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THE ANNUAL MEETING OF THE ROYAL ECONOMIC SOCIETY

THE forty-third annual meeting of the Royal Economic Society was held at the London School of Economics on May 25, 1933: the President (Professor Edwin Cannan) being in the chair. The meeting was largely attended.

The accounts for 1932 were received and approved. The Secretary reported that 429 new Fellows and Library Members had been elected during the year, bringing the total membership of the Society to 4,374 as compared with 4,323 at the end of 1931, 2,875 five years ago and 694 in 1914. The officers and Council of the Society were elected for the current year, Professor Cannan being re-elected President of the Society for a second term.

Before the transaction of the above business, the President read the following address on *The Need for Simpler Economics*:—

THE NEED FOR SIMPLER ECONOMICS

IT is rash for one of my generation to pass any judgment on the elaborate economic theory which is now being taught to the young, for we do not understand it. Without too trustfully accepting the *ignotum pro magnifico*, we must hope for the best. But we may perhaps be permitted to point out and deplore the fact that the almost complete absorption of the younger teachers in making what they rightly or wrongly believe to be important advances in the higher branches of theory is leaving the public at the mercy of quacks. Surely out of the large accessions to the ranks of professional economists which have taken place in recent years, a substantial force might be spared to assist common sense to grasp the bare elements of economic science, without a knowledge of which democracies and dictators alike are bound to make the most grotesque blunders.

It is no use to say that the bare elements are so simple and obvious that there is little to be said about them, and that this little has been said so well and so many times that it can do no good to say it over again. In fact, most of the simplest things in economics have never been put in such a way as to carry conviction to the mind of the sort of person who is in the great majority of every public, and the blame is not altogether to be put on his feeble mind, but in large measure on the unnecessarily complicated expositions offered by the economists.

I propose to-day to discuss only two of the innumerable examples of the mischief caused by the failure of the economists to explain simple things so that they can be understood by the people. One is the mischief caused by the worship or undue glorification of agriculture, and the other that caused by the similar worship or undue glorification of exports.

One of the simplest generalisations of elementary economics is that the greater command over natural forces which marks economic progress is necessarily coincident with a decline in the proportion of our time which we are obliged to devote to the production of the necessaries of life. As we progress, we can give more and more time to the satisfaction of our more refined wants, which are very elastic, because we need give less and less to the satisfaction of the more elementary and coarse wants which we share with the beasts of the field, the birds of the air and even the worms which drag down rotten leaves to their larder, and the maggots which enjoy putrid flesh. "The desire of food," as Adam Smith said, "is limited in every man by the narrow capacity of the human stomach; but the desire of the conveniencies and ornaments of building, dress, equipage, and household furniture, seem to have no certain boundary." In the hundred and sixty years since his time we have discovered many wants which are even more elastic than those which he thought of, and the human stomach is no wider, though the tongue may be a little more dainty.

Just now there is more need than there has been in recent centuries for attention to this generalisation, because the increase of population in the civilised world is slackening, so that the number of stomachs threatens to become as stationary as their individual capacity, while at the same time the application of machinery and science to agriculture has been increasing its productiveness faster than usual.

Eighteenth-century thinkers like Paley, believing in the desirability of indefinite multiplication of the human species, might well have deplored this state of things, and have said that we were neglecting our opportunities by not producing as many persons as could be given what they called a "healthy subsistence," but we, who rightly or wrongly, believe that *homo sapiens* with bathroom h. & c., wireless and aeroplane, is something better than the healthiest gorilla, have no reason to complain.

Yet what do we find? All over the civilised world more talk than ever of the "decay" and impending "ruin" of agriculture, not because agriculture is failing in its task of providing food and many materials for manufacture, but because it is succeeding so well that the price of its products does not suffice to pay agriculturists as much as other producers are able to earn. This is a state of things which certainly calls for a remedy, and the true remedy clearly is to allow the relative poorness of remuneration to work out its own cure by the repressing influence which it will exert on the number of agriculturists. After all, it is by this kind of pressure all round that people are driven to produce what is wanted in something approximating to the right proportions. If people could produce as many golf-balls as they liked without reducing the price, we should be snowed under by golf-balls. By the fall of price as more is produced, the production of each thing is restrained to a reasonable amount. But instead of allowing agriculture to come under this very salutary regulation, all civilised countries, or at any rate all those about which I know anything, are engaged in strenuous efforts to "do something for agriculture."

