxation and currency deflation—a three-fold policy which if continued would bankrupt any Empire even if it comprised the wealth of the world! The British public are beginning to experience the truth of the statement made by the writer in 1916 that of our two greatest dangers—the one being our foreign foe, Germany, and the other our governing permanent officials—the latter would eventually prove to be the more costly and dangerous! “A state can be laid low just as effectively by wrong ideas as by an invading army” says Lord Inchcape. “There is” he adds, “no agency of destruction known to the chemists that is half as formidable as the T.N.T. of bad economics.” And since the advent of the present Coalition Government we have been deluged with “bad economics.” One of the most deplorable results of the Government’s financial policy, which the writer foretold in 1917 would happen, is the abandonment one by one of all the reconstruction plans recommended and promised by the Government during the war! Just now there is an agitation on foot for including a course of elementary economics in our ordinary public school education. This is very desirable provided the course is based upon facts and not as is now the case in most of our Colleges and Schools of Economics upon fiction. Our present plight is directly traceable to our orthodox economic Professors and their teachings. It was a Cambridge Professor who urged the adoption of the high bank rate which has proved so terribly disastrous to our trade by adding to the costs of production, by restricting credit and killing enterprise. It was a London University Professor who added to the

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gaiety of nations by seriously proposing to prosecute the Chancellor of the Exchequer for issuing our one pound Treasury notes because they were of less value than the gold contained in the sovereign!

We are now reaping the fruits of the policy advised by the Cunliffe Currency Committee, by Professor Pigou, by Mr. Basil Blackett of the Treasury Dept., by Sir John Anderson, formerly of the Inland Revenue Dept., by the Governors of the Bank of England, by the City Editors of the Times, the Daily Mail, and the Morning Post, and all the other advocates of dear money! The ruinous advice tendered by these gentlemen is the product of our orthodox school teachings. As for the public generally, to them Economics is like their religion. They take it on faith, believing in the authority of their teachers, viz., the Financial Editors of their daily papers.

It there is one truth which experience has taught the industrial world more than any other, it is that a dear scarce currency is disastrous to trade whilst a cheap currency limited only by needs of commerce, is advantageous. The orthodox school has in its criticisms of these articles, declared itself bankrupt. It has nothing to offer as a remedy or preventative for these economic disasters. One has only to read the replies of the Times City Editor in this discussion and that of Mr. Hartley Withers in "Money Problems" — both acknowledged "authorities" — to realise that there is nothing to hope for from their school of thought. *But a solution to the riddle must be found or else civilisation will perish!* The really amazing feature in these discussions is the fact that there is apparently no desire on the part of the orthodox school to find a remedy for our present

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evils. On the contrary they make it a principle to denounce, ignore or throw contempt upon any proposed remedy. Representing merely the interests of the moneylending classes who are quite satisfied with a system under which they reap enormous profits regardless of whether trade is good or bad, and by which in times of panic the Government protect them and throw all the risk on the public's shoulders, there is no reason why they should advocate any change. But a change is inevitable. Our present situation is transitional and we shall witness shortly either a radical change of policy or a complete collapse!

In setting forth Major Douglas' plan as a remedy for unemployment I was influenced by what struck me as its remarkable simplicity and its avoidance of anything approaching disorder, class warfare or revolution. This scheme is founded upon justice and common sense. And although it differs in certain details from what I have hitherto advocated, fundamentally we are entirely in accord with one another. The present world's unrest has been traced by certain writers to a cunning and deep laid conspiracy hatched by a society dominated by certain German Jews. If such a society exists and such a conspiracy has been started, no better or quicker method for securing control of the world's wealth and of enslaving mankind could possibly be conceived than that of securing control of the world's credit. And in order to achieve this, all that is necessary is to re-impose the gold-standard upon civilisation. The greater proportion of the world's gold-stocks are already in the hands of Jewish financiers and this naturally gives them supreme control of credit and therefore of trade and industry.

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One event which is well worth noticing is the fact that the deflation policy which is responsible for the great wave of industrial depression is wholly confined to the allied and English speaking countries! Surely this is something more than a mere coincidence!

In conclusion it is only fair to say that since the publication of these articles, all the members present at the dinner referred to, at which the writer was challenged to furnish a solution of this great problem, have written acknowledging that they consider the terms of their challenge have now been fully satisfied.

Stamford, Lincs.,
May 20th, 1921.

ARTHUR KITSON.



Unemployment

IS THERE A REMEDY?

I.—ROOT CAUSES

Recently a number of financial and commercial experts, after discussing unemployment, came to the conclusion that there was no remedy. Mr. Arthur Kitson, who was present, demurred, with the result that he was challenged to publish a solution of the problem. The challenge was promptly accepted, and as we can conceive no subject likely to be of greater interest to our readers we gladly acceded to a request to give publicity to his views.—Editor of The Times Trade Supplement.

IS there a remedy for unemployment, or is the problem, as stated by the Government and its "experts," insoluble? My answer is that not only is there a practical remedy, but the problem itself, when properly understood, is so ridiculously simple that the average schoolboy ought to be able to furnish a satisfactory answer.

There are many obstacles to human progress arising from natural causes over which man has little or no control. There are others which are by far the more numerous, and entirely the result of

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man's stupidity, superstition, ignorance, prejudice, and greed. These obstacles can be removed as soon as the causes are generally known—provided the majority of the people are determined to remove them. Of all these evils the most unnecessary, those which any free and intelligent Government could, if it really desired, most easily avoid, are poverty and unemployment.

That the Government of a country which has had more than two centuries' experience in industrialism should have the temerity to admit that they know of no method by which the national industrial machine can be kept busy when myriads are perishing for lack of goods is one of the most disgraceful confessions any body of intelligent men could possibly make! Yet, during the past few weeks, we find the leaders of every political party—statesmen, financiers, Labour members, economic professors, journalists, and divines—publicly acknowledging that in their judgment unemployment is beyond human control—an acknowledgment of ignorance and stupidity which ought to brand them as utterly unfitted to hold any public office!

If it were true that, in spite of the enormous development in invention which has increased man's productive resources a thousand fold, poverty and starvation—the attendants of unemployment—are unavoidable, one could only pray, as the late Professor Huxley once said, that some friendly comet might speedily collide with our planet and put an end to all this misery!

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SIMPLE PROBLEM.

Fortunately the problem is not only capable of solution, but is so simple that future generations will read the writings and speeches of present day "authorities" with the same amusement and astonishment as that with which schoolboys read the essays of a certain doctor of science of 50 years ago in which he sought to prove that no vessel built of steel or iron could possibly float!

"Considered as a branch of the science of a statesman or legislator, political economy," wrote Adam Smith, "proposes two distinct objects:— First, to supply a plentiful subsistence for the people, or more properly to enable them to provide such a revenue or subsistence for themselves; secondly, to supply the State or Commonwealth with a revenue sufficient for the public services. It proposes to enrich both the people and the Sovereign."

"How happens it then," asked Proudhon, the French iconoclast, "that in spite of so many miracles of industry, science, and art, comfort and culture have not become the inheritance of all? How happens it that in Paris and London, centres of social wealth, poverty is as hideous as in the days of Caesar and Agricola?"

For the hundredth time or more the social Sphinx propounds the self-same riddle, and cries, "Answer or perish!"

One is naturally inclined to ask why, if the riddle is so easy, no answer has been given throughout all these years? My reply is, firstly, that

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answers to the problem have already been made, but as these can only become effective through their adoption by the Government, it rests with our rulers to say whether unemployment shall or shall not continue. Secondly, there is reason to believe that Governments are not, and have never been, particularly eager to find a remedy. Had they been really in earnest, one would have expected that every possible avenue which promised salvation would have been explored and that substantial rewards would have been offered to the discoverer of the great secret. If it pays private firms to offer prizes for inventions for overcoming certain technical difficulties encountered in their businesses, surely it would pay any Government to discover a panacea for the evils of trade depression. Yet since remedies have been offered and remain neglected, the inference is plain that so far as Governments are concerned either they do not wish to try them, or else they imagine the remedies may prove worse than the disease.

GOVERNMENT "EXPERTS."

Of one thing we may feel assured. Since our Government "experts" have stated that the problem is incapable of solution, they are not likely to allow themselves to be persuaded to swallow their own words, no matter how plausible a remedy may be offered. Our experts are not of the type who would ever acknowledge fallibility in their economic pronouncements. Hence, no matter how serious our industrial affairs may become, it is quite certain that no remedy will be permitted to interfere with the present order of things so long as we are governed by the present set of permanent officials.

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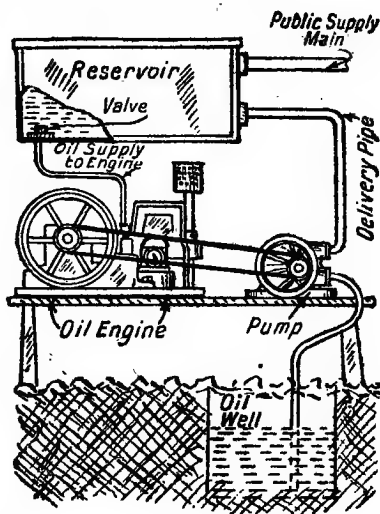
Let us state the problem in simple terms. The industrial world, comprising agriculture, mining, and manufacture, is engaged in producing goods necessary for human existence and comfort, and—thanks to inventions and discoveries—is able to produce goods of every description in such abundance and with such comparatively little effort that periodically the markets and warehouses are glutted and the channels of trade become so congested as to cause a slowing down of the whole machinery of production and the consequent wholesale discharge of operatives. Meanwhile, the vast masses of the population are in want of those very goods, the apparent over-production of which clogs and retards the wheels of industry. At all times wealth-producers find greater difficulty in disposing of goods than in producing them.

The real problem is, therefore, to discover some method of selling goods as fast as they are created. It is in search of an answer to this problem that all nations are ransacking the earth for fresh markets. It is for this reason that international commercial competition has of late years become so keen and so dangerous. Unless a correct solution is found and adopted the result will be endless future wars.

The problem can be made very simple by means of the following illustration:—

Imagine an engine operating a pump connected to an oil well raising the liquid from the well to an overhead reservoir for supplying the public. The engine is supplied with oil by a tube from the reservoir. This tube has a valve fitted at the top which closes automatically with the weight of oil in the reservoir, to prevent overflowing. Another pipe

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Mr. Kitson's Homely Illustration.

runs from the reservoir to the main and supplies the public demand. Now it is quite evident that so long as the engine and pump remain in good working order, the continuous running of the plant will depend upon two things—(1) the supply of oil in the well; (2) the consumption of oil by the public at the same rate at least as the reservoir is supplied. Any slackening in the rate of consumption would soon tend to slacken the speed of the plant and finally stop the pump. Further, any increase in the efficiency of the plant by which the supply of oil to the reservoir is increased would also tend to stop the plant unless the public consumption be increased in the same proportion.

