

INFLATION AND DEFLATION

I. INFLATION (1919)

LENIN is said to have declared that the best way to destroy the Capitalist System was to debauch the currency. By a continuing process of inflation, Governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens. By this method they not only confiscate, but they confiscate *arbitrarily*; and, while the process impoverishes many, it actually enriches some. The sight of this arbitrary rearrangement of riches strikes not only at security, but at confidence in the equity of the existing distribution of wealth. Those to whom the system brings windfalls, beyond their deserts and even beyond their expectations or desires, become "profiteers," who are the object of the hatred of the bourgeoisie, whom the inflationism has impoverished, not less than of the proletariat. As the inflation proceeds and the real value of the currency fluctuates wildly from month to month, all permanent relations between debtors and creditors, which form the ultimate foundation of capitalism, become so utterly disordered as to

be almost meaningless; and the process of wealth-getting degenerates into a gamble and a lottery.

Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of Society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose.

In the latter stages of the war all the belligerent Governments practised, from necessity or incompetence, what a Bolshevist might have done from design. Even now, when the war is over, most of them continue out of weakness the same malpractices. But further, the Governments of Europe, being many of them at this moment reckless in their methods as well as weak, seek to direct on to a class known as "profiteers" the popular indignation against the more obvious consequences of their vicious methods. These "profiteers" are, broadly speaking, the entrepreneur class of capitalists, that is to say, the active and constructive element in the whole capitalist society, who in a period of rapidly rising prices cannot but get rich quick whether they wish it or desire it or not. If prices are continually rising, every trader who has purchased for stock or owns property and plant inevitably makes profits. By directing hatred against this class, therefore, the European Governments are carrying a step further the fatal process which the subtle mind

of Lenin had consciously conceived. The profiteers are a consequence and not a cause of rising prices. By combining a popular hatred of the class of entrepreneurs with the blow already given to social security by the violent and arbitrary disturbance of contract and of the established equilibrium of wealth which is the inevitable result of inflation, these Governments are fast rendering impossible a continuance of the social and economic order of the nineteenth century. But they have no plan for replacing it.

2. SOCIAL CONSEQUENCES OF CHANGES IN THE VALUE OF MONEY (1923)

Money is only important for what it will procure. Thus a change in the monetary unit, which is uniform in its operation and affects all transactions equally, has no consequences. If, by a change in the established standard of value, a man received and owned twice as much money as he did before in payment for all rights and for all efforts, and if he also paid out twice as much money for all acquisitions and for all satisfactions, he would be wholly unaffected.

It follows, therefore, that a change in the value of money, that is to say in the level of prices, is important to Society only in so far as its incidence is unequal. Such changes have produced in the past, and are producing now, the vastest social consequences, because, as we all know, when the value of money changes, it does *not* change equally for all persons or for all purposes. A man's receipts and his outgoings are not all modified in one uniform proportion. Thus a change in prices and rewards, as measured in money, generally affects different classes unequally, transfers wealth from one to

another, bestows affluence here and embarrassment there, and redistributes Fortune's favours so as to frustrate design and disappoint expectation.

The fluctuations in the value of money since 1914 have been on a scale so great as to constitute, with all that they involve, one of the most significant events in the economic history of the modern world. The fluctuation of the standard, whether gold, silver, or paper, has not only been of unprecedented violence, but has been visited on a society of which the economic organisation is more dependent than that of any earlier epoch on the assumption that the standard of value would be moderately stable.

During the Napoleonic Wars and the period immediately succeeding them the extreme fluctuation of English prices within a single year was 22 per cent; and the highest price level reached during the first quarter of the nineteenth century, which we used to reckon the most disturbed period of our currency history, was less than double the lowest and with an interval of thirteen years. Compare with this the extraordinary movements of the past nine years. From 1914 to 1920 all countries experienced an expansion in the supply of money to spend relatively to the supply of things to purchase, that is to say *Inflation*. Since 1920 those countries which have regained control of their financial situation, not content with bringing the Inflation to an end, have con-

tracted their supply of money and have experienced the fruits of *Deflation*. Others have followed inflationary courses more riotously than before.

Each process, Inflation and Deflation alike, has inflicted great injuries. Each has an effect in altering the *distribution* of wealth between different classes, Inflation in this respect being the worse of the two. Each has also an effect in overstimulating or retarding the *production* of wealth, though here Deflation is the more injurious. The division of our subject thus indicated is the most convenient for us to follow,—examining first the effect of changes in the value of money on the distribution of wealth with most of our attention on Inflation, and next their effect on the production of wealth with most of our attention on Deflation.

(A) CHANGES IN THE VALUE OF MONEY,
AS AFFECTING DISTRIBUTION

(i) *The Investing Class*

Of the various purposes which money serves, some essentially depend upon the assumption that its real value is nearly constant over a period of time. The chief of these are those connected, in a wide sense, with contracts for the *investment of money*. Such contracts—namely, those which provide for the payment of fixed sums of money over a long period of time—are the characteristic of what it is convenient to call

the *Investment System*, as distinct from the property system generally.

Under this phase of capitalism, as developed during the nineteenth century, many arrangements were devised for separating the management of property from its ownership. These arrangements were of three leading types: (1) Those in which the proprietor, while parting with the management of his property, retained his ownership of it—*i.e.* of the actual land, buildings, and machinery, or of whatever else it consisted in, this mode of tenure being typified by a holding of ordinary shares in a joint-stock company; (2) those in which he parted with the property temporarily, receiving a fixed sum of *money* annually in the meantime, but regained his property eventually, as typified by a lease; and (3) those in which he parted with his real property permanently, in return either for a perpetual annuity fixed in terms of money, or for a terminable annuity and the repayment of the principal in money at the end of the term, as typified by mortgages, bonds, debentures, and preference shares. This third type represents the full development of *Investment*.

Contracts to receive fixed sums of money at future dates (made without provision for possible changes in the real value of money at those dates) must have existed as long as money has been lent and borrowed. In the form of leases and mortgages, and also of permanent loans to Governments and to a few

private bodies, such as the East India Company, they were already frequent in the eighteenth century. But during the nineteenth century they developed a new and increased importance, and had, by the beginning of the twentieth, divided the propertied classes into two groups—the “business men” and the “investors”—with partly divergent interests. The division was not sharp as between individuals; for business men might be investors also, and investors might hold ordinary shares; but the division was nevertheless real, and not the less important because it was seldom noticed.

By this system the active business class could call to the aid of their enterprises not only their own wealth but the savings of the whole community; and the professional and propertied classes, on the other hand, could find an employment for their resources, which involved them in little trouble, no responsibility, and (it was believed) small risk.

For a hundred years the system worked, throughout Europe, with an extraordinary success and facilitated the growth of wealth on an unprecedented scale. To save and to invest became at once the duty and the delight of a large class. The savings were seldom drawn on, and, accumulating at compound interest, made possible the material triumphs which we now all take for granted. The morals, the politics, the literature, and the religion of the age joined in a grand conspiracy for the promotion of saving. God and Mammon were

reconciled. Peace on earth to men of good means. A rich man could, after all, enter into the Kingdom of Heaven—if only he saved. A new harmony sounded from the celestial spheres. "It is curious to observe how, through the wise and beneficent arrangement of Providence, men thus do the greatest service to the public, when they are thinking of nothing but their own gain";¹ so sang the angels.

The atmosphere thus created well harmonised the demands of expanding business and the needs of an expanding population with the growth of a comfortable non-business class. But amidst the general enjoyment of ease and progress, the extent to which the system depended on the stability of the money to which the investing classes had committed their fortunes, was generally overlooked; and an unquestioning confidence was apparently felt that this matter would look after itself. Investments spread and multiplied, until, for the middle classes of the world, the gilt-edged bonds came to typify all that was most permanent and most secure. So rooted in our day has been the conventional belief in the stability and safety of a money contract that, according to English law, trustees have been encouraged to embark their trust funds exclusively in such transactions, and are indeed forbidden, except in the case of real estate (an exception which is itself

¹ *Easy Lessons on Money Matters for the Use of Young People.* Published by the Society for Promoting Christian Knowledge. Twelfth Edition, 1850.

a survival of the conditions of an earlier age), to employ them otherwise.¹

As in other respects, so also in this, the nineteenth century relied on the future permanence of its own happy experiences and disregarded the warning of past misfortunes. It chose to forget that there is no historical warrant for expecting money to be represented even by a constant quantity of a particular metal, far less by a constant purchasing power. Yet Money is simply that which the State declares from time to time to be a good legal discharge of money contracts. In 1914 gold had not been the English standard for a century or the sole standard of any other country for half a century. There is no record of a prolonged war or a great social upheaval which has not been accompanied by a change in the legal tender, but an almost unbroken chronicle in every country which has a history, back to the earliest dawn of economic record, of a progressive deterioration in the real value of the successive legal tenders which have represented money.

Moreover, this progressive deterioration in the value of money through history is not an accident, and has had behind it two great driving forces—the impecuniosity of Governments and the superior political influence of the debtor class.

The power of taxation by currency deprecia-

¹ German trustees were not released from a similar obligation until 1923, by which date the value of trust funds invested in titles to money had entirely disappeared.

tion is one which has been inherent in the State since Rome discovered it. The creation of legal tender has been and is a Government's ultimate reserve; and no State or Government is likely to decree its own bankruptcy or its own downfall so long as this instrument still lies at hand unused.

Besides this, as we shall see below, the benefits of a depreciating currency are not restricted to the Government. Farmers and debtors and all persons liable to pay fixed money dues share in the advantage. As now in the persons of business men, so also in former ages these classes constituted the active and constructive elements in the economic scheme. Those secular changes, therefore, which in the past have depreciated money, assisted the new men and emancipated them from the dead hand; they benefited new wealth at the expense of old, and armed enterprise against accumulation. The tendency of money to depreciate has been in past times a weighty counterpoise against the cumulative results of compound interest and the inheritance of fortunes. It has been a loosening influence against the rigid distribution of old-won wealth and the separation of ownership from activity. By this means each generation can disinherit in part its predecessors' heirs; and the project of founding a perpetual fortune must be disappointed in this way, unless the community with conscious deliberation provides against it in some other way, more equitable and more expedient.

At any rate, under the influence of these two forces—the financial necessities of Governments and the political influence of the debtor class—sometimes the one and sometimes the other, the progress of inflation has been *continuous*, if we consider long periods, ever since money was first devised in the sixth century B.C. Sometimes the standard of value has depreciated of itself; failing this, debasements have done the work.

Nevertheless it is easy at all times, as a result of the way we use money in daily life, to forget all this and to look on money as itself the absolute standard of value; and when, besides, the actual events of a hundred years have not disturbed his illusions, the average man regards what has been normal for three generations as a part of the permanent social fabric.

The course of events during the nineteenth century favoured such ideas. During its first quarter, the very high prices of the Napoleonic Wars were followed by a somewhat rapid improvement in the value of money. For the next seventy years, with some temporary fluctuations, the tendency of prices continued to be downwards, the lowest point being reached in 1896. But while this was the tendency as regards direction, the remarkable feature of this long period was the relative *stability* of the price level. Approximately the *same* level of price ruled in or about the years 1826, 1841, 1855, 1862, 1867, 1871, and 1915. Prices were also level in the years 1844, 1881, and 1914.¹ If we

¹ [And again, it is now possible to add, in 1931.]

call the index number of these latter years 100, we find that, for the period of close on a century from 1826 to the outbreak of war, the maximum fluctuation in either direction was 30 points, the index number never rising above 130 and never falling below 70. No wonder that we came to believe in the stability of money contracts over a long period. The metal *gold* might not possess all the theoretical advantages of an artificially regulated standard, but it could not be tampered with and had proved reliable in practice.

At the same time, the investor in Consols in the early part of the century had done very well in three different ways. The "security" of his investment had come to be considered as near absolute perfection as was possible. Its capital value had uniformly appreciated, partly for the reason just stated, but chiefly because the steady fall in the rate of interest increased the number of years' purchase of the annual income which represented the capital.¹ And the annual money income had a purchasing power which on the whole was increasing. If, for example, we consider the seventy years from 1826 to 1896 (and ignore the great improvement immediately after Waterloo), we find that the capital value of Consols rose steadily, with only temporary set-backs, from 79 to 109 (in spite of Goschen's conversion from a 3 per cent rate to a $2\frac{3}{4}$ per cent rate in 1889 and a $2\frac{1}{2}$ per

¹ If, for example, the rate of interest falls from $4\frac{1}{2}$ per cent to 3 per cent, 3 per cent Consols rise in value from 66 to 100.

cent rate effective in 1903), while the purchasing power of the annual dividends, even after allowing for the reduced rates of interest, had increased 50 per cent. But Consols, too, had added the virtue of stability to that of improvement. Except in years of crisis Consols never fell below 90 during the reign of Queen Victoria; and even in '48, when thrones were crumbling, the mean price of the year fell but 5 points. Ninety when she ascended the throne, they reached their maximum with her in the year of Diamond Jubilee. What wonder that our parents thought Consols a good investment!

