SOUTHAMPTON

CHAMBER OF COMMERCE

REPORT

OF THE

Economic Crisis Committee

INTRODUCTION

L. Denis Byrne

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Introduction

The decision to investigate the causes of the world-wide economic crisis of the early ’Thirties was taken at a general meeting of members of the Southampton Chamber of Commerce in England, in January 1933. The meeting appointed a committee with the terms of reference set forth in the opening paragraph of its subsequent report.

The committee’s initial action was to extend, through the Secretary of the Chamber, an open invitation to other Chambers of Commerce, organizations and persons, to submit evidence of the cause of economic crisis and remedial measures to deal with it. A number of submissions were received and considered.

After numerous meetings and discussions, the report which follows was presented by the committee first to the Directors and then the general membership of the Southampton Chamber of Commerce, who authorized its printing and wide distribution.

Subsequently, the report was brought before the Annual Meeting of the Association of British Chambers of Commerce, where a resolution to refer it for study and action to a special representative committee was approved, despite strong opposition from the Association’s executive who brought in prominent bankers and economists to support them. When the committee met in response to the resolution, they were informed that their enquiry had been vetoed by the executive and that no further action was to be taken on the Southampton Report.

However, despite this formidable opposition and a complete boycott of the report by the media, the document termed the “Report of the Economic Crisis Committee” of the Southampton Chamber of Commerce soon attracted widespread attention. Requests for copies poured in from every part of Britain and the world — from Canada, the United States, Australia, New Zealand, as well as several European and Asian countries — necessitating reprint after reprint of the report over the years which followed. In all that time not a single valid refutation of its content was either received by the Chamber or published.

The glaring faults in the monetary and pricing system of orthodox finance which are exposed in the Southampton Report have continued to plague the nations with progressively devastating results — pyramiding debt, mounting taxation, rampant inflation, widespread labour unrest, cut-throat competition both internally and internationally, and persisting unemployment — results which have reflected in the rise of dictatorships and the decline of democracy, in war, revolution and widespread spiritual decay. As the report states in its penultimate paragraph, “...never has mankind been threatened by such overwhelming disaster.” The history of the world since the Southampton Report was first published bears fearsome testimony of the truth of that warning.

L. Denis Byrne
June, 1977

SOUTHAMPTON CHAMBER OF COMMERCE

Economic Crisis Committee

Constitution of the Committee

MR. E. DENNIS MUNDY *(Chairman)*	MR. S. J. FAZAKERLEY *(Vice-Chairman)*
MR. L. A. APSEY	MR. L. D. BYRNE
MR. A. T. DOGGRELL	MR. E. N. EMMERSON
MR. R. HENDERSON	MR. WALTER MUNN
MR. E. PHILIP SHAW, M.A.	MR. B. D. KNOWLES *(Secretary)*

REPORT

We were appointed by Chamber Minute, dated the 5th January, 1933, to make a “study of the root causes of the calamitous depression in national and international trade, especially focussing attention on the problem as now represented by unemployment, and to make a recommendation, based on the findings, to the Association of British Chambers of Commerce.”

We have held eighteen meetings.

The condition of world trade and the grave economic situation have been exhaustively reviewed from time to time by various authorities. In approaching its task, your Committee has given careful consideration to the views which have been put forward, to the many factors which have been quoted as being responsible for the situation, and to many suggested remedies—some fantastic, some ingenious, but most of them unrelated to the real ”root causes” of the problem. It is these “root causes” which your Committee have been entrusted to find, and it was early decided that no such analytical investigation could possibly take place without a review of the development of the present economic situation.

This review has covered the period from man’s earliest application of manual labour down to the present highly specialised mechanical industrial age. It is not intended to set out fully all the aspects we have considered, as most of these have been found unrelated directly to our present problem. Therefore, in order to present our subject matter in clear perspective, we consider it is sufficient to confine ourselves to a brief review of some of the main factors which should be taken into account.

Part One: General Review

History reveals that the fight for existence called for all the strength and cunning of primitive man, but as time advanced his security increased as the forces of nature were harnessed or overcome by him. Gradually by experience and co-operation a higher standard of living was made possible, but, until the latter part of the 18th century, progress was slow. In spite of the great advance which was made during the period, and the measure of security achieved by mankind in his development, most men, and, indeed, women and children, had to work for long hours, and suffer great hardships in order to obtain the fundamentals of subsistence.

With the industrial revolution came the dawn of an age of power production. Solar energy applied to machinery through the medium of coal made it possible simultaneously to increase production and to reduce the need for human labour. Science and invention continued to sustain a process of development in industry and agriculture, so that within a comparatively short period the potentialities of the application of man's newly-acquired knowledge in the economic field became apparent. An age with a low standard of living progressed by sporadic development until immediately before the European War of 1914-18, certain industrial countries had attained a standard of living never previously contemplated.

During the period of about a century and a half the process of industrial development assumed world-wide proportions under the stimulus of foreign trade and investment. Methods of production and transport were revolutionised; facilities for trading between nations increased, and foreign markets were eagerly sought by countries endeavouring to secure outlets for the products of their rapidly-expanding industries; specialisation and division of labour developed; industrialised countries became adjusted to the massing of their populations around their industries, and the machinery of commerce grew to vast proportions; populations increased rapidly.

Thus it was during a comparatively short period that mankind created an entirely new process of development. That the economic system was not adjusted to this new process was plain even prior to the War. International relations became strained under the stress of competition for markets. With growing difficulty an increasing number of nations strove to maintain favourable balances of trade. The difficulties of national and international monetary questions caused havoc, and booms in trade were followed by slumps with regularity.

With the War millions of men forsook the land and factory to follow an unproductive pursuit. Millions more were engaged in the production of munitions and other war materials, which were destroyed almost as fast as they were produced, and in the process vast areas and much wealth were laid waste.