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Let us translate this illustration into the terms of our present economic condition. Our oil well corresponds to the earth—nature and raw material, the mines, fields, and forests. The engine and pump correspond to labour and capital engaged in converting the raw material into finished products. The reservoir indicates our markets and warehouses where finished goods are sent. The public oil main represents our transportation system. The supply tube from the reservoir to the engine represents the proportion of the products which must be continually supplied to labour and capital to keep our wage-earners and maintain our factories and plants in working order. By an unbiassed person the following truths will scarcely be questioned :—

1. The employment of labour and capital is dependent upon (a) constant supplies of raw material; (b) the ability of the public to purchase commodities as fast as they are produced.

2. Any curtailment of consumption by the public below the rate of production (whether by reason of saving or for any other cause) must necessarily tend to check production and cause unemployment.

3. Since the public power to purchase goods depends chiefly upon the wages, salaries, and dividends paid in the process of producing commodities, any slackening in the rate of production must tend to reduce the effective demand for goods.

II.—PURCHASING POWER AND PRICES

THE ability of the public to buy goods depends upon (a) the quantity and rate of flow of purchasing power into the public's pockets; (b) the prices at which goods are offered. Over these conditions the general public have no direct control. Purchasing power (*i.e.*, legal tender and bank credit) is controlled by the Government and the bankers, but since in all countries Governments defer to their bankers, the banking fraternity do actually exercise supreme control.

The volume of legal tender which Governments allow to be created bears no fixed or coherent relation whatever to the public needs for purchasing goods. At no time, so far as I am aware, has there ever been any attempt on the part of any State to ascertain the ratio between the public purchases over a given period and the currency requirements, nor to provide for them. In the United States there have been statements published from time to time regarding the volume of currency required per head of the population to maintain business prosperity. These have been mere guesses. In pre-war times, the volume of our legal currency was determined (a) by the accidental discoveries of gold mining; (b) by the currency needs and speculations of foreign countries and financiers; (c) by the bank rate.

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PREY TO FOREIGN AGGRESSION.

Peel's Bank Charter Act placed it within the power of any foreign trade rival to bring our industrial system almost to a complete standstill by the mere act of withdrawing gold from our free gold market. By causing a rise in the bank rate, gold exporters were able to penalize our industries and augment our costs of production. Such a system, which left us a prey to foreign trade aggression, could only receive the support of those who believe that our industries are and ought to be wholly dependent upon our foreign trade. To all such people periodic trade depression and unemployment is bound to be regarded as natural and unavoidable.

With the industrial development of foreign countries, which is proceeding at such an enormous pace and is tending to reduce the demand for British goods abroad, what is to be our future? When there are no more neutral or fresh markets to conquer, when all our foreign industrial rivals, after providing for their own markets, are seeking others for their surplus goods, what then? Must our people starve or emigrate because the foreigners will not buy our goods? Our governing officials actually see no other alternative. Hence the Prime Minister's suggestion to ship our unemployed to the Colonies! Hence his feverish anxiety to effect a trade agreement with Russia! For this reason also our Government "experts," whilst advising the curtailment of purchasing power to the British public, are recommending the grant of credit loans to our late enemies! If these "experts" are to be believed, we are confronted with the extraordinary

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paradox of being able to produce unlimited goods which we are unable to use or distribute! And hence our workers must starve whilst goods lie rotting! It is a case of "water, water everywhere, but not a drop to drink!"

Again, the fixing of prices, although of the utmost importance to the public, is the result of conditions on which they have little or no influence. Costs of production necessarily form the lower price level, whilst the higher is determined by the effective demand for goods. Between these two extremes prices oscillate. Yet since effective demand depends upon the amount of currency available, it will be seen that the control of currency means control not only of prices, but of trade, industry, employment—in short, it means the control of our national existence! This control, as I have said previously, has been given, through our banking and currency laws, to those controlling our financial institutions. It is because of this that for the past quarter of a century I have been calling the attention of the public, and of the members of the industrial world in particular, both here and abroad, to the terribly dangerous and rapidly increasing power which the monetary laws of all nations have placed in the hands of any few irresponsible individuals who may happen to secure control of the world's banks and credit institutions.

A NEW MENACE.

Less than a century ago the problem of producing goods in sufficient quantities to meet the world's demands was all-important. Inventions and economic methods of production were eagerly

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sought; the hours of labour were necessarily long. The industrialists, the manufacturers, were the leading citizens and were rapidly superseding the great landowners as the controllers of economic power. The past 35 or 40 years have witnessed another revolution. No longer are we menaced with a shortage of goods! The world is threatened with a surfeit of manufactures!

An American efficiency expert stated not long since that, taking the productive facilities of the United States as a whole, including skilled and ordinary labour, machinery, tools, &c., the quantity of goods produced in a given time did not represent more than 5 per cent. of their industrial efficiency! This means that with a slightly increased effort America might readily treble and quadruple her present output! And with a very determined effort this output could be increased tenfold! The cry is now not so much for production as for consumption. The man of the moment is not the producer, but the buyer. The present "Lord of Creation" is not the creator of goods, but the creator and controller of credit—the man who has the power to say who may and who may not receive financial accommodation, to whom even kings and statesmen bow the knee in acknowledgment of his supremacy in the world's affairs.

Now the chief characteristic of our modern industrial system is this, that it depends for its operation largely upon the purchasing power given to employees, owners, and investors in the process of production. Wages, salaries, and dividends comprise the methods by which the bulk of the money and credit available for buying goods reaches the

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public, and these can only be paid whilst production continues. Stop production and the ability to purchase and, therefore, to consume is destroyed—except by some system of Government doles—notwithstanding that the country is full of goods deteriorating rapidly.

It is true that we have another field for disposing of our products, *viz.*, foreign markets, and as will be shown later, owing to the insufficient amount of purchasing power given by our industrial system to those engaged in production, and the prices at which goods are offered to the public, our own markets are unable to absorb more than a fraction of British-made goods, and we are therefore compelled to depend upon our Colonial and foreign buyers. This does not mean that our own people are unable to consume more British-made goods if they had enough money to buy more. On the contrary, if wages, salaries, and dividends, for example, could be doubled or even trebled, *without raising the level of prices*, our mills and factories might continue running year after year without our having to be quite so much at the mercy of foreign buyers as we are at present. Further, through opening our ports to the free entrance of competitive goods “made in Germany” and elsewhere, we naturally reduce the effective demand for our own products, which also tends to foster unemployment.

IDEAL ECONOMIC CONDITION.

Now the ideal economic condition of any industrial nation is to be self-contained—*i.e.*, to be able to produce every necessity and as many of the luxuries of life as possible sufficient for supporting

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the population. The United States is probably the best example of a self-contained nation. The British Empire, federated and controlled on similar lines, could also provide its inhabitants with equally enviable conditions. Foreign trade would then become an altogether secondary consideration. The United States could provide an abundance of goods of almost every description for every one of its inhabitants, provided it utilized its productive resources to a sufficient degree of efficiency, and also introduced a credit system which would enable every one to purchase his share of the goods produced.

To a somewhat less extent, Great Britain has also the facilities for producing sufficient of all the necessaries of life to maintain her population in a state of comfort and well-being at a far higher general level than has ever yet been attained. The achievement of this depends upon the introduction of a proper system of distribution. Can this be accomplished under our present economic system? The answer is "Not without some very considerable changes and modifications." Indeed, the solution of our problem requires the abandonment of some of our most securely entrenched ideas and theories. In fact, the problem of unemployment is insoluble by any process which would receive the sanction of any *orthodox* economist.

"HETERODOX" METHODS.

The hope of the world lies in the direction of innovation, heterodoxy. That is why the "experts" selected from the professional classes by the Government as its advisers since the war, are proving such

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a source of danger to the nation. Nearly every measure adopted by the Government during the past two years with reference to foreign trade, finance and taxation, has been injurious to our industries and has resulted in the present trade crisis and general unemployment. Yet it was such heterodox schemes as paper currency, food and material rationing, and other compulsory measures that saved us and our Allies and brought us through to victory.

The reader who is really interested with the writer in finding an answer to the problem must therefore not be surprised if the conclusions lead through a somewhat different route from what he expected.

Let us suppose that in all our industries engaged in producing goods required by our island population the volume of money distributed annually in the shape of wages, salaries, and dividends is at least equivalent to the total value of all the goods produced at the prices offered. So that an equation is formed as follows:—Wages + salaries + dividends = x goods \times y prices. This would mean that if the British public so desired, they could buy all the goods they produce. Suppose further, that the production of all these goods kept all able-bodied persons in the country who wanted work employed at a remuneration sufficient to enable them to live in decency and comfort. Suppose, for the sake of argument, that we are an entirely self-contained nation, producing every article we need for use and consumption. So long as all these prime factors, land, labour, and capital, were available and maintained their normal efficiency we

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should then have a perfectly automatic system of production and distribution, reproduction and re-distribution, which might continue indefinitely. The growth of the population would necessarily have to be accompanied by a proportional increase both in production and in the currency required for distributing the products. Involuntary idleness would be unnecessary. In short, poverty and unemployment as we now know them would be practically abolished.

Suppose, however, that after a year or two of such satisfactory running an inventor or an efficiency expert introduced an improvement by which production was greatly accelerated. What would be the result? Products of all kinds would naturally increase in volume and the markets would be soon overstocked. If no change was made in prices nor in the volume of purchasing power distributed, nor in the hours of labour, there would soon be so large an accumulation of unsold goods that to avoid unemployment they would have to be shipped abroad or destroyed! In short, every improvement which tends to facilitate production must be accompanied by a fall in prices or an increase in the volume of purchasing power, otherwise its tendency must be to increase unemployment.

III.—NEED FOR BETTER DISTRIBUTION

EVERY attempt to solve the problem of unemployment by increasing the efficiency of production is not only doomed to failure, but must actually tend to aggravate the disease unless accompanied by an improved system of distribution. It is not without reason that the working classes have regarded labour-saving devices with a certain amount of disfavour.

If we of the present day are the heirs of all past ages, the legacy has not been fairly distributed. For instance, it was the belief of our legislators who first conceived the idea of granting patents to inventors that, whilst they were fairly entitled to the monopoly of their discoveries, such a monopoly could only be granted for a certain definite number of years, and that it would be against the public interests to continue the monopoly indefinitely. Our financial system has opened a way by which such monopolies may be continued long after the patents have expired.

The Trust and the Combine are now recognized as far more powerful for protecting and maintaining a manufacturing and trading monopoly than all the patent laws that have ever been devised. Patents are now regarded in commercial circles as of quite secondary importance, and the ambition of every

inventor is to become associated with some strong financial group. A few years prior to the war, at a meeting of the leading German manufacturers in Berlin, they decided not to buy any more patents but to use any invention they might consider to be of advantage to them and challenge the patentees to attack them. They found by experience that it paid them better to fight an inventor than to purchase his patent rights. The average inventor is either a poor man or a man of moderate means, and is not in a position to undertake the ruinous costs of fighting a patent action. The result of all this is that the discoveries and inventions of the past, as well as of the present, are being controlled more and more by those who control the world's credit, and the benefits which these discoveries and inventions were expected to confer upon mankind generally have been acquired on very much the same principle as the public lands of Great Britain were acquired by private landowners during the 17th and 18th centuries.

A NATION'S CREDIT.

