INTERNATIONAL LABOUR REVIEW

VOL. XXIV, No. 4. OCTOBER 1931

Finance and Industry: the International Significance of the Macmillan Report

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The acute industrial depression of the last two years has brought into prominence what is generally regarded as the central defect of the financial-economic system as at present organised, viz. the fact that from time to time, although goods can be made in abundance, these goods cannot find a market. For some time the belief has been growing that this defect lies in the relationship between finance and industry. Producers, it is pointed out, are anxious to dispose of the goods they have made. The would-be consumers are equally anxious to buy. What is lacking is the necessary purchasing power—the money without which no such transaction can take place. And since the provision of money depends upon the financial authorities, there is a prima facie *case for supposing that it is some want of co-ordination between finance and industry that is responsible.*

With such a view becoming increasingly prevalent in the various countries, it is particularly fortunate that at the present moment a detailed and authoritative investigation into this whole question should become available. A Committee on Finance and Industry appointed by the British Treasury has recently issued a Report, remarkable both for its clarity of exposition and mastery of technique.

In this and in an ensuing article the international significance of the recommendations put forward by the Macmillan Committee (as it is usually termed) is examined. The discussion necessarily deals to some extent with questions of a technical nature ; but, as is becoming increasingly evident, better understanding of these questions is essential to the rational organisation and social well-being of the modern industrial world. It is the special merit of the Report that its exceptionally able treatment of the subject brings this complex range of problems within the grasp of business men and trade unionists whose interests are most at stake.

On 4 November 1929, Mr. Philip Snowden, Chancellor of the British Exchequer, announced in the House of Commons the appointment of a Committee of Inquiry into Finance and Industry, the terms of reference being

to inquire into banking, finance and credit, paying regard to the factors both internal and international which govern their operation, and to make recommendations calculated to enable these agencies to promote the development of trade and commerce and the employment of labour.

The Report of this Committee[1], published in July 1931, at a time when the economic and financial structure of the industrial world was showing dangerous signs of crumbling, did not receive at the moment the attention it deserved. But in some ways there could have been no more appropriate occasion for its appearance. For it is precisely with those fundamental aspects of the world depression that have resulted in financial and industrial chaos in a number of countries that this Report deals.

The volume itself falls into three divisions. The first is, in the main, a descriptive essay on the working of the monetary machine in its relation to industry and employment. This is followed by the recommendations of the Committee for improving the relationship between finance and industry. Lastly, there are a number of addenda, reservations and statements in which various of the members of the Committee give their views, severally or in groups, on those points where in their opinion the main report falls short of or overshoots the mark.

The present article is concerned for the most part with those of the Committee's conclusions having an international bearing. Much of the Report necessarily deals with circumstances peculiar to Great Britain which, although of great interest and importance, need not be gone into in any great detail here. But the two chief points considered—what are the fundamental causes of the present world depression and what monetary measures can be taken to improve the situation and provide against a recurrence in future—are of much more than national significance, and it is upon them that attention is concentrated.[2]

[1] Treasury. Committee on Finance and Industry: *Report*. Cmd. 3897. London, H.M. Stationery Office, 1931. 322 pp. 5s.

[2] For a brief summary of the Report as a whole see below under the heading "Book Notes".

The Committee itself was constituted as follows: The Rt. Hon. H. P. (now Lord) Macmillan, Chairman; Sir Thomas Allen; Mr. Ernest Bevin; the Rt.

The Causes of the World Depression

Monetary and non-monetary causes. The Macmillan Committee takes as its main objective the question whether the persistent unemployment in Great Britain during the last ten years, and still more the world depression superimposed upon it since the autumn of 1929, are ascribable to monetary causes. It comes to the conclusion that a great variety of factors, both monetary and non-monetary, must be held responsible. Among the non-monetary factors it distinguishes particularly (i) the unusual instability in the demand for capital resulting from the losses and interruptions consequent on the war ; (ii) the changes in the established relationships between debtor and creditor countries consequent on the war debts ; (iii) the rapidity of technical changes in manufacture and agriculture ; (iv) the shifting character of demand resulting in a want of balance between the demand and supply of services as against manufactured products, of new types of manufacture as against old, and of manufacture as a whole against agriculture ; (v) the rigidity of wage rates ; (vi) the growth of tariffs ; (vii) the embarrassments of budgets ; and (viii) violent changes in speculative activity in New York and elsewhere.

