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Unconscious Sabotage

BY B. K. SANDWELL

T. D'ARCY LEONARD, Chairman:—Gentlemen, the splendid attendance today expresses better than can words of mine how glad we are to have Mr. Sandwell with us again. Mr. Sandwell is so well known to us and has won so many distinctions in his long and active career, that I will only mention two of them. One is that for his services to Canadian education and literature he was made a member of the Royal Society of Canada. The other to which I want to pay tribute is his excellent editorial writing as Editor of *Saturday Night*. This is the third occasion in thirteen years that he has addressed the club. It is a great temptation to have him more often, but we reserve him as a treat for special occasions. Today he has chosen a title that rather piques the curiosity—Unconscious Sabotage,—and while we may not know what that is, we can be certain we are about to hear a very interesting address. Gentlemen, Mr. Sandwell.

MR. SANDWELL:—Mr. Chairman, gentlemen, it is true that it is several years since I was before this microphone and this audience, but I do not altogether regard that as a calamity, because with an intelligent audience, it is not necessary to talk long or often to make the impression that one desires to make, as witness the story of the Scotsman. This one had the characteristic of most Scotsmen, in that he was both reticent and cautious. It happened that he was taking a holiday in Edinburgh, and one evening, walking along the street, he passed a young woman of comely appearance who interested him. He approached her as she came near, and taking off his hat he said:

“Lassie, Ma name is Jock Macdonald, A'm a man of few words, wull ye or wont ye?”

She looked him up and down and answered:

"Wull, Mr. Macdonald, since ye hae been so persuasive and talked me into it, A wull."

Which all goes to show that neither length nor frequency is necessary to produce the required result of the proper kind of audience, sufficiently quick in the uptake.

The last time I was here I discussed the economic troubles of the world. That was before the United States went off the Gold Standard. I was then, and still am, convinced that most of our troubles were due to the monetary disturbances of the world at large.

Clinging to the Gold Standard the United States and France had pursued policies which had the result of accumulating in those two countries most of the gold supplies of the world. Not surprisingly this loss of gold caused a serious breakdown in the outside countries. Ultimately, to the great surprise of the Americans and the French that breakdown began to exercise its effect even in those over-supplied countries, with the result that a price disturbance began that resulted in the depression. That was four years ago, and I am still convinced that what I have outlined was the cause of our troubles. A great deal has happened since and we still have our troubles and we cannot charge them entirely or largely to monetary mismanagement. We have to include a considerable number of other features.

The productive equipment and organization of Canada is geared to turn out a certain proportion of consumption goods and a certain proportion of capital goods. It cannot function with proper efficiency unless the demand for capital goods is sufficient to keep them being produced in an approximately normal proportion with consumption goods. Failure to maintain this approximate proportion is the basic reason for the continuance of the depression, and is, in recent years, due almost entirely to lack of confidence on the part of that element of the community, which alone is able to buy capital goods.

That element, in this country, the United States, and other democratic countries, is not buying capital goods for the amply sufficient reason that it does not see a sufficient prospect of making a profit in the use of them. As soon as that element begins to see an adequate prospect of making

a profit out of the use of new capital goods it will begin to purchase them.

There are, of course, other ways of getting capital goods purchased than just by making their purchase attractive to people with capital, but there are no other ways of getting them purchased by the voluntary action of private investors.

Let us consider what these alternative ways are. One of them is the purchase of capital goods by the state, or by some public authority possessing a taxing power derived from the state. This can be operated to practically any extent under either a communist system or a fascist system, in both of which the economic authority of the state is practically absolute. In some instances it can be operated under a system of free capital.

Under the communist system the State merely orders the production of X units of consumption goods, and Y units of capital goods, X plus Y being the total possible production of the country. The more you increase Y the more you diminish X, and you can, for a time and in special circumstances, reduce X, the output of consumption goods below even what is necessary to feed and clothe your population, as the Russians certainly did in the early years of the Communist Regime.

Under the fascist system the same thing is done somewhat more indirectly, through the various controls that the state exercises over capital, finance, labor, wages, and all the other economic factors that enter into business. The process in the fascist state is more complicated, but the powers of the state are much the same as under communism, and the result is similar. In neither case does the ability of new capital goods to earn a profit enter into the picture at all.