Thus there grew up during the nineteenth century a large, powerful, and greatly respected class of persons, well-to-do individually and very wealthy in the aggregate, who owned neither buildings, nor land, nor businesses, nor precious metals, but titles to an annual income in legal-tender money. In particular, that peculiar creation and pride of the nineteenth century, the savings of the middle class, had been mainly thus embarked. Custom and favourable experience had acquired for such investments an unimpeachable reputation for security.

Before the war these medium fortunes had already begun to suffer some loss (as compared with the summit of their prosperity in the middle 'nineties) from the rise in prices and also in the rate of interest. But the monetary events which have accompanied and have followed the war have taken from them about one-half of

their real value in England, seven-eighths in France, eleven-twelfths in Italy, and virtually the whole in Germany and in the succession states of Austria-Hungary and Russia.

Thus the effect of the war, and of the monetary policy which has accompanied and followed it, has been to take away a large part of the real value of the possessions of the investing class. The loss has been so rapid and so intermixed in the time of its occurrence with other worse losses that its full measure is not yet separately apprehended. But it has effected, nevertheless, a far-reaching change in the relative position of different classes. Throughout the Continent the pre-war savings of the middle class, so far as they were invested in bonds, mortgages, or bank deposits, have been largely or entirely wiped out. Nor can it be doubted that this experience must modify social psychology towards the practice of saving and investment. What was deemed most secure has proved least so. He who neither spent nor "speculated," who made "proper provision for his family," who sang hymns to security and observed most straitly the morals of the edified and the respectable injunctions of the worldly-wise,—he, indeed, who gave fewest pledges to Fortune has yet suffered her heaviest visitations.

What moral for our present purpose should we draw from this? Chiefly, I think, that it is not safe or fair to combine the social organisation developed during the nineteenth century (and still retained) with a *laissez-faire* policy

towards the value of money. It is not true that our former arrangements have worked well. If we are to continue to draw the voluntary savings of the community into "investments," we must make it a prime object of deliberate State policy that the standard of value, in terms of which they are expressed, should be kept stable; adjusting in other ways (calculated to touch all forms of wealth equally and not concentrated on the relatively helpless "investors") the redistribution of the national wealth, if, in course of time, the laws of inheritance and the rate of accumulation have drained too great a proportion of the income of the active classes into the spending control of the inactive.

(ii) *The Business Class*

It has long been recognised, by the business world and by economists alike, that a period of rising prices acts as a stimulus to enterprise and is beneficial to business men.

In the first place there is the advantage which is the counterpart of the loss to the investing class which we have just examined. When the value of money falls, it is evident that those persons who have engaged to pay fixed sums of money yearly out of the profits of active business must benefit, since their fixed money outgoings will bear a smaller proportion than formerly to their money turnover. This benefit persists not only during the transitional period of

change, but also, so far as old loans are concerned, when prices have settled down at their new and higher level. For example, the farmers throughout Europe, who had raised by mortgage the funds to purchase the land they farmed, now find themselves almost freed from the burden at the expense of the mortgagees.

But during the period of change, while prices are rising month by month, the business man has a further and greater source of windfall. Whether he is a merchant or a manufacturer, he will generally buy before he sells, and on at least a part of his stock he will run the risk of price changes. If, therefore, month after month his stock appreciates on his hands, he is always selling at a better price than he expected and securing a windfall profit upon which he had not calculated. In such a period the business of trade becomes unduly easy. Any one who can borrow money and is not exceptionally unlucky must make a profit, which he may have done little to deserve. Thus, when prices are rising, the business man who borrows money is able to repay the lender with what, in terms of real value, not only represents no interest, but is even less than the capital originally advanced.

But if the depreciation of money is a source of gain to the business man, it is also the occasion of opprobrium. To the consumer the business man's exceptional profits appear as the cause (instead of the consequence) of the hated rise

of prices. Amidst the rapid fluctuations of his fortunes he himself loses his conservative instincts, and begins to think more of the large gains of the moment than of the lesser, but permanent, profits of normal business. The welfare of his enterprise in the relatively distant future weighs less with him than before, and thoughts are excited of a quick fortune and clearing out. His excessive gains have come to him unsought and without fault or design on his part, but once acquired he does not lightly surrender them, and will struggle to retain his booty. With such impulses and so placed, the business man is himself not free from a suppressed uneasiness. In his heart he loses his former self-confidence in his relation to Society, in his utility and necessity in the economic scheme. He fears the future of his business and his class, and the less secure he feels his fortune to be the tighter he clings to it. The business man, the prop of Society and the builder of the future, to whose activities and rewards there had been accorded, not long ago, an almost religious sanction, he of all men and classes most respectable, praiseworthy, and necessary, with whom interference was not only disastrous but almost impious, was now to suffer sidelong glances, to feel himself suspected and attacked, the victim of unjust and injurious laws,—to become, and know himself half guilty, a profiteer.

No man of spirit will consent to remain poor if he believes his betters to have gained their

goods by lucky gambling. To convert the business man into the profiteer is to strike a blow at capitalism, because it destroys the psychological equilibrium which permits the perpetuance of unequal rewards. The economic doctrine of normal profits, vaguely apprehended by every one, is a necessary condition for the justification of capitalism. The business man is only tolerable so long as his gains can be held to bear some relation to what, roughly and in some sense, his activities have contributed to Society.

This, then, is the second disturbance to the existing economic order for which the depreciation of money is responsible. If the fall in the value of money discourages investment, it also discredits enterprise.

Not that the business man was allowed, even during the period of boom, to retain the whole of his exceptional profits. A host of popular remedies vainly attempted to cure the evils of the day; which remedies themselves—subsidies, price and rent fixing, profiteer hunting, and excess profits duties—eventually became not the least part of the evils.

In due course came the depression, with falling prices, which operate on those who hold stocks in a manner exactly opposite to rising prices. Excessive losses, bearing no relation to the efficiency of the business, took the place of windfall gains; and the effort of every one to hold as small stocks as possible brought industry to a standstill, just as previously their

efforts to accumulate stocks had over-stimulated it. Unemployment succeeded Profiteering as the problem of the hour.

(iii) *The Earner*

It has been a commonplace of economic textbooks that wages tend to lag behind prices, with the result that the real earnings of the wage-earner are diminished during a period of rising prices. This has often been true in the past, and may be true even now of certain classes of labour which are ill-placed or ill-organised for improving their position. But in Great Britain, at any rate, and in the United States also, some important sections of labour were able to take advantage of the situation not only to obtain money wages equivalent in purchasing power to what they had before, but to secure a real improvement, to combine this with a diminution in their hours of work (and, so far, of the work done), and to accomplish this (in the case of Great Britain) at a time when the total wealth of the community as a whole had suffered a decrease. This reversal of the usual course has not been due to an accident and is traceable to definite causes.

The organisation of certain classes of labour—railwaymen, miners, dockers, and others—for the purpose of securing wage increases is better than it was. Life in the army, perhaps for the first time in the history of wars, raised in many respects the conventional standard of

requirements,—the soldier was better clothed, better shod, and often better fed than the labourer, and his wife, adding in war time a separation allowance to new opportunities to earn, had also enlarged her ideas.

But these influences, while they would have supplied the motive, might have lacked the means to the result if it had not been for another factor—the windfalls of the profiteer. The fact that the business man had been gaining, and gaining notoriously, considerable windfall profits in excess of the normal profits of trade, laid him open to pressure, not only from his employees but from public opinion generally; and enabled him to meet this pressure without financial difficulty. In fact, it was worth his while to pay ransom, and to share with his workmen the good fortune of the day.

Thus the working classes improved their *relative* position in the years following the war, as against all other classes except that of the “profiteers.” In some important cases they improved their absolute position—that is to say, account being taken of shorter hours, increased money wages, and higher prices, some sections of the working classes secured for themselves a higher real remuneration for each unit of effort or work done. But we cannot estimate the *stability* of this state of affairs, as contrasted with its desirability, unless we know the source from which the increased reward of the working classes was drawn. Was it due to a permanent modification of the economic

factors which determine the distribution of the national product between different classes? Or was it due to some temporary and exhaustible influence connected with Inflation and with the resulting disturbance in the standard of value?

The period of depression has exacted its penalty from the working classes more in the form of unemployment than by a lowering of real wages, and State assistance to the unemployed has greatly moderated even this penalty. Money wages have followed prices downwards. But the depression of 1921-22 did not reverse or even greatly diminish the relative advantage gained by the working classes over the middle class during the previous years. In 1923 British wage rates stood at an appreciably higher level above the pre-war rates than did the cost of living, if allowance is made for the shorter hours worked.

(B) CHANGES IN THE VALUE OF MONEY,
AS AFFECTING PRODUCTION

If, for any reason right or wrong, the business world *expects* that prices will fall, the processes of production tend to be inhibited; and if it expects that prices will rise, they tend to be overstimulated. A fluctuation in the measuring-rod of value does not alter in the least the wealth of the world, the needs of the world, or the productive capacity of the world. It ought not, therefore, to affect the character or the volume of what is produced. A movement of *relative*

prices, that is to say of the comparative prices of different commodities, *ought* to influence the character of production, because it is an indication that various commodities are not being produced in the exactly right proportions. But this is not true of a change, as such, in the *general* price level.

The fact that the expectation of changes in the *general* price level affects the processes of production, is deeply rooted in the peculiarities of the existing economic organisation of society. We have already seen that a change in the general level of prices, that is to say a change in the measuring-rod, which fixes the obligation of the borrowers of money (who make the decisions which set production in motion) to the lenders (who are inactive once they have lent their money), effects a redistribution of real wealth between the two groups. Furthermore, the active group can, if they foresee such a change, alter their action in advance in such a way as to minimise their losses to the other group or to increase their gains from it, if and when the expected change in the value of money occurs. If they expect a fall, it may pay them, as a group, to damp production down, although such enforced idleness impoverishes Society as a whole. If they expect a rise, it may pay them to increase their borrowings and to swell production beyond the point where the real return is just sufficient to recompense Society as a whole for the effort made. Sometimes, of course, a change in the measur-

ing-rod, especially if it is unforeseen, may benefit one group at the expense of the other disproportionately to any influence it exerts on the volume of production; but the tendency, in so far as the active group anticipate a change, will be as I have described it. This is simply to say that the intensity of production is largely governed in existing conditions by the anticipated real profit of the entrepreneur. Yet this criterion is the right one for the community as a whole only when the delicate adjustment of interests is not upset by fluctuations in the standard of value.

There is also a considerable risk directly arising out of instability in the value of money. During the lengthy process of production the business world is incurring outgoings in terms of *money*—paying out in money for wages and other expenses of production—in the expectation of recouping this outlay by disposing of the product for *money* at a later date. That is to say, the business world as a whole must always be in a position where it stands to gain by a rise of price and to lose by a fall of price. Whether it likes it or not, the technique of production under a régime of money-contract forces the business world always to carry a big speculative position; and if it is reluctant to carry this position, the productive process must be slackened. The argument is not affected by the fact that there is some degree of specialisation of function within the business world, in so far as the professional speculator comes

to the assistance of the producer proper by taking over from him a part of his risk.

Now it follows from this, not merely that the *actual occurrence* of price changes profits some classes and injures others (which has been the theme of the first section of this chapter), but that a *general fear* of falling prices may inhibit the productive process altogether. For if prices are expected to fall, not enough risk-takers can be found who are willing to carry a speculative "bull" position, and this means that entrepreneurs will be reluctant to embark on lengthy productive processes involving a money outlay long in advance of money recoupment,—whence unemployment. The *fact* of falling prices injures entrepreneurs; consequently the *fear* of falling prices causes them to protect themselves by curtailing their operations; yet it is upon the aggregate of their individual estimations of the risk, and their willingness to run the risk, that the activity of production and of employment mainly depends.

There is a further aggravation of the case, in that an expectation about the course of prices tends, if it is widely held, to be cumulative in its results up to a certain point. If prices are expected to rise and the business world acts on this expectation, that very fact causes them to rise for a time and, by verifying the expectation, reinforces it; and similarly, if it expects them to fall. Thus a comparatively weak initial impetus may be adequate to produce a considerable fluctuation.