Now the credit of a nation depends upon what its people can furnish in the way of goods or services, and is proportional to its productive facilities and efficiency. These, again, are dependent upon the mechanical and chemical discoveries and inventions, the commercial and financial methods employed, and even the moral qualities of the people themselves, all of which form a portion of the great national legacy handed down from the past. This great asset forms the basis of our national wealth, and is the chief means of enabling

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our industries to turn out goods at the present rate, but it is entirely monopolized by those who control financial credit. To what extent does the average citizen participate in the profits of this wonderful legacy?

It is evident to anyone who has given much thought to the subject that our present system of distribution, which makes the existence of the vast masses of the people of all countries entirely dependent upon the demand for their services in productive operations, must, sooner or later, be displaced by something far more rational, in order that mankind may escape the inevitable catastrophe which must otherwise ensue—viz., the complete collapse of civilization. It is quite certain that the need for labour must become less and less with the growth of inventions and the increase in industrial efficiency. Indeed, the real problem we have to solve is not so much that of finding constant employment for our people as of supplying them with life's necessities and comforts out of the abundance of the goods created. Even to-day the labour of less than 10 per cent. of the population will readily suffice to maintain the entire inhabitants of this country in a high state of comfort.

➤ Suppose discoveries and inventions during the next half-century result in the displacement of all manual labour by machinery. Must the bulk of the world's inhabitants then perish? I once asked a well-known economist what would happen if some modern genius should discover a way of training monkeys to undertake industrial operations. Would the displacement of men by monkeys mean the survival of the ape as the fittest? He replied that

he preferred not to cross a bridge before he reached it. *But the bridge is actually in sight.* The demand for labour is declining, and must continue to decline as productive efficiency increases. At present the statesman's only escape from the dilemma is warfare and wholesale destruction! Are the fruits of human intelligence—inventions and discoveries—merely weapons for human destruction? Are our efficiency experts raising a Frankenstein that will some day destroy us? The answer is "Yes, unless the same intelligence is allowed to be employed in improving our methods of wealth distribution."

FINANCE AND INDUSTRY.

Our present industrial plight is the result of limiting the field of invention to wealth *production*. Imagine what might have been accomplished if the field of finance, instead of being carefully protected by barbed-wire legal entanglements, had been left free for exploration and experiment! We are trying to distribute the world's produce by the medieval methods of transportation. We are coupling the motor-car to the bullock wagon, with the bullock in front. Industry is always striving to satisfy the natural wants of mankind, whilst finance is perpetually holding it in check. Industry says: "I can supply all the needs and desires of mankind provided I am given sufficient scope." Finance says: "You shall only supply those which it pays me to supply."

One of the things our statesmen have to learn is that there exists a vast and unsatisfied demand for British-made goods within the British Isles, and until this demand is satisfied it is unnecessary to

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explore the earth for fresh markets in which to sell these same goods. For a nation to sit still and starve because foreigners are unable to buy its products—the use of which would bring health and prosperity to its people—is the very acme of stupidity. A visitor from Mars would surely view with amazement the spectacle of a Leicester or Northampton shoe manufacturer incurring the expense of sending travellers to the North Pole and the Far East, and advertising in foreign journals, whilst hundreds of thousands of English people are going about half-shod and millions more are striving to make one pair of shoes do the work of two pairs. Similarly, he would wonder at the shabby costumes of myriads of women who throng our manufacturing towns, whilst the Lancashire and Yorkshire mills were either closed down or running on half-time. He would naturally inquire, why this eagerness on the part of the British merchant and manufacturer to satisfy the needs and desires of the Hindoo, the Jap, the Chinaman, the Hottentot, the Zulu, in fact, any and every foreigner, whether civilized or barbarian, whilst ignoring the needs of millions of his own countrymen? He would then learn that this desire was not founded upon any particular love for the foreigner, nor the neglect of his own countryman upon any dislike of the British as such, but is due merely to the fact that the foreigner is able to offer something in return and the other is not.

IS FURTHER INFLATION DESIRABLE?

This “something,” he would learn, is anything that enables him to satisfy his banker, and might be merely an inexpensive piece of paper issued by

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the Government or a piece of yellow metal accidentally discovered in some remote region. Yet what would puzzle our visitor most of all would be to learn that the power to convert the natural demand of these millions at home into an effective demand which would enable them to buy all the goods they require, and would start the mills and factories running full time as effectively as a similar demand from foreign lands, rests entirely with the Government, who at present are engaged, not in increasing but in diminishing the public's power of buying. His admiration for a people who can so easily create all the good things of life would be changed to one of astonishment that we have no proper method of distributing these things for our own benefit and enjoyment.

Now the first thing one realizes after a close examination of the subject is, that the costs of the production of any manufactured goods are much in excess of the purchasing power distributed in the process of manufacture. For costs cover not only wages, salaries, and dividends, but other charges, such as depreciation of plant, interest, etc., and since prices must at least cover costs, it follows that the total money that is distributed in every productive undertaking is quite insufficient to buy the total products. How then do we manage to dispose of the great bulk of our commodities? The answer is, partly in our home markets and largely abroad. The home market is only able to absorb the quantity it does by the creation of additional credit from time to time over that distributed in the course of production. Those who seek to reduce the costs of production by reducing the amount of purchasing power so distributed, viz., by lowering wages

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and salaries, are working entirely at the wrong end. If the aim is to render production and distribution regular, continuous and automatic, anything which lessens the power of the public to buy goods will defeat that object by reducing the speed and efficiency of the whole system.

It must not be forgotten that the consumption of goods is essential to reproduction and should be regarded quite as important a part of the economic system as production itself. Other things being equal, high wages are far more beneficial to a country than low wages. America's rapid growth in wealth and population is very largely due to the high rates of wages paid, and it is due mainly to her protective tariff that her working classes have been enabled to enjoy a much higher level of comfort than that prevailing in any other industrial country. It has enabled her to develop her home markets to such an extent as to make her almost independent of foreign trade. On the other hand, our free trade system has exposed our workmen to the direct competition of the lowest paid and cheapest labour in the world, and has, in conjunction with our international gold monetary system, assisted in making us so dependent on foreigners, that Mr. Kellaway, of the overseas trade department, recently stated that "our home trade could not support one half of our population alive!" He added, "Unless we can sell in foreign markets we are on the straight road to national suicide!"

Paradoxical as it may appear, the extravagant measures of governments have often saved their people from wholesale bankruptcy. The United States Pension Bill, which distributed over one

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thousand millions of dollars annually among the survivors and the dependents of those who fought in their Civil War, did more to revive American trade (which had been so badly injured by the silver deflation policy of 1893-97) than anything else. If instead of burdening taxpayers with extra rates and taxes to support our pensioners and unemployed, the Government were to issue fresh currency, this would tend temporarily to relieve the present industrial depression—although not permanently. The real and permanent remedy for our troubles will be shown in the next articles.



IV.—INSUFFICIENCY OF CURRENCY

BY increasing the effective demand for our own products in our home markets we do not in any sense lessen the foreign demand for them. On the contrary, by adding to the total effective demand, our manufacturers would be enabled to produce in larger quantities and so cheapen the costs of production.

The German and American producers would not be able so readily to dump their goods on our markets at prices less than we can produce them for, were they to follow our example and sacrifice their home markets by sharing them with their rivals. They first control their own and then take advantage of our folly by annexing ours. German writers have already admitted that the prodigious growth of their trade and industries in pre-war days was due very largely to our philanthropic free trade system coupled with our free gold and credit market. This enabled German manufacturers to borrow British credit at low rates of interest and build up rival industries with which to cripple ours. As our politicians have learned nothing from the war, they are permitting our late enemies to resume the same methods of "peaceful penetration," and, in consequence, we have already lost several industries built up during the war. Now, since we are not yet a self-contained nation, as we are still dependent upon others for certain raw materials, we are forced to cultivate our foreign trade. But this should not

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lead us to the other extreme of neglecting our own markets and leaving them altogether free for foreign invasion. Foreign trade is a system of indirect barter. We buy our cotton, for example, from America, and pay for it ultimately in manufactured cotton and other goods and services. Our productive facilities are quite capable of satisfying all the wants of our own people as well as the needs of various foreign markets in certain lines—certainly to the extent of paying for all the foreign-grown raw material we may require. This answers the query in the Editor's footnote to my article in last week's issue.

FINANCE AND INDUSTRY.

The strangle-hold that finance maintains over industry (Capital and Labour) is the result of two conditions:—(1) the monopoly of credit issues by Governments and bankers; (2) the interest (usury) system. All business nowadays is done with borrowed money. Some of it is subscribed by the public, upon which only the interest or dividends have to be paid. But very much consists of bank overdrafts which have to be repaid periodically, together with interest charges. Suppose, for example, the banks loan to manufacturers and merchants £1,000,000,000 for one year at the bank rate. The borrowers must then return to their banks £1,070,000,000, *that is, £70,000,000 more credit than has been issued.* How are they to get it? The industrial world does not "make money." It makes goods. But bankers and moneylenders do not receive goods in settlement of money debts. They demand payment in their own coin, which nobody else is permitted to issue. And this is true

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of all loans and of all business undertakings outside of financial institutions. Industry is thus given an impossible task which results periodically in wholesale bankruptcies. The system can only work during short periods, so long as the lenders of money exercise forbearance. Fortunately loans do not all become due at the same time. If they did, or if any large proportion fell due and settlement was demanded at any given time, we should experience results similar to those which would ensue if the owners of 10 per cent. of our bank depositors were to attempt to withdraw their balances on a certain day. Let me put the matter in a nutshell. The currency and credit with which debts can be paid is furnished by the banks. The public cannot increase this. They cannot return more than they receive. *But our interest system demands more.* Hence industry has become the absolute slave of finance. Prometheus is securely bound to his rock, from which there is no chance of escape under our present system. To make matters much worse, the Government impose taxes of colossal proportion which are also payable in currency, but they fail to provide anything like the amount necessary to enable the public to pay with. Hence the banks have been compelled to increase overdrafts extensively to save the country from utter collapse. If we add to all this the amount of rates and other charges inflicted upon the unfortunate British taxpayer, as well as the high scale of prices, the utter impossibility of our present financial system will be readily realized. It is safe to say that the demands upon the average business man's financial resources are four times those of pre-war days, whilst the cash and credit available is scarcely more than twice the

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pre-war supply! Yet, in face of this disproportion, we find the Treasury and Bank of England officials advocating a further reduction of the debt-paying media, and there are people who wonder what can be the cause of our present industrial paralysis!

THE REMEDY.

What, then, is the remedy for our present plight? The first thing is to make it possible for business men and taxpayers to meet their obligations. The present public burdens must either be removed or sufficient financial strength given them to enable them to carry on. The gigantic National Debt created by our ignorant politicians need not and ought never to have been incurred. The Government cannot expect to continue collecting £1,000,000,000 a year in credit and currency unless it increases the volume in circulation. Such a huge sum drains the channels of trade and commerce and leaves them exhausted.

Neither can industry flourish under a 7 per cent. Bank rate. It would be a thousand times better to adopt the German plan of cheapening—or as our professors delight to term it “debasement”—our currency than to go to the other extreme. Germany to-day is about the only industrial country whose industries are flourishing. Her “debased” currency is one of the main causes. Moreover, it has saved her from being crushed by taxation as we are.