In our own and in other "old" countries the "something" takes the form of subsidies and exemptions from taxes, while in some of the "new" countries it appears in the restriction of cultivation and the burning of crops already harvested. To grow crops and then burn them is idiotic, to restrict production by law is cumbrous and ineffective compared with allowing it to be restricted by low price, but neither of these plans is stupider than the subsidisation policy, which only tends to put more of the product on the market and thereby to cheapen it still further.

Economists have no right to wash their hands of the matter and say it is not their fault that the mind of the public is an Augean stable. It is their job to cleanse it, and they have had two hundred years to do it in. By this time they ought to have convinced the public that the fact that an industry produces a necessary of life, and is therefore in one sense an "important" industry, does not mean that expansion of its produce beyond a very definite limit is desirable. It may be urged, indeed, that, so far from cleansing the stable, the economists have really brought more dirt into it by giving the public the impression that agriculture is particularly liable to what they call the "law of

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diminishing returns." What exactly they mean differs from author to author, and is not of much importance to our present purpose, but whatever it is has certainly helped to prevent the public from properly appreciating the fact that enormous improvements have taken place in the productiveness of agricultural industry, are still taking place, and are likely to take place at an even more rapid rate in the future. Failure to appreciate this fact has had much to do with the persistence of incapacity to realise that a decline in the relative or even in the absolute number of agriculturists is a sign of progress rather than of economic decay.

Of course recognition of the fact that there is a limit to the desirable expansion of the production in every industry is inherent in the theory of marginal utility, but that theory has never made much way among the general public, simple as it is, because instead of being expressed in plain language understood by the people, it has been treated as a classroom plaything to be illustrated by lines and curves on a blackboard, which, like the stone and wooden idols of the more degraded religions, come to be revered for themselves rather than for the things they were originally intended only to represent.

Someone may object that there is no worship of agriculture as a whole, and say the trouble is that each country wants to get more agriculture by diminishing the amount of agriculture in other countries rather than by increasing the whole amount. That is not, however, the whole truth and nothing but the truth, since it is quite certain that even if there were only one "country" in the world, that single country would still, in the present state of thought—or of whatever is mistaken for thought—be quite unduly solicitous about its agriculture. But even if it were true that anxiety about agriculture is not anxiety about agriculture in general, but only anxiety of particular countries lest their domestic agriculture should be reduced or extinguished by imports from abroad, that would make it a special case under my second heading, the worship of exports, to which I now proceed.

I scarcely suppose that anyone here will be inclined to deny that exportation of commodities is generally regarded by the populace as good, and importation as evil. The public realises in an obscure fashion that when individuals are trading with one another, each of them wants to get as much as possible for his products; his object is to get as much as possible with as little as possible expenditure of time and labour. But when they consider themselves as a whole, trading with persons outside their boundary, the individuals in each country seem to lose sight of this entirely, and to imagine that the object of bargaining is to give, and not to get. They groan dismally if it appears that they are paying an unusually low price for what they buy from abroad and getting an unusually high price for what they sell to persons abroad, and if some exceptionally sane person ventures to point out that this means that they are receiving a larger volume of imports in exchange for a smaller volume of exports, they are reduced to utter despair. And if some foreign country suffering from the same strange delusion as themselves, that a good bargain consists in giving much and getting little, proposes to tax itself in order to give them something at a lower price, they regard this as a most unfriendly action, and take immediate steps to prevent the intention being carried out.

In their view the perfection of economic happiness would be attained by a country which exported large quantities of all kinds of commodities and received nothing whatever in return. Some approximation to this state is reached by countries which have got to pay huge amounts of reparations, since though they may be bound to pay gold, they buy the gold with the sweat of their brow translated into exports, and it is true that these countries do not seem to enjoy their position, and it is also true that the countries which have reparations and interest on war-debts to receive, do not seem very anxious to give them up, but this is not the result of reasoning, but only of healthy instinct. The sub-intelligentsia which tries to do the reasoning of the nations, holds that it is only the stupidity of "Kansas farmers" and the perverted self-interest of Ministers of Finance which stand in the way of a general recognition of the doctrine that if it is not exactly blessed to pay reparations, it is at any rate blank ruin to receive them.

