Back to Prosperity

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BACK TO PROSPERITY

The Great Opportunity of The Empire Conference

By

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CHAPTER I

The Background of the Conference

The first Empire Conference of nearly half a century ago was mainly a pageant. The occasion was a jubilee, a shout. Its principal purpose was congratulation. The Conference of the present year meets on the call of an emergency. Its main purpose is salvation. In the disturbed and dislocated world in which we live, this Empire Conference may prove to be a mighty agency for good, not for us alone but for all men. It may be one of the first great forces to set aright the economic structure of the world, to quicken into life the inert body of industrial society over which has come a paralysis like the creep of death, moving from the feet up. In the present situation of the world the policy of doing nothing, leaving things to natural forces, is of no avail. It is a time when something *must* be done. It is a time when the intrusive action of the human will must intervene to direct human destiny. Mankind must learn to control the economic machinery which we have created, or must pass into an age of revolution and catastrophe the end of which no one could foretell.

The real cause of this meeting of our Empire Conference is that the whole mechanism of our production and distribution, profits, wages, and interest is out of joint. It is the part of the Conference to help to set it right. Seen in this light the Conference has little in common with those of earlier years. There is nothing in it that is "Imperial" in the older sense of conquest and domination. The white man's burden is now his own destiny, not that of his weaker fellow. The enemies against whom we need united imperial defence are not those from without. The present enemies are forces from within, blind economic forces, not yet understood, called into being by ourselves and now threatening to pass beyond our control. They are the blind slaves, terrible in their strength, who may pull down the pillars of our temple.

We are living in a shadowed world. On us and on all mankind has fallen a paralysis of industry never known before. All nations share it, the large with the small, the rich with the poor, the new with the old. Everywhere is unemployment, everywhere is stagnation, everywhere is want; unemployment as the result of our marvellous power to work; stagnation as the consequence of our new power of movement; and want as the result of plenty.

These are hard times. Mankind appears to be meeting them with a brave conspiracy of hopefulness. It is a fine sign. It is perhaps the first sign of that human solidarity, often dreamed and never realized. Our little race seems all turned to one in our brave cheerfulness: we are as if the Martians came against us, the people of another world. So it is that, as best we may, we magnify each sign of a returning prosperity that will not return, make the least of each new danger and the most of every item of success. More power to us! It is a brave show. Outsiders, if there could be any, would long since have thought that we should have broken asunder in universal panic, that revolution would have convulsed our every state, and bloodshed stained our every city. It has not happened yet. With such a temper as this, it will not.

For never were there before hard times like these. Harder there have been in sheer poverty, but never this. The onrush of the hard times was so sudden, the collapse so spectacular, so world-wide in its extent, so obviously not our own fault; our ignorance but not our fault. In our twentieth century vocabulary of "world-words" of which we were so proud,—world championships and world records, world news and world production,—there appears a new one, "world-helplessness". The whole industrial humanity seems suddenly thrown together, like banded survivors on a raft, drawn together by mutual helplessness.

In this aspect the summons of an Empire Conference for 1932 has nothing in it inimical to the interests of other nations. It is not an Empire Conference in any narrow or hostile sense. It is indeed a council of war, but of war directed against the economic enemies of all men. It meets as part of a world phenomenon. The measures it adopts, if successful, are those which will be adopted in all the world to check and control the unrestrained action of individualist production.

If the system presently to be advocated in this book, a system of regulated trade, quota buying and selling and group exchange, can succeed in this empire, it can be adopted later throughout all the industrial world. From England spread a hundred years ago the industrial revolution that solved and over-solved the problem of production. From England,—from this conference, may spread the remedial control needed to complete the earlier triumph.

Anybody who does not understand that this conference deals with world forces and world failures, in regard to which all nations are on the same side, and not with the narrower conflict of nation with nation, is fitted neither to attend, nor to advise, nor to understand it.

What is really at stake in the world in this opening decade of the 1930's is the continued existence of the industrial system under which we live. It is based upon a social organization of which individual liberty is the cornerstone. In the past it has achieved great triumphs. Reared on this foundation rose England as the workshop of the world, and on it stands the towering eminence of the United States and the four-square comfort of France. This system has never been perfect. It has always had the defects of its merits. It has always tended, if left entirely to itself, to make the reward of individual eminence too great, the reward of the labouring masses too small. It puts a premium, far too great, upon success itself so that to those that have is given. In vain the first exponents of the system, the earlier economists, tried to explain, perhaps even tried to believe, that social rewards were exactly according to the social contribution of the worker: that a starvation wage was received by such a man because that was all that he was "worth", while an affluence almost beyond calculation represented the "worth", of his more gifted, more industrious or fortunate fellowman. The common sense of plain people always revolted at this easy assumption of social justice. The thing was simply not so. It was the attempt to deny the truth about our system that brought socialism into the world. If we had laid more stress on its short-comings and been more willing to correct its gross irregularities and injustices, we should have been further on than we are. For the truth is that this industrial system of individual liberty has always carried as it moved a frontier line of poverty and a dead-line of starvation. It has spread out as spreads the grass at the edge of the desert, dying where it can reach no further.

But it has worked. Let us not forget that it has worked: for this will help to keep alive our faith in the cardinal principle of liberty on which it was based. This right for every man to work as he will, to live as he will, to govern his own life, subject always to the equal rights of his fellow man, remains in spite of everything the noblest political doctrine that ever animated a nation. If we cannot keep it still,—modified, where it must be, to meet our circumstances but intact in its essential inspiration,—then we pass into the stone penitentiary of Russian Communism. Our lamp goes out.

It is necessary to lay great stress on this economic background. In it lies the real meaning of the Conference. Without it the Conference is a mere meeting of business men, trading wheat for coal: it can have no ultimate effect without a basis of ultimate understanding of what it wants to do. Whether we trade inside the Empire or outside of it, these problems of over-production, of under-employment, of starvation in the midst of plenty are there just the same. Linking up the Empire shifts the problem to a narrower ground, cuts out a lot of adventitious elements, places it under one control, but it does not, of itself, solve it.

Nor is it the mind of the Conference alone that must be adjusted to the new conditions. It is necessary for the public, the great mass of the citizens of the Empire, to understand the essential nature of the situation. Legislation is of no value unless it is maintained by public understanding and approval. The Conference, in order to succeed, will have to depart a long way from what has been hitherto the accepted course of international trade and exchange. It will have to throw overboard not the *principles* of the Adam Smiths and the John Stuart Mills, but the application which they made of them. This indeed will be the only way to conserve the principles themselves. To many people the notion of a consolidated Empire, trading back and forward in a gigantic hand vast crops of wheat and vintages of wine, will appear dangerously close to Communism. The truth lies in the other direction. An American patriot, more forcible than logical, once spoke of "sacrificing the whole of the constitution to save the remainder". It is exactly this that we have to do. Because we want to retain the essentials of individual freedom we must be prepared to restrain its incidental injustices. Already the way is being prepared for this. The abortive Conference of 1930 at least initiated the public in the idea of "quota" sales, of national adjustment of production to demand by means of collective disposal. The pooling of wheat in Canada has been, even in its disasters, an educative process. The recent triumph of the National Government shews that the British people are prepared to reconsider the theory of international trade.

All this indicates the nature of the central problem of the Conference of 1932. It has got to find a means of harmonizing production and demand within the British Empire; it must do this without destroying the principle that every man's life is his own; that he is not to be driven to his task at the bidding of a communistic boss: that each of us works, first and best, for himself and those dear to him. Economic effort, like charity, begins at home.

Notice here that the Russians claim that they have solved this problem of harmonizing production with needs. In theory, they have. In the Middle Ages people retired into a monastery as a means of escape from the troubles of life. The Russians have retired into a penitentiary.

Let us recall how very clear, how very simple and how very attractive was the outline of economic thought as laid down by the great English economists of a century ago, and as embodied *par excellence* in their doctrine of free trade. They started with the basis of individual property, and the existence of government and law to guarantee it. To this was added what Adam Smith liked to call the system of natural liberty. Every man was free to buy and sell as he liked, to work or to starve as he liked, to go and come as he liked, and at his death to leave his "property" as he liked. It did not occur to Adam Smith and his fellows that some of these things were not quite as "natural", not quite so inevitable as they seemed. But the merit of the system was supposed to lie not only in its abstract justice, but in its practical results. This was supposed to be the key to the treasure house of the Wealth of Nations. Under this system each man in pursuing his own enlightened self-interest best served the interests of his fellow-men. Prices, it was argued, would thus stay poised at their natural level of cost; interest, at the natural level set by the demand and supply of capital profits, enough to keep on maintaining and re-creating a shrewd succession of managers whose efforts in their own behalf became unintentionally a philanthropic benefit to man. Wages,—the Achilles heel of the system,—were at least supposed under natural liberty to be as high as it was possible for them to be. To cap the climax of all this, a clergyman called Malthus enunciated a doctrine which if it meant anything meant that the world was over-populated everywhere, and that it always had been.

The maxim of the system was, "the world goes of itself". It only needs to be let alone. And under the impetus of this system and of the onrush of mechanical invention and transport which accompanied it, the world did go of itself. It fairly hummed. Adam Smith was right about the wealth of *nations*. Where he was wrong, however, was in regard to the poverty of the individual.

This system as it spread over the world achieved wonders in the gross production of wealth, and in the eminent fortunes of individuals. But for the poor, the mass of the hired workers, the system in itself did nothing. As each decade went on its shortcomings became more and more apparent. It could produce wealth: it could not share it. Even John Stuart Mill realized that all the "labour-saving" devices yet made never shortened the labour of a single man. It was the realization of this failure of individual liberty to remove individual want that inspired the early Communists and socialists of the middle of the nineteenth century. It inspired presently a German refugee called Karl Marx to write a vast and stodgy book on *Capital* which, being unintelligible, became sacred. Ever since then large groups of people have dreamed of a new world in which individual liberty would be exchanged for individual happiness. Thus grew Communism. It should have been treated from the start in the same way as Vegetarianism, windy but harmless. Persecution drove it underground to come up later as assassination, revolution, a conspiracy of force, and challenge to war. This is another matter. A vegetarian eating cabbage soup is one thing: a vegetarian throwing it around is another.

But the industrial system, still based on liberty, was enabled to carry on without extreme failure by the counter-action, the check of other social forces. The chief of these was the organization of labour, which with all its faults, by giving to the workers a fairer share, enabled the system to live. Without this, individual liberty would have meant, as it began to do in Lancashire, something very close to slavery, with starvation as the "free" alternative. To this force was added the restrictive legislation of factory laws, the remedial aid of public education, public services and presently of workingmen's insurance and pensions. The emergence of the "trust", at first a nightmare, was presently seen as a social simplification. Industry, when combined, could be more easily controlled.

Meantime, the application of the doctrine to international trade had broken down (apart from England and New South Wales) all over the world. That form of individual liberty could only prevail in a world indifferent to national frontiers, and viewing with indifference the transfer of wealth and people from country to country.

Another difficulty was added, in the form of the phenomenon that came to be called the "crisis". Every now and then, over greater or smaller areas, the productive machine, geared to high speed, suddenly seemed to lose its impetus, slackened, dragged and almost stopped. Workers without work, goods without sale, constituted the phenomena known as depression. Professional economists treated this as doctors treat the measles, inevitable but temporary,—bound to cure itself. Few realized what it could,—what it may yet,—ultimately mean. The orthodox remedies of the nineteenth century were lower wages, and cheaper prices, just as smallpox is fought with inoculation, and frostbite with a handful of snow. The cures seemed to act: each depression wore itself out, and was forgotten. But with the continued increase in the mechanical power of production, each collapse of industry was wider and worse than the last. The last stage was reached in the opening years of this twentieth century. Machine production decade by decade multiplied its power. It standardized its product, making everything like everything else. It swept away individual craft and individual preference in one overwhelming excellence. Even without the shock of the Great War, this uncontrolled power of mass production would have broken the mold in which society was cast. Production had hopelessly outstripped our power of social adjustment. Something was bound to happen.

But instead of that there happened something else,—the war. What the war did economically at the outset was to relieve a situation already verging towards collapse, at the expense of an ultimate collapse on a bigger scale. There is no greater paradox in economic history than the economic aspect of war. We do not need to theorize about it. We saw it. Except in areas that were overrun or isolated and starved, the war brought economic prosperity: and this above all to the working class. In England there was never a time in all its history when the plain people of the nation were so well off as they were between 1914 and 1920. Unemployment vanished: prices, indeed, rose, but so did wages; food shortage was offset by a new abundance of commodities. Families with a new gramophone were willing to go short on sugar. Charity flowed in an unending stream. There was bread and work for all. Huge new fortunes, even honest ones, paid huge taxes and laughed at them.

The reason for this peculiar "war prosperity" is not hard to find. The essential short-coming of our system of individualism, or capitalism, —whichever we like to call it,—is its inability to harmonize production and demand: hence the periodical glut of markets and stoppage of production: each trade hits the other like the fall of a house of cards, till all lie flat. Stated in the language of business men, there occurs over-production and under-consumption. These terms were abhorrent to the older economists, who ridiculed such an idea as under-consumption in a hungry world. But the thing is a fact just the same. Now in war time consumption becomes so fierce and so ravenous that over-production is replaced by under-production. There is a complete integration of production and demand, of capital and labour. Everybody is employed and many people working at a feverish pace on piece work. With this proceeds a rabid destruction of existing commodities, ships, houses,—and the perpetual explosion of war material in the air. The older economists saw nothing in this but destruction. But there is far more in it than that. If 100 men are all working hard in a factory, even if 20 are merely smashing furniture and breaking windows, the remaining 80 working full time are turning out more commodities for consumption (even after allowance is made for the destruction) than would be available if out of the 100 fifty sat round labelled "unemployed".