Such a departure from normal productive activity called for intensive scientific research in all branches of production. With a diminished amount of labour and with increasing demands upon their productive capacity, industry and agriculture were mobilised for maximum output. Invention and technical progress were stimulated, and the nations found themselves obliged to utilise their own latent resources to supply themselves with the goods which they had hitherto imported. This resulted in many less-developed countries being forced to undertake manufacturing for themselves. With the end of the War nearly all efforts of production of war material were directed towards peaceful requirements. Within little over a year newly-equipped industries made up deficiencies caused by the havoc of war, and the world started upon another stage of abundance even greater than before.

The post-war years were responsible for a process of intensive development in methods of production and transport of which no parallel exists in the world's history. In agriculture, coal, steel, cotton, shipbuilding, communications, transport, in fact, in every field of economic activity, rapid advances were made. The enormous increased productive capacity was accompanied by a decreasing demand for human labour as improved technical processes were introduced.

Manufacturing countries like Great Britain turned to adjust their industries to pre-War conditions after the War, but found their one time markets for exports invaded by other nations or closed to them on account of the growth of the industries of the areas in question. Those who had once been customers had become competitors. Export trade became increasingly difficult with resulting repercussions on internal conditions. The failure of agriculture and industry to dispose of their respective surpluses caused a slowing down of production. Fewer men were employed and the purchasing power of the public reduced, leading to further curtailment of production. National tariff barriers were raised progressively in efforts to support home industries and prevent dumping from abroad of the surplus production of other nations. Bad debts, bankruptcies, and fear combined to encourage the deflationary policy upon which many countries had embarked. Industrialists, finding their hopes of making profit diminishing, reduced output and introduced improved methods, thus causing more men to be thrown into idleness with consequent loss of purchasing power. Lack of confidence and enforced legislation put an end to much foreign lending, resulting in many export markets being closed. So the cycle continued its disastrous course.

We now find ourselves confronted with a state of affairs in which, on the one hand, there is a real surplus in the form of food, clothing, building materials, transport and other needs and luxuries with a potential surplus indicated by millions now unemployed, while, on the other hand are millions living at poverty level, in need of most of the very commodities that are super-abundant. To add to the paradox, it seems that their privation is due to the very existence of the surplus. Trade depression, when supplies are plentiful and transport is efficient, must be associated with a need for buyers, and it appears that each country, finding too few at home, looks almost in vain for markets abroad where it may unload its otherwise unsaleable produce.

Another paradox is revealed by the picture of each and every country endeavouring to consolidate its position by disposing of its real wealth while trying to avoid taking real wealth in return, and we cannot but refer to the anomaly of the wholesale and deliberate destruction of wheat, coffee, meat, and other foodstuffs, while surplus transport facilities are available to take these necessities to the homes of the hungry.

It is inconceivable that anyone can associate the difficulties with natural causes. There is no evidence of widespread failure of harvests, neither is there evidence of the failure of our age to appreciate the necessity to conserve natural resources.

Your Committee is unanimous in its belief that there must be a way out. It cannot reconcile a state of affairs in which people who have gained such vast knowledge regarding the wonderful powers of the universe, who have thought out all the intricacies of modern machinery and rapid transport, and who have secured such mastery over disease should still prove incapable of solving the economic riddle of our age.

With a full appreciation of our limited qualifications as investigators of a problem of this magnitude, we have endeavoured to approach our task without prejudice and with a full sense of responsibility, in the hope that it may help in some small measure the deliberations of those in whom has been placed responsibility for the destiny of our country.

* * * * *

Extract from leading article of *The Times,* 3rd November, 1932;—

"The problem which is now perplexing mankind is to discover by what flaw or flaws in our system it has come about that the world, never better equipped both in knowledge and in machinery to produce all its needs, is forced to see so much of that knowledge and machinery lying idle while millions of willing workers are unemployed and in want.

“The professed authorities on these questions have expressed many conflicting opinions and have given such contradictory advice, that the best hope of success seems, indeed, to lie in candid examination of the facts by men not professing to be experts and consequently unhampered by preconceived theories.

“This medley of opinions among those who profess to know would itself seem to tell in favour of the view that mass production, rationalisation, the displacement of labour by machinery, scientific inventions increasing the productivity of the agricultural as well as of the manufacturing industries, and, not least, the wonderful improvement in the facilities of communication, are creating a new world in which the old canons of orthodox economics and finance may not perhaps be applicable without adjustment. There is plenty of material here for searching study by men not obsessed by any theory or dogma, but anxious to get at the facts and to frame policies to meet them.

"The situation of the world today is a challenge to world statesmanship, a challenge which statesmen must take up for themselves. It is impossible to shift the responsibility upon the experts who differ so fundamentally among themselves over both the diagnosis and the appropriate remedy for the world's economic sickness."

Part Two: Analytical

In the preceding part of our report the main features of the world situation have been reviewed. In approaching the analysis of specific facts your Committee submit that no analysis purporting to reveal the *root causes* of the World Economic Crisis can be of any use unless the results can account for the present situation, its development and probable trend in the future.

(I) Purpose of Economic System

Much confusion of thought arises from examining economic conditions without bearing in mind the objective for which an economic system functions. The purpose of an economic system is to deliver goods and services as they are required, when they are required, and where they are required, by members of a community. To this end the resources of a community should be mobilised and production organised in a manner likely to prove most beneficial to the majority of individuals. The object of an economic system is not the provision of work; in fact, it has already been shown that the tendency of human progress has been to release men from nature-imposed necessity to toil. Yet we find that national leaders are concentrating upon the problem of "finding work," while ignoring the main consideration as to whether the economic system is adjusted to its function of making available the abundant supplies of goods and services as, when, and where they are required.