Among the monetary factors it draws special attention to the working of the gold standard during recent years. There are two aspects of this question, one affecting Great Britain particularly, the other a matter of vital interest to the world as a whole.

The defective working of the gold standard. The purely British problem does not call for lengthy reference here. When, by Government fiat, the pound sterling was restored to its par value in 1925, there is little question that it was over-valued. In other words, a given weight of gold (or its equivalent in national currencies) would buy less in Great Britain than elsewhere. Consequently, British trade was handicapped in international competition ; and the fact that other countries, notably France and Belgium, pursued the opposite course (so that a given weight of

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Hon. Lord Bradbury ; the Hon. R. H. Brand ; Professor T. E. Gregory ; Mr. J. M. Keynes ; Mr. Lennox B. Lee ; Mr. Cecil Lubbock ; the Rt. Hon. Reginald McKenna ; Mr. J. T. Walton Newbold ; Sir Walter Raine ; Mr. J. Frater Taylor ; Mr. A. A. G. Tulloch.

gold would buy more in those countries than elsewhere) accentuated this handicap.

This process of over-valuing and under-valuing national currencies, while of great importance to the countries concerned, is relatively insignificant alongside the larger problem of the gold standard now before the world. The essence of this problem requires to be stated with the utmost possible objectivity inasmuch as it is liable to give rise to international recrimination, in which the principal issue is obscured to the detriment of all concerned. Briefly, it is this. If a creditor country, that is to say a country whose Government or citizens are due to receive a net balance of payments from Governments or citizens of other countries, (*a*) excludes imports by a high tariff wall, (*b*) refuses under any conditions to let its price level rise appreciably above world prices and (*c*) declines to make long-term investments abroad, then it necessarily follows that a continuous stream of gold (or claims on gold) will find its way into that country until such time as the debtor countries are forced off the gold standard or default.

The logic of the position requires little elaboration. A creditor country can take payment either in goods (including services) or in gold ; or it can lend back what it is due to receive. If, by tariff measures, it shuts out goods ; at the same time prevents its price level from rising relatively to world prices (thereby checking the decrease in exports and increase in imports that would otherwise tend to right matters) ; and furthermore refuses to lend to the debtor countries on a sufficient scale ; then some or all of the payments due to it must necessarily be made in gold. During the pre-war period this implication of the gold standard did not force itself upon public attention. Great Britain, the chief creditor country, admitted imports freely and invested freely abroad. But with the reparations and war debt settlements the United States and France have been turned into great creditor nations. Neither country has adopted a policy of free admission of imports or investment abroad on a sufficient scale ; and by arithmetical necessity gold has piled up in their central banks in unprecedented volume.

The Macmillan Committee regards this maldistribution of gold as one of the chief precipitating causes of the present world depression. In all countries working on the gold standard there is some limiting relation between the gold reserve and the volume of currency and credit in circulation. If a country's gold reserve sinks below a certain point, then the volume of currency and credit in circulation in that country is likely to be reduced or at least prevented from expanding. The constant drain of gold to these great creditor countries has accordingly restricted the supply of means of payment in the rest of the world, with the result that for lack of the necessary purchasing power goods fail to find buyers at remunerative prices and industry is depressed.

The trade cycle. Closely related to this difficulty arising out of the maldistribution of gold is the whole question of the operation of the trade cycle. A completely satisfactory explanation of the alternate booms and slumps to which modern industry is subject has yet to be given, but the Committee recognises clearly the essential feature of trade depression. At such a time the volume of buying is not sufficient to enable the volume of goods for sale to be sold at prices covering the total costs incurred in the making of these goods ; with the consequence that output falls off or becomes unremunerative, the price level being forced down more rapidly than can be justified by any increase in the efficiency of production.

Such a deficiency of buying and decline in prices have made themselves felt with catastrophic violence during the present depression. In practically every country wholesale prices have been depressed by something in the neighbourhood of 20-30 per cent. as compared with the average of 1928. In certain lines, notably agricultural products and raw materials generally, this forcing down of prices has amounted to as much as 70 per cent.[1] As a consequence, over large areas of industry men and machines are thrown out of work and large surplus stocks of commodities are held because the prices obtainable are not sufficient to enable the would-be producers and sellers to get back in sales what they have disbursed in costs.

