

(September 13, 1932)

The Prospects of Capitalism

BY PROFESSOR T. E. GREGORY.

PRESIDENT CHALMERS:—Gentlemen, to-day the Club again has as its guest Professor T. E. Gregory of London, England. It is the custom of the club each year to reproduce in book form all the addresses that are delivered in the course of a season at these gatherings, and it is the most instructive and pleasant way to spend half an hour once in a while to reread some of these addresses. It subjects to a most severe test any address to reread it in the light of twelve months lapse of time. But the other evening I sat down to read Professor Gregory's address of last year. You will all recall the occasion on which he came to us. It was about the 20th or 21st, I believe, of May last that the morning newspapers headlined the fact that Great Britain had finally abandoned the gold standard. Most of us thought the end of the world had come. Professor Gregory came to the Club at noon and reassured us on that point. He told us exactly what were the circumstances leading up to the abandonment of the gold standard. He told us what the event portended. He also told us what might possibly be the immediate and remote consequence. Reading over his address in the cold and pitiless light of twelve months of rather hectic financial history, I must say that the address was an effective and masterful effort and it stands the test of time, and that makes it the more interesting to us to-day to have Professor Gregory back to address us on "The Prospects of Capitalism." I think the real reason Professor Gregory's addresses stand the test of time is: he is an economic realist and he is more or less impervious to the more emotional phases of business disturbances. As you know,

he has acted as expert to the MacMillan Committee; he was a member of the MacMillan Committee; and acted as expert to the gold delegation to the League of Nations. He occupies the chair of banking at the London School of Economics. He has been a frequent visitor at the Williams-town Institute of International Politics. With that background, and with his cool, keen intellect and acumen, we think Professor Gregory qualifies with the leading British economists of the past and present day, and with the leading economists of the world. I have great pleasure in asking him to speak to you.

PROFESSOR GREGORY:—Mr. Chairman, members of the Canadian Club, I must say that optimism appears to be a great attribute in the character of Canadians that they should be prepared in any numbers whatever to listen to such a bird of ill omen as myself. When I was here last year my speech coincided with the departure from the gold standard and to-day we are witnessing the second day of the break on the New York Stock Exchange. I can only advise the Canadian Club to leave me severely alone in future.

The subject which I have chosen to-day is one which has both a remote and direct application to the existing situation. We have been going through in the last three years an appalling world catastrophe and it is still an open question as to whether we have turned the corner or whether the approaching winter is going to be even worse than the winter which has preceded it. My own opinion, for what it is worth, is that in the last six months things have improved immensely as compared to what they were twelve months ago.

The two things that stand out in my mind as indicative of a real change in the situation are these; in the first place so far as the facts of the situation are concerned, as distinct from the theory of reparations, the reparations question has at last been solved. It is quite certain that never again in our lifetime will Germany pay reparations on any scale whatever. And that question which has caused so much ill feeling, which has blocked the operations of inter-

national trade and international finance to a very remarkable extent, that question can finally be regarded as having been disposed of. And the second fact in that situation, one which I do not think can be over-estimated, is that the United States has succeeded in going through the great drain of gold, that run on its gold reserves, without actually having the panic which it seemed almost inevitable that she would have at the end of May and the beginning of June of this year, and nobody could or can estimate what would have happened to the international financial world and to the international economic system if the entire banking system in the United States had crumbled into dust. These are two very reassuring facts and the recent rise in commodity prices has been very remarkable, even if overdone, and with the rise on the New York Stock Exchange, shows that economic society still has recuperative qualities which must not be underestimated. I feel inclined to say that if for another six or seven weeks commodity prices go up as they have been going up and if the new recession of stock prices ceases, we can legitimately say that the world has turned the corner. But that does not dispose of the kind of problem that I want to deal with to-day. We have realized at last that the United States is not going to go Communist. We have realized in the sequence of experience of the last three years that the capitalistic system of society can be exposed to terrific strains and stresses and nevertheless not break down. But that does raise the general question of how long this can go on, of whether the inevitable fate for mankind is being in first a boom and then a depression and then almost a panic and then recovery and so on, with depression all over again. It does suggest the question of whether a different framework or structure of society would in the end yield greater happiness and contentment to millions of human beings than the existing order.