As an immediate, although temporary, measure of relief for the present trade paralysis, the Government might with perfect justice and safety convert the Treasury's floating debt by degrees into

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legal currency. The payment of Treasury bills in Treasury notes could be spread over a reasonable period so as to avoid any serious or sudden advance in prices. This would not only revive trade and start the wheels of industry, but it would get rid of the burden of interest charges on this particular debt. It is an astonishing fact that no member of Parliament has ever challenged the Government to furnish reasons for burdening the country with interest charges on borrowed bank credit whilst they already controlled an unlimited volume of credit of a higher order, the use of which would have cost the nation nothing. Our old friend Euclid tells us that the whole is greater than a part. And the National Credit comprises that of all the citizens and institutions of Great Britain, including the banks. For the past six years the basis of all our currency has been the nation's credit. The credit behind a Treasury bill is the same as that behind a Treasury note. In fact, a Treasury bill can be settled with Treasury notes. Yet our Treasury officials exchange the superior credit of the nation for the inferior credit of a bank and compel the taxpayers to pay over £60,000,000 annually for the accommodation!

RELATION TO FOREIGN CURRENCIES.

A further advantage gained would be to bring our currency nearer to the currencies of those countries with whom our merchants wish to trade. Our statesmen give as a prime cause of our declining foreign trade the inequality in the rates of exchange. Yet they are doing all in their power to make this inequality still greater. Our Indian trade has become demoralized owing to the fall in the

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purchasing power of the rupee. Had our pound fallen in the same ratio, our trade with all Eastern countries might have continued. Similarly with our European Allies. Why the Treasury should seek to increase the rate of exchange between France, Belgium, Italy, and even between Germany, and ourselves is somewhat of a mystery. If the object is to get us deeper into debt by making it easier for us to buy foreign goods and harder to sell our own products abroad, their dear-money-deflation policy can be readily understood. Otherwise it is incomprehensible.

The remedy for industrial stagnation will be found along the line of a cheaper and increased currency. There is a general insufficiency of purchasing power throughout the country. To establish an industrial system which will continually provide for all the needs of all the people without these periodical trade crises, one which will get rid of poverty and involuntary idleness, a system which will be automatic in producing goods in abundance and distributing them, will require that the public shall have some control over both credit and prices. It is quite evident that so long as producers are free to raise prices with every fresh issue of currency such issues can be of little permanent advantage to the consumer. What the average consumer wants is to secure a larger proportion of all the goods he needs. He can only get this either by a fall in prices whilst receiving the same income or by receiving a larger income whilst prices remain the same. Further, to enable the public to buy all the goods offered, to be able to sell goods as fast as they are produced—which is the ideal condition for

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employment and trade prosperity—there must be enough money circulating with which the public can purchase. This means the establishment of a system which causes a constant flow of purchasing power to the consumers and a return flow to the producers. Now there are various methods embodying these conditions which one might propose. But by far the most carefully thought out system yet suggested is that described by Major Douglas (Royal Air Force) in his remarkable books entitled "Economic Democracy" and "Credit Power and Democracy," the latter being the joint product of Major Douglas and Mr. A. R. Orage. The system described would, in my judgment, effectively solve the whole problem of unemployment, trade depression, and all their attendant evils, and if adopted universally remove the causes which have been so fruitful in provoking wars and which if not speedily removed must soon give rise to fresh and more desolating wars than any yet waged.

In the next article I hope to give an outline of Major Douglas's scheme.



V.—REAL AND FINANCIAL CREDIT

THE evidences that our present economic system is doomed and is tottering to its fall are so apparent and so numerous that only the blind and the ignorant would attempt to deny it. A system that defeats its main object and increases human suffering in proportion as it becomes more and more efficient, one to which the gift of goods or the payment of an indemnity by a foreign nation appears as a national disaster, is evidently founded upon some egregious fallacies. How much longer its victims will submit to the evils and injustice it has inflicted it is difficult to say. It may last another few months or a number of years, but that its end is rapidly approaching is beyond question.

Whatever the motives of the Government and its advisers may have been, their policy of currency and credit contraction, which Mr. Austen Chamberlain announced a year or so ago, has done more to hasten its downfall than all the Socialist and Bolshevik propaganda of the past few years. This policy is mainly responsible for throwing out of employment over 1,000,000 operatives and inflicting losses upon the British public during the past year of at least £2,500,000,000! During the same period, according to the *Manufacturers' Record*, of Baltimore (a widely read American trade journal), the same policy of deflation pursued by the United States bankers has resulted in the discharge of

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3,500,000 workmen and the loss of 25,000,000,000 dollars—a sum much in excess of the whole cost of the war incurred by the American Government!

ORTHODOX POLITICAL ECONOMY.

In all countries we find the same conditions of general unrest, dissatisfaction, and desire for better conditions, due to the failure of their economic methods to achieve the desired ends. Orthodox political economy has broken down and has had to acknowledge its failure. And as all our statesmen and governing officials, professors, and writers on finance know little or nothing outside the orthodox books, they are all equally at sea and powerless to save humanity. All industrial nations are experiencing the same difficulties, for the reason that all are modelled on the same general principles.

These principles have created what may be termed the pyramidal form of economic control. At the apex sits Finance, securely entrenched, dictating to Industry its commands—commands which on the whole are impossible of fulfilment. Industry is ordered to breathe into the inanimate the breath of life and make it a living soul, to make fruitful a thing which, as Aristotle told us ages ago, is by its very nature essentially barren. Finance hands over to Industry a sum of money, and says, “Take this and increase it. Make it grow. You cannot labour, you cannot produce, you cannot even trade without it, thanks to the world’s money laws. Here is £1,000,000,000. I lend it you on condition that you return me for its use one-twentieth part of it every year, and the whole of it *in addition to the interest* whenever I choose to call in the loan!”

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If Industry had ever possessed one fraction of the intelligence proportional to its physical strength it would long since have made reply in some such terms as these:—"I am incapable of performing miracles. I cannot put your money in the ground and make it blossom and bring forth harvests of coins or bank notes. If you give me seeds or plants containing the germ of life, I can plant them and raise crops and return you far more plants and seeds than those you gave me. But when you lend me £1,000,000,000 and ask me to pay you £50,000,000 per annum, I can only do this for a period of 20 years. By that time I shall have returned all you gave me, and as you alone control the issue, and since I have no power of getting more without your consent and help, you are asking me to do the impossible! Further, this credit, which you alone control, on what is it really based? Evidently upon my work and upon my achievements. But for me and my energies, where would you be? The credit of which special laws have given you control is the credit of the whole nation, and due to its productive capacity. You have done nothing to create or increase it. All you do is to build on and profit by my labours. Yet you presume to dictate to me, to limit my power, to embarrass and torture me with your foolish restrictions, and cause endless friction, contention, and disorganization between my associates, capital and labour!"

INDUSTRY A "BOND SLAVE."

To which Finance—were it frank and honest—would reply, "Quite so! You are my bond slave. National laws have made you and all nations wholly

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subject to my despotism. You can never escape the bondage of debt whilst the principle of usury lives. The best and wisest of men, from Confucius to John Ruskin, have been preaching this gospel—but with little or no effect! I have no fear that mankind will ever awaken to the truth!”

The most important question for the existing generation is—What sort of system is to take the place of the old and decaying one? Are we to exchange it—bad as it is and has been—for a worse? For let us admit that with all its fallacies, follies, and injustices, there are and have been systems far worse—Bolshevism, for example, and the Socialism of the German Jew, Karl Marx. There is some danger that much more vigorous efforts will yet be made to establish one or other of these systems in this and other countries than any yet attempted. Unless another and better system is provided by the more intelligent classes it is quite certain that something of a far worse character may be established by the ignorant masses. The pity of it all is that our present system, shorn of its fallacies, its financial restrictions and credit monopoly, and improved in one or two other features, might have developed into a scheme as efficient and as conducive to human welfare as it is possible to conceive. Eliminate those evils which are almost entirely confined to the financial side, and our industrial, and consequently most of our international and social troubles, will disappear.

Now it is towards the accomplishment of this end and to save civilization from bankruptcy that Major C. H. Douglas and his colleague have evidently directed their efforts in the two books

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previously mentioned — “Economic Democracy” and “Credit Power and Democracy.” It was, I understand, whilst engaged in costings for the Government during the war that Major Douglas, a member of the Royal Air Force, became convinced that the present economic system was inherently defective and could not survive the extraordinary strains imposed upon it by the war, and particularly by the supreme folly of our war debt. Apart from the intrinsic merit of these works, to me the most interesting feature connected with them is the fact that their authors arrive at the same general conclusion that I and one or two other investigators have done, although we have all reached it by different routes. This conclusion is, that *the root cause of the world's economic evils is the irrational and fraudulent financial systems which the monetary and banking laws of all nations have established.*

THE USURY PRINCIPLE.

A quarter of a century ago I pointed out, in my first monetary work, that the usury principle necessarily caused a general break-down of the industrial system every few years, because the claims of usury were impossible of fulfilment. I showed that, taking industry as a whole, it could no more settle the claims of the banks when called upon to do so within any short period than the banks could settle the claims of their depositors in gold within a similar time. The creation of legal tender and bank credit does not keep pace with the growth of the interest charges, taxes, and other debts which have to be paid in legal currency, after providing for the ordinary financial needs of trade! Industry being always in debt to Finance is always within sight of

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bankruptcy, and any extraordinary event, whether natural, political, or financial, which creates general alarm is sufficient to start a panic resulting in general liquidation and bankruptcy, followed by a period of industrial depression! This was and is still in my judgment the real explanation of those decennial crises which Professor Jevons attributed to sunspots and other writers to natural and equally irrelevant causes. I showed that although money is the life of trade, our restricted money supplies encompassed its death.

Major Douglas found, by a system of costings, that the purchasing power distributed to the public by the industrial system in all countries could not possibly enable them to purchase more than a small proportion of the goods made, even if these were offered at the minimum price of bare costs. The chief reason of this is that credit is only issued on the usury principle, and therefore only those engaged in operations which appear profitable—i.e., enabling the borrower to return the sum loaned *plus* interest charges—can secure bank overdrafts. Hence every borrower is compelled to seek some profitable employment, to stimulate production, to adopt new inventions, &c. This necessitates the constant employment of armies of men engaged solely in constructing new plants, processes, tools, &c. And the cost and upkeep of all this additional capital, although it furnishes little in the way of additional purchasing power to the public, is actually incorporated in the prices of the ultimate goods offered for sale and for the manufacture of which the extra capital was created. In short, the public is made to pay for every addition to the productive plant and machinery through the system of

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costings which is added to the prices of the ultimate goods sold. Hence by increasing our productive facilities we are decreasing the public power to purchase goods and are thus diminishing our markets. The system is therefore inherently suicidal!

OBJECT OF INDUSTRY.