The Committee thus arrives at three main causes or groups of causes jointly responsible for the breakdown in world trade : (1) a number of factors of a non-monetary nature, arising to a great extent directly or indirectly out of the war ; (2) maladjustments resultant from the failure to work the gold standard effectively ; and (3) the operation of the trade or credit cycle.

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[1] Cf. League of Nations : *The Course and Phases of the World Depression*, pp. 156-162. Geneva, 1931.

The central feature of the world depression, as they see it, is the inadequacy of buying and consequent rapid decline in prices. To this fall in prices all of these various factors, monetary and non-monetary, have no doubt contributed. But whereas non-monetary factors have played a rôle of primary importance in the economic troubles of the last decade, the Committee nevertheless concludes that monetary causes are fundamentally responsible, in the sense that measures of monetary adjustment, if they had been applied with sufficient wisdom and knowledge, would have gone far towards maintaining the necessary equilibrium.

In the words of the Report :

> Our view is . . . that the price level is the outcome of interaction between monetary and non-monetary factors, and that the recent worldwide fall of prices is best described as a monetary phenomenon which has occurred as the result of the monetary system failing to solve successfully a problem of unprecedented difficulty and complexity set it by a conjunction of highly intractable non-monetary phenomena.

Remedial Measures

As is evident from the diagnosis, the fundamental remedial measure must take the form of an increase in the volume of buying. By some means a sufficient stream of purchasing power must be directed upon the buying side of the market to enable goods in general to be sold at reasonably remunerative prices. The practical proposals advanced by the Committee are directed towards this end.

Effective working of the gold standard. The first point to be settled is that of the gold standard. It is evident that if gold is to be kept as an international currency it must be made to work more satisfactorily than it does at present. The Committee believe that the gold standard should be retained. It is valuable to every country as a means of preventing wide fluctuations in the foreign exchange. Still more important, it is the logical starting point for any scientific handling of monetary problems. The practical question is, how should this be done ?

Two main lines of action are indicated. Clearly, if the world is to stay on the gold standard, the creditor nations must take measures to prevent the entire gold stock of the world flowing into their coffers. How urgently some such measure is required may be seen from the rate of movement during recent years. On 1 January 1929 the creditor nations (Great Britain, the United States, France, Belgium, Holland, Switzerland and Sweden) held 65 per cent. of the gold in central banks and treasuries. A year later they held 69.5 per cent. On 1 January 1931 the percentage had increased to 74.5 ; and the movement is still continuing.[1]

To check and reverse this flow of gold involves a greater readiness on the part of the creditor nations to take goods in payment of debt and/or a disposition to lend abroad more freely than hitherto. In the opinion of the Committee the first step must be for the central banks of the three great creditor countries —Great Britain, the United States and France—to come to some agreement on this question ; for without joint action any one creditor country that tries to " play the gold standard game " according to the rules is liable to find itself denuded of gold.

The main line of action would be to take all measures possible to increase the volume of foreign investment. With this end in view central banks should do their utmost to maintain an abundance of cheap credit in their domestic money markets with the object of increasing borrowing both at home and abroad. Certain other tentative suggestions are also made, among them the holding of a general international discussion on " The Restoration of International Trade " if and when world public opinion becomes ripe for such a move. The Report also refers with sympathy to the proposal that big financial institutions in countries interested in foreign loans should co-operate in setting up a private International Corporation for the granting of credits.

Reduction of gold reserves. The second line of action consists in the various countries bringing their gold reserve policy in line with modern conditions. The fact that gold is no longer in hand-to-hand circulation has profoundly modified the reasons for holding a gold reserve. Previously, a large reserve was necessary on two grounds : to meet a possible *internal* drain on gold when, through loss of confidence or some other reason, citizens of the country in question demanded hard cash in unusual quantities : and to meet an *external* drain when, owing to an unbalanced condition of international transactions, gold was leaving the country for abroad. With an internal drain on gold no longer

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[1] At the time of writing the United States and France together hold approximately two-thirds of the total world stock of monetary gold.

possible (hand-to-hand circulation being a thing of the past) the gold reserve is now required to provide against an external drain only. But traditional methods die hard and the laws and customs of the various countries still provide for a gold reserve designed to guard against not only an external drain but an internal drain which, in the nature of things, can no longer occur. By bringing banking methods into conformity with actual circumstances—concretely, reducing the gold reserve held in the vaults of the central banks to an amount sufficient to guard against an external drain only—the Committee believes that, although the world production of gold is falling off, there should be sufficient to enable the gold standard to be worked satisfactorily, at least for a number of years to come.