(II) Unemployment

Our terms of reference direct our attention to what is termed the problem of unemployment, which dominates the economic life of every industrial country. This problem is by no means new, as it has existed in one form or another since the beginning of the industrial revolution. At first the problem was obscured by employment being given to vast numbers of men, women, and even children at meagre wages, which provided them with the bare necessities of existence in return for long hours of work.

Unemployment as we know it was precipitated as a result of the stimulus given to industrial development during the War, when producers, finding the restrictions on improved processes removed, were forced to meet an increasing demand for goods with a diminishing supply of labour. No other feature shows more clearly the magnitude and the nature of the diseased condition of the body economic. The effects of unemployment have spread like a plague over the whole civilised world, carrying destitution, suffering, degradation, and despair into millions of homes. Taking the total number of unemployed persons and those dependent upon them, it is estimated that about 120 millions of human beings have been rendered destitute in the industrial countries of the world. It is our view that the problem of unemployment consists not only of these unemployed persons and their dependents, but also of the vast resources lying idle in factories, plant, mines, and land.

We have already seen that science and engineering skill are being directed towards the elimination of human labour. New inventions reduce daily the number of man-hours required in production, and when we find that over a given period productivity is increased and human employment is decreased, we are forced to the conclusion that unemployment, due to technological progress, will continue to increase.

As an instance, in the United States of America the height of employment in industry was reached in 1918, and since then it has been declining. The height of production, however, was not reached until 1929, though we are aware that the increasing standard of living during this period obscured the results of this development in the field of employment. Here is clear evidence that, as technical knowledge increases, we may expect a progressive decline in the need for human labour in productive industry. Inevitably this will mean a permanent and increasing industrial unemployment problem.

It is in relation to the problem of unemployment that what is termed the economic paradox is so plainly manifest. On the one hand we have the vast army of persons capable of producing but rendered impotent to do so, and existing in an impoverished condition through their inability to obtain employment. On the other hand we have almost limitless resources for supplying the wants of every human being in the civilised world made available by machinery.

The limiting of population by organised methods of birth control can find no place in this argument, because there is no logical connection between increased population and decreased consumption ability.

It is taken for granted that an unemployed person should be destitute and a burden on the rest of the community. He is not engaged in production, neither is he rendering a valuable service. Therefore it is argued that he should not receive an income to enable him to participate in the economic life of the community except, in so far as this country is concerned, to the extent of not being permitted to starve. Yet any consideration of his position is startlingly paradoxical:

> Either an unemployed person is without work because we are already producing sufficient without his services being required, in which case he is poor because there is an abundance of goods and services available.
>
> Or he is in want because the available wealth is not sufficient to provide for the satisfaction of his needs, in which case it is difficult to explain away why his services are not being utilised to produce more.

Thus, from whatever angle it is viewed, we have the situation of widespread industrial trade stagnation with producers capable of production, and millions in want of the very things which can be produced in abundance.

On the *prima facie* evidence, the fault in the economic system lies in the machinery responsible for the transfer of goods from productive industry to individuals of the community.

This link between production and consumption is "Money," and, therefore, we proceed to an examination of the monetary system.

(III) Money

The monetary or financial system is that part of the economic system which provides the machinery whereby the exchange and distribution of goods and services is effected. Money is essentially a man-devised means of replacing the cumbersome methods of barter, so that goods and services may be exchanged with greater freedom. It might be described as a ticket or token system.

In our highly-complicated modern economic structure, a monetary system is essential, and just as civilisation is dependent upon its economic foundation, so in turn the economic system is bound together by its monetary machine.

If money is to function as an efficient token system to enable goods and services to be exchanged, the monetary system should be adjusted to reflect the facts of production and distribution. If the economic system is to provide the community with the goods and services they require, the amount of money to effect this distribution must be regulated by the goods produced for the benefit of the community: thus the monetary system has its roots in the ability of the community to furnish itself with goods and services. It is this knowledge, amounting to a certainty, that a member of the community can obtain what he requires, which leads him to part with his product of services in return for money. It is this belief amounting to a certainty—this credit—which gives money its value. Money is therefore a vehicle of this credit, and need have no value apart from the credit attaching to its possession, which makes it acceptable in return for goods or services.

We should, therefore, expect to find any monetary system based upon the ability of the community to furnish itself with goods and services, that is, upon the credit existing in and inseparable from the community. In order that it should function smoothly, the quantity of money should always be sufficient to provide the community with purchasing power to have access to the goods and services available. Thus we should expect to find the monetary system reflecting any increase in the well-being of the community through its ability to produce more for its use.

(IV) The Monetary System

The monetary system in this country is controlled by the Bank of England. By its control of the note issue and its open market transactions, the Bank of England is able to exercise control over the entire financial structure.

As the national central banking institution, the Bank of England is the sole authority for the issue of the notes which form the bulk of our currency. The amount of notes which the Bank can issue is arbitrarily controlled within narrow limits.

> "The Bank of England is ... a private institution . . . independent of any form of legal control, save in regard to its powers of issuing bank notes and granting loans to the State."
> (Macmillan Committee's Report, Para. 50.)

> "The restrictions, so far as there are restrictions, under which the Bank works in its operations, are restrictions which the Bank has imposed upon itself, and which, of course, it has the power to alter."
> (Sir E. Harvey before the Macmillan Committee, Para. 51.)

The currency controlled by the Bank of England, however, forms only a small amount of the total money of the country. The bulk of the money is created by the commercial banks. By granting loans, allowing money to be drawn on overdraft, and purchasing securities, banks literally create money. This form of money is intangible, and consists of figures in bank ledgers, which are transferred from one account to another by means of cheques.