Apart from the obvious considerations of humanity, the 25,000,000 unemployed of to-day could carry on a very comfortable war including munitions, food, and transport with no economic loss to the world. There might indeed be a gain. In fact, it is quite conceivable that if a reasonably small war were permanently maintained in the world, it might serve this very purpose of integrating the productive system. But a reasonably small war is about as hard to maintain as a reasonably small fire in a dry forest.

But any temporary advantage in a war economy is more than offset by the inevitable collapse which must follow either its too great extension or its close. War has interrupted productive power, stimulated invention, multiplied transport and geared up industry to produce not merely articles of war but articles of every use and luxury. There is in it no real principle of harmony, no final or self-regulative integration, only just a wild rush of one part of the machinery as when a brake is loosed, or a belt slips, or a propellor races.

Then comes the collapse, with the industrial machine hopelessly dislocated. The momentum of the Great War carried on for years after the Armistice. Prices even rose till 1920. Industry still rushed forward, like a car without control, rising, falling, bumping and staggering to the final crash of nine years later. There it lies prostrate, motionless, out of gear.

In this ominous situation an added and unnecessary feature of distress is the extraordinary muddle into which the world's currency has coagulated. This, too, is a legacy of the war. The punitive treaty of Versailles adopted a system of reparations, or payment of war indemnities in money from nation to nation. This had been done on past occasions, but only on a scale which appears trivial beside the reparations of 1919. Yet even here a proper reading of history would have sounded a warning. After the Napoleonic war, France was condemned to pay the sum of seven hundred million francs. This was successfully done by raising the money in England,—it was paid in money,—and paying it off out of the stimulated industries of France. Apart from the money profits of the moneylenders there was no visible gain to anyone in England. France appeared to gain. Even at that time a few people, ignorant of statesmanship, were puzzled and dissatisfied. The same thing was done after the Franco-Prussian War. France paid Germany in gold and through the exchanges five billion francs, with the result that a boom and a panic was set up in Germany which cost it more than the Franco-Prussian War.

The primitive world understood how to collect reparations by carrying off cattle, jewels, slaves and women. Napoleon carried away pictures. This is economically sound. But the Versailles reparations and the similar international war debts, with a few trifling exceptions, are not paid in kind. They can't be. Any payment in kind breaks down a home industry. Payment in coal starves the miners. Payment in wheat bankrupts the farmers. Payment in motor cars, ships, machinery apparatus, closes up the home factories.

Hence the payments in gold have broken down the currency system of England and paralyzed the United States. There it sits, this colossal figure of the American republic, receiving but never paying, selling but never buying, taking in gold but never giving it out except to reinvest it abroad and take in as interest more gold and still more. There it sits, a new figure of King Midas, slowly paralysing from the feet up. It has killed its customers to see what was inside them. It has killed the goose that laid the golden egg.

If all this is so, and it seems reasonable to believe it, then one primary task of the Conference should be to use its voice, its weight and its publicity towards the cancellation of the international war payments. For a nation to cancel its own debts first would seem to recall Mr. Artemus Ward refusing to be responsible for debts of his own contraction. But even a little sanctimonious advice to the world at large is sometimes of service.

Over this new situation settles a thick economic fog. All the old landmarks are gone, all the old lights are obscured. The economic world of to-day seems exactly the converse of that common-sense and intelligible world of the economist of a century ago. It is Adam Smith in Wonderland. Every truth seems reversed, every precept turned around. Our chief enemy now appears to be "plenty". A few good harvests would, it seems, ruin us. We must shut down our machinery. This is no time for invention. We must cut down work. We must refuse access to all new workers. The current of immigration which used to seem the very fountain stream of national prosperity, must be stopped. There must be no more buying abroad. We must all sell, and no one buy. To buy is fatal. Above all we must get away from gold. Gold is death. Give us instead autumn leaves, or paper.

Thus all the familiar signs and symbols of human welfare are now objects of dread. Bountiful harvests, foreign trade, money, increase of population, hard work, honest labour, all these are anathema. Our demons on the present stage are the industrious labourer, the honest immigrant, the child. Our gods are scarcity, exclusion, isolation.

Out of this fog there must be a way. As a matter of fact there are two. One, which the Russians have taken, leading into the dark; the other for which the Conference is to show the way, leading into the sunshine. In this search for the right way it is important to understand exactly the nature of the wrong turn which the Russians have taken. We can get no better guide than the warning sign post of their turning. If it is the duty of the Conference to terminate all trade between the Empire and Russia it is important to understand why. It is important also that we should be able to give to the propaganda of Russian Communism in the Empire, some more complete answer than merely putting a communist in gaol. Under the law of England, as it is and has been for centuries, any man goes to gaol (most deservedly)—who is actually guilty of conspiracy against his fellow man, that is, who is proved to have planned with others (not merely wished in his own heart) some definite and assignable harm or violence towards someone else. When a man goes to gaol for doing this, it doesn't matter whether he is an advocate of Communism, or of vegetarianism, or of somnambulism. But to put a man in gaol merely because he says he is a vegetarian, or because a book on cabbages has been found in his room, is as futile as it is unjust. That would indeed be worthy of Russia, the tyrannous Russia that bred communism in its oppression.

The present danger to the world from Russia is not from the real Russia, but from a purely mythical and imaginary Russia. In this Utopia, an imaginary group of noble fellows with unpronounceable names direct the labour of an imaginary band of brothers. In this fortunate land over-production is unknown, unemployment has vanished. On the strength of this system vast industrial cities,—a Stalingrad, a Cheliabinsk, an Uralasbest rise triumphant in the Siberian solitude. This is the imaginary picture that beckons like a will-o'-the-wisp floating over a marsh to the unemployed, the distressed, the discontented: most of all does its light shine in the eyes of the young—fresh from their strenuous years at school and college,—industrious, capable, equipped, and finding as their outlook nothing but the closed door, the empty sidewalk and the bread line of the unemployed. These young men have everything to give,—brains, energy, industry: and in return they find,—at this moment in this world,—nothing. This will not do.

Thus does the man walking the sidewalk on worn shoeleather and asking for a job, dream of a land of fair play and opportunity, and calls it Russia. But if he knew the real truth what would he see? A vast country, half raw, half civilized, a country of shabby villages and mean streets, with mournful people dressed in the colours of an ash barrel, waiting in long lines for their bread, a country where an organized group of bosses, with here and there a passionate idealist with a vision, impose their will upon ignorant and docile masses who have never known anything better than the rule of a Zenghis Khan, or an Ivan the Terrible, or the iron tyranny of the Romanoffs. In such a land over-production is unknown because there is not enough to eat: and unemployment is as rare as it is in the penitentiary.

The new Russian industrial centres are a wonderful tribute to the Americans who built them. They will function just as long as they are run by the Americans or in the American's way. In a hundred years the Americans could do great things with Russia. But left to the charge of communism the industrial cities will collapse along with the rest of the communistic structure.

What the Russians aimed at doing was just exactly this harmonisation of production with demand, which is our own central problem. But they undertook to attain it by putting mankind in chains. Under groups of bosses, reinforced with informers, spies, and a well fed army, the mass of the nation works under compulsion, they work as the slaves worked who built the pyramids. What Russia has put into operation is merely the chain-gang system on a vast scale. It can last only as long as force holds it together. This system of every man being held to labour for every one else would work well in heaven where all are angels, and in hell where all are devils. But in a world of human beings it cannot. Least of all could it work among Anglo-Saxon peoples where each man retains an age-old instinct towards ownership,—the right to his own house, his own land, his own wages, his own brains, his own savings.

The Russians under their system of chain-gang collectivism can export great quantities of goods to our British countries at any price, or if need be at no price at all. The price they set has nothing to do with the cost they incur whether reckoned in money or in labour. They merely take it out of another gang of slaves. These export sales can be used with fair intentions, as a means of buying commodities that they cannot make, or machines which they do not understand, or brains better trained than their own. They can also be used with a malicious intent to break down any one of our industries, to exploit the very weakness of our economic life, by gorging us with a plenty greater still. The effect in either case is the same in its reaction. The very slavery of the Russians makes their competition fatal. Our answer should be an absolute embargo on all trade either of purchase or sale.

What we need to do in the Empire is to turn our minds entirely away from imaginary Russia, and to take our start from the realities of our own commonwealth. We need to remind ourselves again at the outset of the vastness of our resources, of the immense potential wealth which the good fortune of our history has placed in our hands. Here we are, the inheritors and possessors of about one-fifth of the world's land surface, some thirteen and a half million square miles. This includes the half continent of Canada,—mostly empty,—and the continent of Australia,—with hardly anyone there. The British Isles alone are estimated to contain a hundred and sixty thousand million tons of coal. The Empire at large produces three-quarters of the world's gold: and of the world's two hundred and forty million available horse power the Empire has more than one-quarter, of which half is in Canada. In point of arable land Canada alone has already produced a year's crop of half a billion bushels of wheat and could certainly multiply it five to one. Canada, perhaps alone, and certainly with the help of Australia, could produce all the wheat the world could eat, if the world would eat it. Iron, timber, fisheries,—but there is no need to cumulate examples. If we can't use it rightly,—if there is not bread and work, (or cake and a position), for everybody, the fault is ours.

The point becomes clearer if we look at our less fortunate neighbours. Contrast our situation with that of other nations. Consider for a moment the Japanese. Japan proper only contains in area 150,000 square miles, not quite half the extent of New South Wales, and considerably less than half of British Columbia. Of its land only 16 per cent. is capable of cultivation, as against 77 per cent. in England and 64 per cent. in Germany. The average farm contains 2½ acres. Every square foot must be utilized. The country has practically no coal, no iron, no oil. In the factory cities the workers are inconceivably crowded: in the slums of Tokyo and Kobe it is reported that the average room space is less than ten feet square per family of five. Women earn 48 cents a day, men $1.17 and the hours of work run from ten to twelve a day. On this basis the nation fights for its life, and faces the expansion of a population that has risen from thirty million to sixty-five million between 1868 and 1930. What would they think if they had our chance?

Or consider Italy. Here is an area of 119,000 square miles, less than half of Alberta,—with forty-three million people living in it. The land is sub-divided and cultivated to the last degree. Industry is highly organized and equipped; science lends its aid to agriculture. But the country is at a breaking point; the labour market is flooded. There are twenty-four million workers at the ages of 16 to 24; the population has risen from thirty-two to forty-two millions in thirty years. Where can the people go? Nowhere except with the loss of their allegiance, their history, their language. What would they think if they had our chance?

If the statesmen who govern Japan or the man who governs Italy were presented with areas and resources such as we have,—or even a mere part of it,—say one empty half continent,—how easy it would seem to them to provide for the welfare of their people. If Mussolini could wake to find for his Italians a vast continent of native resources, land and forest and mines and rolling prairie,—how easy it would seem to him to provide bread and work for all the children whom he is so anxious to welcome into the world. Not that it *would* be easy for the Japanese or for Mussolini. They would find in practice the same strange paradox of wealth and want that we do. But yet how inviting would be the prospect to those who have never enjoyed it; how eagerly would they set their wits to work, how hopefully they would join in this grand mass attack against the economic riddle of the age. But for us, the spoiled children of history, the prospect is so familiar that we no longer see it: the opportunity so obvious that we turn from it. The time may come when it will be denied to us.

What we have to do is so to reorganize our trade, industry and exchange in the Empire that our production shall march and match with our consumption; so that we may produce vast quantities of goods and find an equal and continuous market; so that our population can move forward as it will, the work of each contributory to the welfare of all. This can be done. And for the doing of it this Empire Conference can supply an initial impetus for the benefit not of ourselves alone but of all mankind. The chapters that here follow discuss the ways and means toward this great end.

CHAPTER II

Empire Trade

Super-Tariff—Triangular Preference—Quota Trading—Buy Where We Sell—Sell Where We Buy—Production to Order.

The Imperial Conference has had an honourable, but somewhat futile, history. It began with a pageant in 1887 and ended with a squabble in 1930. Having no legal authority its sole function is to advise: which is the one thing it has been unable to do. In the movement of the ship of state before the wind and current it has been little more than a tea party on deck. It never steered the ship. Now it is the time for it to take the helm.

The earlier conferences of 1887 and 1897 did at least arrange a scheme of Australasian naval defence. But this was done by single agreement, not by collective action. Indeed the whole question of defence merely produced a deadlock. The colonies did not want taxation without representation and they did not want representation either. "If you want our aid," said Sir Wilfrid Laurier in 1902, "call us to your councils." Whereupon Mr. Chamberlain replied in effect, "Pay as you enter." To which they both should have added, "Humbug!" But that clarifying word had to wait for thirty years. This deadlock over imperial defence and imperial union lasted until the war. After the war no one talked again of a united Empire in the old sense. The idea was dead. The Empire had defended itself dis-united. That was good enough.