Major Douglas sets out with the statement that the object of a nation's industrial system is to produce goods for the benefit of the people comprising that nation, and not to provide employment for workmen nor to "make money" for any particular class. Employment may be a necessary condition for producing goods, but it is merely a means and not the end. Further, the distribution of goods ought not to be based merely upon a system of rewards for labour done. For this spells starvation to those whose labour is no longer needed. Our industrial system is the result of the inventions and discoveries, the experiences, the efforts and labours of past generations. About 95 per cent. of all production is the result of tools and processes which form the cultural inheritance of the community—not as workers, but as a community. Every person born into such a community should, by right of birth, be entitled to a share in this great legacy. Major Douglas proposes that the wage system shall be gradually replaced by the dividend system. He divides credit into two classes, viz., real (productive) credit and financial (money) credit. Real credit is the correct estimate of ability to deliver goods as, when, and where required. Financial credit is the correct estimate of ability to deliver money as, when, and where required. Real credit

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is concerned with the supply of goods, whilst financial credit is based upon money (legal tender).

The real credit of Great Britain can be increased almost indefinitely and is already so enormous that at no time—not even during the war—has it ever been employed to its full capacity. Yet although financial credit is based upon money and demands only money in return for its use, it depends ultimately upon the productive credit of the nation both for its existence and for its growth. This growth, however, is purely arbitrary and depends upon the sanction of the bankers and financiers who have acquired a monopoly of the use of the nation's financial credit. Indeed, this monopoly is so flagrant and so powerful that the rate at which money may be loaned to the public (to whom it rightfully belongs) is actually dictated week by week by half-a-dozen men representing a private trading company called the Bank of England—over whose deliberations and actions the Government and the public have no more control than over those of any private business concern in Great Britain! Production, and therefore employment, are made dependent upon industry's ability to satisfy the arbitrary demands of the numerically insignificant class who hold this control, and as there is no law by which these credit controllers can be compelled to issue credit or assist trade, both labour and capital are entirely at their mercy.

VI.—CONSTRUCTIVE PROPOSALS

THE author of "Credit Power and Democracy" calls attention to the fact that the consumer is as essential to any economic system as the producer, and that the value of a productive plant is due as much to the market facilities for the disposal of its products as to its efficiency. In this light, it will be seen that an economic system which does everything to encourage production and little or nothing to assist the consumer to acquire goods is bound to fail.

The author also demolishes the much-cherished socialistic theory that all wealth is labour's creation. On the contrary, he shows that labour's contribution is comparatively small, probably less than 5 per cent., and is a necessarily decreasing quantity. The wonderful productivity of modern industrialism is due to the researches and patient toil of scientists and inventors who bequeathed their discoveries to humanity. In virtue of this rich legacy, every member of society should be entitled to a share of the product. The potential wealth of this country is far beyond the dreams of avarice, and under a system of co-operation and good-will everyone might, by contributing a trifling amount of labour, receive a share of all the good things of life sufficient for his well-being, contentment, and happiness. Every member might thus receive an income from the State instead of being taxed. By gradually replacing the wages system with a system of dividends, by giving a share to each and

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every member engaged in an industry in that particular undertaking, the evils now resulting from unemployment would disappear.

A NOVEL SCHEME.

To meet the discrepancy between prices and purchasing-power distributed, Major Douglas proposes that producers shall sell their products below cost at a price which shall bear the same ratio to cost as the total national consumption of all commodities does to the total national production of credit. The difference between such prices and costs of production is to be made good by a draft from the Treasury on the national credit account. Under this scheme, price, instead of being as now a function of money, becomes a function of production. Hence any over-issue of money cannot affect prices, and the evils resulting from inflation under our present system are therefore eliminated.

Major Douglas has drawn up a plan embodying his proposals for dealing with the coal industry, as an illustration of how the present chaotic system can be replaced by an intelligent and practical method and which if successful, might be extended to other industries throughout the country. He calls it:—

“A PRACTICAL SCHEME FOR THE ESTABLISHMENT OF ECONOMIC AND INDUSTRIAL DEMOCRACY.”

“The following exemplary scheme, drawn up for special application to the mining industry, is designed to enable a transition to be effected from the present state of industrial chaos to a state of economic democracy, with the minimum amount of friction and the maximum results in the general well-being.”

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I.

(1) For the purpose of efficient operation each geological mining area shall be considered as autonomous administratively.

(2) In each of these areas a branch of a bank, to be formed by the Miners' Federation of Great Britain, shall be established, hereinafter referred to as the producers' bank. The Government shall recognize this bank as an integral part of the mining industry regarded as a producer of wealth, and representing its credit. It shall ensure its affiliation with the Clearing House.

(3) The shareholders of the bank shall consist of all persons engaged in the mining industry, ex officio, whose accounts are kept by the bank. Each shareholder shall be entitled to one vote at a shareholders' meeting.

(4) The bank as such shall pay no dividend.

(5) The capital already invested in the mining properties and plant shall be entitled to a fixed return of, say, 6 per cent., and, together with all fresh capital, shall continue to carry with it all the ordinary privileges of capital administration other than price-fixing. Depreciation shall be set against appreciation.

(6) The boards of directors shall make all payments of wages and salaries direct to the producers' bank in bulk.

(7) In the case of a reduction in cost of working, one-half of such reduction shall be dealt with in the national credit account, one quarter shall be credited to the colliery owners, and one quarter to the producers' bank.

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(8) From the setting to work of the producers' bank all subsequent expenditure on capital account shall be financed jointly by the colliery owners and the producers' bank in the ratio which the total dividends bear to the total wages and salaries. The benefits of such financing done by the producers' bank shall accrue to depositors.

II.

(1) The Government shall require from the colliery owners a quarterly, half-yearly or yearly statement, properly kept and audited, of the cost of production, including all dividends and bonuses.

(2) On the basis of this ascertained cost, the Government shall by statute cause the price of domestic coal to be regulated at a percentage of the ascertained cost.

(3) This price (of domestic coal) shall bear the same ratio to cost as the total national consumption of all descriptions of commodities does to the total national production of credit, *i. e.*,

Cost : Price :: Production : Consumption.

$$\text{Price per ton} = \text{Cost per ton} \times \frac{\text{Cost value of total consumption}}{\text{Money value of total production}}$$

(Total national consumption includes capital depreciation and exports. Total national production includes capital appreciation and imports.)

(4) Industrial coal shall be debited to users at cost *plus* an agreed percentage.

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(5) The price of coal for export shall be fixed from day to day in relation to the world market and in the general interest.

(6) The Government shall reimburse to the colliery owners the difference between their total cost incurred and their total price received, by means of Treasury notes, such notes being debited, as now, to the National Credit Account.

For a complete exposition of this scheme I must refer to the book and particularly to the appendix and commentary by Mr. Orage.

CAUSES OF UNEMPLOYMENT.

To recapitulate, I have endeavoured to show that unemployment is the inevitable result of our present economic system, which fails to distribute sufficient purchasing power to enable the public to purchase goods as fast as they are produced and as they are needed. Effective demand therefore bears no coherent relation to natural demand.

A rational system would offer employment so long as labour is essential for producing goods, to supply the wants of the employees as well as the general public. Thanks to inventions and discoveries, goods can be produced in such quantities and with so little labour that the real problem is how to distribute goods to the public regardless of the amount of labour required for their production. Economic systems are made for the benefit of mankind; men are not created to be the slaves of any economic system. The radical defects in our system are an insufficiency of purchasing power and an inequitable system of distribution.

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I have endeavoured to show that what has been called from time immemorial the usury system is the enemy of civilization, and is the disease germ of every economic system now existing. No system can possibly function satisfactorily or beneficially for all or for the majority of the members of any community that is based upon this principle. One has only to calculate what the interest charges of any sum of money aggregate over an extended period of time to realize what an impossible system it is.

Not long since an American humorist wrote to Mr. John D. Rockefeller, the well-known American millionaire, suggesting a scheme by which he could enrich posterity. He proposed that Mr. Rockefeller should set aside one-half of his wealth on interest at 5 per cent., and leave instructions that the interest should be re-invested on a 5 per cent. basis for a period of 500 years. By that time the income from usury would have become so vast that every United States Citizen could draw an income of a million dollars per annum, supposing that the population by that time had grown to 10 times the present population!

The truth is that usury can only flourish over a limited period of time, and only to the extent of a certain small proportion of the capital created. It is very similar to a system of gambling. For every one who gains there are scores who must be losers.

THE REMEDY.

To remedy these evils, some such plan as that suggested by Major Douglas will have to be started. The consuming public must have some control

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over prices as well as over the volume of purchasing power that is created. These are the two objects to which special attention must be paid and a complete change from the present system established.

Of course, the conclusion reached and the proposals suggested in these articles will doubtless cause consternation in the minds of some and amusement in others. They will be pooh-poohed by most of the orthodox philosophers, and all the fogeys will hold up their hands in horror. But on the ground of truth, I venture to say that, though they may be challenged, they cannot be permanently subverted. We have only to wait until the intelligent public have had time to digest them thoroughly, and the present system has reached the final goal towards which it is rapidly hastening.



Unemployment.

A REPLY TO Mr. KITSON.

(By the City Editor of "The Times.")

MR. ARTHUR KITSON, in a characteristically assertive effort, has attempted to prove that the solution of the unemployment problem is "so ridiculously simple that the average school-boy ought to be able to furnish a satisfactory answer." My endeavour will be to show that he has not only signally failed in that self-imposed task, but incidentally has also revealed the fact that he himself has not mastered the problem which he seeks to solve.

After studying with great care the six articles in which he promised to disclose his practical solution for the avoidance of poverty and unemployment, "the most easily avoidable of evils," I am forced to confess that I have groped in vain for the promised solution among a wilderness of words and startling assertions, masquerading as arguments. The latter may have been intended to disintegrate and scatter to the winds awkward facts, for one frequently had an uneasy suspicion that Mr. Kitson realized that there were serious gaps in his reasoning, and that he was endeavouring to propel himself and the reader across them with the momentum of an accelerated flow of verbal denunciation of finance, of which he has a vast consuming hatred and contempt.

This was well exemplified in the drawing of an oil engine which appeared in his first article. The illustration reveals clearly the limitations of Mr. Kitson's vision. It breaks off at the most interesting point—namely, at the public supply main. Mr. Kitson says that the working of the oil engine depends upon the ability of the public to purchase the oil as fast as it is produced. Obviously. But he does not proceed to explain how this ability to continue to purchase the oil is to be maintained. That is the vital question. He says this ability depends upon production. Yes, but not upon the production of oil. For the purpose of his illustration, Mr. Kitson *ignores the whole problem of exchange, by which alone value is created.* By ignoring the complications of a subject it is possible to see any problem very simply. But that means not seeing the problem at all.

THE PREDOMINANT FALLACY.

There are three outstanding fallacies in Mr. Kitson's articles. The predominant fallacy is that the "real problem is to discover some method of selling goods as fast as they are produced." He proceeds to show that by this he means that goods should not necessarily be sold at all, but issued to someone in return for money, and that the money should be provided by the banks or the Government, or both. The real problem, of course, is not to exchange goods for money, but to exchange them through the medium of money for other goods. Money is a medium of exchange; if the problem could be solved by merely printing money it could be solved here and now.