> "It is not unnatural to think of the deposits of a bank as being created by the public through the deposit of cash representing either savings or amounts which are not for the time being required to meet expenditure. But the bulk of the deposits arise out of the action of the banks themselves, for by granting loans, allowing money to be drawn on an overdraft, or purchasing securities, a bank creates a credit in its books, which is the equivalent to a deposit."
> (Macmillan Committee's Report, Para. 74.)

The commercial banks are limited in the amount of this financial credit, which they can create by the amount of cash in their possession and their deposits with the Bank of England. By general agreement the banks maintain a ratio of about 10 to 1 between the financial credit they create and their cash and Bank of England deposit holdings.

Thus it will be seen that the bulk of our money consists of intangible financial credits created by the commercial banks and lent to the community; the community, therefore, being in the position of being indebted to the banking system for practically the whole of the money of which they have the use.

While we have the highest regard for the efficiency and integrity of our banking system, we cannot refrain from commenting upon the fact that there we find no indication of the amount of money being dependent upon the ability of the productive system to supply the community with goods and services. Rather it seems that an arbitrarily fixed amount of money demands the restriction of production to the quantity of money. Again, the fact that the authority for the creation of money is vested in private institutions seems an anomaly. It has already been shown that "the credit" or "belief" upon which the monetary system is based is inherent in the community. As the creation of money by the banking system can be effected as and for any purpose they consider desirable, it would seem that a power nothing less than control of the entire economic activity of the nation is vested in a private monopoly.

(V) The Industrial System

Let us consider the operation of the monetary system in regard to national economic life. In the first place it will be clear that, as the bulk of money originates as credit-loans from the commercial banks, practically all production must be financed from this source. In order to prevent confusion, we have taken the distributive trades as part of productive industry, engaged in performing the last of the processes required in the cycle of production from raw material to the marketed article.

Industry performs a two-fold function. It produces goods and distributes incomes in the process. The operation of the relation of the monetary mechanism to production is along these lines:

(a) Industry mortgages its capital assets and secures the money necessary to enable it to pay wages, salaries, buy raw material, and meet its overhead costs in the form of credit-loans from the banking system.

(b) In the process of producing goods, it distributes wages, salaries, dividends, and profits which filter through as money incomes to the entire community.

(c) The goods subsequently come on the market with price labels attached to them to include all the costs of production.

(*d*) The community acquires the goods in return for their money, which filters back through the productive system for the cancellation of the credit-loans originally created by the banking system.

It should be noted that under this process industry is forced to charge into prices at least all its costs of production, irrespective of any question of profit, otherwise it cannot liquidate its indebtedness to the banking system. Thus it will be seen that the creation of financial credits by the banks results in the creation of a trail of costs attaching to the products of industry, and this trail of costs is created in the process of the financial credits filtering through to the community as money incomes.

(VI) Capital Costs of Industry

The industrial system is engaged in producing two forms of products. Consumable goods which the community want and capital goods, such as factories, machinery, harbours, etc., which, in themselves, the community do not want, except as a means to furnishing consumable products more efficiently. It is in regard to the latter we desire to direct attention.

Money incomes, which form the purchasing power of the community, are distributed alike in the production of capital goods and consumable goods. It has been demonstrated that the bulk of our money originates as financial credits, created and lent by the banking system. It is also common knowledge that banks rarely grant loans for protracted periods. The question arises as to how the production of capital goods is financed, as it is quite clear that this type of production cannot be financed by comparatively short-term loans from banks, for the costs in respect of capital goods can only be recovered over a period of time in depreciation and replacement charges.

The process in the majority of cases is not dissimilar in principle to the following illustration, which has been selected for clarity:

A manufacturer of hats possesses no capital in actual money, but has the title of £15,000 of Government securities. He decides to build a factory, and turn the undertaking into a company by offering shares to the public when the factory has been erected and has commenced producing. He secures a loan from his bank for £5,000 for the erection of the factory, and we will assume that the whole of this £5,000 finds its way into the “common purchasing-power pool” of the community, via wages, salaries, fees, etc. On completion of the factory, he borrows another £5,000 for the purchase of machinery. The machinery manufacturer has produced the machinery by means of a credit-loan from his bank, and we will assume he has distributed £5,000 to the “common purchasing-power pool” of the community—which has been enriched by £10,000 by the erection of the factory and the production of the machinery.

The manufacturer of hats now acquires the machinery and pays over £5,000. This enables the machinery manufacturer to repay his bank loan, and, in effect, the debt has been transferred to the manufacturer of hats. There is now in existence a factory valued at £10,000, and the community is in possession of the equivalent amount of money. The manufacturer of hats invites subscriptions to shares from the public to the amount of £10,000. In effect, he re-collects from the “common purchasing-power pool” of the community the £10,000 distributed in respect of the factory and plant. The bank loan is repaid and cancelled. There is now in existence a factory costing £10,000, but no money corresponding to this cost. When the factory commences production it must, of necessity, charge into prices a proportion of the £10,000 representing interest on capital and depreciation. The community does not possess the money to meet this charge.

Let us assume that the manufacturer of hats, having got his first factory started, employed the same £10,000 credit-loan from the bank to carry out a similar undertaking. And let us assume that, on completion of the second, he embarked on a third and then a fourth. It is plain that the same £10,000 of money has now been responsible for the erection of factories and machinery costing £40,000. So depreciation and interest charges will be made on £40,000 without the community having the equivalent purchasing power to meet these costs.

If it is borne in mind that in modern industry there are several processes, and at each stage capital charges arise in the same manner, it will be seen that the final cost of a product will be heavily loaded in respect of these capital costs, which the community will not be able to liquidate. As the factory and machine costs attaching to modern production are progressively increasing, this defect will become more pronounced.