Control of the world price level. Given that the necessary freedom in monetary matters is secured by the adjustment of the gold standard to modern conditions, the question arises what shall be the central aim of monetary policy so as to restore and secure economic equilibrium ? The recommendation of the Committee on this point is that the aim must be " first of all to raise prices a long way above the present level and then to maintain them at the level thus reached with as much stability as can be managed " (p. 117). Or alternatively, if such a course is preferred, instead of stabilising prices the object of monetary policy might be to prevent prices from falling to a greater extent than is justified by the increase in the efficiency of production (p. 121).

These alternative proposals constitute the main theme of the Report. At first sight they are likely to appear contradictory. At one moment the Committee is advocating the ultimate stabilisation of the world price level. At another it is ready to agree to a falling price level, provided the rate of decline is not more rapid than that made possible by increasing efficiency. But in point of fact the contradiction is apparent only. The essential purpose in both cases is to sustain the volume of buying so as to prevent prices generally from falling below the costs of production. As is evident from the emphasis placed upon it throughout the Report, a wholehearted attempt to stabilise the price level is looked upon as the more satisfactory method of achieving this general aim. But to repeat, the central objective is a sufficient flow of purchasing power on to the buying side of the market to enable industry to sell goods in general at prices covering the total costs incurred in the production of these goods.

The remedial measures proposed by the Macmillan Committee are, therefore, (1) effective working of the gold standard, at present rendered impossible by the progressive absorption of gold by certain of the creditor countries; (2) reduction of gold reserves, so as to bring practice in line with actual circumstances and at the same time to secure a freer monetary position; and (3) control of the world price level. It is this third measure that is of major importance and some examination is necessary of the way in which the necessary monetary adjustment may be made.

The Technique of Monetary Adjustment

The technical means of controlling the world price level are considered by the Committee to be within the province of the central banking institutions of the various countries.

A central bank has (or can be given) two powerful means of influencing the monetary situation: bank rate policy and open market operations. By changing the bank rate—i.e. the rate at which it will lend money—the central bank can influence the rate at which money generally is being lent in the country in question. By open market operations—i.e. the buying or selling of securities by the central bank in the open market—it can (by buying securities) force more credit into the system or (by selling securities) drain credit out. Both of these lines of action have highly important consequences.

Bank rate policy. Movements in the bank rate have a double effect upon the financial-industrial situation, being liable to influence both the gold position and the state of business activity. A rise in bank rate, for instance, by acting upon the short term, and, to a less extent, the long term rates on money, tends to attract lenders. Money that might otherwise have left the country is thus induced to stay, and funds may be drawn from abroad by the higher rate to be earned. Consequently, when a central bank finds that it is losing gold too rapidly, its natural defence is to raise the bank rate, thereby attracting funds, so as to check and reverse the stream.

The effect upon domestic business of such an increase in bank rate is less immediate, but, on occasions, of even greater importance. By raising the price at which money can be borrowed, the central bank tends to discourage borrowing and business enterprise generally. Furthermore, business men have become accustomed to regarding a rise in bank rate as a danger signal, and are prone to reduce their commitments accordingly. A rise in bank rate is thus an indirect method of diminishing the volume of current production, hence of the amount of remuneration paid away, and ultimately of the volume of buying.

The corresponding consequences of reducing the bank rate are less powerful in their action. It is true that a lower bank rate makes for increased borrowing, both on short and long term, and this in turn, by encouraging business activity, leads eventually to a larger volume of buying. But the process is tenuous and by no means certain. A fall in bank rate permits, rather than promotes, increased activity. Moreover, here, as with a rising bank rate, the gold position is also affected. A relatively low bank rate tends to lead to an outflow of gold to other countries where funds may be employed more profitably ; and this, according to the circumstances, may or may not be desirable.