Probably in modern times the principal support of this love of exports and hatred of imports lies in the popular belief that exports "give employment" to and imports take it away from the people of the country. The belief is not confined to the case of countries politically separated by having different governments and fiscal systems. It is held by the populace just as strongly in regard to towns and all other local divisions; the only reason we hear so little of it except in regard to countries is that inside the same country the taking away of employment from one area and giving it to another is seen to be at work in both directions. If Lancashire cotton goods are imported into Yorkshire, and that deprives Yorkshire of the employment of producing cotton goods for Yorkshire consumption, nobody deplores the sad case of Yorkshire, because everyone sees that Lancashire is getting the employment of which Yorkshire is deprived, and most people can see that if Yorkshire complained of loss of employment in cotton manufacture, Lancashire could equally complain of loss of employment in woollen manufacture, so that, from the point of view of the whole country, the complaints would cancel out. But if Lancashire and Yorkshire were two different countries, this cancelling out would not take place, because Lancashire would treat the loss of employment in Yorkshire with complete indifference if not with some satisfaction, and Yorkshire would feel the same about the loss of employment in Lancashire. Each country, looking on the question from its own point of view, and believing that exports give employment and imports take it away, tries greedily to export and not to import, regardless of the influence of its policy upon other countries.

If we are to wait for a time when international feeling will be altruistic enough to make loss of employment abroad weigh as much as gain of employment at home, the youngest of us will be dead. What is required is a much more simple, vigorous, and convincing exposition of the fact that employment is only a means to the attainment of an end, which is the acquisition of goods and services, and that we trade with foreigners, as we trade with those whom we serve and those who serve us at home, not to give ourselves employment, but in order to get the things and services which we want more easily—cheaper, if you like—than if we produced them for ourselves.

Of late the love of exports and hatred of imports have found new support in the modern Balance of Trade theory, which would wilt away very quickly under the sunshine of simpler economics. This theory is sometimes spoken of as a revival of the Mercantile System, but that is a libel on the Mercantile System. The mercantile scheme was directed towards getting a net importation of gold and silver, and however absurd the ideal of an indefinite accumulation of those metals in a country may be, the fact remains that a store of them had some utility, and also a permanent value which could on occasion be turned to account in purchasing anything really wanted from abroad. But what the degenerate imitators of the old balance-of-trade theorists want, is nothing so sensible as a net importation of gold or anything else, but a continuous net exportation of capital. Whether interest and dividends on the capital so lent or invested abroad are paid or not they do not greatly care, since if they are not paid, it will be all the easier to keep the imports below the exports. If there is a net exportation of capital, the balance of trade or payments is said to be " favourable," and if there is a net importation it is said to be " unfavourable " or " adverse," and in the " old " countries at least there is no pretence that these terms are to be understood in a Pickwickian sense; the " favourable " balance is distinctly held up as something to aim at and rejoice over when attained, and the " adverse " balance as something to be avoided and to be deplored when it occurs.

The old and the new theories of good and bad balances in foreign transactions have much in common. They both have their fetishes and their bogies. The fetish of the old is a net importation of precious metal, and its bogey a net exportation of such metal; the fetish of the new theory is a net exportation of capital and its bogey a net importation of capital. They are alike in proposing to satisfy their fetish and avoid their bogey in a way which shows that their exponents have been induced by the word " balance " to fall into a confusion between equation and causation.

The fetish of an indefinite accumulation of gold and silver was ridiculed by Hume and Adam Smith a century and a half ago; and the bogey of " losing " a good national currency or having it " drained away " was properly dealt with by the monetary writers of rather more than a century ago. But the countries which remain on the gold standard still fear that their hoarded gold is being lost or drained away if they see it being exchanged in any large quantity for other goods, or even used for the repayment of their debts, and so on every emergency they sit tight on it like the fraudulent bankrupts they are. Such weakening as is actually manifest in the position of the old fetish and the old bogey is due not so much to the arguments of the economists, which have never really penetrated the public mind, as to the abandonments of the gold standard which have been caused by the superstition of gold-worshippers. When a country is once on a paper standard, it becomes very difficult to be afraid of foreigners robbing it of its currency. Almost anyone can see that a paper currency does not get taken out of a country in large quantities to be held abroad, except on the rare occasions when the foreigners have a stronger belief than the people of the country that the value of the currency will rise, and almost anyone can also see that when this does happen the foreigners are usually wrong, so that the people of the country eventually profit by the transaction. The Germans certainly had no need to grudge the foreign speculators the milliards of marks which those misguided persons acquired in the years before 1924 under the impression that " the mark was so low that it was sure to go up " !