Similar to this was the deadlock over Empire trade. England with free trade had no preference to offer. The Dominions extended a preference which did not prefer. Each side claimed that it gave everything and received nothing. Meantime a vast amount of time and energy was wasted, and still is, over the metaphysical question of the independence of the Dominions. This is a riddle of the sphinx. The Conference of 1926, by means of a committee, drafted a metaphysical Statute of Westminster, adopted in 1931 by the British Parliament, as it will be, no doubt, by the Dominion parliaments in turn. After reading it no one can tell whether the Dominions are sovereign states or not. If they are, then conceivably King George might some day have to declare war against himself for having seceded from himself. If they are not sovereign, then there must be some supreme power over them all. If so, where is it? But in real truth the Dominions are not independent states in point of reality. There must be always a basis, a fact and actuality underlying political independence. An independent state, as the word implies, must be one which does not hang on to any other. A sovereign (independent) state can only be one which moves of its own impetus without permanent cohesion with the outside. It does not exist as long as a large part of its citizens, enough to determine its action, in whole or in part, are inseparably linked in sentiment and cohesion with the citizens of another community. No mere majority in Canada could effect annexation with the United States against the wishes of the minority supported by a majority in Great Britain. The situation might provoke civil war, but that is another matter. Sovereignty implies, for good or ill, an isolation which we neither possess nor desire. France is sovereign, Canada is not.

But these metaphysical questions can be left to the schools and the debating societies. Already far too much time has been wasted both inside the Conferences and outside over this futile question of political status. The Conference talked abstract politics instead of concrete economics, while the sand ran out in the glass. When at length a purely Economic Conference was called in 1930 the standing deadlock between free trade England and the protectionist Dominions again blocked the way. The difficulty was intensified by the fact that all the parties to the discussion were thinking of what they had to sell and not of what they wanted to buy. Not only in the Empire, but all over the world this fallacy is a stumbling block to international trade. Selling without buying is economically impossible. St. Paul said to the Thessalonians, and Captain John Smith repeated to the Virginians, "He that will not work shall not eat." And there is, or ought to be, a similar economic precept, "He that will not buy cannot sell." A nation that blocks out everything with a tariff and then produces huge quantities of goods which it cannot consume and must export, is working its own ruin. Exclusion is possible and trade is possible: but exclusion with the right hand and trade with the left is not possible. If the members of the Empire Conference are to come to the meeting as a group of "salesmen", they had better stay at home. This fatal "sales-complex", adapted from the noxious "salesmanship" which disturbs and disfigures the business world, has done harm enough already. Together with the existence of Dominion tariffs and British free trade, it rendered abortive all previous attempts at agreement. Enlightened self-interest is an economic guide, but it has got to be enlightened.

But now comes an entirely new situation. The British election of 1931 has altered the whole outlook. The triumphant return of the National Government means mainly a triumph of stability over disorder, of economy over extravagance, of common sense over communism, of the red-white-and-blue over the red. But it means as well a complete break with the past in tariff policy. Free trade is gone. Only those who are old enough to have been brought up under the unchallenged, almost sacred trade policy of the Victorian age, can realize how complete is the change in national opinion, how final is and must be the decision. It is to the credit of the British people that even in this matter of a theory, they have not changed their allegiance without great reluctance. Old ties are not easily broken, old beliefs not lightly thrown aside. But there can be no doubt of the wisdom of the change. In the world in which we live free trade cannot stand against the pauper labour of lower countries, against the slave labour of communism, against the export sales of organized and protected communities where industry is mechanised to the last degree. Free trade, having given all, has nothing with which to bargain. Free trade is for the consumer: and the consumer is dead.

Here then is the door of opportunity thrown wide open. And for our passage through there is the sharp spur of necessity. This Conference will succeed in doing something because it has to. The necessity, if different on the two sides of the ocean, is almost equally acute. It is no longer possible for England to continue to live on the old international cosmopolitan basis. England had called itself so long the workshop of the world that it didn't notice that most of its customers were gone. John Bull was sitting in the back shop playing cards with Mahatma Gandhi, while business went to the American garage next door. The fact is that the forty-five million of Great Britain cannot possibly live on the resources of their own island. They must inter-connect with the outside world for raw materials to come in and finished goods to go out. What they really do is like taking in washing. You cannot live by doing your own.

Now this old international world is gone. Its pathways are all blocked up with foreign tariffs, prohibitions, coastal laws, and the exclusion of immigration. America is americanized; Russia is russianized; and even the Indians wish to become Hindoos.

Whenever an old world is lost, it is necessary to find a new one. When the Roman world went under, the Northern world began: when the Turks blocked Asia, Columbus discovered America. What is needed now is for some one to discover the British Empire.

In the Dominions, and above all in Canada, the case is equally urgent. We have created here a national economic system whose whole existence is staked on continued national progress. With a stationary population it would collapse. Our transportation system depends for its stability on a continuous and increasing stream of traffic, and increasing flow of goods outward and an increasing stream of emigrants inward. Older railways, such as those in Europe, were built to connect one city already existing with another city already in existence. With us the typical and profitable railways are built to connect two cities which do not yet exist. We know no other path of progress than this. Until now we have lived upon our economic imagination. It built for us, if not castles in Spain, at least grain elevators in Saskatchewan. But on this pathway there can be no turning back. Even to stand still is fatal. We must go on. We have built about us this huge apparatus of forty-two thousand miles of railways, scooped out the waterway of the St. Lawrence, erected a structure of seaports and docks, sidings and terminals, of surveyed lands and skeleton towns, of impounded rivers and power running white to waste. We cannot carry it alone: left to itself it falls in and crushes us. Our success was gained, and gladly accepted, on this condition that the movement must not stop. Unlike the peoples of the United States and of Europe we do not want our country to ourselves. The tatterdemalion tramps who crowded the box cars of our trains last summer were as the ghost of the vanished army of emigrants. So may the imagination see this scarecrow army in the sky floating over the pioneer battlefields of Saskatchewan.

Our national economy under this growth became utterly one-sided; utterly lop-sided. We can only live on condition of the sale of an export crop of some two hundred and fifty million bushels of wheat; without that we can have no farms, no immigrants, nothing but collapse. We need not think that in the Empire Conference we are coming to the help of the aged mother country. Metaphor for metaphor, we are just as much running to our mother's apron.

With the other Dominions the situation is much as with our own; in Australia at least equally acute; in all, similar. In this book, for obvious reasons, stress is laid first upon the needs, the opportunities and the policy of Canada. But all that is said can be applied with equal force to each one of the Dominions of the outer Empire. And over and above this immediate need of markets, migration and movement, there is a deeper underlying necessity, as developed in the chapter above, the need for the missing integration of production and demand, which threatens everywhere the very existence of our common industrial system. All the objects thus indicated may be attained in one and the same way, at one and the same time. The ultimate goal is one. The hill has many sides but only one top.

In this situation the trade question offers the most convenient point of approach. The real basis of prosperity is not trade, but population, resources, labour. But the impetus of trade and exchange is the key to the clockwork that can set in motion the slackening machine.

We may assume then that the Conference may take Empire trade as its point of departure. Now if the Conference is to succeed in stimulating Empire trade and increasing the profits of all concerned it must begin by saying goodbye to the old Cobdenite doctrine that trade looks after itself. In the world in which we live vast areas are closed to imperial trade by tariff legislation, subsidized shipping, export bounties and other obstructions. The ability to trade depends on the extent and ease of access to the market. This can be obtained only by using our willingness to purchase other nations' goods as an inducement to make them purchase ours. Till now the "purchasing power" of England has been utilized without a corresponding return. The Cobdenite idea prevailed still that purchase was complete and advantageous in itself for trade.

The new Conference will have to take up the work of imperial economic reconstruction at the point where the old Conference left off. Now, as a matter of fact, it left off at the word "humbug" pronounced by a British delegate to designate the so-called Canadian preference.

Quite frankly, "humbug" was just about the right word. Hitherto the Canadian preference has been to a great extent a humbug: it prefers British manufactured goods to American but it shuts them both out as far as they interfere with our own manufacturing system. This is just as it should be. Our country depends upon its manufactures as much as upon its great primary industries of the forest, the farm and the mine. These are the base upon which we build, but the manufacturing system is the structure erected on it. Destroy that and with it fall our cities, our urban civilization, our institutions as they are.

We must start with the plain understanding that our market for manufactures is our own. Neither the Empire nor the foreigner can have anything more than an incidental or a supplemental share in it. In the same way we, in Canada, ought to start with the idea that England must come to the Conference not only with a tariff but with an agricultural tariff, levied to protect the British farmer against the Canadian farmer, just as our tariff is levied to protect the Canadian manufacturer against the British manufacturer. The two cases are exactly parallel. What the English need to do before coming to the Conference is to put on a protective tariff,—not an emergency tariff, nor a temporary tariff nor an apology tariff, but a straight out protective tariff, as comprehensive as a tarpaulin over a cart of fruit and as insurmountable as a picket fence around a garden. Without this British tariff, an Empire Conference is for England just a game of hockey without a stick. In fact, England is the puck. But with a tariff the enormous bargaining power of the British home market can be used as a basis for reciprocal trade. But first and foremost England ought to protect its own farming interest. This was the prime error of the Cobdenites: they thought it a matter of indifference whether food was raised at home or abroad, whether the land was idle or cultivated, provided that the workers were fed cheap food. Till then England had been predominantly an agricultural country. Even after the Napoleonic war the United Kingdom, before the free trade era, raised a crop of a hundred million bushels of wheat. At the present time the crop has sunk to less than fifty million bushels, though the population has increased from twenty million (1840) to the forty-five million of to-day.

A flourishing agriculture based on private property with the land fairly well distributed is a sheet anchor of national safety. Agriculture is not a business; it is a way of living, a way of thinking. It carries with it elements of national life that no clattering shuttles and humming wheels can ever supply: in peace, comfort; in war, a guarding arm against starvation. England, with a four weeks' parcel of food in August, 1914, ought to have learned this lesson once and for all. It is the good luck of England that the configuration of the country debars it for ever from the huge-scale machine agriculture of the flat plains of the Dakotas, Saskatchewan and the Ukraine. In a land of rolling hills and crooked valleys, a land that is all corners, farming can never degenerate into a machine business; it is essentially individual, diversified, interesting. There is in it an almost creative power that makes a British farmer, in the Greek sense, a poet. In Saskatchewan he is an engineer. Farming was for centuries the English "interest" *par excellence*. Till late in the eighteenth century England exported corn. Who ever saw John Bull in any other than in his market day farm suit? He went out of the business, but he kept the clothes. But he has shrunk inside the suit. It no longer fits. He needs agricultural protection till he can fatten up to fill his breeches again.

But by the good fortune of the Empire there is ample room in the British market for the protected British farmer and for the farmers of the Dominions as well. All that is needed is to shut out the foreigner, or even part of the foreigners, letting in those like the Argentinos, who could give good trade openings in return. Of the consumer we need take no account. The man is dead. Each of us reckons himself now in terms of his wages, his salary, his prospect of an increase, his fear of unemployment, never in terms of his consumption. Even the "rentier" class, the people living on dividends and interest, are nowadays more concerned with whether they are going to get their interest, than with the prices they are to pay for what they buy with it. If all England can be set to farming and working and seafaring, with the fields brown under the plough, the chimneys of the factories smoking and the ships crowding the Mersey and the Thames, the nation need not bother about prices. Charles Kingsley wrote of the *Last of the Saxons*, and Walter Scott of the *Last of the Minstrels*. It is time that some one, preferably on the staff of *Punch*, sang of the *Last of the Consumers*.

Turn a moment to this colossal British food market, as indicated by the tables of figures below.

TABLE I

FOOD, DRINK, AND TOBACCO IMPORTED FOR CONSUMPTION IN

(Year Book of 1931 unrevised figures)

ARTICLES		
Wheat	Thous. Cwts.	103,843
Wheat meal and flour	" "	11,551
Maize	" "	32,198
Barley	" "	15,248
Oats	" "	9,650
Rice	" "	2,203
Butter	" "	6,650
Margarine	" "	846
Cheese	" "	3,082
Eggs (in shell)	Millions	3,187
Coffee and Chicory	Thous. Cwts.	390
Cocoa, raw	" "	1,140
Preparations of cocoa, etc.	" "	194
Tea	Thous. Lbs.	453,041
Beef (fresh and refrigerated)	Thous. Cwts.	11,385
Mutton and lamb (fresh and refrigerated)	" "	6, 380
Bacon and hams	" "	9,819
Potatoes	" "	5,791
Apples	" "	5,831
Oranges	" "	9,590
Bananas	Thous. Bunches	14,577
Currants, dried	Thous. Cwts.	1,160
Raisins	" "	1,403

Sugar (raw and refined)	” ”	39,838
Wine	Thous. Galls.	13,748
Spirits(*)	Thous. Prf. Galls.	1,433
Beer	Thous. Std. Brls.	1,593
Tobacco	Thous. Lbs.	151,699

(*) For consumption as beverage.