The best way to cure this mortal disease of individualism must be to provide that there shall never exist any confident expectation either that prices generally are going to fall or that they are going to rise; and also that there shall be no serious risk that a movement, if it does occur, will be a big one. If, unexpectedly and accidentally, a moderate movement were to occur, wealth, though it might be redistributed, would not be diminished thereby.

To procure this result by removing all possible influences towards an initial movement would seem to be a hopeless enterprise. The remedy would lie, rather, in so controlling the standard of value that whenever something occurred which, left to itself, would create an expectation of a change in the general level of prices, the controlling authority should take steps to counteract this expectation by setting in motion some factor of a contrary tendency. Even if such a policy were not wholly successful, either in counteracting expectations or in avoiding actual movements, it would be an improvement on the policy of sitting quietly by whilst a standard of value, governed by chance causes and deliberately removed from central control, produces expectations which paralyse or intoxicate the government of production.

We see, therefore, that rising prices and falling prices each have their characteristic disadvantage. The Inflation which causes the former means Injustice to individuals and to

classes,—particularly to rentiers; and is therefore unfavourable to saving. The Deflation which causes falling prices means Impoverishment to labour and to enterprise by leading entrepreneurs to restrict production, in their endeavour to avoid loss to themselves; and is therefore disastrous to employment. The counterparts are, of course, also true,—namely that Deflation means Injustice to borrowers, and that Inflation leads to the over-stimulation of industrial activity. But these results are not so marked as those emphasised above, because borrowers are in a better position to protect themselves from the worst effects of Deflation than lenders are to protect themselves from those of Inflation, and because labour is in a better position to protect itself from over-exertion in good times than from under-employment in bad times.

Thus Inflation is unjust and Deflation is inexpedient. Of the two perhaps Deflation is, if we rule out exaggerated inflations such as that of Germany, the worse; because it is worse, in an impoverished world, to provoke unemployment than to disappoint the rentier. But it is not necessary that we should weigh one evil against the other. It is easier to agree that both are evils to be shunned. The Individualistic Capitalism of to-day, precisely because it entrusts saving to the individual investor and production to the individual employer, *presumes* a stable measuring-rod of value, and cannot be efficient—perhaps cannot survive—without one.

For these grave causes we must free ourselves from the deep distrust which exists against allowing the regulation of the standard of value to be the subject of *deliberate decision*. We can no longer afford to leave it in the category of which the distinguishing characteristics are possessed in different degrees by the weather, the birth-rate, and the Constitution,—matters which are settled by natural causes, or are the resultant of the separate action of many individuals acting independently, or require a Revolution to change them.

3. THE FRENCH FRANC

(i) *An open letter to the French Minister of Finance (whoever he is or may be) (Jan. 1926)*

MONSIEUR,—When I read in my daily paper the daily projects of yourself and your predecessors to draft new budgets and to fund old debts, I get the impression that Paris discusses very little what seems to me in London to be the technical analysis of your problem. May I, therefore, divert your attention for a moment from your Sisyphean task of rolling budgets up Parliament Hill back to certain fundamental calculations?

I have written about the French franc many times in recent years, and I do not find that I have changed my mind. More than two years ago I wrote: "The level of the franc is going to be settled in the long run, not by speculation or the balance of trade, or even the outcome of the Ruhr adventure, but by the proportion of his earned income which the French taxpayer will permit to be taken from him to pay the claims of the French rentier." I still think that this is the root idea from which your plans ought to develop.

Now it is obvious that there are two methods

of attaining the desired equilibrium. You can increase the burdens on the taxpayer, or you can diminish the claims of the rentier. If you choose the first alternative, taxation will absorb nearly a quarter of the national income of France. Is this feasible? If it is ever safe to speak about the political atmosphere of another country, I should judge from recent indications that the French public will certainly refuse to submit to the imposition of a burden of additional taxation sufficient to satisfy the claims of the rentier at their present level. And even if such taxation were politically possible, it would probably break down administratively. The pressing task of the French Treasury is not to devise additional taxes, but to construct an administrative machine capable of collecting those which exist. If, therefore, I were in your place, I should not, as a politician, give another minute's thought to new taxes, but would concentrate, so far as concerned the fiscal part of my office, on consolidating and administering the taxes already voted.

Since this by itself is not enough, your next business—provided you accept my conclusion as to the mind of the French public—is to consider coolly how best to reduce the claims of the rentier. Three methods offer themselves: first, a general capital levy; second, a forced reduction of the rate of interest on the public debt; third, a rise of prices which would reduce the real value of the rentier's money

claims. Unquestionably, the first is preferable on grounds of virtue, justice, and theory. For Britain in a similar fix I should advocate it. But I think it so probable that such a project would be defeated in France to-day by the same political and administrative difficulties which stand in the way of further taxation, that I should not lose my time on it. The second method is attractive, if only because it offers no administrative difficulties. I believe that some authorities in France have favoured it. Nevertheless, I should decline this expedient also, if I were in your place, because, unlike a general capital levy or a depreciation of money, this species of discrimination is truly named Repudiation, and Repudiation of the National Debt is a departure from financial virtue so extreme and so dangerous as not to be undertaken but in the last emergency.

We are left, therefore, by a process of the exclusion of alternatives, with one Exit only—a rise of internal prices; which leads us away from the fiscal field to the price level, the foreign exchanges, the gold in the Bank of France, the volume of foreign investment, and the balance of trade. Here I must invite your particular attention to an interesting paradox.

Successive Finance Ministers have, in fact, done their utmost to find an escape through the Exit I indicate. They have inflated magnificently, and they have brought down the gold value of the franc by progressive stages with

only temporary set-backs. What more could they have done?

I will tell you. The great army of your predecessors have failed, in spite of all their efforts, to depreciate adequately *the internal purchasing power* of the franc. Your present difficulties are due, not to the inflation of the notes or to the fall of the exchange (for these events are tending all the time to help you out of your troubles), but to the failure of these factors to diminish proportionately the internal purchasing power of the rentier's money claims.

The following figures present the essence of your problem. In December 1925, the gold value of the franc on the foreign exchanges was 19 per cent of its pre-war parity; world gold prices were about 158 per cent of their pre-war level; therefore on the pre-war basis a note circulation and a franc price level amounting to 830 per cent (for $158 \div 19 = 8.3$) of their pre-war figures would be justified. Now the note circulation, being about 1000 per cent of its pre-war figure, roughly corresponds to the level of the foreign exchange—though, allowing for increased territory and the loss of gold and silver coin from the circulation, it is probably still too low in relation to the exchange, rather than too high, on a pre-war comparison.

When we come to the internal franc price level, on the other hand, we find an entirely different story. Imported raw materials have

inevitably risen to their international parity. But the classes of goods such as food and other articles entering into the cost-of-living index number, which are dominated by home production, are far below their equilibrium value. Wholesale food prices in November 1925 were 490 per cent of pre-war, retail prices in Paris (thirteen items) were 433 per cent, and in the third quarter of 1925 the cost-of-living index for Paris stood at 401 per cent. These figures may understate the real rise of prices, but it certainly seems that French domestic costs are not above five times their pre-war figure. This means that the prices of purely home produce, converted at the present rate of exchange, are not much more than *half* world prices, and are actually below their pre-war level in terms of gold. Thus the Inflation of the currency has produced its full effect on the exchanges, and consequently on the prices of imported commodities, but has largely failed to do so on the prices of home produce.

Now the burden of the rentier on the taxpayer is measured by the internal purchasing power of the francs which have to be taken from the latter to be handed to the former. *Thus if internal prices had risen as fast as the exchange has fallen, the real burden of the national debt service would be reduced by at least a third.* I suggest to you, therefore, that, whilst the solution of your fiscal difficulties can come about in no other way than by a rise in the internal price level, it is not so clear that this need be

accompanied either by further Inflation or by a further fall in the exchange.

It is for you to decide in your own mind at what level of internal prices you can hope to balance your budget. Your next step must be to bring about this rise in as orderly and scientific a way as you are able. Looking from outside, it appears to me that an internal price level between eight and nine times pre-war might be high enough. In this case there is no justification for any considerable further Inflation or fall in the franc exchange. All you have to do is to stabilise the note circulation and the franc exchange at near their present level and to allow time for internal prices to rise correspondingly.

What are the explanations of the present low level of franc prices? I think that they are: (1) the time element—internal prices move slowly, but will move as they should in time; (2) the hoarding of bank-notes on an even greater scale than formerly, leading to a sluggish circulation of the available currency; (3) excessive foreign investment by Frenchmen, due to lack of confidence, which drives the exchange down below the figure appropriate to the trading position; and (4) the legal restrictions on rents, etc.

These influences should be remediable as regards (1) by the mere lapse of time, and as regards (2) and (3) by the restoration of internal confidence. The right strategy, therefore, is to restore confidence and then just wait. And the way to restore confidence is, surely, not to heap

up taxes, but to stabilise the franc exchange beyond doubt or criticism near its present level.

How to stabilise the franc exchange? Not so difficult as it is supposed to be. The balance of trade is strongly in favour of France. The present level of internal prices encourages exports and discourages imports. The metallic reserve of the Bank of France is worth (at the present exchange) nearly 40 per cent of the note issue. Nothing is required, I expect, but that the Bank of France should declare that for two years at least it will furnish dollar exchange against francs in unlimited amounts on terms *not worse* than some stated rate between dollars and francs, and that the Bank should be prepared, if necessary, to use its gold for the purpose. The rate selected should probably lie somewhere between 1 dollar for 25 francs and 1 dollar for 30 francs, and it would be safer to choose the latter ratio at first, with just a hope that the former might be achieved in the end.¹ The success of the scheme requires no more than that the Bank's undertaking should be believed. With this background of stability you will be able to borrow enough to carry you through the transitional period without further Inflation.

For the rest you can trust time. As the internal price level gradually rises to an equilibrium with the exchange and as the machinery for collecting the taxes is gradually improved, your budget receipts will grow month by month

¹ [This was a happy guess, since the actual figure adopted two and a half years later was 25·5 francs to the dollar.]

until they balance the expenses. Those taxes which are fixed in francs and are not *ad valorem* should, of course, be raised *pari passu* with the rise in prices.

There are two matters on which the Government of France needs to exercise an iron resolve—to fix the franc exchange at a minimum figure even if it costs gold to do so, and to collect the taxes in full. These are the indispensable measures. Heroic efforts to increase the rates of taxation are, at this stage, efforts in a wrong direction, and will not be successful.

What are the arguments against these courses? They are entirely political. A policy which will not be successful unless it raises prices by a heavy percentage will be open to the universal unpopularity of *la vie chère*. A policy of bringing about an equilibrium between internal and external prices must be injurious to the export interests which flourish on their disequilibrium. It may not be sufficient to reply that the first must happen in any case unless the taxpayer will sacrifice himself to the rentier, and that the second must happen some day unless the franc is to fall for ever.

But there are political considerations of some weight to set on the other side. A rise in the prices of agricultural produce will not be unpopular with farmers and peasant producers who have been selling their output much too cheap. Further, the Government must make it clear that wage-earners and officials are not intended to suffer, and will, if it is wise, pass a

law providing for automatic quarterly increases of all wages and salaries throughout the next two years corresponding to every increase in the cost of living.

Well, I offer these reflections for what they are worth. Whether or not they commend themselves to your judgement, I am sure that the following questions are those which you need to ponder:—

1. Would a rise in the level of internal prices solve your difficulties?

2. Can you solve your difficulties without a rise of prices?

3. Is it not impossible anyhow to prevent a rise in the long run?

4. If so, will you not be judicious to facilitate an orderly rise and to play for time meanwhile?

5. Whether you choose this course or another, is there any sufficient objection to using the gold in the Bank of France to anchor the franc exchange?

Your obedient servant,

J. M. KEYNES

(ii) *The Stabilisation of the Franc* (1928)

One blames politicians, not for inconsistency, but for obstinacy. They are the interpreters, not the masters, of our fate. It is their job, in short, to register the *fait accompli*. In this spirit we all applaud M. Poincaré for not allowing himself to be hampered by a regard for consistency. After declaring for years that it would

be an act of national bankruptcy and shame to devalue the franc, he has fixed it at about one-fifth of its pre-war gold value, and has retorted with threats of resignation against anyone who would hinder him in so good a deed.

The figure finally chosen seems about right. There are high authorities in France who argue that one-sixth of pre-war (150 francs to the £) would be better and safer. But about one-fifth (124.21 francs to the £) has the great advantage of conforming to the rate which has actually existed for some eighteen months. None of the relevant statistics suggests that M. Poincaré has made the mistake of stabilising at a figure which involves Deflation. No lower value for the franc (in terms of gold) than that now chosen has ever existed except during the hectic twelve months from December 1925 to November 1926, when internal prices had no time to adjust themselves to the furious fluctuations of the exchanges. Moreover, the Budget balances with the burden of the *rentes* on the taxpayer bearable at the present level. I see no sufficient reason, therefore, to choose a lower figure.

