

## ECONOMICS, TRADE, AND FINANCE.

### THE DELUSION OF SUPER- PRODUCTION

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It is hardly necessary to draw attention to the insistence with which we are told that in order to pay for the war we must produce more manufactured goods than ever before — a powerful section of the press would have the whole military, political, social, and industrial policy of the Allied Governments directed to the purpose, that, when by a complete victory we have acquired control of raw material and disposed of our most dangerous competitor, we may adjust our internal differences and settle down to an unfettered era of commercial activity, from which all other desirable things will, it is suggested, proceed naturally.

There are an almost infinite number of aspects to this proposition, which is not dissimilar, so far as it goes, from that with which Germany went to war: it is possible to attack it from the point of view of the historian, the psychologist, or even the physiologist. It is even possible that certain quite indispensable suffrages have still to be obtained for it. But it is sufficiently interesting to take it as it stands on a frankly material, 'practical' basis, and see what are its logical consequences.

A fair statement of the argument for unlimited and intensified manufacturing subsequent to the war would no doubt be something after this fashion:

- (1) We must pay for the war.
- (2) This means high taxes.
- (3) Taxes must come from earnings.
- (4) High earnings and low labor costs can only be continued if the output is increased.

Before dealing with these points, let it be thoroughly well understood that, as compared with the economic power of absorption, the world was over-manufacturing before the war in nearly every direction. If any person capable of independent thought disagrees with this statement, he will no doubt be able to explain the immense development of advertising; why the cost of selling a sewing machine, among many other instances, was higher than the manufacturing cost; why a new model, not novel in any real essential, appeared from most of the motor car works each year, thus automatically depreciating the value of the previous year's fashion, and why, in spite of all these and countless more desperate efforts to stimulate absorption at home, aided by the barter of trade gin to our black brother abroad, the stress of competition to sell was daily growing more insupportable, the main pressure, of course, appearing in the guise of labor troubles, unemployment, strikes for higher wages, etc., but being quite definitely felt all over the social structure and being focused from a national point of view in the struggle for markets; of which struggle war was the inevitable and final outcome.

Bearing this selling pressure in mind, let us consider what will be the post-war situation, assuming any reasonably early termination of hostilities, and in the absence of any radical modification in the economic structure.

It is almost impossible to form any accurate estimate of the extension of manufacturing plant which has taken place in the British Empire since 1914, but on a gold standard basis it is almost certainly to the value of not less

than £750,000,000, and may be much more. To this has to be added the still more gigantic expansion of industrial America, with Japan, France, and Italy by no means idle; and the fact that Germany and Austria have clearly put forth a comparable effort.

But, still more important, these extensions are largely homogeneous, instead of being accretions on small jobbing plants. In spite of a number of notorious instances of bad design, the main object—repetition-production by modern methods—has been achieved, and in consequence the output per individual has gone up in most cases several hundreds per cent and in some cases thousands per cent. And by the introduction of women into industry on a large scale the available sources of labor supply have been greatly increased.

On the whole, therefore, the plant and the organization for manufacturing have been expanded in every great country to many times their pre-war capacity; much of this extension is easily convertible to peace-time uses; and while the raw material side of the question is rather less easy to compute, it is possible that something to feed into the machines might be available for a considerable period of unlimited activity, although by no means indefinitely. Therefore it may be accepted as obvious that the factory system of the world is prepared, to a degree transcending anything dreamed of in the past, to flood the market with any article on which a profit in manufacture can apparently be made.

But absorption is a very different matter, and, in considering it, a clear idea of what is meant by the power of absorption is necessary. It is quite incontestable that the *real* power of absorption of the world after the war will be considerable; the repair of the devastated areas, housing schemes,

power, railway, shipping, aerial, and other transport problems will all require the effort and attention of civilization, not to mention the demand for a higher standard of life all round.

But the capitalist-manufacturer means by power of absorption the total money or credit value available as payment for his goods, and in the last resort this is represented by the total sum of the spending powers in cash or credit of the units of the population. The contention of the existing capitalistic and financial authorities, on whom of course the responsibility for the policy rests, is that super-production would mean high wages and the high wages would mean high absorption power, and so on. Let us see.

The factory cost—not the selling price—of any article under our present industrial and financial system is made up of three main divisions—direct labor cost, material cost, and overhead charges, the ratio of which varies widely with the ‘modernity’ of the method of production. For instance, a sculptor producing a work of art with the aid of simple tools and a block of marble has next to no overhead charges, but a very low rate of production, while a modern screw-making plant using automatic machines may have very high overhead charges and very low direct labor cost, or high rate of production.

Since increased industrial output per individual depends mainly on tools and method, it may almost be stated as a law that intensified production means a progressively higher ratio of overhead charges to direct labor cost, and, apart from artificial reasons, this is simply an indication of the extent to which machinery replaces manual labor, as it should.