Table II

ESTIMATES OF BRITISH HOME PRODUCTION

(Estimates of Recent Years as last available)

Wheat (1930)	41,000,000	bushels
Barley (1930)	35,000,000	”
Eggs (1925)	2,500,000,000	
Fish (1930)	1,093,000	tons
Meat (1923-24)	1,023,000	”
Milk (1923-24)	1,350,000,000	gallons

These tables represent a colossal food bill and open up a tempting prospect to the Dominion caterer. Even with a large expansion of British home production under the sunshine of an agricultural tariff, there is still a field for export from Canada and the other Dominions large enough to guarantee their economic life for a generation to come. Unfortunately, up to the present time and under their present policy of wanting to sell and hating to buy, they only get a lesser part of it. The lion’s share goes to the foreigner. The statistics prepared for the Imperial Economic Committee to represent the typical year 1923 show that of the imports of grain and flour into the United Kingdom only 41.3 per cent, came from the British Empire; of meat in various shapes, chilled, frozen, and tinned only 24.4 per cent. Of the butter imports only 43.1 per cent. came from the Empire: of raw tobacco only 5.6 per cent.: included under the general meat class above is the import of chilled and frozen beef and veal (i.e., slaughtered cattle), which represented a value of 28,409,000, only 11.4 per cent. of it drawn from the Empire.

It is impossible here in detail to follow out the various items. But one may be taken, almost any one would do,—to illustrate the general situation, and to point the general moral that if only the Dominions will show a willingness to buy, their opportunity to sell is bound-less. Take eggs. Here is a community in the United Kingdom which “gets away with” about six thousand million eggs a year. This seems a lot, but in reality it is not good enough. The British people are “under-egged” as compared to the feeding standard of the outside world. They only eat 125 eggs each in the course of the year, or an egg every three days. They ought to do better than that. The Americans each eat 180 eggs a year and the Canadians, who appear to hold the record, each consume 337 eggs: beside that the Norwegians who only eat one egg every six days look pretty poor stuff. Even at the present rate of use the United Kingdom imports three thousand million eggs a year: with a consumption even up to that of the United States they would need, if the additional eggs were all imported, a total import of 6,000,000,000, a figure which might suggest to a Canadian poultry farmer something like a Mohammedan’s paradise.

But of the eggs now imported into the United Kingdom twenty per cent. come from the Irish Free State and only three per cent. from Canada, Australia and the rest of the Empire put together. The rest come from China (30 per cent.), Denmark (25 per cent.), Russia and other countries. Under modern conditions of grading, rapid transit and cold storage a Canadian egg arrives in London as “fresh”,—commercially,—as an egg from a Devonshire hen house. If Canada can get a real share of the exportation of the three thousand million eggs imported into the United Kingdom, we can afford to give something more than "humbug" in exchange.

A hen consumes, apart from what it picks up gratis, rather more than the value of a bushel of wheat in a year. It lays, as a bare minimum without which it deserves to die, a hundred eggs a year. The official estimate of the English Ministry of Agriculture was placed at 75 in 1913, but with better methods of poultry management the estimate was raised to 100 in 1925. Canada in that same year had an estimate at 82 eggs per hen per year. Presumably both these estimates are based on the number of hens (including juveniles) and the number of eggs produced. But a better estimate can be got by disregarding the juvenile period by setting off the value of the hen, when at last killed, against the cost of its food till it lays an egg. A laying hen on a real poultry farm easily lays 200 eggs a year; putting the common national average hen at 100 is, if anything, too low. But letting the figure go at 100 and taking the price of eggs at 20 cents a dozen at the nest and even putting wheat as high as a dollar a bushel, we get a calculation somewhat as follows. If Canada had even one-third of the British import market for eggs as it now is, this would mean 1,000 million eggs a year; and a price of $16,000,000. The eggs would be laid by 10, 000,000 hens eating about 12,000,000 bushels of wheat, not all of it literally, but in terms of actual wheat for part of it and supplementary food for the rest. If the British market expanded, and if Canada had more than a third of it, the prospect gets bigger and bigger. Indeed, it is quite plain that we could find no more profitable business than counting our chickens before they are hatched.

As with eggs and wheat, so with a long list of food and raw materials which the United Kingdom must buy, might buy from us, and now buys from abroad. But there is no need to cumulate examples. The value of the British food market even with the British farmer as first favourite, is overwhelming. The only question is, can we in Canada offer anything that is real in return for favoured access to it.

Now, as everybody knows, there is no great possibility for a market for British manufactured goods in Canada. This country has staked too much on the creation of manufacturing industries to be willing to destroy them now. And short of destruction we could not allow British manufactured goods to compete with our own. The difference of costs in the two countries forbids that. Our labour cost, reckoned in terms of money wages, greatly exceeds that in England, and even in terms of "real" wages (what the money will buy) exceeds it to a considerable degree. Our factory workers, one may say it without offence, enjoy a higher standard of living than do those in Great Britain. We must not call British labour "sweated" labour, but as compared with ours, it does perspire just a little. Without our protective tariff we could not maintain our manufacturing system.

Protection, both in the name and in fact, has called forth in the past more intense odium than any other form of industrial legislation. The reason is clear. Protection can be used, and often has been used, as a mere means of plunder: a high tariff wall, a close organization behind it, the forcing up of prices, the concealing of profits by expanding nominal capital (watering stock),—this process is nothing else than social robbery. But protection aiming at the equation of cost to offset cheap labour and other foreign advantages, is a mere matter of social adjustment, with benefit to the working classes and to the nation. No industry, in Canada or anywhere else, should be allowed any protection whatever except under the strong sun-light of publicity.

We in Canada are fairly well agreed upon the policy of protection to manufactured goods. No party in power since Confederation has sought to abolish it. Reciprocity with the United States for trade in natural products and raw materials has been, in the past, widely advocated at various times by both official parties. But complete free trade with the United States has never been the platform of a governing party, nor the aim of any but a minority. Under these circumstances, the English delegates must enter the Conference with a realization that in point of manufactured goods Canada has nothing much to offer. We can only extend a preference which offers such part of our market as is supplementary and incidental, not the market itself.

But even this modest share in our market, and a similar share round the Empire, may be well worth having: especially as it can be made the basis for a more extended and real system of preference. The plan of a ten-per-cent. super tariff all round the Empire, as advocated in the Conference of 1930, would have the advantage of easy adjustment and immediate operation. All that is needed is to leave existing preferences of ten per cent. or more as they are, and where they do not exist to raise the foreign duty to the point required. This step taken alone might meet with much objection. But its chief merit is as a starting point for bigger things, for the institution of a real and actual Empire-wide preference.

For the situation does not end there. Here enters the peculiar operation of what may be called, for want of a better name, Triangular Preference. What is meant is this. Outside of manufacture lies an enormous field of production represented by things which our climate and circumstances compel us to import. We need each year about thirty-eight million pounds of tea; twenty-eight million pounds of coffee; four million bunches of bananas and about ten million dollars worth of oranges and lemons and tropical fruits. We can smoke seventeen million pounds of raw tobacco, and more if we try. We are prepared to drink about two million gallons of wine; with a conscientious effort we can do even better. We need further, while drinking and smoking, four million tons of hard coal; one hundred and twenty-eight million pounds of raw cotton; seventy-three million pounds of crude rubber; a thousand million gallons of crude oil, and "then some".

These articles as appearing in our last trade returns are a part of the vast category of our unused purchasing power; similar to the free trade imports of England. It is this list that we can use as the basis of inter-imperial reciprocity. It is this list that can take the "bug" out of humbug and leave the "hum" in it.

All these things we can get, to a greater and greater extent, from the British Empire. In a few cases the lead enjoyed by foreign countries is based on natural advantages, not to be overcome. There is scarcely a commodity which the Empire does not or cannot produce except perhaps South American guano, towards which we need have no ambitions. In most cases the advantage in world trade comes from priority, from being first in the field, from adopting attractive and efficient methods of packing and delivery, from large scale production and from colossal advertising. Oranges were kissed by the sun thousands of years before the Americans disclosed the fact.

In this matter of fruit, sheer quantity and the long start have beaten us out. The West Indies cannot use large scale methods because the market for their fruit is too small; and the market is too small because they don't use large scale methods. What is needed is to step out briskly with both feet at once.

One might object that England doesn't grow oranges and lemons and tobacco. Of course not. But this means that Empire trade has got to be organized on a triangular plan. We take $10,000,000 worth of fruit from the West Indies; they take, to offset it, $10,000,000 worth of manufactures from England; and England $10,000,000 worth of our wheat. Take a case specially in point. Manchester is greatly concerned to retain the market of India. Now if we take ten million dollars worth of tea from India, and India takes the same quota of Manchester goods, then we sell in return that same value of wheat to England, the account balances. The sum total of all these triangles disposes of our export surplus, and guarantees its disposal before we grow and produce it.

If Triangular Preference is too limited we can make it quadrilateral, or give it as many sides and angles as we like. Add up the Empire trade of each country in the Empire—what it buys in the Empire and what it sells—and make it balance. If the country is over-selling and under-buying, it should be invited to speed up its Empire trade or drop out.

If this Quota system were in full operation,—after the necessary period of partial and experimental application, it would mean that Canada would make huge bargains for the export sales of wheat, timber, eggs, cheese, pulpwood and what not, with England, South Africa, Australia and the rest. The English export of textiles, iron and steel manufactures, electrical apparatus and so forth sent to India, South Africa and the West Indies would really be balanced against Canadian exports of wheat to England and Canadian imports of tea, fruit and tropical produce. There would be, in all reason and fairness, nothing to prevent England from making a Quota bargain outside of the Empire, as obviously with Argentina. The Argentine market for machinery and motor cars is one of the world's opportunities. The huge import which England takes from the Argentine now (in frozen meats, etc.), could be utilized for a Quota bargain against manufactures. It would be quite impossible to make Empire trade formally and immediately exclusive. That would be a mere dream. But the Quota system for the Dominions would come first and foremost, cover at once a large field and grow by what it fed on.

Up to this point the chief difficulty involved has been left out of sight. But it is as evident as it is formidable. What are we to say of the regulation of the price? Who settles that? Is it announced beforehand, or left to the current world market price at the moment of delivery? Now the latter alternative has to be ruled out at once. The Quota itself is such a large fraction of the world's supply that it is itself one of the price-forming elements. We can no more settle the Quota price by the world price than we can answer the question which is the other side of a street.

But in any case we should not wish to do this. The chief virtue of the Quota system is that it will,—within limits at least,—settle the price beforehand so that production may be made to order. Nor can we say that the Quota trade can be made by a barter-bargain,—so many bushels of wheat for so many tons of coal, for this is merely the same thing under another name. The exchange implies a relative price even if it doesn't name one.

It seems clear enough that the price must to a certain extent be adjusted at the time of the Quota-bargain before production is put under way. This could be, as it were, an arbitration price agreed upon by expert representatives. The exporting nation, or Dominion (we have no name to call ourselves in the Empire, except perhaps imps) having then disposed of, let us say, fifty million bushels of wheat at a dollar a bushel deliverable four months hence, is done with the matter. The wheat will be delivered and the money paid through a stabilized exchange system (as discussed in the next two chapters), a system without which the whole Quota business would meet a new and unnecessary difficulty. This arrangement has the disadvantage that in the four months the world price may have greatly changed; the citizens of one part of the Empire, or of the other, have apparently lost out. Experience shows that such a case would breed dissatisfaction: human beings are good losers individually, but "poor sports" over a loss made by an agent. To offset this it would be possible to arrange only for the minimum price at the first arbitration (before production) and leave the final arbitration till a point near the delivery. The minimum could be enough to start and guarantee production.

No attempt is here made to solve this problem of Quota price; only to present it. It is no sooner mentioned than it suggests a further difficulty to be solved: who are the Quota producers? If our government, for example, disposes altogether of 100,000,000 bushels of wheat, which wheat and from which farmer is this? There are so many ways of dealing with this, some worse than others and none conspicuously correct, that it is better to leave the question unanswered at present. Plainly enough it is only an internal matter not involving Empire co-operation but only domestic legislation. Also, it might never arise. If the pool thus set up is not made compulsory, there will always be a fraction of the producers who will prefer to stay out, and take a chance in the foreign market, or in the British market plus the duty. For of course and evidently, Quota goods are the only ones, where there is a Quota, to get into the market at the preferred rate. Only experiment and experience can show how this difficult adjustment can be made.

But the game is worth the candle. The successful establishment of a group of large Quota-bargains would not set up a profitable Empire trade along a direct or triangular route, but it would do more. It would interpose a solid block of resistance against that dislocation between quantity produced and quantity saleable, which is the chief danger of our economic situation. As already argued in this book, production has long outstripped consumption. The colossal power of production under machine-and-power industry can not only pile up goods faster than they can be consumed, in the sense of being bought at a profitable rate, but faster than they can be consumed in the physical sense. There is a limit to the food that a man can eat; granted that the people of the United Kingdom can eat six thousand million eggs a year, what about sixty thousand million? There is a limit to how many shoes we can wear, how many motor cars we can drive; a house with one "radio" talking would have no use for half a dozen others. Production having thus outstripped consumption, the peculiar feature of industry more and more developed with each decade has been the increasing importance of "selling" as opposed to *making*. This has led to the vast and socially almost useless development of advertising together with the hideous connection between the advertiser and the press under which the spoken word must be restrained by his wishes. For old chains mankind finds new; for the tyranny of an inquisition, the new tyranny of an associated group; for the royal edict condemning a publication to be burnt, is substituted the ukase of a soap company or a laundry combination threatening to withdraw their advertisements. All this, and much more with it, is an incidental consequence of the fact that production has beaten consumption and that "selling" replaces craftsmanship. Hence also the extraordinary emphasis laid on "salesmanship" or the art of over-persuasion, which is becoming a "college-course" in institutions once devoted to learning.