(VII) Savings

It will be seen from the foregoing illustration that the deficiency of purchasing power in possession of the community to liquidate factory and plant charges arises out of the process of savings. Let us consider two illustrations of the operation of saving by the community. It should be borne in mind that the bulk of money incomes originate as bank-created credit-loans, which have to be liquidated, and that in filtering through to the community as incomes they create costs, which have to be liquidated also.

(1) **Money saved and placed on deposit in banks.**

In the process of the distribution of this money a set of costs was created, whether in respect of consumable goods or of capital goods is immaterial. Somewhere in the ledgers of the banks there are probably equivalent loans outstanding. Now it should be clear that over a period of time all costs have to be liquidated, and money saved in any cycle of production must result in a set of unliquidated costs.

(2) **The employment of savings for investment.**

From the foregoing illustration it will be seen that money saved leaves a set of unliquidated costs. If these savings are invested to enable further production to take place, two sets of costs will exist in respect of the savings—costs prior to the savings being effected and costs created on the subsequent investment of the money in industry. Thus the process of saving results in a certain amount of money passing through the productive system several times, each time creating a set of costs in respect of which the community receive no equivalent purchasing power to enable them to meet the costs involved.

Taking another view of the relationship of money to the price value attaching to the products of industry, let us consider the position in the aggregate.

Nobody will seriously dispute that the actual and potential real wealth of the country as represented by consumable production, factories, plant, transport, and the means to add to these has increased enormously since the War. If the total real wealth has been progressively increasing, then the relation of consumption to production has been falling.

As the costs of unconsumed wealth must be liquidated at some future date, it would seem that the money resources of the community should have continually increased, if, in fact, the money mechanism is to reflect what is taking place in the fields of production and consumption.

We find that not only does the community possess no such increased supply of money, but they owe, practically all the money of which they have the use to the banking system as mortgagors over the bulk of their capital assets.

(VIII) A Faulty Financial System

We have not attempted to give a full and comprehensive analysis of the financial system. The analysis set forth is sufficiently complete in effect to show that the monetary system is defective inasmuch as it causes a chronic and increasing deficiency of purchasing power in the possession of the community to enable the costs of its products to be liquidated. This is accentuated by the fact that there is only a limited amount of money available to finance an expanding productive system. Under pressure of the demands made upon them, we find banks obliged to recall credit-loans with almost feverish haste in order to meet the requirements of other borrowers. This, in itself, is likely to cause the cancellation of money and its re-issue before the corresponding costs have been liquidated, thus increasing the gap already existing between purchasing power and prices.

The essential feature of this analysis is that as a country becomes more highly industrialised so it becomes increasingly impossible to distribute sufficient purchasing power to enable the community to buy the products of its industry or the money equivalent in products exchanged with other countries. This results in the country accumulating an unsaleable surplus —unsaleable in the sense that it cannot be bought at home and it cannot be exchanged for the products of other nations, as the purchasing power, for the latter to be made available to the community simply does not exist.

It might be argued that such a defect within the economic system would have resulted in its breakdown long ago. This is not the case.

(IX) Foreign Investment

When a country lends abroad and the proceeds of the loan are spent by the borrowing country in obtaining the products of the lending country's industry, the process is equivalent to the lending country shipping the goods abroad in the form of a loan. No money is transferred out of the lending country, only the goods.

It will be readily seen that herein lies a means of getting rid of the unsaleable surplus which a country accumulates. And for over a century and a half this country has been pursuing a policy of foreign investment in this manner. Out of this arises an important consideration. If in point of fact industrial countries accumulate unsaleable surpluses of goods, it would appear imperative that they should always export more than they import—that is, invest the surplus abroad. Otherwise the surplus will collect in the country, production will slacken off, purchasing power will fall as a result, and all the factors of a trade depression will become operative.

At the outset of the industrial era, Great Britain had access to the world markets for its surplus production, but gradually other countries became industrialised in turn, and in turn found themselves with unsaleable surpluses which had to be exported in foreign markets.

As this process developed, so more and more countries became industrialised, the world market began to shrink, and competition for exports became more tense.

The results of this development in conjunction with the operation of the international gold standard, supply a logical explanation of the process of boom and slump which has been such a common feature of the industrial era.

(X) War Debts

In 1914 the world was plunged into a war which spread death, destruction, and suffering on a scale unprecedented in history. It was thought that lack of money and materials would bring such a conflict to an end within a short period. It was found, however, that with the technical knowledge available, and industries mobilised for the first time for maximum production, output could be increased as rapidly as demands were made on the industrial system. Moreover, no difficulties arose in regard to increasing the supply of money to meet the necessities of the occasion. Industries were organised to supply the vast quantities of munitions as fast as they were blown away to spread death and destruction. With the advent of peace, after four years of wholesale economic waste, exhausted nations, with the flower of their manhood destroyed in the mad debacle, turned to adjust their industries to peacetime requirements. In spite of the vast destruction of plant and machinery necessitated by this process, the nations engaged in the war found that instead of being impoverished, they were wealthier to the extent of having enormously increased their ability to produce. The necessities of war had stimulated invention and speeded up industrial development to an extent which had precipitated mankind into an age of plenty with almost limitless resources at his disposal.

In the face of a common objective, the Allied Powers obtained goods for war purposes from every available source. Thus the European Allied Powers obtained goods from the U.S.A., deferring the question of payment until the cessation of hostilities. In this way they became debtors to the U.S.A. for vast sums in respect of goods and services received by them and utilised for war purposes. Great Britain found herself on the one hand indebted to the U.S.A., while on the other hand, other nations were indebted to her to an even greater extent.

From Germany the Allied Powers demanded payment to make good their loss and obligations, and thus arose the whole question of war debts and reparations.

