Office, to make people believe that the past program of appeasement would be reversed. In September, Hoare made a vigorous speech at Geneva in which he pledged Britain's support of collective security to stop the Italian aggression against Ethiopia. The public did not know that he had stopped off in Paris en route to Geneva to arrange a secret deal by which Italy would be given two-thirds of Ethiopia.

The Royal Jubilee was used during the spring of 1935 to build up popular enthusiasm for the Conservative cause. Late in October, a week before the local elections on which Labour had already spent most of its available funds, the Conservatives announced a General Election for November 14th, and asked a popular mandate to support collective security and rearmament. The Labour Party was left without either an issue or funds to support it, and in addition was split on the issue of pacifism, the party leaders in both Lords and Commons refusing to go along with the rest of the party on the issue of rearmament as a support for collective security.

In the election the government lost 83 seats, but the Conservatives still had a majority, with 387 seats to Labour's 154. The Liberal Party was reduced from 34 to 21. This new government was in office for ten years, and had its attention devoted, almost exclusively to foreign affairs. In these, until 1940 as we shall see, it show-cd the same incapacity and the same bias it had been revealing in its domestic program.

Part Eleven—Changing Economic Patterns

Chapter 31—Introduction

An economic system does not have to be expansive—that is, constantly increasing its production of wealth—and it might well be possible for people to be completely happy in a non-expansive economic system if they were accustomed to it. In the twentieth century, however, the people of our culture have been living under expansive conditions for generations. Their minds are psychologically adjusted to expansion, and they feel deeply frustrated unless they are better off each year than they were the preceding year. The economic system itself has become organized for expansion, and if it does not expand it tends to collapse.

The basic reason for this maladjustment is that investment has become an essential part of the system, and if investment falls off, consumers have insufficient incomes to buy the consumers' goods which are being produced in another part of the system because part of the flow of purchasing power created by the production of goods was diverted from purchasing the goods it had produced into savings, and all the goods produced could not be sold until those savings came back into the market by being invested. In the system as a whole, everyone sought to improve his own position in the short run, but this jeopardized the functioning of the system in the long run. The contrast here is not merely between the individual and the system, but also between the long run and the short run.

The Harmony of Interests

The nineteenth century had accepted as one of its basic faiths the theory of "the harmony of interests." This held that what was good for the individual was good for society as a w hole and that the general advancement of society could be achieved best if individuals were left free to seek their own individual advantages. This harmony was assumed to exist between one individual and another, between the individual and the group, and between the short run and the long run. Tn the nineteenth century, such a theory was perfectly tenable, but in the twentieth century it could be accepted only with considerable modification. As a result of persons seeking their individual advantages, the economic organization of society was so modified that the actions of one such person were very likely to injure his fellows, the society as a whole, and his own long-range advantage. This situation led to such a conflict between theory and practice, between aims and accomplishments, between individuals and groups that a return to fundamentals in economics became necessary. Unfortunately, such a return was made difficult because of the conflict between interests and principles and because of the difficulty of finding principles in the extraordinary complexity of twentieth-century economic life.

The Factors of Economic Progress

The factors necessary to achieve economic progress are supplementary to the factors necessary for production. Production requires the organization of knowledge, time, energy, materials, land, labor, and so on. Economic progress requires three additional factors. These are: innovation, savings, and investment. Unless a society is organized to provide these three, it will not expand economically. "Innovation" means devising new and better ways of performing the tasks of production; "saving" means refraining from consumption of resources so that they can be mobilized for different purposes; and "investment" means the mobilization of resources into the new, better ways of production.

The absence of the third factor (investment) is the most frequent cause of a failure of economic progress. It may be absent even when both of the other factors are working well. In such a case, the savings accumulated are not applied to inventions but are spent on consumption, on ostentatious social prestige, on war, on religion, on other nonproductive purposes, or even left unspent.

Powerful Groups Seek to Maintain Status Quo

Economic progress has always involved shifts in productive resources from old methods to new ones. Such shifts, however beneficial to certain groups and however welcome to people as a whole, were bound to be resisted and resented by other groups who had vested interests in the old ways of doing things and in the old ways of utilizing resources. In a progressive period, these vested interests are unable to defend their vested interests to the point of preventing progress; but, obviously, if the groups in a society who control the savings which are necessary for progress are the same vested interests who benefit by the existing way of doing things, they are in a position to defend these vested interests and prevent progress merely by preventing the use of surpluses to finance new inventions. Such a situation is bound to give rise to an economic crisis. From one narrow point of view, the twentieth century's economic crisis was a situation of this type. To understand how such a situation could arise, we must examine the development in the chief capitalist countries and discover the causes of the crisis.

Chapter 32—Great Britain

In Britain, throughout the nineteenth century, the supply of capital was so plentiful from private savings that industry was able to finance itself with little recourse to the banking system. The corporate form was adopted relatively slowly, and because of the benefits to be derived from limited liability rather than because it made it possible to appeal to a widespread public for equity capital. Savings were so plentiful that the surplus had to be exported, and interest rates fell steadily. Promoters and investment bankers were not much interested in domestic industrial securities (except railroads), and for most of the century concentrated their attention on government bonds (both foreign and domestic) and on foreign economic enterprises. Financial capitalism first appeared in foreign securities, and found a fruitful field of operations. The corporation law (as codified in 1862) was very lenient. There were few restrictions on formations of companies, and none on false prospectuses or false financial reports. Holding companies were not legally recognized until 1928, and no consolidated balance sheet was required then. As late as 1933, of 111 British investment trusts only 52 published a record of their holdings.

Secrecy Is One of the Elements of the English

Business and Financial Life

This element of secrecy is one of the outstanding features of English business and financial life. The weakest "right" an Englishman has is the "right to know," which is about as narrow as it is in American nuclear operations. Most duties, powers, and actions in business are controlled by customary procedures and conventions, not by explicit rules and regulations, and are often carried out by casual remarks between old friends. No record perpetuates such remarks, and they are generally regarded as private affairs which are no concern of others, even when they involve millions of pounds of the public's money. Although this situation is changing slowly, the inner circle of English financial life remains a matter of "whom one knows," rather than "what one knows." Jobs are still obtained by family, marriage, or school connections; character is considered far more important than knowledge or skill; and important positions, on this basis, are given to men who have no training, experience, or knowledge to qualify them.

The Core of English Financial Society Consists of 17 Private

International Banking Firms

As part of this system and at the core of English financial life have been seventeen private firms of "merchant bankers" who find money for established and wealthy