It would be going too far afield to try to trace in this book all the social consequences,—all of them bad,—that flow from this uncontrollable over-power of production, which seeks to continue by the stimulus of the hot air of salesmanship. This salesmanship, looked at in the mass, defeats its own end. The limit has got to come: sooner or later the maladjustment produces a general collapse of industry as in 1929. It cannot be too often repeated or too vigorously asserted that it is exactly here that the Quota system can exercise an enormous influence, not only on the immediate trades concerned but over the industrial field at large. It removes from all market anxiety a large body of production which becomes "production to order". A farmer who knows that the sale of his wheat is certain at a fixed price,—or is certain even of a minimum for all or part of his wheat, is in a position to order a gramophone, buy a new car, purchase an encyclopedia on the instalment plan and take his neighbour's wife to the moving pictures on Saturday evening. Thus he sets in motion through his Quota sale a whole group of subsidiary industries. In another work the author of this book has laid stress on what may be called the economic value of impetus, the peculiar utility of "starting something". Thus the extravagance of a spendthrift,—contrary to what John Stuart Mill thought,—may serve an economic purpose in "cranking up” industry,—starting it going. The Quota will act like this, but on a vastly greater scale. At the same time it supplies along with impetus a strong force making for stabilization of production.

Canada, more than any other country, is interested in this. Our enormous exportable surplus of over 200,000,000 bushels of wheat every year has got to be dealt with. Left to itself there are world forces which will tend to drag down the price of wheat. It may periodically run through an upward lift of price, but the inevitable tendency is downwards. This gloomy prophecy,—which is probably contrary to that of the experts of the trade,—rests on facts somewhat as follows. In the great fall of prices from 1928 till to-day the lead has been taken by the staple raw and basic materials, such as wheat, copper and cotton. The fall was less in wholesale manufactured goods: still, less in final retail prices, which make up the cost of living, and least of all in the wages of labour. Wheat itself in the autumn of 1931 touched a lower gold price than it had since the year 1665. There is evidently a tendency for the great basic materials to fall foremost and furthest. The reason is this: they are used not in one trade but in all, not for one industry but by a hundred, not by one class of consumers but by all of them. Hence production is harder to check. It rushes forward with a bigger impetus behind it. The cessation of little bits of demand makes no difference; what would call a halt to the production of motor cars or machinery has no effect in curtailing the production in wheat. It runs till it collapses; wheat most of all. In other basic commodities, for example, copper, production is in the charge not of single individuals but of great corporations. Output is, or can be controlled. But farming, outside of Russia, is in the hands of millions and millions of farmers any one of whom can do as he likes about planting wheat or planting something else instead. In these circumstances supply, responsive to good times and high prices, pours out in a flood. Production can only be stopped by disaster. But with a tariff round the Empire and with a Quota system in operation, prices and output can be held at a more or less stabilized point. This would of course mean at times that wheat would be (relatively) dear in the Empire and cheap outside of it, with a tariff blocking out cheap foreign wheat. This would frighten Cobden’s ghost but no one else. It is only one illustration of the new kind of strains and stresses that will be set up in a newer world.

The summation then of what is advocated is the institution,—at once, since it is an easy matter,—of an Empire super tariff of (say) ten per cent. Inside this can be formulated and developed a system of Quota trade. A part of this can be direct, but in the case of Canada, a very large part of it must be triangular. The Conference might be fortunate enough to succeed in introducing without delay a few large blocks of Quota trade. A lot of it must wait. It involves experiment, great capital expenditure in developing new sources of supply for tobacco, cotton, coffee, and much else. But with each stage of its introduction the system will more and more make for stable prices, stable production and continuous employment for increasing numbers of population. All that is needed to complete its operation is a stable system of currency. Without that, Empire trade as among the United Kingdom and the six outside Dominions would be at the mercy of the fluctuations of seven different standards of money and legal tender,—mathematically twenty-one different combinations of two at a time. The lack of a reliable mechanism of exchange could easily impede, could even destroy, the operation of the entire plan.

CHAPTER III

Currency and the Gold Standard

Collapse of the Gold Standard—The Present Confusion—Need of Stable Prices and Exchange—Proposal of a Return to Gold at a Lower Level.

It would not be possible to establish a system of trade involving inter-Empire bargains and pre-arrangement, without a reliable system of Empire exchange. To sell a Quota of Canadian wheat for a Quota of British coal, the bargain payable four months hence in British sovereigns and Canadian dollars, would become mere speculation if no one could foretell the relative value at that time of sovereigns and dollars. In other words, a new intricacy has been added to the already intricate problem of Empire co-ordination.

Twenty years ago no such complication existed. All the commercial world based its exchanges on gold. All the great industrial countries did this in direct fashion, making gold coinage at an open mint the basis of their monetary systems, and paying trade and investment balances by the actual movement of gold. Other countries, such as Mexico and India, still using silver as their standard legal tender, conducted their foreign bargains in terms of a fixed ratio with gold. When the United States, after twenty years of restless controversy over silver, definitely and finally accepted the gold standard in the act of Congress of March, 1900, it looked as if the gold standard had become a permanent factor of our civilization. So did much else before the war.

At the present time all is confusion, even opinion. Old controversies spring to life. Ashes that seemed dead burst into flame. William Jennings Bryan's passionate denunciation in 1896 of the crucifixion of mankind upon "a cross of gold" awakes new echoes in 1932.

In the British Empire above all there is at this juncture no harmony of currency and exchange and, what is worse, no unity of thought and opinion in regard to it, no common aim or goal. The abandonment of the gold standard by England in September, 1931, was of course an act of necessity, not of choice. England no more "decided" to abandon the gold standard than a man sliding down a roof decides to fall over the edge. Australia was over already. Canada followed in its own peculiar way. South Africa alone held on; its allegiance to gold based on the fact that it is, by four to one, the greatest gold-producing country in the world. In England the abandonment of the standard was welcomed, on the whole, with jubilation. Some economists had long since declared it as antiquated as the stage coach. All classes connected it, rightly or wrongly, with falling prices, unemployment and the exploitation of the debtor by the creditor. Thus utterly had opinion changed in a few short years. Only yesterday, it seemed, the gold standard might have stood against the world; now, like Caesar's body, it lies there and none so poor as do it reverence. There does not seem to be even a Ricardian dog to whine beside it.

To throw down one standard is easy. To set up another is hard. And yet this is exactly what we have to do in the Empire, or all hope of economic unity is frustrated. We must either have the old gold standard, or a new gold standard, or a silver standard, or a stabilized credit standard,—something, in fact, that carries with it the element of certainty in exchange. Under such circumstances it is worth while to go to school again, and to recall the essential facts about the development of the world's money and exchange.

The gold standard was, and is, the system whereby gold is used as the circulating medium of exchange and as the measure of value for all other things. Under these circumstances gold is the standard money, any other form of money such as paper or silver, nickel and bronze coins having its value merely because it can be converted into gold at will. Now money means anything that is generally and readily acceptable to everybody, not too perishable and hence handed round as a way of making bargains without reference to its immediate use. In earlier centuries all sorts of things have served as money—fish-hooks with the Eskimos, tea, salt, iron, precious stones. All had their faults. Iron was too heavy; precious stones too uncertain; tea too bulky and too perishable. Eggs would be very bad money.

In the course of time silver and gold beat all competitors. They compressed great value into small bulk. They were practically indestructible. To make sure of the quantity concerned the device of coinage sprang up, as early as three thousand years ago. Coinage added nothing, and still adds nothing, to the value of the coin. It certifies what it is. Thus a British pound merely means 113 Troy grains of pure gold mixed with alloy (worthless) to make it hard. The alloy in

British gold coins is one-twelfth, so that the full weight of the sovereign is 123¾ ounces, Troy. The stamp of King George's head on the coin may make it prettier, but it does not make it any more valuable. Similarly, an American dollar contains 23¼ grains of pure gold with alloy one in ten, and a total weight of 25-4/5 grains. If one were to melt down a sovereign and a dollar (or the fifth part of a five dollar gold piece) and compare the pure gold in them, the sovereign would contain exactly 4.86-2/3 as much gold as the dollar. This fact gives the basis of the mint par of exchange. In international dealings sovereigns, dollars, gold roubles, marks, and bars of gold are all treated on the same footing. Gold is gold.

When the chief mints of the world were open to coin gold for anybody who brought it to them, the British mint gave 3 pounds, 17 shillings and 10½ pence for every ounce of pure gold, or what is the same thing, the Bank of England gave it with a slight deduction to offset the delay of coinage (net 3 pounds, 17 shillings and 9 pence). The American mint similarly coined gold freely in unlimited quantities at about $18.60 to the ounce. This figure, £3 17s. 6d for the ounce and $18.60 for the ounce was often called, quite wrongly, the "price" of gold, and was supposed by people who knew nothing about it, to indicate its value. It did nothing of the sort. It was just an equation of fact. If the milkman told us that the current price of milk was two pints to the quart we should think him crazy.

The real "value" of gold as exchanged for other things, wheat, iron, cotton, had nothing to do with the mint price. It depended merely on the relative difficulty of producing the two. If a bushel of wheat sold, one year with another, for about a dollar, and a bushel of oats for about fifty cents, it meant that, speaking in a very broad way, it was about as hard to get or produce 23¼ grains of gold as it was to get 60 pounds avoirdupois of wheat or two bushels of oats. If at any time or place gold became suddenly easy to get or produce, and other things difficult to obtain, as in California in the 'fifties, then general prices jumped accordingly.

For many centuries in Europe both silver and gold were on this footing, sometimes alone, sometimes together. But silver lost out. For large commerce it was too heavy; the circumstances of its production made it easier to mine. England first, by the kind of lucky accident that occurs so often in our history, took to using gold by itself. Under the system definitely established in 1816 gold was coined freely and without limit. Every kind of obligation, public and private, apart from small change, was ultimately payable in gold. The Bank of England was the medium through which this was effected.

There is no doubt that the system worked wonders. London became the money centre, the clearing-house of the world. There was no uncertainty as to what a draft on London meant: it meant gold. In New York in the nineteenth century it might mean treasury notes or greenbacks, in Paris silver cartwheels, and in Turkey nothing at all. But in London it was gold.

Hence London became the world's bank. Chinese tea and South American hides were bought with drafts on London. Foreign companies borrowed in London. War indemnities were paid in London. British credit seemed based upon a rock of quartz. The Government was able to borrow at three per cent, and even lower. The national debt was heavy. But, apart from fluctuations, it did not increase. It stood at 861 million pounds after Waterloo. At the end of the century, when the Boer war began it was only 600 million. As beside the increase of national wealth it was nothing. And the interest was paid in gold on the nail.

Once or twice a sudden emergency, an outside panic (as in 1847 and in 1866) stopped the Bank of England from the payment of actual gold. But only for a moment—just as a crowd may block a doorway, or a bargain counter become unapproachable. It meant nothing. Certain writers, at the present time, whose optimism is superior to their economics, call attention to the supposed fact that England "abandoned the gold standard" in the panic of 1847, and again after the failure of Overend Gurney and Co. for eighteen million pounds in 1866. Such reasoning is ridiculous.

The United States wobbled along with both silver and gold through the nineteenth century, with a tidal wave of paper in the Civil War. It never succeeded in establishing sound money or sound credit till the Act of Congress of March, 1900, nailed gold to the mast. Meantime all the European nations had followed England's lead. The money standard (China, India, Mexico, etc., apart) was international and universal.

But the troubles of humanity never end. The gold standard was no sooner well established than it began to develop certain queer features, not suspected before. There grew up around it a huge mechanism of what is called "credit," that is, ways of making purchases nominally for gold, but without actually handing the gold over. The simplest of these devices was redeemable paper money. But much more important, and infinitely vaster, was the method of using bank accounts with deposits and cheques, or with loans as the basis of deposits and the deposits the basis of cheques. This acted like a magic wand. It multiplied to a high degree the ability to exchange goods. But it had strange consequences as to prices. It meant that the quantity of money was now a very different thing from the quantity of gold pieces. "Money" could be made plentiful if credit were easily extended, plenty of paper money printed with no one asking for its redemption, huge commercial loans floated with pen and ink and goods behind them but no gold. Hence the movement of prices would rise and fall, swoop upwards or nose-dive downwards, without the amount of the world's gold altering at all. In fact it didn't alter, or very little. Before the war about 450,000,000 dollars a year (that is, 450,000,000 times 23¼ grains of pure gold) was taken from the mines every year. But it was only added to a huge existing stock estimated at about $17, 000,000,000. Hence it seemed ridiculous to say that the quantity of gold and the cost of producing gold, governed prices. With no great change in quantity and no visible change in the labour and machinery cost of the metal, prices rose and fell in a sweeping range. In reality, however, the gold was there. It acted as a sort of anchor. The movement of prices was like that of a kite on a very long string, tied to the ground and careering about in the wind. Credit was the wind. Gold was the ground. Cut the string—as the Germans presently did—and the kite would disappear in the clouds.