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A famous elephant hunter tells a story that is worth repeating of how he came to realize the limitation and function of money. He learnt his lesson by the sun-scorched shores of an African lake, where he came within an ace of starvation with 100 golden sovereigns in his pocket. A paltry penny trinket, which he exchanged for food with a native, alone saved him and his followers from starvation. That trinket had an exchangeable value, but the sovereigns had not.

It is true that there can be no over-production of commodities in the broad sense of the term, but there is frequently a temporary over-production of certain commodities. No civilized person can produce all the commodities he needs, but must produce a sufficiency of products which *other people need*, to be able to exchange them for those he requires. This country produces each year a surplus of manufactured goods which it desires to exchange for food and raw materials produced by other countries. If we require a higher price (*i.e.*, a larger amount of food or raw materials) for these surplus manufactured goods than, say, Germany requires for the same kind of goods, we are unable to exchange our goods, and there is consequent over-production and unemployment. We should not solve the unemployment problem by compelling the makers of motor-cars to exchange their motor-cars for other motor-cars, or the makers of rails their rails for other rails. Neither should we solve the unemployment problem by sending these rails and motor-cars to, say, Russia, in return for paper money.

INFLATION WITH NO EFFECTS.

Mr. Kitson is obsessed with the notion that all that is required is a sufficient outturn of money, for he says in the second article:—

If wages, salaries, and dividends could be doubled or trebled without raising the level of prices, our mills and factories could be kept continuously running.

He therefore proposes that we should convert the whole of the £1,300,000,000 of floating debt into "Bradburys."

What, however, would be the effect of inflating the currency in this manner? Let us assume that we have at present about £500,000,000 of legal tender money; and for the sake of argument we will assume also that we have 1,000,000,000 units of commodities. This ratio gives to each unit a money value of 10s. If we add £1,300,000,000 to the stock of money, we get a total of £1,800,000,000, but as the price of each unit of commodities is to remain at 10s., how can the £1,300,000,000 extra currency be used? Prices must rise; otherwise the money could not be spent. Mr. Kitson may reply that the increase in the supply of Bradburys would have to be regulated by the supply of goods—namely, that for every two additional units of commodities produced a £1 note only would be issued. But what sort of commodities would he issue money against? If currency were issued against the production of more motor-cars and other things that we are unable to use ourselves, and foreigners do not wish to purchase from us, the issue of the extra currency would

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merely force up the price of commodities such as were saleable, or if these were held down then the extra currency could not be spent. You cannot have inflation without having its effects, any more than it is possible to have a war without death and destruction, or eat a cake and have it too. Mr. Kitson, however, says that finance is concentrated upon production instead of consumption, and that consumptive power would be increased by the issue of money. How would Mr. Kitson issue the money to increase consumptive power? By giving notes away gratis? If notes were not issued on this Bolshevik principle, how could they be issued, and how could the Virginian cotton-grower be compelled to accept notes in payment for his product?

THE REAL PROBLEM—EXCHANGE.

Mr. Kitson's statement of the unemployment problem is so crude and so inadequate as to lead nowhere. We can best illustrate Mr. Kitson's fallacy by pointing out that an oil tank fully charged could not be made to absorb more oil by enlarging the conduit pipe (the medium of exchange, money, representing the pipe).

In the last paragraph of the second article Mr. Kitson himself gets a glimpse of the fallacy of his earlier proposal by saying that increased production must be accompanied by a fall in prices or an increase in the volume of purchasing power; otherwise its tendency must be to increase unemployment. But here again Mr. Kitson confuses an exchange into money with an exchange into goods. If we produce 1,000,000 motor-cars for our own

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use and another 1,000,000 for the use of foreigners, how are we going to sell the second million unless somebody not only has the cash to buy them but also *wants* them?

In his third article Mr. Kitson asks to what extent does the average citizen participate in the profits of the legacy of past inventions and chemical discoveries. The answer is, obviously, in the more efficient production of goods which enables him to sell his product to other nations at a lower cost in labour than would otherwise be the case. Without the aid of the steam engine, the makers of Nottingham lace would not be able to exchange their product for New Zealand mutton with the same facility as at present, since the transportation of it to New Zealand and the bringing back of the sheep's carcass would be infinitely slower.

EVADING THE QUESTION.

Mr. Kitson wonders why we should wait for foreigners to purchase our cotton goods and boots; he says we should sell them to the thousands of English people who have shabby boots and clothes. Provide these people, he says, with bits of paper and they will be able to buy the boots and clothes and give employment to the cotton and boot operatives. What use the pieces of paper would be to the latter when they want to buy wheat from Argentina, raw cotton from Virginia, and hides from India, Mr. Kitson wisely refrains from explaining. Requested to show how the making of cotton goods for Thomas, the sentimental poet, will enable the cotton-spinner to pay for the raw cotton, Mr. Kitson airily evades the issue by saying that we are quite

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capable of paying for the cotton. He asserts that that is the answer to the question. But he has still to answer, if the public is to be induced to take his ideas seriously.

A DANGEROUS PROPAGANDA.

What is the meaning of Mr. Kitson's phrase that "our present system of distribution, which makes the existence of vast masses of people of all countries entirely dependent upon the demand for their services in productive operations, must sooner or later be displaced by something more rational"?

It seems to suggest that Mr. Kitson has in mind a wonderful system, which no other brain has conceived, which will make the exchange of all goods produced automatic—that all the poems produced shall find a ready exchange into other commodities; that all carrots, chimney-pots, dolls, speeches, political writings, shall find an immediate market. But if he has any such wonderful scheme, then he ought immediately to reveal it to a sorely tried and hungry world. If he is merely playing with the public, and stirring up false hopes amongst the ignorant, he is guilty of carrying on a dangerous propaganda. Mr. Kitson attributes the difficulties of exchanging goods to the stranglehold which finance maintains over industry, which, he alleges, is due to the monopoly of credit issues and the interest (usury) system. In an earlier passage he says purchasing power is increased by the payment of interest, but in the fourth article he says this payment is impossible.

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AN EXTRAORDINARY FALLACY.

We will pass over this inconsistency, among others, to deal with this extraordinary fallacy. He says, if manufacturers or merchants borrow £1,000,000,000 for one year at Bank Rate, they must refund £1,070,000,000, or £70,000,000 more credit than is issued. That, he says, is impossible. Far from being impossible, it is done every day, as any bank manager will testify. Last year, although our supplies of currency amounted to about £500,000,000, the turnover of money and cheques at the London bankers' clearing house amounted to £39,000,000,000. The manufacturers and merchants when they spend £1,000,000,000 in the manufacture of goods receive back more than £1,000,000,000; otherwise they would not borrow the money. The ability of the borrower to repay his loan of £1,000,000,000 depends upon his ability to exchange the goods he produces at prices above the cost to himself.

THE PRIMARY CONDITION OF CREDIT—A REAL SALE.

A bank when it is confronted with a demand for a loan for the production of commodities asks, first of all, if the goods have been sold. If the answer is in the affirmative the borrower may be sure of obtaining his loan. If the goods have not been sold then the banker in granting the loan is influenced by his estimate of the probability of the borrower selling the goods he proposes to make. If the mere production of goods was sufficient to warrant creation of credit then there would be no necessity to sell the goods; prices would have no

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meaning ; a poet would only have to write a poem to obtain money. A restriction of credit is necessary to ensure that goods are not produced in excess of effective demand. Credit, says Mr. Kitson, is a communal property. Such an assertion is palpably absurd. Credit is a private property ; a State's credit is derived from its power to tax the property of its citizens. A person who saves must deprive himself of the use of money or credit in purchasing commodities or services. If he lends it to someone else, and the money is used to buy a sack of wheat to feed a man while he makes, say, a mowing machine, the latter will obviously not sell the mowing machine for a sack of wheat, but for something more ; perhaps two sacks of wheat. The lender will naturally demand something more than a sack of wheat in return for the sacrifice he made in transferring the use and energy value of the wheat to another person.

Mr. Kitson also makes the foolish assertion that the cost of constructing new plants, processes, tools, &c., furnishes little additional purchasing power to the public, though the latter has to pay for this capital expenditure in the price of the goods produced. The money spent on capital works furnishes the receivers of the money with just as much purchasing power as money spent on the manufacture of the goods produced. By increasing our productive facilities, he says, we are decreasing the public power to buy, though in the first article he says that public power to buy depends upon the public's power to produce ! Capital expenditure is obviously an aid to production, and renders the rapidity and efficiency of modern production possible.

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Mr. Kitson finally winds up his amazing effort by repeating that unemployment is the inevitable result of a system which failed to distribute sufficient producing power to enable the public to purchase goods as fast as they are produced. Thus he gets embogged once more in his original fallacy regarding the function and purpose of money. All that his statement means is that if people produce more goods than can be exchanged for other goods there is an over-production of those goods. But Mr. Kitson says "print more money." The question Mr. Kitson must answer is how the making of more goods when there are more goods than can be sold will produce buyers, and how the issue of bits of paper will enable the Indian planter to be paid for his tea. If motor-cars are in over-supply, the making of more motor-cars will not sell more motor-cars, but create a still larger supply of unsaleable cars. If credit were made available in unlimited quantities there would be no check on the production of unwanted articles; it would simply entail the sale of all the articles produced to the banks as the lenders of credit. If production alone was all that was needed for a man to obtain credit, then no one need trouble to find a buyer.

Down the vast perspective of the past we see the wake of the unemployment problem. It is as old as the hills, and no schoolboy has yet been born who has been able to solve this Sphinx-like riddle. Progress itself makes unemployment, and it is an inherent feature of the economic organism. The unemployment problem is the problem of exchange. If the world can devise a system for ensuring that an exchange of commodities or services shall be a

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compulsory, continuous process, then there will be less unemployment. If a man produces carrots when the world is surfeited with carrots, unemployment will ensue unless the world ordains that the people shall be compulsorily fed with carrots. If a man produces poems when the world wants bread, the population must be compelled to fit its stomach to derive animal nourishment from poems instead of bread, to avoid unemployment of the poet.

COMPLEMENTARY PRODUCTION.

The solution of the unemployment problem lies not in the manufacture of money, but in the regulation of complementary production. The causes of unemployment and the methods by which it may be kept at a minimum were stated with much clarity of thought by Major Ewart Scott Grogan, D.S.O., in that rather forbidding abstraction entitled "The Economic Calculus."

The causes of unemployment are many and various. Major Grogan divided them into three classes: epidemic, endemic, and sporadic. A plague of caterpillars in an agricultural county will produce unemployment; or a late frost; or a rush of farm hands to a goldfield. A little reasoning will reveal the connexion at once. Let us suppose that Argentina has planted seed to produce 2,000,000 quarters of wheat and that, owing to a visit of some destructive parasite, the whole of the wheat is destroyed. The Argentine farmers, instead of sending wheat to this country and taking agricultural machinery, motors, clothes, and champagne in payment, go without. The makers of these goods

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are therefore thrown out of employment. If Mr. Kitson wishes to avoid unemployment he must arrange that there shall be no frosts, no parasites, no storms, no change of habits, no strikes, no deviation from wants, a readiness to consume all that is produced whether it is wanted or not; no wars, no civil commotions, no inventions that shall lessen work, no enterprise, no ambition, and no idling on anyone's part. All these and many other things are necessary to ensure a perfect automatic exchange of all products produced. But he may tinker until Doomsday with the financial machinery, and all he will achieve is great disaster and great discontent throughout the length and breadth of the land.