Is the value too low? For that is the line of criticism in France itself. There are two chief tests. Is it lower than the figure to which internal prices are adjusted? Does it demand too great a sacrifice from the rentier? The official Index Numbers, if taken at their face-value, suggest that prices are in line with a gold value of the franc nearer to one quarter (100 francs to

the £) than to one-fifth of the pre-war value. But the French Index Numbers are very crude affairs subject to a wide margin of error, and the two and a half years which has elapsed since the franc was worth more than the figure now fixed, is a fair time to allow for an adjustment of prices upward—a much quicker business than a downward adjustment can be. House rents doubtless must rise, but it is probable that other prices will trend only a little upward if at all, compared with gold prices abroad. As for the rentier, a very drastic capital levy having been brought about *de facto* and the awkward consequences surmounted, it is asking too much to undo gratuitously what is already done. Three other arguments, however, of a practical order are probably those which have convinced M. Poincaré. To choose a higher value for the franc might disturb the equilibrium of the Budget which has been so painfully achieved. It would upset the industrialist exporters—who have their means of exerting political influence. And—most tangible of all—it would involve the Bank of France in a loss on the foreign exchange, said to amount to some £300,000,000, which, as an agent of the Government, it has bought up at the present rate. To fix 100 francs to the £, for example, might cost the Bank of France £60,000,000, of which no mean proportion might accrue to foreigners. This is just the sort of argument which M. Poincaré and every other Frenchman is able to understand.

The deed, therefore, is done. Since it re-

moves an element of uncertainty from the Money Markets and Stock Exchanges of the world, and since French importers and manufacturers need hesitate no longer, a good deal of purchasing power, which has been lying idle, may be returned to active employment. M. Poincaré has, therefore, done something—perhaps for the first time in his career—to make the rest of us feel more cheerful.

It is interesting to compare the several fortunes of France and Great Britain over the post-war period. In Great Britain our authorities have never talked such rubbish as their French colleagues or offended so grossly against all sound principles of finance. But Great Britain has come out of the transitional period with the weight of her war debt aggravated, her obligations to the United States unabated, and deflationary finance still in the ascendant; with the heavy burden of taxes appropriate to the former and a million unemployed as the outcome of the latter. France, on the other hand, has written down her internal war debt by four-fifths, and has persuaded her Allies to let her off more than half of her external debt; and now she is avoiding the sacrifices of Deflation. Yet she has contrived to do this without the slightest loss of reputation for conservative finance and capitalist principles. The Bank of France emerges much stronger than the Bank of England; and everyone still feels that France is the last stronghold of tenacious saving and the rentier mentality. Assuredly it does not pay to be good.

Perhaps we deserve what we have got. France has abandoned principle and consistency alike, but she has always refused sacrifices which were avoidable and has obeyed in the end the teachings of experience. We in England have not submitted either to the warnings of theory or to the pressure of facts, obstinately obedient to conventions.

4. A PROGRAMME OF EXPANSION (GENERAL ELECTION, MAY 1929)

I

Except for a brief recovery in 1924 before the return to the gold standard, one-tenth or more of the working population of this country have been unemployed for eight years—a fact unprecedented in our history. The number of insured persons counted by the Ministry of Labour as out of work has never been less than one million since the initiation of their statistics in 1923. To-day (April 1929) 1,140,000 work-people are unemployed.

This level of unemployment is costing us out of the Unemployment Fund a cash disbursement of about £50,000,000 a year. This does not include poor relief. Since 1921 we have paid out to the unemployed in cash a sum of about £500,000,000—and have got literally nothing for it. This sum would have built a million houses; it is nearly double the whole of the accumulated savings of the Post Office Savings Bank; it would build a third of all the roads in the country; it far exceeds the total value of all the mines, of every description, which we possess; it would be enough to

revolutionise the industrial equipment of the country; or to proceed from what is heavy to what is lighter, it would provide every third family in the country with a motor car or would furnish a fund enough to allow the whole population to attend cinemas for nothing to the end of time.

But this is not nearly all the waste. There is the far greater loss to the unemployed themselves, represented by the difference between the dole and a full working wage, and by the loss of strength and morale. There is the loss in profits to employers and in taxation to the Chancellor of the Exchequer. There is the incalculable loss of retarding for a decade the economic progress of the whole country.

The Census of Production of 1924 calculated that the average value of the net annual output of a British working man when employed is about £220. On this basis the waste through unemployment since 1921 has mounted up to approximately £2,000,000,000, a sum which would be nearly sufficient to build all the railways in the country twice over. It would pay off our debt to America twice over. It is more than the total sum that the Allies are asking from Germany for Reparations.

It is important to know and appreciate these figures because they put the possible cost of Mr. Lloyd George's schemes into its true perspective. He calculates that a development programme of £100,000,000 a year will bring back 500,000 men into employment. This

expenditure is not large in proportion to the waste and loss accruing year by year through unemployment, as can be seen by comparing it with the figures quoted above. It only represents 5 per cent of the loss already accumulated on account of unemployment since 1921. It is equal to about $2\frac{1}{2}$ per cent of the national income. If the experiment were to be continued at the rate of £100,000,000 per annum for three years, and if the whole of it were to be entirely wasted, the annual interest payable on it hereafter would increase the Budget by less than 2 per cent. In short, it is a very modest programme. The idea that it represents a desperate risk to cure a moderate evil is the reverse of the truth. It is a negligible risk to cure a monstrous anomaly.

Nothing has been included in the programme which cannot be justified as worth doing for its own sake. Yet even if half of it were to be wasted, we should still be better off. Was there ever a stronger case for a little boldness, for taking a risk if there be one?

It may seem very wise to sit back and wag the head. But while we wait, the unused labour of the workless is not piling up to our credit in a bank, ready to be used at some later date. It is running irrevocably to waste; it is irretrievably lost. Every puff of Mr. Baldwin's pipe costs us thousands of pounds.

The objection, which is raised more frequently, perhaps, than any other, is that money raised by the State for financing productive

schemes must diminish *pro tanto* the supply of capital available for ordinary industry. If this is true, a policy of national development will not really increase employment. It will merely substitute employment on State schemes for ordinary employment. Either that, or (so the argument often runs) it must mean Inflation. There is, therefore, little or nothing that the Government can usefully do. The case is hopeless, and we must just drift along.

This was the contention of the Chancellor of the Exchequer in his Budget speech. "It is the orthodox Treasury dogma, steadfastly held," he told the House of Commons, "that whatever might be the political or social advantages, very little additional employment and no permanent additional employment can, in fact, and as a general rule, be created by State borrowing and State expenditure." Some State expenditure, he concluded, is inevitable, and even wise and right for its own sake, but not as a cure for unemployment.

In relation to the actual facts of to-day, this argument is, we believe, quite without foundation.

In the first place, there is nothing in the argument which limits its applicability to State-promoted undertakings. If it is valid at all, it must apply equally to a new works started by Morris, or Courtaulds, to any new business enterprise entailing capital expenditure. If it were announced that some of our leading captains of industry had decided to launch out

boldly, and were about to sink capital in new industrial plant to the tune, between them, of £100 millions, we should all expect to see a great improvement in employment. And, of course, we should be right. But, if the argument we are dealing with were sound, we should be wrong. We should have to conclude that these enterprising business men were merely diverting capital from other uses, and that no real gain to employment could result. Indeed, we should be driven to a still more remarkable conclusion. We should have to conclude that it was virtually out of the question to absorb our unemployed workpeople by any means whatsoever (other than the unthinkable Inflation), and that the obstacle which barred the path was no other than an insufficiency of capital. This, if you please, in Great Britain, who has surplus savings which she is accustomed to lend abroad on the scale of more than a hundred millions a year.

The argument is certainly not derived from common sense. No ordinary man, left to himself, is able to believe that, if there had been no housing schemes in recent years, there would, nevertheless, have been just as much employment. And, accordingly, most ordinary men are easily persuaded by Mr. Lloyd George that, if his schemes for employment are adopted, more men will be employed.

But the argument is not only unpalatable. It is also untrue. There are three resources which can enable new investment to provide a net addition to the amount of employment.

The first source of supply comes out of the savings which we are now disbursing to pay the unemployed.

The second source of supply comes from the savings which now run to waste through lack of adequate credit.

The third source of supply comes from a reduction in the *net* amount of foreign lending.

Let us consider these in turn, beginning with the first source. Individual saving means that some individuals are *producing* more than they are *consuming*. This surplus may, and should, be used to increase capital equipment. But, unfortunately, this is not the only way in which it can be used. It can also be used to enable other individuals to *consume* more than they *produce*.

This is what happens when there is unemployment. We are using our savings to pay for unemployment instead of using them to equip the country. The savings which Mr. Lloyd George's schemes will employ will be diverted not from financing other capital equipment, but partly from financing unemployment. From the Unemployment Fund alone we are now paying out £50,000,000 a year; and this is not the whole of the cost of supporting the unemployed.

In the second place, the savings of individuals do not necessarily materialise in investments. The amount of investment in capital improvements depends, on the one hand, on the amount of credit created by the Bank of England; and,

on the other hand, on the eagerness of entrepreneurs to invest, of whom the Government itself is nowadays the most important. So far from the total of investment, as determined by these factors, being necessarily equal to the total of saving, disequilibrium between the two is at the root of many of our troubles.

When investment runs ahead of saving we have a boom, intense employment, and a tendency to Inflation. When investment lags behind, we have a slump and abnormal unemployment, as at present.

It is commonly objected to this that an expansion of credit necessarily means Inflation. But not *all* credit-creation means Inflation. Inflation only results when we endeavour, as we did in the war and afterwards, to expand our activities still further after everyone is already employed and our savings are being used up to the hilt.

The suggestion that a policy of capital expenditure, if it does not take capital away from ordinary industry, will spell Inflation, would be true enough if we were dealing with boom conditions. And it would become true if the policy of capital expenditure were pushed unduly far, so that the demand for savings began to exceed the supply. But we are far, indeed, from such a position at the present time. A large amount of deflationary slack has first to be taken up before there can be the smallest danger of a development policy leading to Inflation. To bring up the bogey of Inflation as

an objection to capital expenditure at the present time is like warning a patient who is wasting away from emaciation of the dangers of excessive corpulence.

The real difficulty hitherto in the way of an easier credit policy by the Bank of England has been the fear that an expansion of credit might lead to a loss of gold which the Bank could not afford.

Now if the Bank were to try to increase the volume of credit at a time when, on account of the depression of home enterprise, no reliance could be placed on the additional credit being absorbed at home at the existing rate of interest, this might quite well be true. Since market rates of interest would fall, a considerable part of the new credit might find its way to *foreign* borrowers, with the result of a drain of gold out of the Bank. Thus it is not safe for the Bank to expand credit unless it is certain beforehand that there are *home* borrowers standing ready to absorb it at the existing rates of interest.

This is the reason why the Liberal plan is exactly suited to the fundamentals of the present position. It provides the necessary condition for an expansion of credit to be safe.

It is, of course, essential that the Bank of England should loyally co-operate with the Government's programme of capital development, and do its best to make it a success. For, unfortunately, it would lie within the power of the Bank, provided it were to pursue a deflationary policy aimed at preventing any expansion

in bank-credit, to defeat the best-laid plans and to ensure that the expenditure financed by the Treasury *was* at the expense of other business enterprise.

Thus we accept Mr. McKenna's contention that an expansion of credit is the key to the situation. But if we were simply to increase credit without providing a specific use for it at home, we should be nervous that too much of this extra credit would be lent to foreigners and taken away in gold. We conclude, therefore, that, whilst an increased volume of bank-credit is probably a *sine qua non* of increased employment, a programme of home investment which will absorb this increase is a *sine qua non* of the safe expansion of credit.

The third source of the funds required for the Liberal policy will be found by a net reduction of foreign lending.

An important part of our savings is now finding its outlet in foreign issues. Granted that a big policy of national development could not be financed wholly out of the existing expenditure on unemployment and out of the savings which are at present running to waste, granted that, to meet the borrowing demands of the State other borrowers must go without, why should we assume that these other borrowers must be British business men? The technique of the capital market makes it far more probable that they would be some of the overseas Governments or municipalities which London at present finances on so large a scale.

It is the bond market that would be principally affected by a British Government loan.