On this monetary situation broke the force of the war and smashed up the whole international relationship. Even if the gold standard had been kept (as it was in the United States) prices would have gone up with a rush. The enormous volume of war purchases, the vast expansion of credit, drove them upwards.

But nearly all over the world the nations cut loose from the gold standard. There were two reasons for this. In the first place gold in wartime became the only medium of payment good anywhere and for anybody. Cheques, loans, drafts and paper notes became merely local. The Government took over the gold for war uses. The other reason was that even with the expansion of credit, there was not, on a gold basis, sufficient purchasing power to finance the war. Hence came the rising flood of paper money, irredeemable, and of loans floated and paying interest in paper money. In some countries there was no upward limit but the sky. All the world knows the story of the German mark and the Russian rouble. They expanded till they disappeared in a mere nebula of mist.

Even in the conservative and cautious countries the increasing mass of paper kept lifting prices. In France the franc, supposedly twenty cents in gold, was "expanded" by the quantity of paper and paper credit till it fell to 15 cents, to 10, to 5, and even to 4 cents and lower. In England, the solid traditions of honest finance kept expansion in check. Yet even in England and in Canada, which followed its lead, prices rose as three to one before the upward movement ceased in June of 1920. But this was no greater rise than in the gold-using United States and need not have been fatal. The way was still open to turn back. Sound finance and national economy could have brought England back to the moorings of 1914.

But exactly here new considerations began to come in, new factors to enter into the money situation, and new features of social justice to appear. Did England *want* to go back to the gold and prices of 1914? Was it fair to the taxpayers of the nation? If the British government in the crisis of the war borrowed a hundred pounds in terms of paper money at high prices, when a pound only bought two bushels of wheat and half a ton of coal, was it fair to pay it back with interest in terms of money that would buy twice, and presently three times, as much? In the case of a foreign loan like the famous Anglo-French loan of half a billion dollars raised in the United States in 1915, and raised in terms of gold currency, policy, obligation and honesty all pointed to payment in gold. But domestic loans raised in the national inflated currency without a sign of gold, were evidently different. The same argument applied, of course, to all fixed debts and obligations (loans, bonds, mortgages) contracted since the rise in prices.

Here there was a dilemma. One way the debtor lost; the other way the creditor. There was no escape.

This was the situation which England faced after the war. What should be done? Keep the inflated money, cut loose from the gold standard and trust to the movement of trade to keep the value of a paper sovereign more or less steady, like the four cent franc, or do the other thing? Nail the gold standard to the mast, face the pangs of "deflation," with prices falling faster than wages, with export becoming more and more difficult, with profits falling, with hard times everywhere but with the hope that some day at the end of it London would be again the banking centre of the world, where every debt would be payable in a bright gold sovereign with the face of the King to guarantee its quality.

This is the path that England, on the advice of the committee of its experts (1918) decided to take. This was the path which was marked with the milestone of the Gold Resumption Act of 1925.

There is no doubt that it would have been possible for the nation to have followed this path to the end. But it would have involved enormous sacrifices. Wages would have had to be driven down almost to the starvation point of the "hungry forties." Hours of work would have had to be lengthened as were those in Germany, almost to the limit of endurance. The national economy that suddenly woke to life in September, 1931, would have had to begin 10 years earlier. By such means and after a period of intense national effort, the nation could, in a decade or so, have come back into its kingdom, with wages, prices, profits and hours of labour back to a proper proportion, and the gold sovereign as the keystone of the arch of industry.

Better still, the same result might have been accomplished more gradually and the goal reached in time by a steady and sustained effort. It is at least conceivable that a "gradual return" to the gold standard (as existing in 1914) might have been made. This would have meant a fall in prices not rapid enough to cripple export and offset by an increase in the tension of national effort and sacrifice. But even here the same question of social justice as between creditor and debtor, working man and investor, would have challenged an answer.

In reality nothing of either sort was done. In place of lowered wages and lowered profits and longer hours (the only and cruel conditions of sudden resumption) there appeared the collapse of industry and the spread of unemployment. As a remedy there was put in force the most mistaken system ever devised by man, the "dole." Under the specious name of "unemployment insurance" the dole merely means giving money to men in place of work. There is no doubt which they prefer.

Practically everybody subscribes to the idea of "bread and work for all." Practically everybody agrees that the state—the Government,—has no right to leave a willing man without the means of support. The Oriental method of letting the poor die, and the old fashioned European method of shooting them are both out of date. But the "dole" gave the bread without the work, the money without the job, the salary without the position. This was worthy of Alice's Wonderland. True, it would not do to give people work that would compete with, and perhaps destroy some existing industry. But no able man should be allowed to live on the charity of others from day to day, from year to year, as they have in England.

Work! If there was nothing else to do, they should be made to walk round in a ring, or pile stones, or play the ukelele—anything to assert the principle of work.

The dole and all that went with it helped to break English finance. To this was added the crushing weight of a national debt of almost forty thousand million dollars. England only kept going by drawing enormous sums from abroad, the fruit of its earlier investment. It lived on its capital. The official discovery of this fact in September last was at least ten years too late.

The end had to come. On September 14th, 1931, the British Chancellor of the Exchequer presented a budget which showed a colossal deficit for the coming year, and a still greater one for the year after. To meet it, he proposed drastic national economy. He even suggested cutting the dole by 10 per cent. remembering perhaps that the dole, in its purchasing power, had steadily risen with the fall in prices.

All this came too late. Gold was being withdrawn from England in enormous quantities. To meet it the Bank of England had floated huge loans from the United States and France.

Then came the end. On September 21st the Gold Resumption Act was set aside. The pound sterling no longer synonymous with 113 grains of pure gold, it became a piece of paper, whose future value would depend upon the wisdom and policy of the Government. Even before the actual course of trade and the balance of bargains could have any effect upon it, the world's estimate of it was reflected in its new exchange value in terms of United States gold dollars. It fell rapidly to four dollars, and even less. By the end of the year 1931 its value was hovering below three dollars and a half. Its fluctuations from day to day are the focus point of the eyes of the world's finance.

At the same time the Canadian dollar, to use the metaphor employed above, had slid, if not fallen, off the roof. Daily quotations showed it to be worth from ten to fifteen per cent. less than its nominal value in gold, as measured by the sister dollar of the United States. Before the end of the year the discount had reached twenty per cent. Under these circumstances inter-Empire exchange has become a mere welter of decimal fractions.

The problem therefore arises, what is to be done next? How can order be brought out of this chaos? Does the path of salvation lie in a return to the gold standard, or in some other direction? Now, it may be said at once that there can be no return in England to the gold standard as it was, with the sovereign of 113 grains Troy and the American dollar at 4.86-2/3 to the sovereign. Never, or never so far as present economic prophecy dare extend. The great mass of the British voters, and above all of the labour voters, have got an idea of the strain and sacrifice involved in that.

The rise in English prices of exported goods to correspond with the foreign exchange value of the sovereign will spread through the range of prices. This will, more slowly, affect a rise in wages. While this process is going on industry will be stimulated unless foreign legislation can retard it. It can do so in part but not altogether. If the exchange continues, let us say, to fluctuate from $4.00 down to $3.50, prices and wages will level up to that. In other words, of the existing national debt about one-fifth will automatically disappear.

At an exchange of $4.00 holders of British Government bonds will have lost nearly one-fifth of their money, at $3.50 more than one-quarter. They lose this at any time when they try to cash in their bonds at their gold exchange value. They will lose it presently in any case when they spend the same amount of interest (in nominal pounds, shillings and pence) for a less amount of goods. They may laugh this off as best they can. That part of it is all over.

Many people are misled here by the fact that apparently England has been off the 4.86 gold standard four times and apparently has always come back to it. This is mere appearance. Here are the cases one after the other.

During the great war with revolutionary and Napoleonic France, the Government, against the Bank of England's will, forbade it to pay out gold for its paper (1797). This "restriction" lasted till after the war (1819). But in fact the gold standard was still a new thing, existing only in England. The great bulk of the world's money was silver. The war had stopped all private movement of gold anyway. The bank only issued its paper on the same terms and on the same loans as before. Foreign exchange in those days without cable or telegraph and with Europe blockaded was hard to calculate. Bills in terms of British sovereigns, payable in bank paper, exchanged almost as before against silver at Hamburg (before the French occupied it). The discount once fell to 17 per cent. It is hard to say if this was a trade discount or an inflation discount. After the war the bank easily redeemed its notes when redemption was allowed.

In 1847 and again in 1866 a sudden rush for funds owing to commercial panics and failures, led the Government to "suspend the Bank Act." Some phrase-maker said that "England was within twenty-four hours of barter," and all the books have copied the silly phrase ever since. The occurrence was a mere incident: as if a millionaire found himself in a restaurant "without a cent" and "suspended payment" till he got home.

Last of all was the case of the Great War already discussed above: gold became a kind of war supply: every Government commandeered it. It was not the gold standard that changed; it was the whole framework of social life. There is no analogy here.

But is it necessary for England and for the Dominions to return to the gold standard at all? Is it possible for a nation to conduct its internal business and its external trade in a monetary medium of mere paper and credit, an affair of pen and ink and printing, without any redemption actual or even prospective, in terms of gold? Many economists,—including some of the most authoritative,—assure us that it is. Many others,—including one of the humblest,—assure us that it is not: or at least that such a thing can only be done in an environment of national speculation, temptation, and uncertainty, in the long run fatal to stability.

Let us consider for a moment the recent experiences of other nations, and the probable proximate experience of England. The illustration offered by other countries is at once in point and has a certain tempting aspect. In Germany, the inflation of the mark in war time went so far that the currency ultimately became valueless. Old debts of a million dollars could be paid off with a nickel. In other words, the old debts vanished, including the whole of the war debt. At a time when England emerged from the war with a debt of $40,000,000,000 to be paid in gold, Germany came out not owing a cent. True, great masses of people were ruined. The saving of many a lifetime, the mainstay of the widow and the orphan, the comfort of old age, had vanished. But in the desolated world of 1919 who heard so faint a cry?

More than that, to the extent of many hundred millions of marks the creditor of Germany was a foreigner. And here the cry became a laugh. Even the man on the street (if not himself "stuck") could chuckle over the fact that Germany was making her enemies pay for the war.

More than that again. Take the typical case of France. As the mass of paper francs increased, it reacted on the exchange, on prices and on wages,—just as it is going to do in England. But in such a case the fall of the exchange is instant and rapid; the corresponding rise of home prices is inevitable but not so fast. The rise of wages is sluggish and lags behind. For the moment the French manufacturer paid the same prices, or little more, for material, and then sold his goods for export at a foreign gold price, very much higher when turned back into francs than what he ever had received before. Thus the inflated exchange was now an exporter's paradise. In other words, during the period of inflation of their currency, and while the process went on, the exporters of France and of various other European countries were able to obtain, and did obtain, an advantage in the foreign market. The amount of this corresponded to the extent to which the fall of the exchanges had gone beyond the local alteration in wages and prices. Naturally the whole advantage was gone when the exchange became more or less stable, and when home wages and prices had found a new level. The advantage would even be turned into a disadvantage when the exchange fluctuated in the other direction. In France the franc seems to have come to rest, or at least to an unstable equilibrium at a little below four cents (3.92). But in spite of the vast quantities of gold held now by the Bank of France, the franc is still only redeemable in gold under various restrictions. The French, a lively nation, prefer a franc with a little jump in it.

This effect on foreign exchange of an inflated currency when it started was relatively new to economic theory and policy. But it had not gone far before it called forth legislation to counteract the advantage of the foreign exporter. To the American and Canadian tariff was added a clause to the effect that where a national currency was depreciated, the extent of the fall below the par of exchange could be added to the duty. There was no thought of England at the time.

Now, if all the outside world would sit still and do nothing about it, the fall of the pound would work wonders for British trade and industry. The first consequences of an inflation of currency are as cheering as the first consequences of taking a brandy and soda. There is nothing like it. The only problem in both cases is how many do you take and when are you to stop. The fall in exchange would mean that if the British exporter could sell to a Canadian or an American purchaser at the customary price in gold dollars and turn it into sovereigns he would make, at current figures, a very handsome profit on the gross sale, extra, over and above all ordinary profits. This would be fairyland. On the strength of it he would expand his business. This would stimulate employment. This would cut the dole. This would lower taxes. This would increase business profits, and that would expand business further. In short, the House that Jack Built is not in it for the concatenation of consequences. All this, provided that the foreigner would sit still! Yet even if he did, the fairyland would be too bright to last forever. Prices in England in any case will begin to rise. All prices of things bought from abroad (cotton, rubber, wheat) must rise in terms of British sovereigns. These force up other prices, everything being part of the material of something else. This at last forces wages up. Thus a new level is reached at which wages, prices and profits are relatively back where they were. But note that in the meantime a powerful stimulus has been given. The machine has been set going again. The glass of brandy has carried the patient beyond the crisis. Life can resume its normal course.

Notice also this. Suppose the pound got stable again, more or less, at four dollars, and wages and prices adjusted themselves to that. What a temptation to drop it down to $3.50. Or, if it got stable at $3.50 to drop it down to $3.00! The second glass of brandy! Eh, what? Come along! Thus it was in France that the franc went bumping down from step to step. You have got to stop somewhere, but you needn't stop just now. There is the whole danger and trouble of inflated money and a shifting standard, and it is enough, in the minds of many people, to condemn the whole thing.