Italy has capitalists and Russia has none; but the Italian capitalist puts his earnings back into new capital goods, not because he sees a profit in so doing, but because Signor Mussolini tells him to do so. And the Italian capitalist has earnings to put back into capital goods because Signor Mussolini tells him just what wages he has to pay, and what he has to charge for his product, and allows him a margin in between. Capital goods are produced and put

to work in both countries because the State orders that they shall be and for no other reason.

Economically the method works, perhaps, one might say, better than the methods we now employ, but politically it has some consequences that those of us who favor free capitalism regard as undesirable.

As I said earlier, even under a system of free capitalism we can get capital goods produced and put to work by state authority; but, because we are under a system of free capitalism, we cannot force labor to produce them, as the Russians do, nor can we force capital to buy them and put them to work, as the Italians do.

Our only available method is, for the state itself to buy the capital goods and put them to work in its own enterprises. The state can do this without regard to the prospective earning power of the capital goods in question, because whatever shortage may develop in their earning power, can be made up by taxation. The limit to this process is only determined by the amount of losses which it causes and the amount of taxable capacity, against which they can be charged; and it is important to remember, that under a system, the only enterprises which are going to be left to the state, are those, which do not offer a satisfactory prospect of profit to private enterprise.

The state is not adding to the total amount of capital investment by substituting itself for the private investor in some enterprise that the private investor is perfectly willing to undertake. The state, for example, did not add greatly to the total amount of capital investment, though it may have secured other and important benefits, by undertaking the Ontario Hydro, which private capital would have undertaken very cheerfully; but it did add greatly to capital investment by guaranteeing the bonds of the Canadian Northern Railway, which private capital would never have looked at, if it had been required to take its own risks.

On the whole, therefore, the purchase of capital goods by the state, under the system of free capitalism generally means a loss on the investment and an addition to the burden of taxation, and that without any reference to the efficiency of the state in carrying out the undertaking.

I do not myself believe, under the system of free capitalism, that there is any other means by which the state can bring about the investment of wealth in capital goods, when the prospect of a return on that investment is unsatisfactory to the owners of investible wealth.

But I must refer here to a new concept which has recently been introduced into the discussion of this topic in the United States, and which will, no doubt, be soon heard, if it is not already being heard in Canada. This is the concept that the state, while still operating under a system of free capitalism, and without adopting the compulsive machinery of either communism or fascism, can yet put pressure on the owners of investible wealth to invest in new capital goods even when there is no satisfactory prospect of a satisfactory return on that investment.

I received last week from Washington the current weekly issue of one of the numerous political-financial "letters" which are sent out by various institutions there, and I found in it a phrase which puts this concept somewhat more nakedly than I have seen it presented anywhere else. The present policy of the Washington administration was described by the authority as being intended to "frighten capital into investment." Other descriptions of the methods now being pursued by the administration, to bring about a resumption of activity in the capital goods industries are somewhat similar, though less colorful and epigrammatic.

Now in a free capitalist system the process known as investment consists in the voluntary exchange of money, or rights to money, such as bank credits, for some sort of ownership of long term claim against capital goods. And in a free capitalist system that must be voluntary. The only way, therefore, that the state can encourage it is by making it more attractive—which means more profitable—to hold capital goods (machinery, plant equipment and so on) and less attractive to hold money or bank credits.

Obviously the expression, "frightening capital into investment" cannot refer to any process of making investment more attractive—of making it more profitable to hold capital goods. It must, therefore, refer to some device for making it less attractive to hold money or bank credits.

But what more, in heaven's name, can be done in that direction than has been done already?

The short-term rate of interest has already fallen to an unprecedentedly low level; and this has not sufficed to move the holders of money to investment. The distinct possibility of the further devaluation of the United States dollar has been intimated, and it is indeed already provided for by legislation at the president's discretion; and still these imperilled dollars pile up in the banks, and nobody wants to exchange them for houses or machines or for any other kind of productive wealth.

What more is the state going to do?—How is it going to frighten capital into investment?—What further threats can it hold over the heads of those who hold their wealth in the form of short-term obligations or cash that they refuse to exchange for new capital goods?