There is one overwhelming reason why a question of this kind, namely the future of our existing economic institutions, is now much more important than it was even ten years ago. When I first became interested in economic questions I went through the phase, which I think every

economic student does, of being a violent socialist and I tried discussing this kind of problem with business men with an assurance which I frankly would not command at the present time. And I always used to be told, "All this is very well in theory, but it won't work." The fundamental alteration in the world situation of the last ten years is that inquiring young gentlemen, fresh from the Universities or elsewhere, who put that kind of question to business men, can answer that Socialism *is* working in at least one country in the world. It may be working very badly. The standards of good and bad in these matters are extraordinarily difficult to assess. Nevertheless for the first time in the history of modern economic society an alternative system is actually in operation, and therefore the question of whether we ought to go on as we are going or whether we should resolve to change the existing state of affairs is a question which business men can no longer avoid answering. They must answer differently from the way they used to when it was not certain that the Socialist or Communistic scheme could last for more than a couple of days. The Russian experiment has now lasted fourteen years and it is quite clear that whether it is working well or ill it is going to go on, perhaps with modifications, but nevertheless it is going to go on. And we therefore, whether we are economists or business men, are faced with some extraordinarily searching and penetrating issues.

If I were asked what are the dangers which capitalistic society has to face, from what direction is it likely to be threatened, I can see three possible dangers to the continued existence of our existing order. The first and the most inevitable is a rising tide of social discontent. We must not think that in an age of practically universal general education the people are not aware that there is in existence an alternative form of society and government and it is possible to conceive of discontent among the broad mass of the population so constantly increasing as to overturn existing society. Part of the nervousness with the business man in the States, that has been influencing the course of events in the last twelve months, is derived from the fear that the

workers of the United States are going to go Communistic. It is one of the most absurd fears that the mind of man has ever entertained. It is quite clear to anybody who has been in the United States that the population is probably the most Conservative the world has ever seen. But nevertheless one should not disguise to oneself the possibility that an increasing wave of social discontent might result in an overturn of our existing economic institutions.

Now if this is a danger, and I think in some cases it is a danger, how can it be overcome? I suggest that there are two ways in which it can be easily overcome. Whatever criticism one may make about the existing economic order there is one criticism which by the admission of the enemies of capitalism itself one can no longer magnify. The general complaint about our existing economic world order is this, that it is so extraordinarily efficient in the production of goods that the channels of trade are in constant danger of being choked. We have solved in many respects the problem of mass production and social discontent can and will in part be overcome by constant extension of the standard of living through increasing production. That is one way in which this particular danger to the capitalistic system can be and is being, overcome. The reason why the vast mass of human beings are discontented to-day is paradoxically enough not that their standard of life is going down but that their standard of life has been rising in the last ten years faster than probably at any other time in recorded economic history. We have only to ask ourselves what were the fundamental necessities of life at the end of the war to see how extraordinarily rapid the rise in the standard of living everywhere has been. I only refer to the radio, the motor car, cheap frigidaires, and other elements in the standard of living to show that if we are all discontented, and I think we all are, it is not because the standard of living has not been rising. It has been because technical progress has made such immense strides, we all get into the habit and expect very much more than we did ten years ago, and there is no reason whatever, either from the standard of the practical man or from the standpoint of

theoretical economics, to prevent this constant progress in the standard of living from continuing in the future.