But not so in the minds of others. Many leading authorities tell us that gold was all very well when most of the world's money was in actual coin and cheques unknown, but that now the gold standard is "as antiquated as the stage coach." People of this opinion claim that a standard can be made stable without any reference or connection with gold. If we use the movement of prices up and down as a warning that credit is too free and must be contracted, or that credit is too restricted and must be enlarged, then we shall have a "stabilized currency;" prices will "stay put"; for if they try to go up we pull them down, and if they try to go down, we run them up.

It sounds vastly pretty. It needs nothing but a board of omniscient angels, with the wisdom of Pierpont Morgan and the morals of Thomas Aquinas to work it. Under such circumstances it would be very pleasant to have a seat on the stabilizing board and a confidential friend on the produce exchange.

But if this stabilization theory is true, England never need go back to the gold standard. It is well rid of it. It can find a point at which to connect the dollar and the pound and keep the level of general prices in accordance.

But would there not seem to be an obvious middle course that makes for safety and stability? It would appear to be possible to avoid Scylla on one hand and Charybdis on the other: to refuse to be ground down to earth under the dead weight of the old gold standard, and equally refuse to rise upwards in the gas balloon of regulated credit. It would be possible to return to a gold standard with less quantity of gold in the standard coin, a sovereign not containing 113 grains Troy of pure gold but less by one-fifth, or one-quarter or one-third as may best suit the case. The weight and appearance and name of the coin need not alter. The difference would be in the alloy. Not even the colour need change. The ordinary citizen would not know that anything had happened, any more than he did in 1920 when the new shilling was coined with fifty per cent. of alloy in it.

Certain gross misconceptions have arisen round the gold standard, under which it begins to appear as a thing bad in itself, involving social injustice and the tyranny of the monied clan. The gold standard does not of necessity mean falling prices: it can equally well be used to put prices up. The gold standard does not of necessity favour the creditor class. It can equally well be used to favour the debtor class. It is not the gold standard in and of itself which has broken world trade, but its disastrous connection with war debts, war indemnities and the attempt to repay in a dearer currency what was borrowed in a cheap; with that the attempt to obliterate all international buying and to leave only international selling and to expand extravagant national expenditure in a nation without means to pay. The gold standard was the mere indicator on the machine marking the over-high pressure of the steam. To remove the dial-hand was no protection against explosion. The collapse of the gold standard, in a word, was an effect not a cause.

By the time the Empire Conference meets it may be expected that the national course of trade will have brought both the falling sovereign and the falling Canadian dollar to a point of equilibrium, oscillating if unstable. Each of them will have subsided to a ratio with the gold dollar which could be rendered permanent by the adoption of a new gold standard, with a new gold content and a new gold par of exchange with one another and with the fixed currencies of the outside world. At this point the creditors might write off their losses, and the debtor take a new breath. The past would be forgiven and forgotten.

If it were thought well to make it so, the new standard could be put a little lower in gold content than the immediate current rate of the paper exchange. This ought to operate in favour of a mild and diffused increase of price, which would aid like lubricating oil on machinery. And for this purpose it would be possible to call in also the aid of silver, not as a standard but as a supplementary factor in occasioning a certain rise in price. Silver can never indeed come into its own again, but it may at least be called in from the outer darkness where its ghost still walks.

CHAPTER IV

Can Silver Come Back?

The Silver Question Again—The Old Bimetallic System—The Decline and Fall of Silver—Its Possible Resurrection—Silver as a Stimulant.

"You shall not crucify mankind upon a cross of gold!" So cried William Jennings Bryan to the United States Democratic Convention of 1896. The wild applause of the Convention carried the presidential nomination for the "boy orator" of Nebraska. In the contest which followed, the silver vote carried no less than twenty-four states. In point of area it scored a sweeping national triumph. But the populous East, the banks, the monied classes, were against it. Silver was "betrayed" and met what seemed to be its death. As a fitting sepulture Congress buried it in the vault erected by the monometallic Gold Standard act of March 14th, 1900. Silence fell upon the scene, with silver dead in the vault and the controversy forgotten.

But now after thirty years, the door of the vault is heard to creak a little and the genial face of the silver dollar peeps furtively out,—not dead at all, only fooling.

From which it appears that the silver question is back with us again. At least one delegate to the Empire Conference is pledged to re-open it.

People of the older generation can still remember the feverish arguments which centred round such phrases as "hard money", "free silver" and the "crime of 1873". But the generation of to-day has forgotten, or never heard, about it all. So we may safely begin at the very beginning. The countries of principle interest will be England, which first abandoned the double standard, and the United States, which clung to it to the last.

The British Empire is immensely interested in silver. The Empire produces about twenty per cent. of the world's output. Canada ranks third among the silver countries of the world, its production (1929) of twenty-three million fine ounces being exceeded only by the sixty-one million of the United States and the one hundred and eight million of Mexico. Australia in the same year produced about ten million ounces (nine million of it from New South Wales), and South Africa a million ounces, as a by-product of its production of gold. Moreover, the foreign trade of India where silver is the legal tender standard, is intimately connected with that metal: as are also the payments of all kinds,—salaries, pensions, interest on debt, etc., as between India and England. The oriental trade of the Empire connects its interests also with the situation of China where silver is the sole money, but where at least ten different silver dollars are in circulation. For both India and China and for all the oriental world the fluctuations in the value of silver in terms of gold prevent all stable trade relations, and render difficult all payment for goods purchased from gold-using countries.

The rapid demonetization of silver in the western world (1870-1890) was completed by the final triumph of the gold standard in the United States (1900). It was not generally realized at the time how great a divergence this might mean between the trade of the East and the manufacture of the West. Indeed the "gold-exchange-standard" (fixed ratio for foreign trade between local legal tender silver and exchanges payable in gold) utilized in Mexico, the Philippines and in India (1893-1914), temporarily met the difficulty. But the aberrations occasioned by the war, the continued fall in silver, its increasing production, largely as an inevitable joint product with other metals, and now the collapse of the gold standard, have thrown the whole situation into chaos. Under these circumstances there are not wanting those who think that a solution for more troubles than one,—the loss of the gold standard, the disruption of oriental trade and the industrial havoc of a fall in prices—may be sought in some kind of return to silver. Even those who would regard the restoration of the old bimetallic system, in its plenary form, as a mere dream, might hope to find in some renewed utilization of silver at least an important adjunct in the re-adjustment of finance.

In the most ancient times gold and silver were both known and used as money. But after the fall of the Roman Empire silver was the money of Europe. All of the great kingdoms, England, France, Spain, grew up on silver. The Crusaders brought home gold, and out of it various kings, such as Edward III in England, coined gold pieces. These, however, were merely valued in terms of silver. In those days, when silver and gold were traded for one another the ratio of exchange was about ten to one. The great unit of value was the pound weight of silver. But this would have been far too heavy to coin and much too valuable for ordinary purchases. So the English kings from Saxon times till Charles II coined silver pennies, 240 to the pound, using the pound of the city of Troyes, the Troy pound.

In those days money in terms of goods was worth a lot. A horse was sold in terms of our currency for five dollars, a cow fetched one-fifty, eggs one cent a dozen, and beer three cents a gallon. Those were bright days.

The discovery of America brought in what was called at that period a “flood” of silver. As a matter of fact for two hundred years after Christopher Columbus the output of the whole world, including America, was only about ten million ounces a year,—about the twenty-fifth part of the production to-day. But even this “flood” raised prices and led to the use of both silver and gold in the European currencies. The mints set a ratio of the value of the two metals as closely as they could and coined both. Till after the 18th century there were no telegraphs, no organized markets, no instantaneous ways of checking values. In a clumsy fashion this bimetallic system worked. Sometimes one metal ran away from the mint and sometimes the other.

England in the 18th century was still supposed to coin both silver and gold on a bimetallic plan. The standard silver coin was the shilling, the silver penny having dropped out under Charles II. The standard gold coin was the guinea,—the principal British coin from 1663 until 1816,—which replaced the “sovereigns” of the Tudors and the “Unites” and the “Laurels” of the earlier Stuarts. The guinea was so named from the fact that the gold first used for it was imported from Guinea by the African company. The guinea was meant to be a twenty shilling gold piece, but the gold it contained (even when it was reduced in 1670 to 129-39/89 grains, the weight which it kept to its end) was worth more than twenty ordinary shillings. At the end of the Stuart period the silver in circulation was so greatly clipped and worn and “sweated” that the guinea in the reign of William and Mary commonly passed for thirty shillings. An act of parliament of that reign assigned twenty-two shillings as the maximum equivalent of the guinea, and after that it was generally taken as 21s. 6d. Later on (1717) the guinea was declared to be twenty-one shillings. But as Sir Isaac Newton had already shown in his famous Mint Report of that year, the value of the guinea in gold as compared to silver, reckoned in the current prices of silver in the European markets was 20s. 8d.

The result was that in the 18th century the gold coins were overvalued: if sold as bullion they were worth less than if used as legal tender money. Hence they stayed in circulation. With the silver shilling it was the other way. It was worth more if melted and sold as bullion than if used as a legal tender coin. Hence by the reign of George III the only silver in circulation was a mass of clipped and worn coins not worth selling as silver metal. Gold thus became the real standard, especially as the rapid growth of industry and foreign trade necessitated larger and larger payments. Bank notes had come into current use with the foundation of the Bank of England in 1694. The use of cheques had begun as early as 1729, and the Clearing House (originating in the half-way meeting of messengers) goes back to the reign of George II. All this meant financial business on a big scale. Silver was henceforth only “small change” in England. An act of 1774 cut its legal tender value to £25: free coinage,—a privilege of no value at the prevailing silver price,—was ended in 1798. Finally the Coinage Act of 1816 definitely set up the gold standard. It replaced the guinea by the present sovereign, a coin weighing 123.27 grains Troy and containing 11/12 of pure gold, and restored the majestic Tudor name instead of the nickname guinea. It set up the coinage of shillings no longer containing a weight of 92¾ grains Troy of metal 925/1000 fine, but only 87¼ grains of the same fineness. This valued silver in the form of coins above any commercial value which it had at that day or in that century, and vastly above its value after the great fall. The silver in a British shilling of 1816-1920 would be worth to-day as bullion about four pence, the silver in the shilling of to-day about two pence halfpenny.

Thus England drifted on to the gold standard, and found it, as already recited in the chapter above, of vast utility in the nineteenth century. Its value became indeed an economic article of faith, comparable to free trade. It was a part of the world in which lived three generations of people and which now lies in débris about us.

It is necessary for any one who wishes to form a proper judgment of the monetary policy of the hour to understand the various phases of the monetary policy of the past. History represents the research experiments of politics. One turns therefore to the United States where public policy and public experience moved in channels entirely different from their course in England. The United States, as colonies, had no coined money of their own. They kept accounts in pounds, shillings and pence and for actual use had a mixed set of coins, chiefly Spanish dollars and fractions. The first coinage act (1792) instituted a bimetallic system, coining both gold dollars and silver dollars. It was thought that both metals were so scarce that neither could serve alone. For nearly a hundred years they served, nominally at least, in a two-metal system of free coinage.

In the light of what is now proposed it is important to see to what extent this system was able to work. Anybody could take silver to the United States mint in any quantity and have it coined into silver dollars each containing 371.25 grains of pure silver, plus 44.75 grains of alloy.

Anybody could also take gold to the mint for free coinage into gold dollars. The first coinage act put the ratio of gold to silver at 15 to 1, so that the gold dollar contained 24.75 grains of pure gold. But this turned out to be underestimating the commercial value of gold. It was worth more silver than that. As a result, the gold if coined was exported, and but little gold bullion came to the mint. Hence the law was changed and gold, after 1834, was coined at 16 to one, the ratio which afterwards turned into a sort of article of faith.

But the great gold discoveries in California and Australia presently made gold cheaper. Hence silver was worth more than one-sixteenth of gold, and was too valuable to coin at that ratio, and was not brought to the mint. To allow for small change a law of 1853 followed the precedent also set in England in the Act of 1816. It provided for minting fractional silver coins (not silver dollars) containing 7 per cent. Less silver than their name implied. At this time there was a premium of four cents on the silver dollar which therefore did not circulate, but was bought up and exported or used in oriental trade. But the new fractions stayed in circulation, having nowhere else to go. They were of course coined only by and for the government. They circulated not for their own sake, but just as paper money does, by being legal tender and convertible.

Presently an act of Congress of 1873 terminated the coinage of silver dollars. At the time no one cared. Silver was worth more as bullion than as dollars.

Then things began to happen. The market price of silver commenced to fall. The chief reason for this was the continuous cheapening of the cost of mining and smelting it. But another reason lay in the fact that various nations were adopting gold and discarding silver. The new German Empire of 1871 set up the single standard and threw great quantities of silver on the market. By 1880 silver had fallen to a point (17½ to 1) where there would have been a handsome profit in handing it over to the United States mint at 371.25 grains for a dollar. But the mint,—inadvertently or designedly, no one knew which,—had been closed by the law that came to be called the “crime of 1873.”