It soon became apparent that every debtor country, forced to pay in gold, had to build up a vast export trade in order to secure the necessary gold to liquidate its debts. Creditor countries to whom the gold was naturally attracted soon found that they could not allow the imports of debtor countries to penetrate their markets in the efforts made to obtain gold.

In short, owing to the stimulus given to industrial development during the War, all industrial countries soon found themselves with an increasing unsaleable surplus and an increasing necessity to invest abroad. Debtor countries found themselves unable to liquidate their debts owing to the impossibility of finding markets for the necessary surplus exports to enable them to do so. The only means by which they were able to meet their obligations was to incur further indebtedness. Equally, creditor countries could not employ their gold to procure goods as the resulting imports would react unfavourably on their own industries and prevent them from maintaining a "favourable trade balance." So creditor countries found themselves in the position of having to resist payment by their debtors, and imposing further indebtedness through their necessity to invest their surplus production abroad.

Though attention is mainly focussed on the question of war debts, it will be seen that the commercial debts existing between nations form what is probably a far greater contributory factor to the international impasse. Another feature also, bound up with the question of war debts, is the whole question of indebtedness generally. Debts between nations have assumed formidable dimensions, and vast as these are the indebtedness which exists within national boundaries is of even greater magnitude. It is not surprising that such a situation should arise out of a system which naturally generates debt creation. The term "debt" implies repayment, but under a system in which money can only originate as debt, the liquidation of existing debt can only result in the creation of further indebtedness. The situation in this respect is manifestly an impossible one.

(XI) Tariffs

In the face of the increased necessity for foreign investment arising out of the increasing unsaleable surpluses of all industrial countries, and the obviously shrunk and shrinking world market, all industrial countries were forced into fierce competition in attempting to get rid of their unsaleable surpluses. The position was further complicated by the fact that debtor nations were struggling to meet their debt obligations. The only manner in which they could do this was to obtain gold in the open markets of the world—thus adding to the intensity of the struggle for exports.

It is not surprising that as each country found its home markets imperilled by other nations, it imposed means of protecting it. Thus we find tariffs and other means of protecting the home markets of countries became more general, and were made more effective as the competition for exports became fiercer.

Behind high tariff walls with an efficiently equipped industrial system, and having the advantage of being a creditor nation to whom the whole world owed tribute, the United States of America was able to pursue a policy of foreign investment, thus increasing her export trade, refusing payment in anything but gold, and getting other countries further into her debt.

It is plain that such a policy could not operate indefinitely, for it would soon became impossible for her to maintain an increasing export trade, and at the same time receive payment in gold for her investments. The situation reached its climax in 1929, and a world crisis was precipitated.

(XII) A Critical Situation

Returning to the fundamental defect of the financial system, it is necessary to restate that, under the existing system, the community in any industrial country finds itself with an increasing deficiency of purchasing power to meet the costs carried forward into the prices of its production. We submit that this defect in the financial system in regard to the methods of costing adopted, in conjunction with the methods employed in issuing and recalling money supply, the arbitrary limitation of the quantity of money and the progress in technical development furnish a complete explanation of the world-wide economic depression in all its phases. Here we have a logical explanation of the international situation which has arisen. In the same way these root causes account for the existence of the problem now represented by unemployment; for the calamitous fall in prices, particularly of primary commodities; for the wholesale bankruptcies; for the increase in poverty as nations become wealthier in their ability to produce; and the many other symptoms of a diseased body economic.

There is, however, one consideration arising out of this analysis which demands special attention. It has been shown that the bulk of money originates in bank-created credit-loans which have to be liquidated in full. It has been shown that the defect in the system renders it impossible for industry to recover its costs of production and liquidate its debt obligations. It follows that the weaker units of the industrial system and financial system must become eliminated or absorbed by the stronger units. These stronger units are stronger by virtue of their ability to eliminate their competitors. Thus a process of centralisation develops quite naturally in both the industrial and financial fields.

Because the control of financial policy must carry with it the control of all economic activity, it would seem that the powers of government must pass into the hands of the most powerful financial group as financial power becomes centralised internationally. That this is by no means an unlikely result is plain from the proposals being put forward for the centralisation of national central banks under an international financial institution. It is being further suggested that national central banks should be made completely independent of control by national governments, so that any such centralised world hierarchy of finance would form a World Government with complete power over communities. We view the progress towards such a state of affairs with alarm.

Meanwhile we are witnessing the bitter economic struggle for markets between nations of varying standards of living. Nations with the higher standards find themselves fighting a losing battle, and they are obliged to counter the effects in the political field. Thus we see countries arming in the face of a world desire for peace, and scheming for securing a balance of power with other nations. So the situation develops towards the culmination of the economic struggle among nations, namely, war. There is no need to stress the grave consequences which would result from such a conflict.

Another result from continuing to operate a fundamentally faulty monetary system must eventually be its complete breakdown. Such a breakdown might bring about the collapse of the entire economic structure upon which our civilisation rests.

While the removal of the aggravating influence of war debts would do much to relieve the tension of the situation, it could only prove of temporary assistance. Similarly, a lowering of tariff barriers will give some advantage to the nations best equipped for a renewed struggle for exports. Such countries as the United States of America, with a well-equipped industrial system, and Germany, with low wages and costs of production, will derive benefit. In the face of this, nations will endeavour to keep the old tariff walls effective by depreciating their currency, and thus handicapping other countries exporting to them while increasing their own competitive strength. We have already witnessed this feature during the past few months.

The removal of tariff barriers and cancellation of war debts, accompanied by inflation brought about through large capital loan-expenditure schemes, with a rising price level, will undoubtedly have the effect of making good some of the deficient purchasing power of communities, but the effects will be comparatively short-lived; The liquidation of existing indebtedness by creating fresh debt will operate only so long as the rate of debt creation progressively exceeds the rate of accumulation of industry's overhead costs. The folly of embarking upon this means of overcoming our difficulties is apparent, for it will inevitably mean that the final crisis is being postponed.