Moribund from whatever causes, the old fetish and bogey are being replaced by the new, which are no better in themselves, and are perhaps more difficult to exorcise because they are less clearly conceived. They have worshippers all over the world, and no doubt have had different origins in different countries. I am a little afraid that if Rhadamanthine justice is ever executed on us economists, I may get a stripe or two for having been a passive spectator at their birth in this country, instead of promptly endeavouring to smother them before they got into their cradle. Some twenty years ago, in temporary buildings on this very site, I was official supervisor of Mr. C. K. Hobson when he was writing his doctoral thesis on the *Export of Capital*, and—I say it with all the shame that is due—I failed to see and warn him that he was quite innocently and unconsciously conjuring up a new " balance " as misleading as the old. Not from any misapprehension, but simply because data for estimating the export of capital were even more meagre than those for estimating most of the other items in the account between people in the United Kingdom and people outside it, he reckoned up all the other items first, and got at the probable amount of the net export of capital as the difference between the two sides of the account as added up before the inclusion of import and export of capital. This, of course, was a purely statistical device of apparently the most harmless kind. If you know all but one of the items in an account of which the two sides are known to be equal, what more natural than to discover the amount of the missing item by the easy arithmetical process called subtraction? How was Mr. Hobson or I to know that the Board of Trade's adoption of the method a few years later would lead to the amount in question being generally regarded as a " balance " which must be either " in favour " of the country or " unfavourable " or " adverse " to it, like a customer's balance at his bank, and that, too, when the customer is not a business man who may borrow to make a profit, but an old woman who is living on her income from investments and to whom an overdrawn bank account is a sign of over-spending? Yet that is what actually happened, culminating—at least, I hope it culminated, but one never knows what heights of absurdity may be reached—culminating, I say provisionally, during the panic of the summer of 1931, when statesmen of the highest reputation for sobriety of thought went about declaring that the net importation of a few millions of capital must indicate that we were "spending beyond our means," "living on our capital," and " rushing inevitably towards national bankruptcy."

In the old countries the more benighted of the alarmists, talking in this way, completely overlook the fact that capital can be and is accumulated at home as well as invested abroad, and therefore imagine that if no net foreign investment is being made, accumulation has ceased, and that if foreign investments are being realised and the proceeds brought home, this shows that the national capital is being consumed. The less besotted, without going so far as that, think of the decline of foreign investment and its conversion into a minus quantity as a sign of at any rate *diminished* accumulation. They therefore have no hesitation in applying the old terms, "favourable," and "unfavourable," "adverse," or "against," not in a conventional sense, but in the sense in which they are equivalent to desirable and undesirable, just as the adherents of the older balance-of-trade theory used to apply them. In the new countries, more familiar with the importation of capital than with its exportation, the terms "favourable" and "unfavourable" seem to alarmists appropriate in this natural sense, because they regard importation of capital as "running into debt" (a thing of which most people have a horror) rather than as "raising capital" (which is highly respectable). In both classes of country the alarmists fail to see that whether it is desirable that the movement of capital should be inwards or outwards depends on the relation of home to foreign conditions. The so-called "favourable" balance may perfectly well be a sign of disastrous prospects at home and bright prospects abroad, and the so-called "unfavourable" balance a sign of expected disaster abroad and prosperity at home.

But this is not the worst of the muddle. The term "balance" itself, though it looks so respectable, applied to this item in the international trade account, is wickedly misleading. We are accustomed to think of the balance—that is, the balancing amount—in an account as not an independent item with its own special causes of increase and decrease, but as, so to speak, the passive result of the other items. The other items when put together produce it. For example, we compare our expenditure with our income, and if the income is the greater, we regard the difference as a balance which is the *consequence* of our having spent more or less than our income; we never dream of saying that the bigness of the balance has caused us to spend less. According to the old balance-of-trade theory, the net importation of precious metal was a balance of this kind. Its magnitude was not settled by the amount which the inhabitants of the country were willing to give goods and services for at a rate satisfactory to the people outside who had gold and silver to dispose of, but was settled quite incidentally by the other items. The disastrous result of this mistake was that the politicians became persuaded that in order to get a net importation of precious metal they must undertake the regulation of all the other imports and exports so as to make the exports exceed the imports, and more than two centuries of absurd attempts to secure this end by fostering exports and discouraging imports followed.

Under the influence of the new balance-of-trade theory, just the same blunder has been made. Because the new balance was called a balance, the politicians of each country have been persuaded that it is not an independent item, but the mere arithmetical consequence of the other items, so that in order to get it they must do just what the adherents of the old theory did—that is, foster exports and discourage imports.

After long experience of the old dispensation, the more intelligent part of the world seemed to have learnt that if a country wanted precious metal, and was willing and able to pay for it, its ability and willingness to pay would immediately alter the other items in the trade account, so that the required balance would appear. Apparently every country, as represented by its government, has yet to learn, what is equally true, and one would think even more obvious, that how much a country invests abroad or borrows from abroad is not the passive result of the comparative magnitude of the other items in the international account, and that if there are reasons for change in it, that will cause the necessary changes in the other items. To give the simplest possible example, which is, or used to be, well known to the most elementary students, any wave of optimism about foreign investment compared with home investment will cause a rise of exports as compared with imports.

