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A Mechanical View of Economics

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Elsewhere an attempt has been made to show the dangerously false premises on which the New Unionist Party bases all its hopes of Reconstruction. As *The New Age* has pointed out, the keynote of the symphony we are to play under the conduct of Mr. Lloyd George and the industrial federations behind him is production, production, yet more production; and by this simple remedy we are to change from a nation with a C3 population and many grievances into a band of busy B's (or is it A's?) healthy, wealthy, happy and wise.

It is a simple little remedy—one wonders why we never thought of it before. You seize any unconsidered trifle of matter which may be lying about, preferably on your neighbour's territory, and you make it into something else quite unspecified. You assert by a process of arithmetical legerdemain known as cost accounting that the value of the original matter, which we may call "a" is now $a+(b+c)+(d+e)$, "b" being labour, "c" overhead charges, "d" selling charges and "e" profit, and that the "wealth" of the country is increased by this operation in respect of a sum equal to $(b+c+d+e)$. With the aid of your banking system you now create credits which show that "a" is $a + \text{etc.} - (x+y)$ (where "x" is loss in trading, etc., and "y" is depreciation) and there you are—A!

The chief objection to this otherwise fascinating idea is that despite a large body of most respectable and even highly paid accountants and bankers who will produce quantities of figures to prove that "a" has now become $(a+b, \text{etc.})$ and that the wealth of the country has been increased, etc., etc., the facts do not, unfortunately, confirm their statements.

The power used in doing work on "a" has been dissipated in heat and otherwise; the tools have been worn, the workmen have consumed food and clothes and have occupied houses, *and what you have actually got is "a" minus any portion of "a" lost in conversion*; b, c, d, e, etc., are the price paid by the *community* for the increased adaptability of "a" to the needs of the community, which price must in the last event be paid for in effort. The question of the gain in adaptability depends on what you produce; but payment is inevitable.

It is not the purpose of this short article to depreciate the services of accountants; in fact, under the existing conditions probably no body *of* men has done more to crystallise the data on which we carry on the business of the world; but the utter confusion of thought which has undoubtedly arisen from the calm assumption of the book-keeper and the accountant that he and he alone was in a position to assign positive or negative values to the quantities represented by his figures is one of the outstanding curiosities of the

industrial system; and the attempt to mould the activities of a great empire on such a basis is surely the final condemnation of an out-worn method.

While the effect of the concrete sum distributed as profit is overrated in the attacks made on the capitalistic system, and is far and increasingly less important than the overhead charges added to the value of the product in computing its factory cost, it is the dominant factor in the political aspect of the situation, because the equation of production is stated by the capitalist in a form which requires it to be solved in terms of selling price while "e," the profit, is always a plus quantity.

Now the prime necessity of the situation, which is world wide at this time, is to realise that in economics we are dealing with facts and not figures; and mechanical facts at that. The conversion of a bar of iron into a nut and bolt and its change in price from 2d. or 3d. to, say, 1s. means absolutely nothing at all beyond the fact that we have transformed a certain amount of potential energy into work in the process of changing the bar of iron into a nut and bolt, and that an arbitrary and totally empirical measure of this potential energy in various forms is contained in the figures of price. The factor which gives real character to the operation is the "inducement to produce."

If the object of this use of material and energy is simply finance, we shall get a financial result of some sort—but two real things result in any case. First we have definitely decreased the energy potentially available for all other purposes, and secondly we have obtained simply a nut and bolt, in return for a bar of iron and a definite amount of energy dissipated.

If by wealth is meant the original meaning attached to the word—"well-being"—the value in well-being to be attached to our bolt and nut depends entirely on its use for the promotion of well-being (unless we admire bolts and nuts as ornaments), and bears no relation whatever to the empirical process of giving values to a, b, and c, etc.

Let us particularise: The immediate necessity as to which all political parties are agreed is improved housing. The financier says, "Yes, you shall have money for housing as the result of building gunboats for Chile," thereby implying that there is a chain of causation between gunboats for Chile and houses for Camberwell. Not only is there no such real chain of causation, but the building of gunboats for Chile, or elsewhere, decreases the energy available to build those houses, and when the total available energy is utilised, as has been approximately the case during the war, and may easily be so again, not all the gunboats ever sold, no matter what the accounting figures attached to the transaction may indicate in added wealth to this country, will produce one house at Camberwell, or anywhere else. What is, of course, common to the two is the "inducement to produce," but that may or may not be a sound inducement.

The matter is really very serious. The economic effect of charging all the waste in industry to the consumer so curtails his purchasing power that an increasing percentage of the product of industry must be exported. The effect of this on the worker is that he has to do many times the amount of work which should be necessary to keep him in the highest standard of living, as a result of an artificial inducement to produce things he does not want, which he cannot buy, and which are of no use to the attainment of his internal standard of well-being. While the mechanism of the process is possibly too technical for his general comprehension, he has grasped the drift of the situation and

shows every sign of a determination to make things interesting.

On the other hand, we see a good sound reason for the capitalist's hatred for internationalism; failing interplanetary commerce, he will have nowhere to export to, and will be faced with the horrible prospect of dividing up the world's production amongst the individuals who produce. In which case a larger number of people than at present will agree that it is possible to overproduce gunboats. Given this situation, what will be the result of a "strong" Coalition Government ?

* *The English Review* for December