On the whole, therefore, in bank rate policy there exists a means of checking a too rapid increase in business activity (but complicated by the fact that the same means is commonly employed as a defence of the gold reserve) and of permitting a resumption of business activity (likewise complicated by the possibility of its giving rise to an outflow of gold). It is thus a valuable but double-edged weapon ; and, so far as promoting a revival of business is concerned, of uncertain effect.

Open market operations. The use of open market operations on an extensive scale is a post-war development practised chiefly by the Federal reserve system of the United States, but also to some extent by the Bank of England. By purchasing securities in the open market the central bank is able to force additional bank credit into use. This credit is likely to be retained for the most part in the security market and may, on occasions, be cancelled by borrowers taking advantage of the abundance of funds to repay loans to the central bank ; but some of it is fairly certain to be employed eventually in the production and sale of goods (thereby increasing business activity), while the support given to the security market is likely to improve business prospects and, in particular, to reduce the cost of long-term borrowing and so promote capital development.

Open market purchases, therefore, tend to have an encouraging effect upon business. The opposite process—sale of securities by the central bank—has a depressing influence. Credit is drained out of the system, prices on the security market are likely to decline, confidence wanes and both production and buying tend to fall off.

The aim of monetary policy. The Macmillan Committee believes that, with the help of these two instruments, the volume of bank credit in existence can be so adjusted as to maintain approximate price stability. The foundations for this belief are nowhere stated in any great detail. Implicit in much of the argument is the theory that industrial depression and the accompanying fall in prices are attributable to a failure of the rate of investment to keep pace with the rate of saving ; and in the light of this theory the use of bank rate and open market operations to promote investment would be a step in the right direction.[1] But the Report is singularly free from dogmatic assertion on questions of theory. The wholehearted adoption of a policy of control over the price level as the prime object of monetary management is regarded as more important at present than the precise methods (which can only be worked out in practice) by which such control is to be achieved. The general attitude of the Committee is well summed up in the following passage.

> (We) hold that it should be our object to *increase* the power to exercise deliberate control over the price level ; that there is nothing inherently impracticable in this ; that with the gradual growth of knowledge and experience . . . the possibilities of such deliberate control should steadily increase ; and that we should forward these ends to the best of our powers by being ready to attempt the task and to gain experience by practice (p. 94).

International co-operation. There remains one further condition, the importance of which cannot be too strongly stressed. To raise the level of world prices to about the height at which it stood in 1928 and afterwards to keep the price level under control, calls for international co-operation. No single country can attempt such a programme by itself. If it did, its easier credit conditions and its high prices relatively to other countries would be likely to have disastrous effects. In particular, the fact that goods could be obtained more cheaply elsewhere would cause its exports to decline, its imports to increase, and would

[1] Cf. J. M. KEYNES : *A Treatise on Money*, for a detailed exposition of this theory.

tend to force it off the gold standard and leave it exposed to a fluctuating foreign exchange.

The Report is emphatic on this point. At the end of the description of the working of the monetary system it lays down that " it is a condition of adherence to an international standard that a Central Bank must not get much out of step with the average movement of other Central Banks . . ." (p. 105). Throughout the actual proposals the necessity of international co-operation is insisted upon. In the concluding note to the report the Committee reiterates :

> If our recommendations relating to international action are given effect, we should hope for a great improvement in the situation in due course. If, however, progress along these lines is delayed or if the action taken is insufficient, we believe that our own monetary authorities will not be able to remedy matters without assistance from changes in other non-monetary factors . . . (p. 185).

In other words, with international co-operation the progress towards a more scientific monetary adjustment, enabling buying to keep pace with production, may be slow but it is possible. Without international co-operation little if anything can be done by monetary means, and recourse lies in the direction of wage reductions, increased taxation, tariffs and intensified international competition for markets.

The Significance of the Report

In sum, therefore, the Macmillan Report advocates a determined effort to establish that essential link between finance and industry hitherto lacking. It aims at putting sufficient purchasing power into the hands of consumers to keep prices and production on an even keel. The measures it proposes are, first of all, international co-operation between the great creditor countries, without which the gold standard is unworkable as a world system. Secondly, it advocates that the gold reserves of central banks should be brought into line with modern conditions, thereby securing a freer monetary position—a course of action which would be facilitated by international agreement. Lastly, it calls for active monetary measures, again necessarily international in scope, enabling the volume of buying to keep pace with the volume of production, so that goods in general can find a market at remunerative prices.