Now anything which served to diminish the volume of foreign issues would be welcomed by the Bank of England at the present time for its own sake. The exchange position is uncomfortable and precarious; the recent rise in bank-rate is proof of that. A diminution of foreign investment would ease the strain on the exchanges. Why, it is only a year or two since the Bank of England, with this end in view, was maintaining a semi-official embargo on foreign issues. The embargo was a crude instrument, suitable only for temporary use, and we do not suggest its renewal. But the need which that embargo was designed to supply still remains, if in a less acute degree. In relation to our less favourable balance of foreign trade, we are investing abroad dangerously much; and we are investing abroad to this dangerous extent partly because there are insufficient outlets for our savings at home.

It follows, therefore, that a policy of capital expenditure, in so far as it might go beyond the mere absorption of deflationary slack, would serve mainly to divert to home development savings which now find their way abroad, and that this would be a welcome result in the interests of the Bank of England.

It has been objected that if we lend less abroad, our exports will fall off. We see no reason to anticipate this. Immediately, as we have said, the reduction in *net* foreign lending

will relieve the pressure on the Bank of England's stock of gold. But, ultimately, its main effect will be realised, not in a reduction of exports, but in an increase of imports. For the new schemes will require a certain amount of imported raw materials, whilst those who are now unemployed will consume more imported food when they are once again earning decent wages.

Here, then, is our answer. The savings which Mr. Lloyd George's schemes will employ will be diverted, not from financing other capital equipment, but partly from financing unemployment. A further part will come from the savings which now run to waste through lack of adequate credit. Something will be provided by the very prosperity which the new policy will foster. And the balance will be found by a reduction of foreign lending.

The whole of the labour of the unemployed is available to increase the national wealth. It is crazy to believe that we shall ruin ourselves financially by trying to find means for using it and that "Safety First" lies in continuing to maintain men in idleness.

It is precisely *with* our unemployed productive resources that we shall make the new investments.

We are left with a broad, simple, and surely incontestable proposition. Whatever real difficulties there may be in the way of absorbing our unemployed labour in productive work, an inevitable diversion of resources from other forms of employment is not one of them.

II

Our whole economic policy during recent years has been dominated by the preoccupation of the Treasury with their departmental problem of debt conversion. The less the Government borrows, the better, they argue, are the chances of converting the National Debt into loans carrying a lower rate of interest. In the interests of conversion, therefore, they have exerted themselves to curtail, as far as they can, all public borrowing, all capital expenditure by the State, no matter how productive and desirable in itself. We doubt if the general public has any idea how powerful, persistent, and far-reaching this influence has been.

To all well-laid schemes of progress and enterprise, they have (whenever they could) barred the door with, No! Now, it is quite true, that curtailing capital expenditure exerts some tendency towards lower interest rates for Government loans. But it is no less true that it makes for increased unemployment and that it leaves the country with a pre-war outfit.

Even from the Budget point of view, it is a question whether the game is worth the candle. It is difficult to believe that, if this question were considered squarely on its merits, any intelligent person could return an affirmative answer. The capital market is an international market. All sorts of influences which are outside our control go to determine the gilt-edged rate of interest; and the effect which the British

Government can exert on it by curtailing or expanding its capital programme is limited. Suppose, which is putting the case extremely high, that the effect might be as much as $\frac{1}{4}$ per cent. This, applied to the £2000 millions of War Loan, which are ripe for conversion, would represent a difference in the annual debt charge of £5 millions annually. Compare this with the expenditure of the Unemployment Fund—over £50 millions last year.

Moreover, in the course of (say) ten years it is not unlikely that a situation will arise—as used to happen from time to time before the war—when for world reasons the rate of interest will be abnormally low—much lower than we could possibly hope for by Treasury contrivances in the exceptionally unfavourable environment of abnormally high world rates. This will be the moment for a successful conversion scheme. Even, therefore, if the Treasury could convert to-day at a saving of $\frac{1}{4}$ per cent or $\frac{1}{2}$ per cent, it might be extremely improvident to do so. A premature conversion for an inconsiderable saving would be a grave blunder. We must have the patience to wait for the ideal conjuncture of conditions, and then the Chancellor of the Exchequer of the day will be able to pull off something big.

But apart from budgetary advantages and disadvantages, there is a deep-seated confusion of thought in hindering on these grounds the capital development of the country. The rate of interest can fall for either of two opposite

reasons. It may fall on account of an abundant supply of savings, *i.e.* of money available to be spent on investments; or it may fall on account of a deficient supply of investments, *i.e.* on desirable purposes on which to spend the savings. Now a fall in the rate of interest for the first reason is, obviously, very much in the national interest. But a fall for the second reason, if it follows from a deliberate restriction of outlets for investment, is simply a disastrous method of impoverishing ourselves.

A country is enriched not by the mere negative act of an individual not spending all his income on current consumption. It is enriched by the positive act of using these savings to augment the capital equipment of the country.

It is not the miser who gets rich; but he who lays out his money in fruitful investment.

The object of urging people to save is *in order* to be able to build houses and roads and the like. Therefore a policy of trying to lower the rate of interest by suspending new capital improvements and so stopping up the outlets and purposes of our savings is simply suicidal. No one, perhaps, would uphold such a policy expressed in so many words. But this, in fact, is what the Treasury has been doing for several years. In some cases, the pressure of public opinion or of other Government Departments or Local Authorities has been too much for them. But whenever it has been within their power to choke something off, they have done so.

The futility of their policy and the want of sound reasoning behind it have been finally demonstrated by its failure even to secure a fall in the rate of interest. For, as we have seen above, if outlets for investment at home are stopped up, savings flow abroad on a scale disproportionate to our favourable balance of trade, with the result that the Bank of England tends to lose gold. To counteract this position, the bank-rate has to be raised.

So in the end we have the worst of all worlds. The country is backward in its equipment, instead of being thoroughly up to date. Business profits are poor, with the result that the yield of the income tax disappoints the Chancellor of the Exchequer, and he is unable either to relieve the taxpayer or to push forward with schemes of social reform. Unemployment is rampant. This want of prosperity actually diminishes the rate of saving and thus defeats even the original object of a lower rate of interest. So rates of interest are, after all, high.

It is not an accident that the Conservative Government have landed us in the mess where we find ourselves. It is the natural outcome of their philosophy:

"You must not press on with telephones or electricity, because this will raise the rate of interest."

"You must not hasten with roads or housing, because this will use up opportunities for employment which we may need in later years."

"You must not try to employ every one, because this will cause inflation."

"You must not invest, because how can you know that it will pay?"

"You must not do anything, because this will only mean that you can't do something else."

"Safety First! The policy of maintaining a million unemployed has now been pursued for eight years without disaster. Why risk a change?"

"We will not promise more than we can perform. We, therefore, promise nothing."

This is what we are being fed with.

They are slogans of depression and decay—the timidities and obstructions and stupidities of a sinking administrative vitality.

Negation, Restriction, Inactivity—these are the Government's watchwords. Under their leadership we have been forced to button up our waistcoats and compress our lungs. Fears and doubts and hypochondriac precautions are keeping us muffled up indoors. But we are not tottering to our graves. We are healthy children. We need the breath of life. There is nothing to be afraid of. On the contrary. The future holds in store for us far more wealth and economic freedom and possibilities of personal life than the past has ever offered.

There is no reason why we should not feel ourselves free to be bold, to be open, to experiment, to take action, to try the possibilities of things. And over against us, standing in the

path, there is nothing but a few old gentlemen tightly buttoned-up in their frock coats, who only need to be treated with a little friendly disrespect and bowled over like ninepins.

Quite likely they will enjoy it themselves, when once they have got over the shock.

5. THE GREAT SLUMP OF 1930 (1930)

I

The world has been slow to realise that we are living this year in the shadow of one of the greatest economic catastrophes of modern history. But now that the man in the street has become aware of what is happening, he, not knowing the why and wherefore, is as full to-day of what may prove excessive fears as, previously, when the trouble was first coming on, he was lacking in what would have been a reasonable anxiety. He begins to doubt the future. Is he now awakening from a pleasant dream to face the darkness of facts? Or dropping off into a nightmare which will pass away?

He need not be doubtful. The other was *not* a dream. This *is* a nightmare, which will pass away with the morning. For the resources of Nature and men's devices are just as fertile and productive as they were. The rate of our progress towards solving the material problems of life is not less rapid. We are as capable as before of affording for every one a high standard of life — high, I mean, compared with, say, twenty years ago—and will soon learn to afford a standard higher still. We were not previously

deceived. But to-day we have involved ourselves in a colossal muddle, having blundered in the control of a delicate machine, the working of which we do not understand. The result is that our possibilities of wealth may run to waste for a time—perhaps for a long time.

I doubt whether I can hope to bring what is in my mind into fully effective touch with the mind of the reader. I shall be saying too much for the layman, too little for the expert. For—though no one will believe it—economics is a technical and difficult subject. It is even becoming a science. However, I will do my best—at the cost of leaving out, because it is too complicated, much that is necessary to a complete understanding of contemporary events.

First of all, the extreme violence of the slump is to be noticed. In the three leading industrial countries of the world—the United States, Great Britain, and Germany—10,000,000 workers stand idle. There is scarcely an important industry anywhere earning enough profit to make it expand—which is the test of progress. At the same time, in the countries of primary production the output of mining and of agriculture is selling, in the case of almost every important commodity, at a price which, for many or for the majority of producers, does not cover its cost. In 1921, when prices fell as heavily, the fall was from a boom level at which producers were making abnormal profits; and there is no example in modern history of so great and rapid a fall of prices from a normal

figure as has occurred in the past year. Hence the magnitude of the catastrophe.

The time which elapses before production ceases and unemployment reaches its maximum is, for several reasons, much longer in the case of the primary products than in the case of manufacture. In most cases the productive units are smaller and less well organised amongst themselves for enforcing a process of orderly contraction; the length of the production period, especially in agriculture, is longer; the costs of a temporary shut-down are greater; men are more often their own employers and so submit more readily to a contraction of the income for which they are willing to work; the social problems of throwing men out of employment are greater in more primitive communities; and the financial problems of a cessation of production of primary output are more serious in countries where such primary output is almost the whole sustenance of the people. Nevertheless we are fast approaching the phase in which the output of primary producers will be restricted almost as much as that of manufacturers; and this will have a further adverse reaction on manufacturers, since the primary producers will have no purchasing power wherewith to buy manufactured goods; and so on, in a vicious circle.

In this quandary individual producers base illusory hopes on courses of action which would benefit an individual producer or class of producers so long as they were alone in pursuing

them, but which benefit no one if every one pursues them. For example, to restrict the output of a particular primary commodity raises its price, so long as the output of the industries which use this commodity is unrestricted; but if output is restricted all round, then the demand for the primary commodity falls off by just as much as the supply, and no one is further forward. Or again, if a particular producer or a particular country cuts wages, then, so long as others do not follow suit, that producer or that country is able to get more of what trade is going. But if wages are cut all round, the purchasing power of the community as a whole is reduced by the same amount as the reduction of costs; and, again, no one is further forward.

Thus neither the restriction of output nor the reduction of wages serves in itself to restore equilibrium.

Moreover, even if we were to succeed eventually in re-establishing output at the lower level of money-wages appropriate to (say) the pre-war level of prices, our troubles would not be at an end. For since 1914 an immense burden of bonded debt, both national and international, has been contracted, which is fixed in terms of money. Thus every fall of prices increases the burden of this debt, because it increases the value of the money in which it is fixed. For example, if we were to settle down to the pre-war level of prices, the British National Debt would be nearly 40 per cent greater than it was

in 1924 and double what it was in 1920; the Young Plan would weigh on Germany much more heavily than the Dawes Plan, which it was agreed she could not support; the indebtedness to the United States of her associates in the Great War would represent 40-50 per cent more goods and services than at the date when the settlements were made; the obligations of such debtor countries as those of South America and Australia would become insupportable without a reduction of their standard of life for the benefit of their creditors; agriculturists and householders throughout the world, who have borrowed on mortgage, would find themselves the victims of their creditors. In such a situation it must be doubtful whether the necessary adjustments could be made in time to prevent a series of bankruptcies, defaults, and repudiations which would shake the capitalist order to its foundations. Here would be a fertile soil for agitation, seditions, and revolution. It is so already in many quarters of the world. Yet, all the time, the resources of Nature and men's devices would be just as fertile and productive as they were. The machine would merely have been jammed as the result of a muddle. But because we have magneto trouble, we need not assume that we shall soon be back in a rumbling waggon and that motoring is over.

II

We have magneto trouble. How, then, can we start up again? Let us trace events backwards:—

1. Why are workers and plant unemployed? Because industrialists do not expect to be able to sell without loss what would be produced if they were employed.

2. Why cannot industrialists expect to sell without loss? Because prices have fallen more than costs have fallen—indeed, costs have fallen very little.