But I think there is one other side to this question of social discontent about which I am by no means so optimistic. It has recently been my privilege to spend seven weeks in the United States and the attitude—I may speak frankly of America—on unemployment and relief seems to be divided into two categories. There are the people who think it is bad form to mention unemployment at all and who therefore deny that the problem exists. And there are the people, on the other hand, who say unemployment exists. But it is extremely undesirable to import into the North American continent the devices by which the British worker and the German worker have been maintained in the course of this depression. I believe myself that if we want to avoid a marxian social doctrine from threatening the basis of our existing form, that everywhere in the world that particular attitude has got to be dropped; that we have to recognize that it is in a sense and in a very real sense, inconsistent that, on the one hand, large masses of people should be suffering grave want in consequence of unemployment and this technical progress should constantly be resulting in a rising standard of life. I speak now for myself, but if we want to avoid a growth in social discontent, we have not merely got to see to it that technical progress results in increasing out-turn of goods, but we have also got to see that so far as the man in the street is concerned, and the woman too, that she no longer suffer from primary insecurity represented by waves of unemployment. And the only way in which that can be done in the modern world is the institution in our capitalistic countries of a rational system of unemployment insurance, or unemployment relief. I do not love the word planning, but at any rate if I am asked to adopt planning I do say one of the things we shall have to plan for and think through thoroughly is how to deal with unemployment in such a way as neither to impede the individual man, and yet, at the same time, guarantee to every unemployed person the security that he and his children shall not starve in consequence of events over which he has very little control indeed.

Now the second danger which threatens our existing order seems very remote if one speaks either in the American or the Canadian Middle West. But it is a very real danger whenever one travels on the continent of Europe. The second danger which threatens the world to-day is the renewal of war, involving the overturn of the political framework of society. It is no use disguising the fact that it has taken almost ten years since the war to remove one possible cause of conflict between European peoples, namely the reparations question, and it is an astonishing thing, if one lives in England or travels on the continent, how alive to-day the memories of the war still are and how conscious every European is of the unsolved problems which have resulted from the treaty of Versailles. I have no solution to offer for the political problems which we have inherited from the year 1918. I merely state the fact that here is a vast series of problems which have not been solved and which are capable unless they are solved of resulting in a new European war with quite incalculable consequences, not only to Europe but to the rest of the world. There was once a very eminent Scottish economist, called Adam Smith, who said that the question of whether certain measures should be used or not should be left to that crafty and insidious animal vulgarly known as the statesman or politician. I say of all this range of political problems that these must also be left, if they are to be solved at all, to that crafty and insidious animal vulgarly known as the statesman or politician. We economists have enough problems to solve. Here is a problem which, fortunately for us but unfortunately for the world, is outside our province.

Now economic society is threatened by a group of influences. Economic society may generate its own toxins, may become poisoned by its inability to solve certain problems which are part and parcel of the texture of our economic institutions. In the first place we have known enough of what has been going on in the financial world in the last three years to realize that the whole complex of problems which we call currency problems and bank problems are capable very easily of upsetting the apple cart. I am not

thinking merely of the problem of general prices, of whether we ought to keep the price level steady or allow it to rise or fall arbitrarily from time to time. That is an important problem but we are now beginning to realize it is only part of the problem. The modern economists of all schools are turning their thoughts more and more in the direction of asking whether the processes by which industry gets the capital that it needs, whether in other words the processes of investment, can be allowed to continue as unregulated, as unchecked, as they have been ever since the war. If we had the kind of dangers which have been threatening the United States in the last six months, we should realize how immensely significant it is to the modern world, and to any particular country forming part of the world order, that it should have a settled and proper system of banking, and investment banking as well.