The first and third recommendations are of special interest and the present article may well conclude with some examination of their significance at the present time.

The question of gold. The recommendation which subsequent events have brought into the forefront of public attention is that concerning the maldistribution of gold. If certain creditor countries persist in a course of action which increases their gold holdings more rapidly than new monetary gold can be made available, it is inevitable that sooner or later a time must come when the other nations can no longer adhere to the gold standard. This, manifestly, is liable to be a dangerous policy for all: tending to drive the whole world more and more deeply into industrial depression; forcing default, devaluation and financial confusion upon all debtor countries, as also upon creditor countries not pursuing this policy; and conceivably leading, eventually, to gold losing its use as an international medium of exchange and declining catastrophically in value, as silver has already done.

Of all measures of world importance there is none more immediate than an international settlement of this question of the future of the gold standard.

Wage reductions and industrial depression. A second point, having a different but highly important bearing, is the acknowledgement implicit throughout the Report that all-round wage reductions are not the appropriate means of dealing with industrial depression. As the Committee remarks, "each individual, whatever may be the ultimate effects upon his standard of life, resents the lowering of his salary or his wages by economic pressure and cannot readily believe that this can be necessary at a time when the technique of production is making revolutionary strides forward".

The general validity of this standpoint is, of course, widely recognised. Both in their own countries and internationally, workers have resisted wage reductions on the grounds that to meet a problem of general super-abundance by a general scaling down of remuneration is fundamentally inept.[1] But what

[1] Cf. Fifteenth Session of the International Labour Conference, 1931: Debate on the Director's Report.

has not been forthcoming hitherto is an authoritative lead in the direction of a positive policy, national and international, to put in the place of wage reductions. This the Macmillan Committee supplies. The whole tenor of the Report is that the modern method of dealing with industrial depression is not by a drastic surgical operation upon wages but by remedial and preventive measures of scientific monetary adjustment.

This general principle that wage reductions are not the appropriate means of restoring economic equilibrium must of course be correctly understood. It does not preclude wage adjustments as between one trade and another. It does not necessarily apply to a reduction in nominal wages (i.e. wages measured in terms of money) provided *real* wages remain unchanged. But it does definitely discountenance general reductions in real wages as a means of meeting industrial depression ; and the recommendations of the Committee show the way by which such reductions can be rendered unnecessary.

The force of these recommendations is made still greater by what, under the circumstances, is perhaps the most remarkable feature of the whole Report, namely, that it is signed by thirteen out of the fourteen members appointed. At the time when the Committee was set up it was freely prophesied that there would be at least three or four separate reports ; for not only were the questions at issue highly controversial but the members of the Committee were exceedingly diverse in their interests, experience, equipment, mentalities, political proclivities and published views. Under the chairmanship of a noted jurist and industrial conciliator were : two economists, inclining to widely different doctrines ; three bankers, likewise poles apart in their opinions ; three representative business men and manufacturers ; four other members, drawn from Treasury circles, the Bank of England, the trade union movement, and the co-operative movement respectively ; and an ex-Communist. It may be hazarded that if, at the time of their appointment, the present Report had been submitted to them, some three or four at most would have been willing to put their names to it. The fact that, after an investigation lasting over a year and a half, during which time they had the opportunity of making a more complete study of the relation between finance and industry than is given to any private individual, this very miscellaneous body of men arrived at an all-but unanimous conclusion may well be looked upon as something in the nature of a presage. We have here, indeed, an authoritative indication of the direction that informed opinion is taking in the light of present-day conditions: viz. that the way out of world depression is not to reduce standards but to increase activity. [1]

The reversal of economic doctrine. Of less immediate practical importance perhaps but, in the final analysis, of the very greatest significance for the future, is the fact that the major recommendation of the Macmillan Committee marks what is, in effect, a revolution in economic thought. Considerations of space make it impossible to go into the matter fully, but the essential nature of the change may be concretely indicated by reference to another report, made some fifty years earlier, under conditions not altogether dissimilar to the present time.

In 1886 a British Royal Commission was appointed to inquire into the depression of trade and industry which had continued almost without a break for the previous ten years. A passage from this Report [2] runs as follows:

> . . . One of the commonest explanations of this depression or absence of profit is that known under the name of over-production; by which we understand the production of commodities, or even the existence of a capacity for production, at a time when the demand is not sufficiently brisk to maintain a remunerative price to the producer. . . .
> General over-production is, of course, impossible.