The truth is that this talk, this idea of frightening capital into investment originates in the minds of those who think of the money market as something which is "operated" by a small group of immensely powerful individuals who combine together to make it do anything they want it to do. Such people have already for months been accusing capital of being on strike against the Washington administration—of tying up the money bags so as to embarrass Washington and the New Deal.

They think of the whole vast and diversified, yes and international money market of New York, as if it were exactly like the labor market of some specialized industry such as the railways or automobile industry—as if capital could be bidden by the president of some Capitalists' Union to offer itself or not to offer itself by the chairman of its strike committee.

There is no such parallel. When a million investors decline to invest in new capital goods, and put a very low value on old capital goods as shown in the stock market quotations, it is not because they have been called off by their union officials; it is because as individuals and as little groups they are dissatisfied with the prospective profits they are offered as the price, the rental, of their capital and the compensation they are offered for the risks they run in adventuring it.

These gentlemen who talk about frightening capital into investment conceive of capital as being bossed by Mr. Rockefeller and Mr. Dupont, and Mr. Sloane, and Mr. Ford exactly as labor is bossed by Mr. Lewis and Mr. Green. They think because it might be possible for the state to frighten Mr. Lewis or Mr. Green into making labor do something, therefore it should be possible to frighten Mr. Rockefeller, Mr. Dupont, Mr. Sloane and Mr. Ford into making capital do something; and they figure that the State has an even freer hand in trying to frighten Mr. Rockefeller and Mr. Dupont because these gentlemen control fewer votes.

This is all wrong. The capitalists are not all signed up to do what Mr. Rockefeller tells them to do, the way some kinds of labor are tied up to do what Mr. Lewis or Mr. Green tells them. They consist of hundreds of thousands of men and women all over this continent, totally unorganized, with little communication one with another, with no leaders and no opinions and practically no desires except to get a decent profit out of any adventure in which they risk their money.

And that brings me to second truth, which is that while the state cannot frighten capital out of bank deposits and government bonds into investment in new capital goods, the state can very easily frighten capital away from investment in new capital goods, and has very efficiently done so on this continent for five years, and will go on doing so unless a lot of us come to our senses.

And if it goes on doing so for another five years the free capitalist system of the democratic countries as distinguished from the socialist system of the communist countries and the compulsive capitalist system of the fascist countries, will have ceased to work, and will probably never be put into working order again. For the free capital system can only work so long as its owners are able to obtain the remuneration which they require in order to induce them to advance new capital. On this continent, for the last year or two at least, capital has not, outside one or two special types of employment, been able to foresee any such remuneration. It has preferred, and will go on preferring, unless

it is offered some better prospects, to lie idle in banks and in government bonds.

If our supplies of new capital goods are going to be financed entirely on the state's credit and paid for by the issue of government bonds, we shall ultimately find ourselves operating a socialist economy without ever having decided to adopt it. The only thing to do to avoid it is to stop frightening capital away from investment in new capital goods. And the only way to stop frightening capital away from investment is to examine every tax, every business regulation, every labor rule, every license fee, every project for further state competition with private enterprise, with one idea in mind: Will it, or does it, tend to discourage legitimate and desirable investment of private capital?

Now Mr. President, I fear my time is about up, but I do want to get to the title of my speech before I stop. There is a new element in our political-economic situation this year, an element which has never been present in it before, and that is the influence exercised on state policies by people who don't care whether capitalism works or not, who would, in fact, just as soon see it cease to work.

Most of our friends, the socialists, would rather that it did not work. They would like to see it break down. The Social Crediters would like to see it break down and give way to some system of their own that they would erect. A considerable section of organized labor does not care, and that is a new element in organized labor.

That is what I would call the *unconscious Sabotage* of Capitalism. There is no definite desire or attempt to stop it working, but what is going on is having the same effect as though we were trying to make it unworkable.

The situation is made more difficult in that you have two sovereign authorities working in the same sphere, not because there is a conspiracy between the provinces and the dominion to drive capital out, but because you cannot get the two governments together to discuss a combined policy that will not have the effect of discouraging investment. That is the most powerful argument, I think, that can be advanced for a greater concentration of power in the hands of one or other of the governments. A greater concentration of power with one or the other is highly desirable.