To mention only one possible danger there is the system by which the banks of one country are in the habit of maintaining immense deposits in the banks of other countries and these deposits are most of them payable at very short notice. The international short loan fund, as economists and bankers know it, has grown immensely since 1916. Probably there is something like a billion pounds worth of money constantly floating about between London, Amsterdam, Paris, New York and other centers. Now unless this international short loan fund can be managed adequately it is capable of destroying the gold standard in one country after another. The panic first attacked London last September. It attacked New York last October. It was successfully beaten off but as soon as the bankers of Europe saw that Congress was finding it exceptionally difficult to provide reasons for not balancing the budget, a renewed insecurity was experienced and a renewed run on New York took place. Now here is one detail of an immensely complicated subject about which not one business man out of ten ever concerns himself. And yet it is quite capable of wrecking one bank structure after another, unless we find ready solution of this particular problem. I do not know what that right solution is. One of the possible solutions is to

get business men or bankers to invest much more regularly than they have been in the habit of doing in the last ten years in long term securities. But you won't get bankers to invest in them unless they are certain about the future of the countries in which these investments are situated and that is exactly what nobody has been certain about since 1918. I mention, therefore, as one of the first and foremost conditions for stability of our existing institutions that we shall solve the banking and currency problems which have arisen in the course of the last ten years, and it is not an easy task. If it were easy it would have been solved. Until it is solved the economic system is going to be subjected to very severe risks which did not obtain to anything like the same extent in the good old days of the gold standard before 1914.

There is another danger which is threatening existing society. We have arrived it seems to me at a very paradoxical state of affairs. The rate of mechanical and technical progress is probably at least as great if not greater to-day than it has been since the beginning of modern industries. On the other hand if you will look at existing economic institutions, you will discover that they are getting more and more rigid as times go on. We all of us—I won't say all, but ninety per cent of us—are now almost instinctive believers in the principle of Safety First. That is to say, believers in the principle of stability. Now is it possible to have a society if its technical progress is constantly demanding change, and reconcile that with a society which wants nothing to alter because safety first requires that nobody shall ever come to any harm at all? I take two illustrations of what I mean by the principle of increasing rigidity. I mention the one about which all business men agree first and then mention the one about which economists agree.

All business men agree that in a period in which the level of prices has fallen between thirty and fifty per cent it is very difficult if not impossible to keep money wages fixed. The organized working classes of all countries including America are all of different opinion. You all

agree, or all business men agree, that if you have change in the price level it is very difficult to maintain stability on wage rates but if the other side does not agree you may have a situation upsetting to economic institutions, which may ultimately be fatal to these institutions.

The second point. Economists I think now agree that at a time when general prices fall very violently it is impossible without grave danger to the economic fabric of the state to stabilize the prices of particular products, but nevertheless in all countries at the present time, particular groups of producers, whether wheat farmers or producers of copper, or what not, are trying to maintain their position and therefore adding to the dislocation, which amounts in final analysis to a continuance of the depression. And therefore, as I see it, we are threatened to-day, not seriously perhaps, but there are three possible sources of danger. Social discontent, political inability to solve the outstanding problems of national society and, lastly, the possibility that economic society may generate certain poisons of its own. I do not believe that they add a grain of comfort to the discomfort I am conscious I must have spread. I do not believe economic society is threatened by the existence of technical progress. To my humble mind the fear that the continuance of mechanical improvement is going to result in everyone losing his job is quite incorrect. I do not believe technological unemployment is a serious danger to the stability of society but I do believe failure to solve the monetary problems or the European political problems or the failure to solve the problem of what to do with the unemployed in a period of grave unemployment are capable of becoming serious dangers to the continuance of the existing order.

One word more. In the United States and certainly also to some extent in Great Britain it has recently become fashionable to point to the kind of danger to which I have alluded and to say the way to get out of this dilemma is to have much more planning than we have had in the past. So far I am afraid I have been rather pessimistic. Let me finish by saying a word about the possibilities of planning.