Unemployment.

REPLY TO CITY EDITOR'S CRITICISM.

(BY ARTHUR KITSON.)

I HAVE been engaged for a good portion of my life in political, economic, and scientific discussions, some of which have been of a highly contentious character, but I cannot remember ever having read any criticism so unfair or so misleading as that offered by my present opponent. Let me give one or two examples. Under a heading entitled "Evading the Question," my opponent says: "Mr. Kitson wonders why we should wait for foreigners to purchase our cotton goods and boots; he says we should sell them to the thousands of English people who have shabby boots and clothes. Provide these people, he says, with bits of paper and they will be able to buy the boots and clothes and give employment to the cotton and boot operatives. What use the pieces of paper would be to the latter when they want to buy wheat from Argentina, raw cotton from Virginia, and hides from India, Mr. Kitson wisely refrains from explaining."

By the substitution of the terms "bits of paper" and "pieces of paper" (which I have never even mentioned) for Treasury notes my opponent seeks to arouse prejudice and to convey the impression that I

am advocating the adoption of an entirely worthless currency. Moreover, the question of buying goods from these countries has no bearing on the proposals made. One has but to insert the words "British Treasury notes" in place of "bits of paper" and the prejudice and difficulties raised by my critic vanish into thin air. Everyone knows that our Treasury notes will purchase bank drafts upon Argentina, India and America without the slightest difficulty, and consequently their holders can readily purchase wheat, cotton, and hides from these countries.

[Is not the point rather that Treasury notes would not purchase drafts any more than Russian notes if they were indefinitely increased in number?—ED.]

Treasury notes, Bank of England notes, Bills of Exchange—in short, over 90 per cent. of the assets of every bank—may be vulgarly classified as "bits of paper," but the City Editor had no intention of conveying this idea because by doing so he would destroy the prejudice he wishes to foster against this one particular form of currency which I have endorsed!

FOREIGN COMMERCE.

It will be remembered that in a footnote to my third article (March 19) the Editor of *The Times Trade Supplement* asked me to explain how the increased sale of goods in our home market would enable us to pay for the raw material such as cotton, which is not grown in these islands. To this I replied in my next article in substance as follows:—Our control of our home markets would enable us to produce goods in much larger quantities than at present, and consequently at less cost, and since

foreign trade is a system of indirect barter by which we exchange services and manufactured goods for imported raw material, we should naturally be in a better position with such control than otherwise. And this is how the City Editor misinterprets it : — “ Requested to show how the making of cotton goods for Thomas, the sentimental poet, will enable the cotton-spinner to pay for the raw cotton, Mr. Kitson airily evades the issue by saying that we are quite capable of paying for the cotton. He asserts that that is the answer to the question. But he has still to answer if the public is to be induced to take his ideas seriously ” !

In the fourth, fifth, and sixth articles I outlined various remedies for industrial stagnation and unemployment. In the fourth article under the heading “ The Remedy,” I stated how immediate relief could be given to our trade and industries, whilst in the last article I reproduced the entire scheme originally suggested by Major Douglas in his recent work entitled “ Credit Power and Democracy.” The City Editor says :— “ After studying with great care the six articles in which he promised to disclose his practical solution for the avoidance of poverty and unemployment, ‘ the most easily avoidable of evils,’ I am forced to confess that I have groped in vain for the promised solution among a wilderness of words and startling assertions masquerading as arguments.”

MAJOR DOUGLAS’S PLAN.

Not one single word in criticism of Major Douglas’s plan has the City Editor attempted to offer. Evidently incapable of offering any intelligent criticism, he deliberately puts the telescope to his blind eye and

brazenly asserts that I have offered no solution! This Nelsonian touch may be advantageous at times in warfare, but it is very foolish when it is attempted in a discussion of this sort, the object of which is to arrive at the truth.

[Our City Editor was not called upon to deal with Major Douglas's book but with Mr Kitson's remedy. —ED.]

The City Editor puts to me this poser, which he says I must answer—viz.:—“How the making of more goods when there are more goods than can be sold will produce buyers, and how the issue of bits of paper will enable the Indian planter to be paid for his tea?” His question is not quite complete, and I must first inquire whether the cause of such over-production is due to the public having become surfeited with all these goods, or merely because a foolish financial system has so contracted the volume of purchasing power that there is not sufficient to enable those desiring such goods to buy with? Over-production can occur for only one of two causes—viz., because the wants of all are satisfied, or because of an insufficiency of purchasing power in the pockets of the public. Our present stagnation is due to under-consumption. Or does the City Editor imagine that the present paralysis of trade is due to the fact that very few people are in need of goods? If some magician could present 10 legal pounds to every poor person in this realm, is it not certain that within a few days or weeks every factory would be running full time and every unemployed and employable person could be able to find a job? As to the Indian tea planter, so long as Treasury notes are convertible into rupees or drafts upon the banks of India, he need not worry

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about not being paid for his tea. The exchanges would then gradually fall in India's favour and enable trade to be resumed, which was destroyed by the politicians who have been tinkering with the currencies of both countries.

Again, in my first article I said :— "there are many obstacles to human progress arising from natural causes over which man has little or no control. There are others which are by far the more numerous, and entirely the result of man's stupidity, superstition, ignorance, prejudice, and greed." In spite of this distinction which I made between the uncontrollable forces of nature and those forces which are remedial, my critic says :— "It Mr. Kitson wishes to avoid unemployment he must arrange that there will be no frosts, no parasites, no storms," &c.

The City Editor also objects to my diagram of the oil engine, because he thinks it is not sufficiently comprehensive. Here again my critic coolly ignores the object of the illustration, which was merely to show by analogy that continuous production (and therefore employment) depends upon continued consumption at a sufficiently rapid rate to avoid the condition known as over-production. The extension of the public oil supply main in the diagram which he suggests would have added nothing whatever towards illustrating the above fact.

GOODS OR MONEY ?

My opponent says that there are "three outstanding fallacies" in my articles, the predominant one being that "the real problem is to discover some method of selling goods as fast as they are produced."

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He says—"The real problem is not to exchange goods for money, but to exchange them through the medium of money for other goods." My answer is that so long as I can exchange goods for money I can always buy the goods I need with the money. I fail to see any "problem" in this. [*The experience of Russia seems to be against Mr. Kitson.—ED.*]

Again he says:—"Money is the medium of exchange; if the problem could be solved by merely printing money it could be solved here and now." A Daniel come to judgment! This is my contention. It was by printing Treasury notes that our banks, our industries, in fact our country was saved in August, 1914, just as we and other nations have been saved by a similar measure during similar crises. And those who are now sneering at these so-called "bits of paper," were the very first to acclaim them when everything was in the melting pot. [*Is not the point that this temporary expedient cannot be indefinitely continued?—ED.*]

I am admonished both by the City Editor and Mr. De Segundo that I am carrying on a dangerous propaganda by raising false hopes. One would have supposed that the tragic events of the war and the failure of our pre-war economic methods would have taught our politicians and City Editors the folly of imagining that the world could be put back into the old ruts in which things moved prior to the great upheaval. The real danger lies in the attempts to carry out such an insane policy. These attempts are already responsible for most of the present unrest.

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The attempt of the Treasury officials to put into force the preposterous proposals of the Cunliffe Currency Committee has cost the country already untold millions of wealth and has resulted in the closing of hundreds of factories and the discharge of hundreds of thousands of operatives. "The unemployment problem is a problem of exchange," says our City Editor. True, and "exchange" has developed into "a problem" merely because Governments have granted to a few individuals the monopoly of credit—the media of exchange.

There are numerous other points in my opponent's reply to which exception might be taken, but I think I have said enough to show that his "reply" has very little bearing upon the proposals that I have made as a remedy for unemployment, which proposals he has deliberately ignored.

One word in reply to Mr. De Segundo. "By increasing our productive facilities we are decreasing the public power to purchase goods," for the reason that these facilities tend to displace labour and therefore reduce the amount of purchasing power (wages) distributed. Suppose, for example, that machinery should ultimately displace all labour. Then wages would cease, and unless a new system of wealth distribution were created, our working-class population would perish and the market for our goods dwindle to a fraction of what it now is. Production is determined by and is proportional to effective demand, and effective demand is regulated by the prices of goods and the amount of purchasing power in circulation.

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I am not seeking "to overthrow the present system," but to improve it. For unless it is improved its overthrow is certain. My sole object in writing these articles is to open the eyes of the British public to the terrible dangers which are confronting us, and to endeavour to save my fellow-countrymen from the abyss towards which the arrogance, ignorance, and stupidity of our Government officials are hastening us.



MR. KITSON'S REJOINDER.

To the Editor of the Times.

SIR,—In view of your comments on my reply to your City Editor and in justice to myself, I must again refer you and your readers to the origin of this discussion. I was challenged to furnish a remedy for unemployment. The Prime Minister and other members of the Government had stated that there was no remedy for this evil, and this was mentioned and endorsed at a meeting of several financiers at which I happened to be present. With this assertion I disagreed, and said that there were several remedies, whereupon I was challenged to produce one. The challenge was not that I should furnish an entirely novel and original remedy of my own conception, but any remedy. Among several I selected one I considered the most feasible—namely, that prescribed by Major Douglas. Having described this in my articles, your City Editor insinuated that I had failed to furnish any remedy, and when I inquired why he had deliberately ignored the one I offered, you say in your comments, “Our City Editor was not called upon to deal with Major Douglas’s book, but with Mr. Kitson’s remedy.” But “Mr. Kitson’s remedy” is the one I selected, and is therefore the one that your City Editor, if he were able, should have dealt with.

Again, your citation of Russia’s experience with paper money has no more to do with my proposals than the act of drinking a glass of water has to do with committing suicide by drowning. My proposal was that the Government should gradually convert the Treasury bills already issued into Treasury notes, for the purpose of increasing the supply of currency—which is at present a crying need through-

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out the country—and also to get rid of the interest charges which are now being paid on these bills.

My proposal is nothing more than converting one form of credit into another, and if the one form is unsafe, or as you seem to suggest, worthless, then the other is equally so. As to the danger of "inflation," it does not follow that because a large amount of currency is paid out to the public that the whole of it, or even half of it, would be immediately offered for the purchase of goods, although this is the idea that you and your City Editor appear to convey. Besides, since many of these bills are already used as security for bank credit issued, the change I propose would not necessarily raise prices to a very considerable extent.

The Russian paper money was issued, as Lenin admitted, for the purpose, not of assisting Russian trade, but of destroying it, and of getting rid of what they term the "capitalistic financial system." It is one thing to issue currency for the purpose of assisting trade, it is quite another thing to issue currency for the purpose of destroying it. To compare this system even with the German paper marks would not have been a fair comparison, although far less unfair than the comparison you have made. But the beneficial results of Germany's cheap monetary system on her trade and industries are well known, for it has enabled her to undersell not only our manufacturers in our own and neutral markets, but even the Americans, in spite of their high tariff protection. The United States manufacturers have complained to their Government most bitterly because German goods are being imported in face of their high tariff wall and underselling

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their own products. America is now learning a lesson that we ought to have learned long ago—namely, that dear, scarce money is destructive of industrial prosperity which tariffs are unable to remedy.