We proceed to a summary of the main defects in the economic system, and to set forth our recommendations arising out of these.

Part Three: Recommendations

(I) Root Causes of Economic Crisis

The analysis which we have submitted reveals the following serious defects in our financial system:

(1) A progressively increasing disparity between purchasing power distributed to a community and the prices of its products. This arises from the fact that cost of production must of necessity form the minimum limit of price, and prices must include certain capital costs which the community cannot liquidate, because the corresponding purchasing power is not in its possession. This is the fundamental and inherent defect shown in our analysis.

(2) Production is restricted to the quantity of money available to the productive system in the form of financial credit. The object of the economic system being to supply goods and services as, when, and where required, it is illogical that the money supply should govern production; the indication is that production should govern the money supply.

(3) Arising out of this, it would seem that financial credit is restricted, because at the present time money is dealt in as a commodity, and by keeping money in short supply its value as a commodity is enhanced. For this reason it seems undesirable that financial policy should be in the control of a private monopoly whose interests are not identical with the interests of the community as a whole.

(4) With the progress of technical knowledge, human labour is being displaced at a cumulative rate by mechanisation and improved processes. This is common to all classes of workers in all fields of economic activity. The result should be rapid increase in the general well-being of the community, whereas in point of fact the results have been disastrous. Because incomes are distributed through the economic machinery in return for services rendered or for investments, it would seem that the mechanism of the financial system has not been adjusted to reflect one of the main features of modern civilisation. The present rate of technical progress indicates the approach of a situation in which the services of a small minority of the population will be required to maintain the productive system. The logical result should be a leisured community enjoying the benefits provided by scientific production and distribution; such cannot be the result under the present system of distributing incomes.

(II) The Alternatives

These summarised defects are those we consider to be “the root causes of the calamitous depression in national and international trade” with all its repercussions. If the analysis upon which these conclusions are based is correct, then there are two methods of dealing with the situation:

(a) Entirely to throw over the existing monetary and financial systems, with the elaborate machinery evolved through centuries of experience and to the use of which people are adjusted. This would involve devising entirely new methods in production and distribution. It would mean nothing less than attempting a vast revolutionary change at short notice, without any knowledge of how any such new system would operate, or whether the *personnel* upon which it depended would be able to deal with the problems which arose. Historical experience indicates that no violent and sudden change is possible without involving the community in hardship and suffering, and without causing grave danger to the social and economic life of the community.

We, therefore, reject this type of remedy.

(b)The alternative is to set right the defects in the existing system, so that the *root causes* of the situation are eradicated. The actual machinery of production is highly satisfactory. The employment of money in conjunction with prices has stood the test of time. The community is adjusted to the mechanism for the distribution of goods and services. Provided the defects which have caused the present impasse are removed, it would seem that the economic system would be able to fulfil its function with results which must be beneficial to the entire community.

It is this method of dealing with the situation which has our support. It is our view that any adjustment which may be necessary should be effected by evolutionary methods, without causing any violent shock to the economic system or to the social life of the community.

Moreover, in a community which has almost unlimited resources at its disposal in providing the demands of individuals on the productive system, no necessity exists for endangering the economic security of any section of the community in bringing about the desired change.

(III) Constructive Recommendations

Our constructive recommendations follow directly from the root causes of the world situation revealed by our analysis:

1. Money supply should be governed by the real credit of the community as represented by its productive capacity. This appears to involve the abandonment of any arbitrary restriction of the quantity of money, and the limitation of internal money supply by any such instrument as the international gold standard.

2. In order to ensure that money performs its true function of operating as a means of exchange and distribution, it is desirable that it should cease to be traded as a commodity.

3. Money being merely a vehicle for the credit of the community, and the power which the control of money carries with it being nothing less than the control of the entire economic life of the nation, it is desirable that the administration of financial policy should be vested in a national authority directly responsible to the Sovereign and his people.

4. As the existing mechanism for the distribution of incomes fails to provide the purchasing power necessary to distribute the products of industry or the money equivalent in imports, it is necessary that purchasing power and prices of available goods and services should be equated. As the defect arises from charging the community with certain costs in respect of which the necessary purchasing power is not distributed, two alternatives are available:

(a) Either prices should be reduced to meet the purchasing power available without involving any loss to individuals; or

(b)Purchasing power must be increased to meet prices. Or both methods could be employed together.

The defect being due to the withdrawal and, in effect, cancellation of money before the products represented by the money are consumed, it follows that under either plan the necessary money must be distributed direct to the community in the form of currency and/or financial credits. The analysis has revealed that under existing conditions the community is obliged to surrender its money claims in respect of all production over a period of time, and is consequently unable to meet the costs of consumption of capital goods as these fall due for payment. The true cost of production being consumption, it is necessary that the community be charged for consumption only. If the existing machinery of the economic system is to be disturbed as little as possible, it follows that in any given period of time the amount of money surrendered by the community in excess of the costs of its consumption should be available to the community in a manner which will ensure the equation of prices and purchasing power.

5. This fund of financial credit available to the community for purposes of obtaining access to its production should also be employed towards *(a)* adjusting the financial system to the progress of technical development and consequent decrease in human labour required for production; and (*b)* effecting a drastic reduction in national taxation with benefit to the entire community.

(IV) National versus International Action

In framing our constructive recommendations we have set forth the broad principles upon which any reform designed to meet the present world situation should be based. As we have stated previously, we are of the opinion that the international defects in the economic relationship of nations arise directly from the internal results due to the fundamentally faulty economic system. Therefore, it seems logical that any steps to deal with the world situation should proceed from the seat of the trouble and nations should put their faulty economic systems in order as a preliminary to dealing with international trading relations. It seems both illogical and impractical that the opposite line of action should be taken.