3. How can it be that prices have fallen more than costs? For costs are what a business man pays out for the production of his commodity, and prices determine what he gets back when he sells it. It is easy to understand how for an individual business or an individual commodity these can be unequal. But surely for the community as a whole the business men get back the same amount as they pay out, since what the business men pay out in the course of production constitutes the incomes of the public which they pay back to the business men in exchange for the products of the latter? For this is what we understand by the normal circle of production, exchange, and consumption.

4. No! Unfortunately this is not so; and here is the root of the trouble. It is not true that what the business men pay out as costs of production necessarily comes back to them as the sale-proceeds of what they produce. It is

the characteristic of a boom that their sale-proceeds exceed their costs; and it is the characteristic of a slump that their costs exceed their sale-proceeds. Moreover, it is a delusion to suppose that they can necessarily restore equilibrium by reducing their total costs, whether it be by restricting their output or cutting rates of remuneration; for the reduction of their outgoings may, by reducing the purchasing power of the earners who are also their customers, diminish their sale-proceeds by a nearly equal amount.

5. How, then, can it be that the total costs of production for the world's business as a whole can be unequal to the total sale-proceeds? Upon what does the inequality depend? I think that I know the answer. But it is too complicated and unfamiliar for me to expound it here satisfactorily. (Elsewhere I have tried to expound it accurately.¹) So I must be somewhat perfunctory.

Let us take, first of all, the consumption-goods which come on to the market for sale. Upon what do the profits (or losses) of the producers of such goods depend? The total costs of production, which are the same thing as the community's total earnings looked at from another point of view, are divided in a certain proportion between the cost of consumption-goods and the cost of capital-goods. The incomes of the public, which are again the same thing as the community's total earnings,

¹ [In my *Treatise on Money*.]

are also divided in a certain proportion between expenditure on the purchase of consumption-goods and savings. Now if the first proportion is larger than the second, producers of consumption-goods will *lose* money; for their sale proceeds, which are equal to the expenditure of the public on consumption-goods, will be less (as a little thought will show) than what these goods have cost them to produce. If, on the other hand, the second proportion is larger than the first, then the producers of consumption-goods will make exceptional *gains*. It follows that the profits of the producers of consumption-goods can only be restored, either by the public spending a larger proportion of their incomes on such goods (which means saving less), or by a larger proportion of production taking the form of capital-goods (since this means a smaller proportionate output of consumption-goods).

But capital-goods will not be produced on a larger scale unless the producers of such goods are making a profit. So we come to our second question—upon what do the profits of the producers of capital-goods depend? They depend on whether the public prefer to keep their savings liquid in the shape of money or its equivalent or to use them to buy capital-goods or the equivalent. If the public are reluctant to buy the latter, then the producers of capital-goods will make a loss; consequently less capital-goods will be produced; with the result that, for the reasons given above, producers of

consumption-goods will also make a loss. In other words, *all* classes of producers will tend to make a loss; and general unemployment will ensue. By this time a vicious circle will be set up, and, as the result of a series of actions and reactions, matters will get worse and worse until something happens to turn the tide.

This is an unduly simplified picture of a complicated phenomenon. But I believe that it contains the essential truth. Many variations and fugal embroideries and orchestrations can be superimposed; but this is the tune.

If, then, I am right, the fundamental cause of the trouble is the lack of new enterprise due to an unsatisfactory market for capital investment. Since trade is international, an insufficient output of new capital-goods in the world as a whole affects the prices of commodities everywhere and hence the profits of producers in all countries alike.

Why is there an insufficient output of new capital-goods in the world as a whole? It is due, in my opinion, to a conjunction of several causes. In the first instance, it was due to the attitude of lenders—for new capital-goods are produced to a large extent with borrowed money. Now it is due to the attitude of borrowers, just as much as to that of lenders.

For several reasons lenders were, and are, asking higher terms for loans than new enterprise can afford. First, the fact, that enterprise could afford high rates for some time after the war whilst war wastage was being made good,

accustomed lenders to expect much higher rates than before the war. Second, the existence of political borrowers to meet Treaty obligations, of banking borrowers to support newly restored gold standards, of speculative borrowers to take part in Stock Exchange booms, and, latterly, of distress borrowers to meet the losses which they have incurred through the fall of prices, all of whom were ready if necessary to pay almost any terms, have hitherto enabled lenders to secure from these various classes of borrowers higher rates than it is possible for genuine new enterprise to support. Third, the unsettled state of the world and national investment habits have restricted the countries in which many lenders are prepared to invest on any reasonable terms at all. A large proportion of the globe is, for one reason or another, distrusted by lenders, so that they exact a premium for risk so great as to strangle new enterprise altogether. For the last two years, two out of the three principal creditor nations of the world, namely, France and the United States, have largely withdrawn their resources from the international market for long-term loans.

Meanwhile, the reluctant attitude of lenders has become matched by a hardly less reluctant attitude on the part of borrowers. For the fall of prices has been disastrous to those who have borrowed, and any one who has postponed new enterprise has gained by his delay. Moreover, the risks that frighten lenders frighten borrowers too. Finally, in the United States, the

vast scale on which new capital enterprise has been undertaken in the last five years has somewhat exhausted for the time being—at any rate so long as the atmosphere of business depression continues—the profitable opportunities for yet further enterprise. By the middle of 1929 new capital undertakings were already on an inadequate scale in the world as a whole, outside the United States. The culminating blow has been the collapse of new investment inside the United States, which to-day is probably 20 to 30 per cent less than it was in 1928. Thus in certain countries the opportunity for new profitable investment is more limited than it was; whilst in others it is more risky.

A wide gulf, therefore, is set between the ideas of lenders and the ideas of borrowers for the purpose of genuine new capital investment; with the result that the savings of the lenders are being used up in financing business losses and distress borrowers, instead of financing new capital works.

At this moment the slump is probably a little overdone for psychological reasons. A modest upward reaction, therefore, may be due at any time. But there cannot be a real recovery, in my judgement, until the ideas of lenders and the ideas of productive borrowers are brought together again; partly by lenders becoming ready to lend on easier terms and over a wider geographical field, partly by borrowers recovering their good spirits and so becoming readier to borrow.

Seldom in modern history has the gap between the two been so wide and so difficult to bridge. Unless we bend our wills and our intelligences, energised by a conviction that this diagnosis is right, to find a solution along these lines, then, if the diagnosis *is* right, the slump may pass over into a depression, accompanied by a sagging price level, which might last for years, with untold damage to the material wealth and to the social stability of every country alike. Only if we seriously seek a solution, will the optimism of my opening sentences be confirmed—at least for the nearer future.

It is beyond the scope of this essay to indicate lines of future policy. But no one can take the first step except the central banking authorities of the chief creditor countries; nor can any one Central Bank do enough acting in isolation. Resolute action by the Federal Reserve Banks of the United States, the Bank of France, and the Bank of England might do much more than most people, mistaking symptoms or aggravating circumstances for the disease itself, will readily believe. In every way the most effective remedy would be that the Central Banks of these three great creditor nations should join together in a bold scheme to restore confidence to the international long-term loan market; which would serve to revive enterprise and activity everywhere, and to restore prices and profits, so that in due course the wheels of the world's commerce would go round again. And

even if France, hugging the supposed security of gold, prefers to stand aside from the adventure of creating new wealth, I am convinced that Great Britain and the United States, like-minded and acting together, could start the machine again within a reasonable time; if, that is to say, they were energised by a confident conviction as to what was wrong. For it is chiefly the lack of this conviction which to-day is paralysing the hands of authority on both sides of the Channel and of the Atlantic.

6. ECONOMY (1931)

(i) *Saving and Spending* (Jan. 1931)¹

The slump in trade and employment and the business losses which are being incurred are as bad as the worst which have ever occurred in the modern history of the world. No country is exempt. The privation and—what is sometimes worse—the anxiety which exist to-day in millions of homes all over the world is extreme. In the three chief industrial countries of the world, Great Britain, Germany, and the United States, I estimate that probably 12,000,000 industrial workers stand idle. But I am not sure that there is not even more human misery to-day in the great agricultural countries of the world—Canada, Australia, and South America, where millions of small farmers see themselves ruined by the fall in the prices of their products, so that their receipts after harvest bring them in much less than the crops have cost them to produce. For the fall in the prices of the great staple products of the world such as wheat, wool, sugar, cotton, and indeed most other commodities has been simply catastrophic. Most of these prices are now below their pre-war level;

¹ A Broadcast Address.

yet costs, as we all know, remain far above their pre-war level. A week or two ago, it is said, wheat in Liverpool sold at the lowest price recorded since the reign of Charles II. more than 250 years ago. How is it possible for farmers to live in such conditions? Of course it is impossible.

You might suppose—and some austere individuals do in fact believe—that cheapness must be an advantage. For what the producer loses, the consumer gains. But it is not so. For those of us who work—and we are in the great majority—can only consume so long as we produce. So that anything which interferes with the processes of production necessarily interferes also with those of consumption.

The reason for this is that there are all kinds of obstacles to the costs and prices of everything falling equally. For example, the wages-costs of most manufacturers are practically the same as they were. See how the vicious process works out. The prices of wool and wheat fall. Good for the British consumer of wheat and woollen garments—so one might suppose. But the producers of wool and wheat, since they receive too little for their products, cannot make their usual purchases of British goods. Consequently those British consumers who are at the same time workers who make these goods find themselves out of work. What is the use of cheapness when incomes are falling?

When Dr. Johnson, visiting the Island of Skye, was told that twenty eggs might be bought

And so the position gets worse and worse in a vicious circle.

The best guess I can make is that whenever you save five shillings, you put a man out of work for a day. Your saving that five shillings adds to unemployment to the extent of one man for one day—and so on in proportion. On the other hand, whenever you buy goods you increase employment—though they must be British, home-produced goods if you are to increase employment in this country. After all, this is only the plainest common sense. For if you buy goods, some one will have to make them. And if you do not buy goods, the shops will not clear their stocks, they will not give repeat orders, and some one will be thrown out of work.

Therefore, oh patriotic housewives, sally out to-morrow early into the streets and go to the wonderful sales which are everywhere advertised. You will do yourselves good—for never were things so cheap, cheap beyond your dreams. Lay in a stock of household linen, of sheets and blankets to satisfy all your needs. And have the added joy that you are increasing employment, adding to the wealth of the country because you are setting on foot useful activities, bringing a chance and a hope to Lancashire, Yorkshire, and Belfast.

These are only examples. Do whatever is necessary to satisfy the most sensible needs of yourself and your household, make improvements, build.

For what we need now is not to button up our

waistcoats tight, but to be in a mood of expansion, of activity—to do things, to buy things, to make things. Surely all this is the most obvious common sense. For take the extreme case. Suppose we were to stop spending our incomes altogether, and were to save the lot. Why, every one would be out of work. And before long we should have no incomes to spend. No one would be a penny the richer, and the end would be that we should all starve to death—which would surely serve us right for refusing to buy things from one another, for refusing to take in one another's washing, since that is how we all live. The same is true, and even more so, of the work of a local authority. Now is the time for municipalities to be busy and active with all kinds of sensible improvements.

The patient does not need rest. He needs exercise. You cannot set men to work by holding back, by refusing to place orders, by inactivity. On the contrary, activity of one kind or another is the only possible means of making the wheels of economic progress and of the production of wealth go round again.

Nationally, too, I should like to see schemes of greatness and magnificence designed and carried through. I read a few days ago of a proposal to drive a great new road, a broad boulevard, parallel to the Strand, on the south side of the Thames, as a new thoroughfare joining Westminster to the City. That is the right sort of notion. But I should like to see something bigger still. For example, why not pull

down the whole of South London from Westminster to Greenwich, and make a good job of it—housing on that convenient area near to their work a much greater population than at present, in far better buildings with all the conveniences of modern life, yet at the same time providing hundreds of acres of squares and avenues, parks and public spaces, having, when it was finished, something magnificent to the eye, yet useful and convenient to human life as a monument to our age. Would that employ men? Why, of course it would! Is it better that the men should stand idle and miserable, drawing the dole? Of course it is not.

These, then, are the chief observations which I want to leave with you now—first of all, to emphasise the extreme gravity of the situation, with about a quarter of our working population standing idle; next, that the trouble is a world-wide one which we cannot cure by ourselves; and, third, that we can all the same do something by ourselves and that something must take the form of activity, of doing things, of spending, of setting great enterprises afoot.

But I also have one final theme to put before you. I fancy that a reason why some people may be a little horrified at my suggestions is the fear that we are much too poor to be able to afford what they consider to be extravagance. They think that we are poor, much poorer than we were and that what we chiefly need is to cut our coat according to our cloth, by which they mean that we must curtail our consumption,

reduce our standard of life, work harder and consume less; and that that is the way out of the wood. This view is not, in my judgement, in accordance with the facts. We have plenty of cloth and only lack the courage to cut it into coats. I want, therefore, to give you some cheerful facts to dispose you to take an ampler view of the economic strength of this country.