May I just add in conclusion the following extract from a letter written by one of those who was present at the meeting at which the challenge was issued, which I have been permitted to make use of :

“I have taken the trouble to inquire of the members who were present with you at the discussion on “unemployment” last February, regarding their views on the articles you have written to *The Times Trade Supplement*. You may remember that, including yourself, our party numbered eight persons in all. Seven of them maintained that unemployment was irremediable, whilst you asserted that a solution of the problem was a simple one. Four of the seven having read your articles think that you have fulfilled your promise, which was to furnish a rational solution, and until this solution is demonstrated to be fallacious, they think it should be regarded as a true remedy. Of the remaining three, one is non-committal, and the other two are abroad, and I have been unable to secure their replies.”

Yours faithfully,

ARTHUR KITSON.

Stamford, April 27.

P.S.—Since the above letter was written I have received word from all of the members acknowledging the fulfilment of my promise as stated in the Foreword of these articles.—A.K.

The Unemployment Controversy

AFTERWORD.

The publication of these articles in the "Times Trade Supplement" created such widespread interest that many columns of letters from all classes of readers appeared in that journal, some favouring and some opposing the author's proposals. Of the majority of these letters, little need be said in reply. Most of the questions raised have been fully dealt with either in these articles or in those already published in the volume entitled "Money Problems."

The letter which apparently aroused the greatest interest was signed "S.O.S.", the writer of which seeks to revive the old exploded Malthusian theory of the pressure of population against subsistence. He thinks these islands cannot continue to maintain its present population indefinitely. The same thing was said more than a century ago when the inhabitants numbered several millions less than they do now. But unfortunately for this theory we find that in practically all industrial countries the standard of living has grown proportionally with the increase of population. Compare the wages and standard of living of, say, 1920 with those of 1820 or 1720!

Of course, everything depends upon the economic methods prevalent. If we were to attempt to revive the methods practised during the 18th century more than one-half of our population would probably die off. In his work entitled "Fields, Farms and Factories," the late Prince Peter Kropotkin stated that with the proper cultivation of all its soil Great Britain could grow sufficient food to

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feed the whole of its present inhabitants, and by adopting the intensive methods common in France and Belgium it could produce enough to feed 75,000,000. It is hardly correct to say as "S.O.S." does that "we remained the greatest and most prosperous nation until Germany destroyed the peace of the world, etc." Both the United States and Germany had overtaken and beaten us so far as industry, trade and commerce were concerned before the war started. People who make such statements base them wholly upon the Board of Trade figures relating to foreign trade, which are very misleading. The export trade of this and all other countries is by far the smaller proportion of the world's trade. Every nation whose trade policy is based upon the well-being of its own people regards its home trade and its home markets as by far the more important and seeks to cultivate these first. Its foreign trade comes second. But thanks to our free-trade fanaticism, our Economists and Statesmen seem to consider the welfare of foreign countries and foreign markets their chief object. Hence they try to make the very existence of this country dependent upon our export trade and the goodwill of foreigners! So long as this is the case there is no doubt a limit—which we may possibly have reached—to the number of mouths this country can feed. But thickly populated as we may appear to be, we have not yet reached the density of Belgium, which manages to pursue its way without fear or anxiety.

It is also contrary to facts to say that "we emerged from the war far less wealthy than when we entered it." According to at least one well-

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known statistician, Mr. Edgar Crammond, whose statements were corroborated by the Editor of the "Times Engineering Supplement," our capital productive resources were 50 per cent. greater in 1919 than in 1914! "Taking in each other's washing" is a favourite expression of the free-traders who seek to deride the idea of the British people seeking to cultivate their home markets. They believe it is good policy to spend millions in trying to secure the markets of a country with a population of 20,000,000 niggers, but they denounce any and all proposals for preventing the Germans or Americans from capturing the markets of Great Britain. Moreover, trade between Argentina or Egypt or Germany and Great Britain involves the "taking in each other's washing" just as much as the trade between Northampton and Witney or between Manchester and Huddersfield. Surely the exchange of boots and shoes for blankets or cotton goods for woollen commodities is as necessary, as useful, and as beneficial as the exchange of coals for corn, or tools for coffee, or linen for dyes. The laundryman who would sacrifice the laundrywork of his own countrymen and townsmen for the sake of securing that of the inhabitants of Timbuctoo or even Peking would be regarded as an idiot. But it is mainly to the cultivation of their home markets and industries that both our great trade rivals have outgrown us and achieved such wonderful and rapid success. And it is chiefly because our people are taught to pay more attention to the demands of foreign markets than to those of their own people that politicians like the Prime Minister and writers like "S.O.S." talk of emigration as the only remedy for unemployment.

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Mr. J. Ellis Barker thinks it strange that so many people "live under the delusion that the wealth of a nation and the employment of the workers can be greatly improved by the manipulation of credits and of the currency!" It is far stranger that any intelligent man should attempt to deny it. To deny it is to deny a truth that confronts one every day. Do not prices affect trade and employment? And are not prices the result of "the manipulation of currency and credit"? Every company prospectus inviting subscriptions for trade and industrial enterprises proclaims the truth that only by "the manipulation of credit and currency" can new enterprises be started and older ones continued. Every advertisement enticing people to visit certain country places, hotels, restaurants, and to patronise certain shops, exhibitions, etc., testifies to the same thing. What is the use of the international conferences for supplying credit to Austria and other central European countries unless "the manipulation of credits" is essential to revive their pre-war industries? And what sense is there in even discussing the evils or advantages of currency inflation or deflation if "the manipulation of currency" has no effect upon employment or the wealth of nations? "Dear coal," says Mr. Barker, "not finance is the crux of the position." Is it? Then how came we to have over 10,000,000 people on the borders of starvation prior to the war in spite of the cheapness of coal? And does not the high bank rate add to the costs of production? And could not this rate have been very greatly reduced by the "manipulation of credit and currency?" Was it not "the manipulation of credit and currency" that

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saved all our banks and the country from wholesale bankruptcy in August, 1914, and reduced the bank rate from 10 to 5 per cent.? Mr. Ellis Barker has evidently not thought this subject out sufficiently.

Mr. Frank Morris is the first and I think the only correspondent who has really attempted to grapple with the fundamental proposals made in my articles as a remedy for our present troubles. He denies that "the price of the plant and machinery or capital goods is added to the selling price of the consumption goods." But he offers no evidence whatever in support of his denial. Mr. Morris ought to have consulted some cost clerk before denying such a well-known truth. Every industrial firm's balance sheet contains an item for depreciation of plant and machinery. The percentage allowed—which varies according to character of the plant and the nature of the work performed—is for replacing such machinery and plant after its efficiency is destroyed. In many engineering works 10 per cent. is allowed. Supposing a machine costs £500, then £50 is written off for the first year and the machine is credited as worth £450. At the end of the second year £45 is written off, and so on, until the machine stands as worth no more than the price of its weight as old metal. I know of works where machines are still worth in the aggregate thousands of pounds which are credited in the balance sheets as worth only a few hundreds. Again, in many works all tools which have to be replaced are charged to running expenses. And all such charges necessarily enter into the prices of the products made and sold. In addition to all this, a certain percentage of interest on capital is also allowed. Indeed if all

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such charges were omitted, and were not added as a part of costs there would be no profits. Hence *it is literally true that the costs of plant and machinery form a part of the selling prices of consumption goods.*

The real credit of every industrial nation consists of its productive resources and facilities which comprise not merely its machinery, tools, plant, etc., etc., but also the skill, education and even the moral character of its people, its climate, natural resources, its forests, minerals, rivers, water supplies, its geographical position, its Government, and even its religion. These are not the creation of any one man or of any one class nor of any one age. They are the gift of nature and of generations of past ages. Every British citizen should be entitled to a share in what is clearly the inheritance of the whole nation.

I hesitate to disagree with so sane a writer as Mr. W. W. Paine, who has given elsewhere some sound advice on financial and industrial matters. But it seems to me that he also is under the delusion that we "became vastly impoverished by the cataclysm through which we have passed." Outside of the precious lives we lost and the debt we incurred to the United States, where can one find any evidence of our impoverishment? We suffered no invasion, none of our cities or towns were destroyed as in France and Belgium. Not one of our coal mines, railways or docks was even seriously endangered. On the contrary, we were able to develop our industries, to enlarge nearly all our factories and to build hundreds of new ones, so that our industrial capacity at the end of the war far exceeded that at the beginning.

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As for our National Debt—which a more intelligent Government might have avoided—is concerned, since we owe this to ourselves we cannot regard this altogether as a sign of impoverishment. The desire of the masses to lead more comfortable lives ought to be regarded as a healthy sign. Necessarily the labour essential to enable them to do so must be performed. But surely the more goods a nation consumes the greater must be the demand for such goods and therefore the greater the opportunities for employment. But to arrive at these results, the goods must be produced and the wages, salaries and dividends distributed must be sufficient to enable the people to buy what they produce. If not, the goods must either go abroad or the home markets will soon be glutted. And then follows under-consumption, unemployment and industrial stagnation. The world's greatest market is the United States of America. Its greatness is due to the so-called extravagant scale of living on the part of the American public, and to the high rates of wages and salaries paid. By reducing wages, you reduce the home market for goods by curtailing the purchasing power of the public—unless prices fall proportionally and simultaneously—which seldom, if ever, takes place.

Although the correspondence shows how very important it is that some solution of the problem should be found, it is disappointing to notice an entire absence of anything approaching intelligent criticism of the proposals submitted. No one has attempted to deny the fundamental truths upon which the proposals are based, viz. :—

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1. Opportunities for employment are created by and are proportional to the effective demand for goods.

2. The effective demand for goods is dependent upon and proportional to the amount of purchasing power (currency and credit) in the hands of the public.

3. Purchasing power is distributed in the form of wages, salaries and dividends in the process of making and producing commodities.

4. The amount of purchasing power so distributed in production is insufficient to buy more than a small proportion of the goods so produced.

5. As a consequence our industrial prosperity is made dependent largely upon foreign buyers.

6. Since other nations are in a somewhat similar condition through employing a similar financial system we are all competing for the same foreign markets.

7. This international rivalry results in the congestion of the home markets, unemployment, industrial stagnation and finally—warfare !

8. Until and unless the amount of purchasing power distributed to the buying public is increased sufficiently to enable them to buy the total volume of goods produced at the prices offered, these periods of trade stagnation will recur from time to time. It will be observed that the representatives of the orthodox economic school admit that they can find no solution for this problem. Why then do they refuse even to consider unorthodox proposals ?

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In conclusion, may I add that the purpose for which I was induced to undertake the task of writing these articles has been fully achieved. They have aroused wide-spread interest and discussion and have led many to seek fresh knowledge of economic subjects from *unorthodox* sources, the only hope of mankind for economic deliverance.

To those desirous of studying the Financial question the following Books are worth reading :—

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" ECONOMIC DEMOCRACY "

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" THE MONEY PROBLEM " (A. Kitson)—

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