

## THE NEW LIBERALISM

By A South American

IN THE nineteenth century liberalism, destroying the bonds imposed on the production of wealth by the vestiges of feudal institutions, gave rise to an enormous expansion of Euro-American civilisation in all its aspects.

The basic principle of liberalism was liberty of enterprise and competition, translating into the economic field the doctrine of individual freedom which was the postulate of the triumphant democratic ideal. Now we are in the position to see that the liberals of the nineteenth century did not carry to their ultimate conclusions the premises of their ideology, and that on that account difficulties arose which so much discredited liberalism as an economic system that to-day the ideologists of the left unite with those of the right in the opinion that liberalism is an evil thing. Nevertheless this doctrine did lead to the era of great inventions, of flourishing industry and commerce, of an unheard of increase in the volume of production, of steadily falling prices, and of an ever-increasing variety of articles offered to the public, as well as the impulse of colonisation which extended Western culture to the whole planet.

The reverse of the medal was the pressing social problems which this very progress created and accentuated—unemployment, low wages for the unskilled, periodic crises—shadows which obscured the light.

As the ideal of economic liberty became or appeared to become discredited, mankind turned to the principle of authority. The burning questions which it seemed could not be solved by the free agreement of the citizens were entrusted for solution to the State and the compulsion of law. At the beginning there was timid talk of "secondary functions" of the State additional to the execution of justice, the maintenance of law and national defence. Gradually these functions were extended until now we see state totalitarianism, called in Russia sovietism, in the countries of the Axis nazi-ism, and in the Democracies planned economy.

If the liberalism of the nineteenth century created great problems and failed to solve them, the Statism of the twentieth century has created no less great problems, and with results no less dangerous to the general welfare.

What by and large is the significance of State industry, or of economic planning, which is much the same thing? It means the abolition of competition between different enterprises, monopoly of each branch of production by a trust or cartel, or a State commissariat or department. The name does not much matter.

Monopoly has always been considered the least efficient method of conducting industry and commerce. It gets into a rut, and lacks all stimulus

to improvement of method and technique. It impedes the application of invention and is not willing to take the risk of experiment. It destroys the only effective check to errors of management—comparison with the results of similar enterprises under different control, revealed by costs and prices.

Monopoly almost inevitably leads to the growth of a useless bureaucracy within the monopolised industry, to the excusal of inefficiency, to the attainment of success by political or other influence, to poor quality and high prices.

These results arise from monopoly itself, and not from the ill-doing of this person or the other whom the government or the press or public opinion seize upon as scapegoats.

The same results follow whether the structure of the monopolist industrial system is nazi, or bolshevist, or democratic; whether the directors of the monopoly are Wall Street bankers, or officials of a Ministry of Economic Planning or Comrade Commissioners of the People.

### "COSTLESS CREDIT"

[Reprinting, with acknowledgments, Mr. Oscar Hobson's article in the "News Chronicle," September 11th.]

One of the most effective answers I have yet seen to the "costless credit" cranks was made by Mr. Ilsley, the Canadian Minister of Finance, in a speech delivered during the recent debate on amendments to the Canadian Bank Act.

The debate ranged far and wide beyond the field of practical banking and into the rarefied atmosphere of banking and currency theory. That is hardly to be wondered at in Canada, the country where Social Credit theory was first, and probably last, put into practical application.

Mr. Ilsley pointed out that they had heard so much talk in recent years about the "ten to one ratio" and so much propaganda about "fountain pen money," that some people had come to believe that it cost banks little or nothing to carry on their operations; that banking was a very simple business, concerned almost entirely with holding a fountain pen upside down and letting the ink run, and that, of course, the banks must be making enormous profits. He expressed surprise that members of the Social Credit Party should still argue on these lines, because, as he pointed out, they at least should be familiar with the public accounts of the province of Alberta, and in particular with the Department of the Treasury which operated Deposit Accounts. These accounts showed that for 1942-43 the banking activities of this Social Credit Province were run at a loss of about \$390,000.

Far from being a costless function, this banking business was run at a cost of about 5.3 per cent. on the total amount of money deposited. It is perhaps unfair to take the experience of

If for a time the monopolist system appears to yield brilliant results it owes its success to the initial impetus of revolutionary fanaticism. This social temper cannot be long maintained. A Stalin, for example, is an infrequent phenomenon in the history of nations. Julius Cæsar and Augustus were geniuses of great achievement in the days of Imperial Rome; their heirs were Claudius, Nero and Caligula.

My hope and my belief is that the world will learn in time the economic and political evils of Statism into which all countries are hastening. A new liberalism which will harmonise the truths of socialism and of individualism will rise and open new paths for humanity. This new liberalism must be based on the principles of the Prophet of San Francisco as his genius expounded them in *Progress and Poverty* and in *Protection or Free Trade*. The necessary foundation of social reform is to be found in the teaching of Henry George.

(Translation of article by OSVALDO FERNANDEZ VIDAL in *Nueva Argentina*, Buenos Aires.)

the Province of Alberta as typical of the cost of banking operations. The Canadian chartered banks, although private enterprises, can do rather better than this, but even in their case the creation and operation of credit is hardly a costless function.

Mr. Ilsley gave a very detailed statement of the operating earnings and expenses of these banks, both for the average of the years 1929 to 1943 and also for the year 1943 alone. Let me quote some of the average figures for the past 15 years.

The operating earnings of the Canadian banks in this period averaged about \$138,000,000, of which more than half represented interest and discount on loans. The operating expenses amounted to about \$112,000,000, of which \$36,000,000 represented interest on deposits, \$43,000,000 remuneration to employees and \$11,000,000 provision for taxes. The ratio of operating earnings to total assets was 4.02 per cent. and that of operating expenses to total assets 3.26 per cent.

Incidentally, for the year 1943 alone that margin, out of which the capital has to be remunerated, and provision made for bad debts, was narrower still. In that year the earnings amounted to 2.86 per cent. on total assets and expenses to 2.28 per cent. In other words, the operating margin on which the banks have to work in Canada is so thin as to suggest that there is something wrong with the "fountain pen" or costless credit theory. The dividends paid to shareholders in the 15 years average only 4.6 per cent. of the total shareholders' equity, a figure which effectively absolves the Canadian banks from the charge of profiteering out of their alleged monopoly of credit creation. What applies to Canadian banks is in rough measure true of the British banking system.