Let me first of all remind you of the obvious. The great mass of the population is living much better than it ever lived before. We are supporting in idleness, at a higher standard of life than is possible for those who are in work in most other countries, nearly a quarter of our employable population. Yet at the same time the national wealth is increasing year by year. After paying wages which are far higher than, for example, in France or in Germany, after supporting a quarter of our population in idleness, after adding to the country's equipment of houses and roads and electrical plant and so forth on a substantial scale, we still have a surplus available to be lent to foreign countries, which in 1929 was greater than the surplus for such purposes of any other country in the world, even of the United States.

How do we do it? If the pessimists were right who believe that we are terribly inefficient, over-extravagant and getting poorer, obviously it would be impossible. We can only do it because the pessimists are quite wrong. We are not nearly so rich as we might be if we could manage our affairs better and not get them into

such a muddle. But we are not inefficient, we are not poor, we are not living on our capital. Quite the contrary. Our labour and our plant are enormously more productive than they used to be. Our national income is going up quite quickly. That is how we do it.

Let me give you a few figures. As compared with so recent a date as 1924, our productive output per head has probably increased by 10 per cent. That is to say, we can produce the same amount of wealth with 10 per cent fewer men employed. As compared with pre-war the increase in output per head is probably as much as 20 per cent. Apart from changes in the value of money, the national income—even so recently as 1929 with a great mass of unemployment (it cannot, of course, be quite so good to-day)—was probably increasing by as much as £100,000,000 a year; and this has been going on year by year for a good many years. At the same time we have been quietly carrying through almost a revolution in the distribution of incomes in the direction of equality.

Be confident, therefore, that we are suffering from the growing pains of youth, not from the rheumatics of old age. We are failing to make full use of our opportunities, failing to find an outlet for the great increase in our productive powers and our productive energy. Therefore we must not draw in our horns; we must push them out. Activity and boldness and enterprise, both individually and nationally, must be the cure.

(ii) *The Economy Report* (Aug. 15, 1931)

The Report of the Economy Committee can be considered from several points of view. It is an exceedingly valuable document because it is a challenge to us to make up our minds one way or the other on certain vital matters of policy. In particular it invites us to decide whether it is our intention to make the Deflation effective by transmitting the reduction of international prices to British salaries and wages; though if this *is* our intention, it would be absurd to pretend that the process can stop with school-teachers and policemen. The Committee's Report goes too far or not far enough. But this is not the question which I wish to discuss here. I would like to confine myself to what has been so far, as it seems to me, a neglected aspect of the Report.

The Committee show no evidence of having given a moment's thought to the possible repercussions of their programme, either on the volume of unemployment or on the receipts of taxation. They recommend a reduction of the purchasing power of British citizens partly by the reduction of incomes and partly by throwing out of work persons now employed. They give no reason for supposing that this reduction of purchasing power will be offset by increases in other directions; for their idea is that the Government should take advantage of the economies proposed, not to tax less, but to borrow less. Perhaps at the back of their heads they have

some crude idea that there is a fixed Loan Fund, the whole of which is always lent, so that, if the Government borrows less, private enterprise necessarily borrows more. But they could not believe this on reflection, if they were to try to translate it into definite, concrete terms.

Their proposals do not even offer the possible advantages to our trade balance which might ensue on a reduction of industrial wages. For there is nothing in what they propose calculated to reduce the costs of production; indeed, on the contrary, they propose to increase them by raising the employers' insurance contribution.

Let us try, therefore, to write the missing paragraphs of the Report and to make some guesses as to the probable consequences of reducing purchasing power in the manner proposed.

Some part of this reduction of purchasing power may be expected to lead to a reduced buying of foreign goods, *e.g.* if the dole is cut down, the unemployed will have to tighten their belts and eat less imported food. To this extent the situation will be helped. Some part will be economised by saving less; *e.g.* if teachers' salaries are cut down, teachers will probably save less or even draw on their past savings, to maintain the standard of life to which they have become accustomed. But for the rest British producers will find the receipts reaching them from the expenditure of consumers (policemen, school-teachers, men on the dole, etc.) reduced by the balance of, say, £70,000,000. They

cannot meet this loss without reducing their own expenditure or discharging some of their men, or both; *i.e.* they will have to follow the example of the Government, and this will again set moving the same series of consequences, and so on.

The net result would necessarily be a substantial increase in the number of unemployed drawing the dole and a decrease in the receipts of taxation as a result of the diminished incomes and profits. Indeed the immediate consequences of the Government's reducing its deficit are the exact inverse of the consequences of its financing additional capital works out of loans. One cannot predict with accuracy the exact quantitative consequences of either, but they are broadly the same. Several of the Committee's recommendations, *e.g.* those relating to Roads, to Housing, and to Afforestation, do indeed expressly imply that the whole theory underlying the principle of Public Works as a remedy for unemployment is mistaken, and they ask, in effect, for a reversal of the policies based on this principle. Yet they do not trouble to argue the case. I suppose that they are such very plain men that the advantages of not spending money seem obvious to them. They may even be so plain as to be unaware of the existence of the problem which I am now discussing. But they are flying in the face of a considerable weight of opinion. For the main opposition to the Public Works remedy is based on the practical difficulties of devising a reasonable programme, not

on the principle. But a proposal to reverse measures already in force involves a denial of the principle as well as of the feasibility.

I should like, though it is rash, to make, if only for purposes of illustration, a very rough guess as to the magnitudes of the more immediate consequences of the adoption of economies of £100,000,000, carried out on the lines of the Committee's recommendations. I should expect something like the following:

(1) An increase of 250,000-400,000 in the number of the unemployed;

(2) A decrease of, say, £20,000,000 in the excess of our imports over our exports;

(3) A decrease of £10,000,000 to £15,000,000 in the savings of the general public;

(4) A decrease of £20,000,000 to £30,000,000 in business profits;

(5) A decrease of £10,000,000 to £15,000,000 in the personal expenditure of business men and others, who depend on business profits, as a result of these profits being less;

(6) A decrease of £5,000,000 to £10,000,000 in the aggregate of capital construction and working capital and other investment at home entered upon by private enterprise, as a result of the lower level of business profits, after allowing for any favourable psychological effects on business "confidence" of the adoption of the Committee's recommendations:

(7) A *net* reduction in the Government deficit not exceeding £50,000,000, as a result of the Budget economies of £100,000,000 being partly

offset by the diminished yield of taxation and the cost of the increased unemployment.

The actual figures I have used are, of course, guess-work. But $(2) + (3) + (4) - (5) - (6) = (7)$, where (7) is the net reduction in the Government deficit, is a necessary truth—as necessary as $2 + 2 = 4$. There is nothing rational to dispute about except the size of the various items entering into this equation. It might be held by some, for example, that there would be an *increase* under (6), instead of a decrease; and if there were a large increase of this item—which, however, could not, in my judgement, be maintained with good reason—this would make all the difference in the world to the expediency of the policy proposed.

At the present time, all Governments have large deficits. For Government borrowing of one kind or another is nature's remedy, so to speak, for preventing business losses from being, in so severe a slump as the present one, so great as to bring production altogether to a standstill. It is much better in every way that the borrowing should be for the purpose of financing capital works, if these works are any use at all, than for the purpose of paying doles (or veterans' bonuses). But, so long as the slump lasts on the present scale, this is the only effective choice which we possess, and Government borrowing for the one purpose or the other (or a diminished Sinking Fund, which has the same effect) is practically inevitable. For this is a case, fortunately perhaps, where the weakness of human

nature will, we can be sure, come to the rescue of human wrong-headedness.

This is not to say that there are not other ways in which we can help ourselves. I am not concerned here with the possible advantages—for example—of a Tariff or of Devaluation or of a National Treaty for the reduction of all money incomes. I am simply analysing the results to be expected from the recommendations of the Economy Committee adopted as a means of reducing the uncovered deficit of the Budget. And I should add, to prevent misunderstanding, that I should prefer some of their recommendations—for they have done their work in detail with ability and fair-mindedness—to most kinds of additional taxation other than a tariff.

My own policy for the Budget, so long as the slump lasts, would be to suspend the Sinking Fund, to continue to borrow for the Unemployment Fund, and to impose a Revenue Tariff. To get us out of the slump we must look to quite other expedients. When the slump is over, when the demands of private enterprise for new capital have recovered to normal and employment is good and the yield of taxation is increasing, then is the time to restore the Sinking Fund and to look critically at the less productive State enterprises.

(iii) *The Economy Bill* (Sept. 19, 1931)

The Budget and the Economy Bill are replete with folly and injustice. It is a tragedy that the

moral energies and enthusiasm of many truly self-sacrificing and well-wishing people should be so misdirected.

The objects of national policy, so as to meet the emergency, should be primarily to improve our balance of trade, and secondarily to equalise the yield of taxation with the normal recurrent expenditure of the Budget by methods which would increase, rather than diminish, output, and hence increase the national income and the yield of the revenue, whilst respecting the principles of social justice. The actual policy of the Government fails on each of these tests. It will have comparatively little effect on the balance of trade. It will largely increase unemployment and diminish the yield of the revenue. And it outrages the principles of justice to a degree which I should have thought inconceivable.

To begin with the last. The incomes of well-to-do people have been cut by $2\frac{1}{2}$ to $3\frac{1}{2}$ per cent. The school-teachers are cut 15 per cent,¹ in addition to the extra taxes which they have to pay. It is a monstrous thing to single out this class and discriminate against them, merely because they happen to be employees of the Government. It is particularly outrageous, because efforts have been made in recent years to attract into the profession teachers of higher qualifications by holding out to them certain expectations. It is even proposed to take powers to dissolve existing contracts. That the school-teachers should have been singled out for sacrifice as an offering to

¹ [Afterwards reduced to 10 per cent.]

the Moloch of finance is a sufficient proof of the state of hysteria and irresponsibility into which Cabinet Ministers have worked themselves. For it is impossible to represent this cut as one of unavoidable necessity. The money saved is £6,000,000. At the same time £32,000,000 is going to the Sinking Fund, whilst tea, sugar, and a tariff as sources of revenue are left untapped. The Prime Minister has offered no defence, except that some of his former colleagues, who have since recovered their heads, were temporarily frightened into considering something of the same kind.

The school-teachers are the most outstanding case of injustice. But the same considerations apply in varying degrees to all the attacks on the standards of Government employees. The principle of discriminating against persons in the service of the State, because they can be reached most easily, is not right. At least it would have been more decent in the circumstances if the phrase "equality of sacrifice" had not been used.

Moreover, the Government's programme is as foolish as it is wrong. Its direct effect on employment must be disastrous. It is safe to predict that it will increase the volume of unemployment by more than the 10 per cent by which the dole is to be cut. It represents a reckless reversal of all the partial attempts which have been made hitherto to mitigate the consequences of the collapse of private investment; and it is a triumph for the so-called "Treasury

View" in its most extreme form. Not only is purchasing power to be curtailed, but road-building, housing, and the like are to be retrenched. Local authorities are to follow suit. If the theory which underlies all this is to be accepted, the end will be that no one can be employed, except those happy few who grow their own potatoes, as a result of each of us refusing, for reasons of economy, to buy the services of any one else. To raid the Road Fund in order to maintain the Sinking Fund is, in present circumstances, a policy of Bedlam.

Finally there is the problem of the Balance of Trade, which, after all, is the main point so far as concerns the emergency. Broadly speaking, the cost of production is left unchanged. Cutting the school-teachers' salaries will not help us to recapture the markets of the world. Those wages and the like which are within the Government's direct control happen to be just those which it is most useless to cut in the interests of the export trade. We are told that it is a wicked misrepresentation to say that all this is a preliminary to a general assault on wages. Yet it has less than no sense unless it is. But meanwhile the Government have noticed that there is just one point where their activities raise the cost of production, namely, the employers' insurance contribution, which is, in effect, a poll tax on employment. So, in order to prove for certain that they are quite mad, the Government have decided to *increase* it.

There are only two ways in which the Govern-

ment plan can help the Balance of Trade. Whenever any one is thrown out of work or otherwise impoverished, he will perforce consume less. Most of this reduced consumption will merely cause business losses and unemployment to other Englishmen. Some part of it, however, perhaps a fifth, will be at the expense of imports; though even this would not help if those Free Traders are right who think that a reduction of imports leads to a corresponding reduction of exports. But it is a wasteful way of setting about the task of reducing imports. The other way is by increasing both the quantity of unemployment and also the pains of being unemployed, since this may slightly increase the chance of wage-reductions being accepted. Economy can have no other purpose or meaning except to release resources. A small proportion of what is thus released will relieve the Balance of Trade. The rest will be resources of domestic plant and labour, of which we already have a surplus out of use.