To “help silver” the United States government bought silver bullion under the silver purchase acts of 1878 and 1890, the first act providing for buying thirty million dollars’ worth a year, altered by the second to fifty-four million ounces a year. The original intention was to use the silver for coins. But the public, except in the silver states, was tired of “cartwheels.” A better plan was initiated in 1886, when the silver was kept as bullion and “silver certificates” (one, two, and five dollars) were issued as legal tender money against the bullion held. There can be no doubt of the ingenuity of this plan, and no doubt of its effectiveness within its range and degree. Indeed it is one of the devices of the past which might prove of use in the present.

But at the time of its adoption the silver certificate plan was powerless against the world forces already in motion. Silver continued to fall, and the lower it fell the greater the clamour for restoring its coinage. The demand was for recoinage at the gold ratio of 16 to 1; nobody thought of anything else. By the middle ’nineties silver had fallen to a gold price of 65 cents an ounce, which meant a ratio of thirty-two to one. The whole country seethed with argument. The advocates of “hard money” contended that the recoinage of silver at 16 to 1 would drive out gold, double prices and hence cut all debts in half, reduce all mortgages by fifty per cent., cut off half the interest on bonds. This argument suited the “debtors” down to the ground, and appealed strongly to all the western farmers with mortgages on their farms. The idea that wheat would go to two dollars a bushel and that the mortgage and the store bill would be cut in half didn’t frighten them at all. Neither would it again. They would face the idea with the same resolute enthusiasm as in 1896.

But the leaders had to find a better argument than the cancellation of debts. They found it in the idea that silver had only lost value because of legislation. It hadn't fallen. It had been thrown down. Open the door at the mint to free coinage at 16 to 1 and the value of silver would rise accordingly. That was the argument of 1896, and that is, in part, the argument of 1932. But would it rise? The people of the United States in the great silver election decided that it wouldn't. Silver, in spite of the sentimental tears shed over the "dollar of the daddies", was laid to rest.

As in the melodrama, thirty-five years elapsed. Silver was forgotten. The great commoner of Nebraska passed off the scene. Then strangely enough history began to repeat itself. The war inflation was followed by the cruel grind of falling prices, the cruel pressure of falling wages. Was gold responsible? "You shall not press down upon the brow of labour," so Bryan had thundered, "this crown of thorns." Yet the thorns are there. "Mankind," in the view at least of countless millions of people, "is being crucified upon a cross of gold." The attempt to pay all public debts in gold, the attempt to transfer from nation to nation in satisfaction of war-claims gold, gold and nothing else but gold, is occasioning, as already described, a sort of industrial paralysis. It begins with the disemployment of the working classes. It creeps upward like a slow death.

In this monetary situation the question naturally arises, can silver help? Now there is no doubt that re-opening the mints to the free coinage of silver at 16 to 1 would relieve the situation. It would relieve it just as a charge of dynamite relieves a rock. There would simply be nothing left of it. A ratio of 16 to 1 is equivalent to a market price of silver of $1.30 per ounce. The present price moves around thirty cents. Free coinage at 16 to 1 would send a flood of silver to the mints that would end all question of gold coins and gold payments, and drive prices sky-high. In the whole history of the world, prices were at their highest in June of 1920,—a level about three times as high as at the end of last century. Silver could lift them higher than that. The golden calf would be out-classed by the silver bull.

No doubt the price of silver itself in terms of gold would rise quite a bit. But not even the silver bull could lift itself up by its own bootstraps.

It is, however, also suggested that a bimetallic system with a new ratio could be used. A member of the Canadian cabinet is reported as proposing the coinage of silver at $1.00 per ounce, a ratio of about twenty-one to one with gold. But the whole trouble here lies in the inquiry, what ratio and why? There is no particular reason to believe that the market price of silver would rise to that ratio, or settle down to that or any other particular ratio. There is no reason to believe that under present world conditions silver and gold could be harnessed together at any ratio, and made to work together. It would be like harnessing a hungry bronco with an overfed hog.

To open free coinage of silver would only mean substituting a single silver standard for a single gold standard. Mankind would be taken off one cross and hoisted up on another. Our last state would be worse than the first.

But short of that, can silver be used to give a lift to prices, without letting them rise too far? To which one may answer without hesitation that if that is what we want to do, we can do it in a dozen ways, some of them applicable to special nations only and some to all. We can increase the silver in the silver coins: the fifty cent piece could be made larger without inconvenience; the quarter perhaps not; the dime certainly, and if need be the fat nickel could be a thin silver five as it was in Canada for generations. This "monkeying" with the coins would probably not be popular in the United States and Canada. In England it is easier: all that is needed is to put back the silver cut out in 1920, when the coins were made fifty per cent. alloy. This process would react favorably upon the value of silver, but it is doubtful whether it could occasion any very great increase either in the value of silver or in general prices. There is at any time a maximum amount of silver which a nation can absorb in coins. The British mint issues on a yearly average about three million pounds sterling of silver, equivalent to sixty million shillings. If the English shilling, now only fifty per cent. silver were restored to its silver content of 1816 to 1920, it would mean an added use of something over 4,000,000 ounces of silver every year. This, in a world output of 250,000,000 ounces, would not make much difference. In Canada where the silver percentage in the coins could not be easily increased and where the whole net coinage of silver since 1858 is only 28,500,000 dollars, the effect would be very small. No great effect could indeed be exercised in this direction as apart from international action to which an altered Empire policy might give an impetus. Here the case is different. The world production of silver, as already said, amounts to 250,000,000 ounces a year. Of this an average of 87,000,000 ounces per annum (1910-1924) finds its way to India and China; about 65,000,000 ounces is used in manufacture and the arts; and a little over 100,000,000 represents net coinage (after deducting coins withdrawn). The United States is an enormous factor in the situation. The silver dollars of the United States represented in 1930 the sum of $530,000,000: the subsidiary silver $310,000,000, and the annual coinage of silver for the ten years 1920-1929 an average of $35,000,000. It is clear that changes in silver policy in the United States effected by increasing the size of coins, or the percentage of silver, or by substituting silver for nickel, or by increasing the use of certificates to represent silver coin and bullion, could exercise a strong and continuous influence on the price of silver. To what extent it could raise it before the stimulation of production brought it to a new equilibrium, only time and experiment could show.

But even inside the Empire a very powerful effect could be exercised by the use of legal tender certificates backed by silver bullion. Take the case of Canada. The legal tender notes of denominations of one, two, four and five dollars outstanding in 1930 amounted to a little over $37,000,000. For these could be substituted the purchase of silver bullion with the issue of legal tender silver certificates based upon it. The notes would circulate by virtue of being legal tender, the only basis of circulation of most of the world's money to-day. The first consequence would be that the government would be the poorer by the price paid for the bullion. But that would be only the beginning of the economic results. There is a reserve of gold "held against" the present notes, which would be set free. The amount of this reserve in 1930, $65,000,000, is set against a total of $174, 000,000 of notes which include in addition to those mentioned the ones of high denomination. As the reserve is roughly one-third, we may conclude that about $12,000,000 is held against the one, two, four, five notes. Silver certificates thus issued could be made not only legal tender but also convertible into silver bullion, the whole nature of the readjustment of currency proposed would turn on the question of how much bullion would be given for a silver certificate when offered for redemption. If a silver dollar certificate could only be cashed in for the amount of silver now contained in two half dollar pieces, or four "quarters," etc., then no one would cash them in since the bullion would only be worth less than thirty cents: nor would the silver as a guarantee of value be of much account. On the other hand, if the certificates were cashed in as if they were gold for an amount of silver represented at any time by a gold dollar's worth of silver, then the certificates would tend to leave the circulation on any upward tendency of silver. Nor would there in this case be any necessary profit to the government in using gold to buy silver and then issuing certificates redeemable at the current silver price. There might be a gain, or there might be a loss according to the fluctuations of price. But it might at least be suggested for consideration whether the government might not make certificates redeemable in silver bullion at a price well above the present price of silver and thus "play for a rise". On the strength of the rise it might issue more certificates, thus making each gain in the price of silver automatically expand the currency and help to lift prices.

Now let it be supposed that at the same time the gold dollar of Canada and the gold sovereign of England are being devalued to a lower level by having a lesser gold content. To take an illustrative figure, since one figure is as good as another, let us suppose the pound sterling at a new equilibrium representing 3.50, this is to say, containing a little over 82 grains of gold instead of 113 as now. The Canadian gold dollar may be supposed revalued and recoined in the same proportion, though the "fall" need not be the same. Any proportion would do, provided it is fixed and definite. But suppose that the dollar was devalued to the same extent as the sovereign, it would contain about 17½ grains of gold instead of 23¼, and the mint par would still be 4.86. At these new values all the paper money, we suppose, would be convertible into gold on demand. All prices would have risen, or would be rising, in consequence. This rise would include the price of silver in Empire money. A price of 36 cents an ounce in terms of the old gold dollar would be approximately the same as a price of 48 cents in the new. If the silver dollar certificate in addition to being legal tender were made convertible into silver at say 60 cents an ounce, it is likely that the ensuing rise of silver price would lift silver up to this.

There would thus be set up, perhaps, an automatic method of raising prices. It is necessary to say "perhaps", because the factors involved, and chiefly that of the cost of production of silver and the expansion output are beyond present calculation. The only method of procedure would be to set these forces to work on a relatively moderate scale and let experience and experiment prove their ultimate value. What the world seems to need is a scale of prices which represents a slight but continuous rise. At first sight a continuous rise in prices seems an economic absurdity and a social injustice. It tells against workers on fixed salaries, whose gains only follow in the rear the upward movement of price, and against all the labour class whose wages perpetually lag behind. But even in these cases it may be that the loss is offset by the continuity of employment. Those who live on interest would evidently lose. But long-time interest can be paid on an index number basis: and even without that if the loss is slight enough and the time long enough the social injustice is small even if it exists. After all, there must be a limit to the extent to which human beings are entitled to live on the interest of money earned not by themselves in their working life, but by their grandfathers and great grandfathers before they were born. A rise in prices of an average of one per cent. per annum would mean that an income from investment would have lost half its purchasing power in sixty-nine and a half years. This prospect of loss,—for other people's grandchildren,—is not one to fill us with grief beyond consolation.

But in this whole monetary matter, he would be a bold economist indeed, who would venture to speak with entire certainty. This much is clear: that the economic relations of the Empire demand for co-operation some reliable mechanism of exchange, putting purchase and sale beyond mere money speculation: this can probably be found in the restoration of the gold standard at a lower level, or the establishment if it is possible, of a system of stabilized credit and prices bringing stable exchange as a consequence: that it is of importance to "do something" about silver,—one must not say more than that,—so as to bring oriental trade into a better relation with western money. All these things demand technical and statistical investigation and would be a proper field for the work of an Empire monetary commission.

CHAPTER V

Summary and Conclusion

Cancellation of War Payments—Russian Embargo—Super Tariff—Quota Trade—Production to Order—Lower-Gear Gold Standard—Silver as a Price Stimulant—Unity of the Empire.

This book at least does not lack in suggestions and proposals. These may be summarized here for readers whose rapid intelligence renders it unnecessary for them to read the book.

It is suggested that both the Empire and the world at large would benefit by the cancellation of all war payments from nation to nation.

It is urged that the various parts of the Empire should join in an embargo on all trade with Russia, both of buying and of selling.

It is proposed that a system of Empire trade be set up based on the idea of the eagerness of each constituent to buy as well as to sell, recognizing that the two are inseparable: that for this end a plan of "three-cornered preference" be adopted, the purchases made in one part of the Empire being matched against sales in another. To effect this a system of Quota sales (sales *en bloc* at a fixed price) is advocated. These Quota sales will act as a sort of "production to order" and thus help to harmonize supply and demand. It is proposed that as a first and immediate step in the direction of integrated trade a super-tariff be adopted round the Empire.

The collapse of the gold standard having thrown all exchange into disorder, it is represented that the rectification of the currency is not, for the constituencies of the Empire, a domestic matter but a problem of common concern. It is proposed that the gold standard be restored with lesser quantity of gold in the sovereign and the dollar.

In order to prevent any further fall in prices it is recommended that a more extended use be made of silver, especially in the form of monetary certificates.

But all these things even if accomplished are only a beginning, only a few hesitant steps on the pathway towards the ultimate goal. The final object to be achieved is the economic unity of the Empire in the real sense, so contrived as to make its resources and its industrial power the common asset of all its people. Its capital must be available in its every quarter: and above all the part of its population now crowded into the British Isles must be able to move into the empty fertile spaces of the newer lands. The Dominions can never flourish till the flood tide of migration moves again.

Beyond this dream of a united Empire one can in imagination see an even wider and more inspiring prospect. A united Empire made so by the mechanism of integrated trade and unified exchange, may serve as the pattern of a united world. An Empire which can find means to eliminate dislocation and unemployment and turn surplus population from a burden to an asset, may hand on the lesson to humanity at large.

Transcriber's Notes

- The cover image was created by the transcriber and is dedicated without reservation to the public domain.
- This text has been preserved as in the original, including archaic and inconsistent spelling, punctuation and grammar, except that obvious printer's errors have been silently corrected.
- The drop capital letter and the capitalized first word at the beginning of each chapter were changed to normal text.
- Page numbers were not retained.
- In Table I some of the ditto marks were replaced by the word above the ditto mark.

[The end of *Back to Prosperity* by Stephen Leacock]