I admit that the world's present blindness is due in part to the dislike of reparations and repayment of war debts which not only exists all over the countries which are asked to pay, but is also felt elsewhere by all humane and sensible people, who recognise that international goodwill is worth more than tons of gold. Dislike of the payments has led to groundless asseverations of inability to pay, and these have often been founded on the childish proposition that there was no surplus of exports over imports out of which to pay. Childish, I call it, because it ought to be perfectly obvious to any grown-up person that if there is at the moment no such surplus, the payment will *make* one. When the Romans wanted the Egyptians to send them a tribute of corn for their dole, they did not ask whether the Egyptians had an export surplus or not; they made them have one. If they had demanded not corn, but enough Egyptian paper money to buy that amount of corn, the export surplus would have appeared just as well, since to be of any use the Egyptian paper would have to be sent back to buy something from Egypt. And if the Romans had demanded the tribute in gold, of which the Egyptians had little or none, the demand would still have produced an export surplus, because the Egyptians would not have been able to get the required gold without offering exports for it. Moreover, if the Egyptians, when paying a half-year's tribute in gold, had alleged that they would not be able to pay any more such amounts because the Romans locked up the gold, and then in the next six months the Egyptian Government and their bank accumulated enough gold to pay a whole year's tribute, I think the Romans would have rightly regarded the Egyptians as very poor diplomatists and bigger liars than the Cretans.

But though dislike of tribute may have prejudiced millions against sound theory, and may also account for some of the silence of reputable contemporary economists, it must be a much weaker force in the long run than the prime mistake of the economists, from Ricardo downwards, in trying to make a special theory of international trade separate and different from the theory of trade within a single country. We want not excuses for, but an entire abandonment of Ricardo's monstrous assertion in his text that "the labour of one hundred Englishmen cannot be given for that of eighty Englishmen," and a frank acceptance of his better advised footnote in which what was afterwards christened "the law of comparative cost" is applied to the division of employments inside a country as well as between countries. We want an entire abandonment of the stupid insistence on international trade being "virtually barter"; of course, all trade is "virtually barter" when you drop the intervening money out of the picture and think only of persons producing one set of goods and services for other people and receiving another set from them in exchange. It is the intervention of money which turns barter into selling and buying, and far from eliminating money, international trade usually involves the intervention of not only one money, but two different moneys. And, above all, we want to get rid of the confusing assumption that the inhabitants of a country, continually changed by deaths and births and by migration, are just like a perpetual corporation.

It is not for me, born in 1861, to tell the present generation how further to simplify the subject. If I had known how to popularise sound economics, I should have done it long ago in the time which I have had. It is now the job for some of you, and a job of enormous importance. All countries are trying, with considerable success, to reduce their imports by tariffs, and when they do not succeed as quickly as they would like, they resort to quotas and prohibitions. Many of them subsidise some of their exports, often doing it by indirect and concealed methods not for fear that their own people may object to giving gifts to the foreigners, but because they fear that the foreigner will destroy the effect of their subsidies by imposing import duties or embargoes. When by these operations they have reduced imports and exports alike without making much difference to what they call the balance of trade, each of them tries to effect its purpose by depreciating its own currency, not with the laudable object of reversing a tendency of that currency to appreciate in purchasing power, but in order to win an imaginary advantage over its competitors. Having by these means thrown international trade into dire confusion and greatly reduced its amount, they waste the capital of their taxpayers by spending scores of millions of borrowed money in buying foreign exchange and gold, in order, as their Finance Ministers explain, to counteract the wicked speculators whom they believe to cause violent fluctuations by buying their currency when it is low and selling it when it is high !

You may say you know all this, and that I ought to apologise for drawing your attention once more to the putrid, stinking mass. I do apologise to those who are really helpless in the matter, if any such are here. But I do not apologise to the others, but appeal to them to do more than they are doing to make economic organisation understood by the people. I appeal especially to the younger teachers to consider what sort of future they can look forward to if the popular English newspapers continue to get their readers to believe that at one and the same time the pound sterling may be worth twenty-twentieths of itself in London and Lisbon, thirty-one twentieths in Madrid, and only fourteen twentieths in Paris. Do not let them simply hold their noses and avert their eyes from the disgusting mess and run back to find peace and contentment in neat equations and elegant equilibria.

EDWIN CANNAN