Now the word plan seems to me to be one of those words which serve as a convenient substitute for thought at after-dinner speeches. It is like the foreign word rationalism about which we used to hear so much before the stock market broke in 1929 or it is like the word education. In the nineteenth century, when nineteenth century parents disapproved of their children, there were always people who said, "More education and things will be rectified." Planning is one convenient substitute for thought which means nothing unless you answer three questions; planning for what; planning for when and planning by whom? There has always been in the modern world an immense amount of planning, if by that you mean the adoption of certain means to certain ends. You cannot build a railway system without planning it, without knowing where the railway starts from and where it has got to go to, though some railways have been constructed on a different principle with ill fortune to the investors concerned. But broadly speaking the problem is not that we have not got planning in modern societies. We always must necessarily have an immense amount, but the trouble is, there has hitherto been no agreement whatever about the general and final objectives which we want economic society to reach and until there has been such universal agreement, to talk about planning in the abstract is simply a waste of time and confusion of thought.

May I elaborate by pointing to what seem to me to be the real difficulties in any attempt to have a thorough-going plan for a country like Canada or Great Britain. The first is that we can none of us, not even the cleverest of us, see very far into the future; that the possibilities of technological change are so immense that our plans are bound to be very provisional plans even if we plan at all. Who anticipated in the year 1900 the existing situation of the railways of the United States or of Australia or Canada. Who would have thought that within the lifetime of the founders of the great trunk highways of the United States it was going to be an open question whether the railways could go on without immense grants from the States to pay even their prior charges. The greatest of us, the most far-

seeing, can only see a very short distance into the future and consequently when we plan for our children, as we are always being asked to do, there is the possibility that our children may not like the particular plans we have made for them. My experience in watching other people's children is they generally do not; in the second place is it possible to have planning without drastic interference with certain kinds of rights which most of us regard as rather inalienable in themselves? I can quite understand why the Communists of Russia have found planning a very exhilarating and very refreshing thing. If they made me dictator of the Confederation of Canada and gave me complete power to say, "anything I do not produce you shall not have and anything I produce you must consume," I should find planning under these conditions an exceptionally easy and exhilarating job. That is the technical advantage under which the Russian Communistic experiment is being tried out. The consumer has not got freedom of choice nor can the producer do exactly what he likes. The first and the most inescapable problem of planning is, then, in order to get the results are you prepared to sacrifice freedom of choice for the consumer and freedom of self-direction for the producer? If you won't then you must abandon planning, because it is for the future, and then allow everybody to do exactly what they like in spite of the existence of the plan. Either there is a plan or there is not. Either you turn out 20,000 ladies' hats and insist on them being consumed in spite of the fact the ladies do not like them, or you leave the thing to the haggling and bargaining of the market and the chances of feminine minds. And the unshakable fact about planning is, nobody knows what you want to plan for; nobody knows by whom the planning is to be done; and very many people overlook the fact that if you plan, if you stick to your plan, that involves very drastic changes in the organization of political and economic society as we know it in the western world to-day. Now that does not dispose of the problem. It may be that we English-speaking peoples have in the course of the nineteenth century exaggerated the virtues of political and economic

freedom. It may be the case that the average man would be happier without a vote, without the power to choose what he is going to consume, without the power to refuse to work if the conditions of work do not suit him. It might quite well be the case that a society based on dictatorship in politics and dictatorship in economics would in the end prove itself to be more firmly based on the popular desires than our western democracy. But let us at any rate remember that if we are going to plan we have to choose between one or the other because we cannot at one and the same time both eat our cake and have it.

PRESIDENT CHALMERS:—Professor Gregory, if I may fly in the face of the very good advice that you have given us, I should like to say the Canadian Club of Toronto has a plan and the plan is to invite you here annually to give us an address. And I am certain that our people will like it and enjoy it just as we have been enjoying this to-day. The rapt attention with which you have held the audience is in itself a more effective impression of appreciation than anything I can say. I merely add to that expression my own in as few words as possible, that we appreciate your coming and we appreciate the fact that you have gone out of your way some hundreds of miles to be in Toronto on this occasion. We hope to have you back with us during next season, if any circumstance brings you to this continent. We thank you very much for your address.