It has never been possible to get people everywhere to do the same thing at the same time, and for this reason we would urge that Great Britain should assume the leadership in world affairs by setting the example of how the present world economic impasse could be dealt with along the lines indicated. At the same time we are conscious that the occasion of the World Economic Conference offers an excellent opportunity for this country to discuss the line of action it proposes to take with the other nations of the world. It might be possible to obtain the active co-operation of other nations in carrying out a programme of national reform in the various economic units.

It is our view that if the economic system is put into adjustment along the lines indicated the major economic evils of the world would be overcome within a short space of time. It would be possible for creditor countries to accept payment of their debts in goods and services without inflicting damage upon their own nationals; it would, in point of fact, increase the general well-being of their people. It would be possible for debtor countries to discharge their obligations, for no question arises as to the ability of debtor countries to meet their obligations in goods and services. International trade would assume normal proportions as the main cause of conflict for foreign markets would be eliminated. Internal trade revival would soon take place, communities would enjoy a measure of prosperity such as they have never known and the problems of unemployment, crushing taxation, and widespread poverty would cease to exist. With the cessation of economic conflict between nations the chief contributory cause of war would be removed, thus practical measures for disarmament and cooperation between nations would become an actual possibility.

(V) Gold Standard

It may be thought that in advocating the complete abandonment of the international gold standard as it has been operated in the past, we have not taken into account the repercussions which would arise from the abandonment of gold as an aid to international trade relations. It is our view that the use of gold between nations to settle trade balances does not justify the restriction of a community's national life to the quantity of gold which it may possess. Moreover, if this country returns to the gold standard under any conditions whatever, and the powers of the central bank are increased it would mean virtually handing over the real government of the country to a private financial monopoly and would carry us a step further towards government by an international financial hierarchy.

We have already expressed our alarm at the bold measures which are being advocated to this end and we urge that any suggestion of returning to the gold standard under any conditions and any proposals for increasing the powers of central banks or international banking establishments should be strongly resisted by this country.

In the constructive recommendations we have made, we have not considered it necessary to deal with the machinery of international trade, as the difficulties in this direction appear to arise out of the faulty monetary system.

It is our view, however, that if gold continues to be employed in settling trade balances between countries, no difficulties need arise in regard to the relative exchange values of the currencies of countries in relationship to the common medium of gold. The relative exchange values of currencies of countries should rapidly become adjusted to the relative internal price levels.

(VI) Inflation

While we view sympathetically the suggestions which are being made for the inflation of currency and financial credits in order to meet the deficiency which exists at present, it is our opinion that any such measures carried out by orthodox methods would merely postpone the inevitable crisis which must arise out of our defective financial system. Moreover, as the results of the defects increase at a cumulative rate the magnitude of the final crisis is being increased by any delay in dealing with fundamental causes.

We have already indicated how the purchasing power of the community might be increased. We have not indicated whether the results are likely to prove inflationary. It is our view that by means of a scientific regulation of prices no inflationary results need follow in the sense of a decrease in the purchasing power of a unit of money.

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In presenting this Report, we are conscious of the responsibility we assume in regard to our findings. It has been our endeavour to set forth in as clear and as concise a manner as possible the general argument leading up to our recommendations. We have been unable to make this Report as full as we should have desired without adding unduly to its length. In the method we have adopted we have avoided the introduction of statistics which tend to cause confusion, and it is our hope that we have succeeded in setting forth a balanced examination of the prime factors of the world economic depression in a manner which will give members of the Chamber an understanding of an admittedly difficult problem.

Never in the history of mankind have the opportunities for human advancement been greater, and it is probable that never has mankind been threatened by such overwhelming disaster as at the present time. With a civilisation built upon a fundamentally faulty economic structure, it would seem disaster is inevitable in the absence of any attempt to readjust the economic system to modern requirements. Signs of such a fate for our civilisation are not lacking, and, in the face of so serious a challenge, no individual should fail to accept the grave responsibility which rests upon him in regard to the future.

With this consciousness we plead for a careful examination of our Report. If some of the views expressed are unorthodox, or, on the surface, appear contrary to generally accepted axioms, it does not necessarily mean that they are unrelated to facts. Orthodoxy has often cloaked fallacies in the past, and in the situation which exists in the economic field, economic orthodoxy stands on trial, if it is not actually condemned. Clear thought and courageous examination of facts alone can lead us to the truth of this matter. Prejudice, apathy, and blind adherence to untested axioms can prove the greatest enemies of our age.

(Signed) E. D. MUNDY (Chairman).
S. J. Fazakerley (Vice-Chairman).
L. A. Apsey.
L. D. Byrne.
A. T. Doggrell.
†E. N. Emmerson
R. Henderson.
WALTER MUNN.
‡E. PHILIP SHAW.

B. D. KNOWLES,
Secretary.

14th June, 1933.

† I have signed this Report subject to the following reservations:

(a) That the defective financial system is one of the chief root causes of the depression, but not the only one.
(b) That the present financial system is not necessarily doomed if adjusted to meet the disparity between international living standards.
(c) That in considering foreign investment, a full appreciation has not been accorded to the wastage before such investment returns in the form of a technical exchange of goods.
(d) That I have a confirmed belief in the sanity and stability of the existing civilisation.

‡ I desire to make the following qualifications:

(a) The alleged defect in the financial system referred to in the Report should receive expert investigation and, if proved to exist, the necessary steps should be taken to apply a remedy.

(b)The issue of credits recommended in the Report for rectifying the defect should, before being applied, receive careful consideration with regard to the moral, social and spiritual effects.