Now, for reasons which it is hoped will be clear from what follows, the

factory cost, including management and indirect labor, *of the total factory output of any article is always more than the total sum paid in wages, salaries, and for raw material*, in respect of it. Consequently, the total output of the world's factory system is inevitably costed at a figure greatly in excess of the salaries and wages which go to the production of it. Selling charges and profit merely increase the price and decrease the purchasing power of money, as, of course, *cæteris paribus*, do general rises in wages.

In order to realize clearly this most important relation between factory cost, and money released, it must be borne in mind that manufacturing, or what is commonly called production, is conversion, and just as the conversion of mechanical energy into electricity or heat into mechanical energy involves a dispersion, which for practical purposes is a loss, so the conversion of manufactured articles can never take place without a similar economic dispersion.

Obviously the balance, which is represented by this economic dispersion, must go somewhere. A little reflection will make it clear that it represents depreciation, obsolescence, scrapped material, etc., all of which are charged to the consumer *instead of being a charge against the value of the product*.

In consequence of this the book value of the world's production is continuously growing more and more in excess of the capacity to absorb or liquidate it, and every transaction between buyer and seller increases this discrepancy so long as the exchange takes place at a figure in excess of the total wages, etc., which go to the various conversions of the product; with the result that a continuous rise in the cost of living absolutely *must* take place, apart and above that represented by currency inflation; palliated

by intrinsically more efficient productive methods, but leading along a path of cumulatively fierce competition and harder toil to an absolutely inevitable breakdown. The money required for public works can only be provided by loans or taxation, a decreasing amount of which is returned in wages and salaries; an increasing amount going to swell the mortgage held by the banker and the manufacturer on the effective effort of the world's population.

The complete fallacy of the super-production argument as it stands is apparent; it must be clear, if the statements just made are admitted, that neither apparently high wages nor even apparently cheap items among the articles produced can evolve a social system having in it any elements of stability whatever.

There is no more dangerous delusion abroad in the world at this time than that production *per se* is wealth — it is about as sensible as a statement that because food is necessary to man he should eat continually and eat everything. Production is necessary and desirable just so long as the actual thing produced is a means to something else which is necessary to humanity, and like everything else the thing produced has to be paid for by effort on the part of someone. So far from the necessity of this country, and the world, being an orgy of unlimited production, the first need is for a revision of material necessities, combined with sound scientific efforts, to produce to a programme framed to meet the ascertained demands; not artificially stimulated, but individualistic in origin wherever possible.

Such a programme might be allotted in sections among the available producing centres at block prices, and such producing centres might again contract with the whole 'effort' (*i.e.*,

staff and labor) involved, at a price to cover the whole output; such price to include upkeep of plant, stocks, etc. Efficiency in operation would then result in shorter hours, and would itself be cumulative.

If such a policy can be combined with a large decentralization of initiative, high rates of production would follow naturally, and the individual, for the first time, would begin to reap the solid benefits of the use of mechanism. On this basis it would be possible to attack the second urgent necessity, the reduction of money in any form whatever to the status of an absolute medium of exchange.

These are not light tasks, but the alternative to their assumption is a weary pilgrimage which may have some very lurid passages. And in the end it may be found that the chief crime of the capitalist was that he was such a very bad capitalist; in that he neither recognized his assets, nor met his liabilities.

The English Review

## THE FUTURE OF GERMAN CHEMICALS

GERMAN chemical and dye works are being rapidly readapted for the manufacture of peaceable products, and the future is regarded as by no means unpromising. Manufacturers realize that they will not be able for some time to come, to export 70 to 75 percent of their total output, but they are already resuming the production of dyes from coal tar, and the manufacture of pharmaceutical products has been carried on at full pressure throughout the war. The *Frankfurter Zeitung* points out that there is an imperative demand everywhere for German pharmaceutical products which can quickly be met, while the stocks of dyes are greatly

reduced both in Germany and the rest of the world. Manufacturers intend, according to the *Frankfurter Zeitung*, to direct all their efforts towards supplying this demand and then towards accumulating stocks, and they hope that soon the excellence of German products will open doors now closed to them. Also they rely on the fact that foreign competitors will be unable to satisfy all the needs of foreign markets, so that recourse must be had to German products.

The efforts of nations which hitherto have been our adversaries [the *Frankfurter Zeitung* continues], especially of the United States and England, to create a chemical industry of their own on a large scale, particularly for the manufacture of dyes, are by no means underestimated in Germany, and it is known that considerable success has attended them, more in the United States than in England and France. It is nevertheless believed that there is no reason at present, to attach serious importance to these foreign efforts, because German industry has the benefit of long experience which, especially in the production of dyes, places it at a great advantage. It is true that Germany may feel the competition in the simpler dye products, which are manufactured in bulk, but she will not feel it in the more complicated products that are the specialty of German industry. The circumstance may be noted, however, that during the war the Swiss chemical industry has made great advances in the manufacture of these complicated products, and has succeeded in obtaining an entry into markets where German industry hitherto held uncontested sway.

The Morning Post

## POTASH AND FOOD

It is a favorite dirge with certain of our Jeremiahs to bewail the approaching extinction of the human race by starvation. Malthus, with his dismal visions of starving millions, has probably been misunderstood, but one of our greatest scientists has not hesitated