Thus the Government's scheme, for the sake of which we are asked to swallow so much, is in the main misdirected, and will not assist the solution of our twin problems of unemployment and an adverse balance of trade.

As regards the latter, which, unremedied, will at no distant date break the gold standard even if we cut school-teachers' salaries to nothing, the only remedies now open to us are Devaluation, a drastic restriction of imports by direct methods, a severe cut, not less than 30 per cent

in my judgement, in wages and salaries, or a decisive change in the international position. An attack on wages would mean a severe industrial struggle which would drive us off gold-parity within a few weeks; so that this is not in practice an alternative to Devaluation. Thus there are only three lines of policy to which it is worth the Cabinet's while to direct their minds. The first and mildest is a plan for the restriction of imports. The second is a plan for getting off gold-parity without allowing the slide to go too far. The third is a plan for an International Conference—one that means business of the most definite kind, quite different from any Conference ever held hitherto—for giving the gold-standard countries a last opportunity. All the rest is waste of time. The advantage of the last alternative is that this alone offers any chance, however slight, of an amelioration of the international position, without which we are faced with a disappearance of income from our foreign investments on a scale which neither a Tariff nor Devaluation could offset.

7. THE CONSEQUENCES TO THE BANKS OF THE COLLAPSE OF MONEY VALUES (Aug. 1931)

A year ago it was the failure of agriculture, mining, manufactures, and transport to make normal profits, and the unemployment and waste of productive resources ensuing on this, which was the leading feature of the economic situation. To-day, in many parts of the world, it is the serious embarrassment of the banks which is the cause of our gravest concern. The shattering German crisis of July 1931, which took the world more by surprise than it should, was in its essence a banking crisis, though precipitated, no doubt, by political events and political fears. That the top-heavy position, which ultimately crumbled to the ground, should have been built up at all, was, in my judgement, a sin against the principles of sound banking. One watched its erection with amazement and terror. But the fact which was primarily responsible for bringing it down was a factor for which the individual bankers were not responsible and which very few people foresaw—namely, the enormous change in the value of gold money and consequently in the burden of indebtedness which debtors, in all countries

adhering to the gold standard, had contracted to pay in terms of gold.

Let us begin at the beginning of the argument. There is a multitude of real assets in the world which constitute our capital wealth—buildings, stocks of commodities, goods in course of manufacture and of transport, and so forth. The nominal owners of these assets, however, have not infrequently borrowed *money* in order to become possessed of them. To a corresponding extent the actual owners of wealth have claims, not on real assets, but on money. A considerable part of this “financing” takes place through the banking system, which interposes its guarantee between its depositors who lend it money, and its borrowing customers to whom it loans money wherewith to finance the purchase of real assets. The interposition of this veil of money between the real asset and the wealth owner is a specially marked characteristic of the modern world. Partly as a result of the increasing confidence felt in recent years in the leading banking systems, the practice has grown to formidable dimensions. The bank-deposits of all kinds in the United States, for example, stand in round figures at \$50,000,000,000; those of Great Britain at £2,000,000,000. In addition to this there is the great mass of bonded and mortgage indebtedness held by individuals.

All this is familiar enough in general terms. We are also familiar with the idea that a change in the value of money can gravely upset the

relative positions of those who possess claims to money and those who owe money. For, of course, a fall in prices, which is the same thing as a rise in the value of claims on money, means that real wealth is transferred from the debtor in favour of the creditor, so that a larger proportion of the real asset is represented by the claims of the depositor, and a smaller proportion belongs to the nominal owner of the asset who has borrowed in order to buy it. This, we all know, is one of the reasons why changes in prices are upsetting.

But it is not to this familiar feature of falling prices that I wish to invite attention. It is to a further development which we can ordinarily afford to neglect but which leaps to importance when the change in the value of money is *very large*—when it exceeds a more or less determinate amount.

Modest fluctuations in the value of money, such as those which we have frequently experienced in the past, do not vitally concern the banks which have interposed their guarantee between the depositor and the debtor. For the banks allow beforehand for some measure of fluctuation in the value both of particular assets and of real assets in general, by requiring from the borrower what is conveniently called a "margin." That is to say, they will only lend him money up to a certain proportion of the value of the asset which is the "security" offered by the borrower to the lender. Experience has led to the fixing of conventional

percentages for the "margin" as being reasonably safe in all ordinary circumstances. The amount will, of course, vary in different cases within wide limits. But for marketable assets a "margin" of 20 per cent to 30 per cent is conventionally considered as adequate, and a "margin" of as much as 50 per cent as highly conservative. Thus provided the amount of the downward change in the money value of assets is well within these conventional figures, the direct interest of the banks is not excessive;—they owe money to their depositors on one side of their balance-sheet and are owed it on the other, and it is no vital concern of theirs just what the money is worth. But consider what happens when the downward change in the money value of assets within a brief period of time *exceeds* the amount of the conventional "margin" over a large part of the assets against which money has been borrowed. The horrible possibilities to the banks are immediately obvious. Fortunately, this is a very rare, indeed a unique event. For it had never occurred in the modern history of the world prior to the year 1931. There have been large *upward* movements in the money value of assets in those countries where inflation has proceeded to great lengths. But this, however disastrous in other ways, did nothing to jeopardise the position of the banks; for it increased the amount of their "margins." There was a large downward movement in the slump of 1921, but that was from an exceptionally high level

of values which had ruled for only a few months or weeks, so that only a small proportion of the banks' loans had been based on such values and these values had not lasted long enough to be trusted. *Never* before has there been such a world-wide collapse over almost the whole field of the money values of real assets as we have experienced in the last two years. And, finally, during the last few months—so recently that the bankers themselves have, as yet, scarcely appreciated it—it has come to exceed in very many cases the amount of the conventional "margins." In the language of the market the "margins" have run off. The exact details of this are not likely to come to the notice of the outsider until some special event—perhaps some almost accidental event—occurs which brings the situation to a dangerous head. For, so long as a bank is in a position to wait quietly for better times and to ignore meanwhile the fact that the security against many of its loans is no longer as good as it was when the loans were first made, nothing appears on the surface and there is no cause for panic. Nevertheless, even at this stage the underlying position is likely to have a very adverse effect on new business. For the banks, being aware that many of their advances are in fact "frozen" and involve a larger latent risk than they would voluntarily carry, become particularly anxious that the remainder of their assets should be as liquid and as free from risk as it is possible to make them. This reacts in all sorts of silent

and unobserved ways on new enterprise. For it means that the banks are less willing than they would normally be to finance any project which may involve a lock-up of their resources.

Now, in estimating the quantitative importance of the factor to which I am calling attention, we have to consider what has been happening to the prices of various types of property. There are, first of all, the principal raw materials and foodstuffs of international commerce. These are of great importance to the banks, because the stocks of these commodities, whether in warehouse or in transit or embodied in half-finished or unsold manufactured articles, are very largely financed through the banks. In the last eighteen months the prices of these commodities have fallen *on the average* by about 25 per cent. But this is an average, and banks cannot average the security of one customer with that of another. Many individual commodities of the greatest commercial importance have fallen in price by 40 to 50 per cent or even more.

Next come the ordinary or common shares of the great companies and corporations which are the market leaders in the Stock Exchanges of the world. In most countries the average fall amounts to 40 to 50 per cent; and, this again, is an average which means that individual shares, even amongst those which would have been considered of good quality two years ago, have fallen enormously more. Then there are the bonds and the fixed interest securities.

Those of the very highest grade have, indeed, risen slightly, or, at the worst, not fallen by more than 5 per cent, which has been of material assistance in some quarters. But many other fixed interest securities, which, while not of the highest grade, were, and are, good securities, have fallen from 10 to 15 per cent; whilst foreign government bonds have, as is well known, suffered prodigious falls. These declines, even where they are more moderate, may be scarcely less serious, because such bonds (though not in Great Britain) are often owned by the banks themselves outright, so that there is no "margin" to protect them from loss.

The declines in the prices of commodities and of securities have, broadly speaking, affected most countries alike. When we come to the next category of property—and one of great quantitative importance—namely, real estate, the facts are more various as between one country and another. A great element of stability in Great Britain, and, I believe, in France also, has been the continued comparative firmness in real estate values:—no slump has been experienced in this quarter, with the result that mortgage business is sound and the multitude of loans granted on the security of real estate are unimpaired. But in many other countries the slump has affected this class of property also; and particularly, perhaps, in the United States, where farm values have suffered a great decline, and also city property of modern construction, much of which would not fetch

to-day more than 60 to 70 per cent of its original cost of construction, and not infrequently much less. This is an immense aggravation of the problem, where it has occurred, both because of the very large sums involved and because such property is ordinarily regarded as relatively free from risk.

Finally, there are the loans and advances which banks have made to their customers for the purposes of their customers' business. These are, in many cases, in the worst condition of all. The security in these cases is primarily the profit, actual and prospective, of the business which is being financed; and in present circumstances for many classes of producers of raw materials, of farmers and of manufacturers, there are no profits and every prospect of insolvencies, if matters do not soon take a turn for the better.

To sum up, there is scarcely any class of property, except real estate, however useful and important to the welfare of the community, the current money value of which has not suffered an enormous and scarcely precedented decline. This has happened in a community which is so organised that a veil of money is, as I have said, interposed over a wide field between the actual asset and the wealth owner. The ostensible proprietor of the actual asset has financed it by borrowing money from the actual owner of wealth. Furthermore, it is largely through the banking system that all this has been arranged. That is to say, the banks have, for a consideration,

interposed their guarantee. They stand between the real borrower and the real lender. They have given their guarantee to the real lender; and this guarantee is only good if the money value of the asset belonging to the real borrower is worth the money which has been advanced on it.

It is for this reason that a decline in money values so severe as that which we are now experiencing threatens the solidity of the whole financial structure. Banks and bankers are by nature blind. They have not seen what was coming. Some of them have even welcomed the fall of prices towards what, in their innocence, they have deemed the just and "natural" and inevitable level of pre-war, that is to say, to the level of prices to which their minds became accustomed in their formative years. In the United States some of them employ so-called "economists" who tell us even to-day that our troubles are due to the fact that the prices of some commodities and some services have not yet fallen enough, regardless of what should be the obvious fact that their cure, if it could be realised, would be a menace to the solvency of their institution. A "sound" banker, alas! is not one who foresees danger and avoids it, but one who, when he is ruined, is ruined in a conventional and orthodox way along with his fellows, so that no one can really blame him.

But to-day they are beginning at last to take notice. In many countries bankers are becoming unpleasantly aware of the fact that, when their

customers' margins have run off, they are themselves "on margin." I believe that, if to-day a really conservative valuation were made of all doubtful assets, quite a significant proportion of the banks of the world would be found to be insolvent; and with the further progress of Deflation this proportion will grow rapidly. Fortunately our own domestic British Banks are probably at present—for various reasons—among the strongest. But there is a degree of Deflation which no bank can stand. And over a great part of the world, and not least in the United States, the position of the banks, though partly concealed from the public eye, may be in fact the weakest element in the whole situation. It is obvious that the present trend of events cannot go much further without something breaking. If nothing is done, it will be amongst the world's banks that the really critical breakages will occur.

Modern capitalism is faced, in my belief, with the choice between finding some way to increase money values towards their former figure, or seeing widespread insolvencies and defaults and the collapse of a large part of the financial structure;—after which we should all start again, not nearly so much poorer as we should expect, and much more cheerful perhaps, but having suffered a period of waste and disturbance and social injustice, and a general re-arrangement of private fortunes and the ownership of wealth. Individually many of us would be "ruined," even though collectively

we were much as before. But under the pressure of hardship and excitement, we might have found out better ways of managing our affairs.

The present signs suggest that the bankers of the world are bent on suicide. At every stage they have been unwilling to adopt a sufficiently drastic remedy. And by now matters have been allowed to go so far that it has become extraordinarily difficult to find any way out.

It is necessarily part of the business of a banker to maintain appearances and to profess a conventional respectability which is more than human. Lifelong practices of this kind make them the most romantic and the least realistic of men. It is so much their stock-in-trade that their position should not be questioned, that they do not even question it themselves until it is too late. Like the honest citizens they are, they feel a proper indignation at the perils of the wicked world in which they live,—when the perils mature; but they do not foresee them. A Bankers' Conspiracy! The idea is absurd! I only wish there were one! So, if they are saved, it will be, I expect, in their own despite.