In this passage we have a commonly accepted doctrine put forward in its briefest form: general over-production, in the sense of more goods for sale than can be disposed of at remunerative prices, cannot occur. From the time when J. B. Say first advanced his "*théorie des débouchés*" (*Traité d'économie politique,* 1803), this belief has been accepted as orthodox. As a consequence no previous committee of enquiry has ever advanced proposals for monetary adjustment. Industrial depression, it was admitted, has the appearance of over-production or a general insufficiency of purchasing power; but since, according to orthodox doctrine, purchasing power is automatically maintained, it would be manifestly illogical to make recom-

[1] It is of interest to note that the memorandum of dissent presented by the one member (an ex-Treasury official) unable to concur with the report is referred to, even by the conservative *Times*, the organ of City opinion, as "Victorian".

[2] *Final Report of the Royal Commission appointed to inquire into the depression of trade and industry* (C - 4893), p. XVII.

mendations for the adjustment of a system which is self-adjusting.

On this point the Macmillan Committee expresses a view diametrically opposed to the orthodox belief of the last century. According to its findings, the basic feature of the present depression is that "entrepreneurs as a whole are failing to receive back as sale proceeds the equivalent of what they have paid out as costs of production" (p. 52). In short, what the 1886 Commission dismissed as impossible the 1931 Committee recognises as actually taking place.

It is not necessary to trace out here the basic misunderstanding, centring around the term " over-production ", which made the economists and practical men of the nineteenth century so completely oblivious of the true aspect of industrial depression. The important point is that the Macmillan Committee has set this misunderstanding on one side. It has perceived that, contrary to orthodox belief, the stream of purchasing power used to buy goods in general is not invariably sufficient to "maintain a remunerative price to the producer"; and from that it necessarily follows that, if industrial activity is to be sustained, steps must be taken to secure that the volume of purchasing power coming upon the buying side of the market is made adequate to the occasion.

Conclusion

On this general question, therefore, the expert view of to-day is at one with the verdict of practical commonsense. It is patent to every observer that what is needed above everything else during a period of general industrial depression such as the present is an increase in effective demand ; and the most direct method of securing this is to enable additional purchasing power to come into the hands of would-be purchasers. It is equally patent that this process must not be carried to excess, or the soundness of the monetary system will be endangered. In short, the volume of buying requires to be adjusted in such a manner that prices shall be raised to a level where they are once again remunerative, and therafter prevented from rising any further.

Up to the present no action has been taken to co-ordinate finance and industry in this sense. As a consequence, industry is exposed alternately to an unhealthy and factitious boom, when the volume of buying exceeds the volume of production, and to a still more unhealthy and factitious depression, marked by unemployment, business losses and declining activity generally, whenever the volume of buying is inadequate. The only ostensible reason for the failure to take action is that, along with the undoubted difficulties to be overcome in securing the international co-operation essential to measures of monetary adjustment, there has hitherto been this unfounded belief that the necessary adjustment was effected automatically. By laying down in specific terms that there is no such automatic adjustment, that, on the contrary, conscious measures must be taken to secure the co-ordination required, the Macmillan Committee has opened up a field of action hitherto neglected.

That this field should be explored, both nationally and internationally, with the very minimum of delay is a point that does not need stressing. The exigencies of the present situation are sufficiently obvious in themselves. Quite apart from the misery imposed upon large masses of the population by protracted unemployment, there is an immediate need, from a budgetary point of view, for a resumption of business activity. With their industries depressed and a large proportion of their people idle, countries cannot continue to pay their way except by recourse to increased taxation or to programmes of economy representing a severe setback to social progress.

If a longer view is taken, the necessity for action is no less evident. For the first time in history a comparison is possible between two diverse types of economic organisation : on the one hand, a system which, albeit involving a certain amount of constraint, is nevertheless successful in finding its workers employment of a sort ; on the other, a form of organisation which, while permitting of a larger measure of individual liberty, has not yet solved the problem of giving men and women the work upon which their livelihood depends. If in the future the conclusions to be drawn from this comparison are to be patent to all observers, a better co-ordination between finance and industry than has so far been attained would seem imperative.