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AN ECONOMIST'S PROTEST

BY

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PREFACE

WHAT should I answer if anyone had the impertinence to ask me, "What did you do in the Great War?" It would be no use to say that immediately on the outbreak I offered my services as a harvester, for the young man who took my name evidently regarded me as far too old (at 53, thirteen long years ago!), and nothing ever came of it. It would be no better to say that I sat for quite a long time on several committees, because everyone did, and nothing ever came of that. The best answer I can think of is "I protested."

Hence the title of this book, which consists of a selection from a considerably larger number of letters and articles, published and unpublished, which I wrote from 1914 to 1926. I have left them almost exactly in chronological order instead of re-arranging them under subject headings, because I think that they have running through them only two main lines of protest, the one against what may be called economic nationalism or nationalist economics, and the other against expedients which ought to be rejected whether the economic ideal aimed at is nationalist or cosmopolitan. And these two are so intertwined that it is undesirable to try to keep them apart. Even the choice and management of a national currency is inextricably mixed up with international relations.

I had long been a protestant against the current identification of "the country" or "the nation" (that is, the country or the nation of the speaker or writer) with the economic "society" or "community." Readers of the *Economic Outlook* with retentive memories may recall that in 1908 I valiantly tried to persuade the Irish not to lament over the depopulation of Ireland,

and that in 1909, equally valiantly and equally vainly, I tried to persuade the Socialists to give up imagining that they can safely aim at the internal re-organization of each of the existing nations separately, and ignore the greater Society which includes them all. In *Wealth*, published seven months before the beginning of the War, as well as long before in my oral teaching of economics and public finance I had always tried to be a mundane rather than a national economist. I refused to pretend to think of each and every nation in turn as of an honest and law-abiding householder surrounded by burglars and murderers against whom he had to arrange and pay for "defence," so that military and naval exertions of all nations and all times were just as legitimate and productive industry as that of the medical profession, which does its best to defend us against the attacks of disease. I had even complained that although it was no longer thought right to eat the foreigner or even to reduce him to slavery, it was generally thought quite legitimate to tax him (if possible) and to prevent him immigrating to improve his condition, even when it was admitted that to obstruct his movement was contrary to the good of the world as a whole. Patriotism, I thought, like the egotism of which it is a larger variety, was an excellent thing only when kept within certain bounds by appropriate institutions. Still later, in May, 1914, I tried to show in the first article reprinted in the present collection that no permanent benefit could be won for the pure working class of any particular nation by the most successful war.

I had also been an almost life-long protestant against the shallow habit—by no means confined to professed socialists—of proposing remedies for economic pressure without considering the question whether that pressure may not be an integral part of the existing organization which cannot be removed without causing disaster unless some efficient substitute is provided. Modern civilization, nearly all civilization, is based on the principle of making things pleasant for those who please

the market and unpleasant for those who fail to do so, and whatever defects this principle may have, it is better than none. Illustration will be found in the second of the two pre-war articles below, where I complain that the Liberal "Land Enquiry Committee" proposed to do away with one of the principal regulators of the distribution of population without the least suggestion of putting anything else in its place.

Inter arma silent leges, as I remark below in 1915 IX, is not to be translated "In time of war economic laws don't work," and though, as I suggest there, it may sometimes be well to be silent about some of them, this is not the general rule. The outbreak of the World War in August, 1914, called for not less but more vigour in the two lines of protest which I have indicated. That catastrophe made it painfully evident that the system of entirely independent states each with its own politicians and economists regarding it as Society at large and treating the interest of all outside it as of no account had become not only inconvenient, but absolutely incompatible with the continuance of civilization. It became very widely acknowledged that there must be some cosmopolitan organization and authority to settle international disputes and prevent recourse to international violence just as there is in each country a national organization and authority to settle individual disputes and prevent individual recourse to violence.

At first I had only to do my best to support this change of opinion. I did so by pointing out (as in the articles 1915 III and 1916 IV) that the supposed "economic" causes of war, when carefully analysed, turn out to be at bottom the result not of economic incompatibilities but of strategic jealousies and alarms. When these are exorcised by the disappearance of separate military forces and consequently of the possibility of war, nationalism becomes contented with home rule, and loses the bitterness usually given to it by fear.

But war, as Adam Smith said of a more respectable trade, is "a brutal and an odious business." Under its malign influence the noble aspirations with which

the Great War opened soon wilted away: particularist and anti-social nationalisms revived, and all the "mean and malignant expedients" of mercantilism were resuscitated for use not only against enemies in the field but also for permanent employment against both quondam enemies and quondam allies after peace was made. My attitude of protest had to be resumed, and many of the items, from 1916 I, "Mercantile war to follow military war?" down to 1923 II, "Professors and Protection," are attempts to stem this reaction to ideas and methods rightly discarded in the more peaceful atmosphere of the nineteenth century.

Some friends of peace and goodwill for whom I had the highest respect took a very gloomy view of the probable results of a complete defeat of the Central Powers. In spite of all my dissatisfaction with war propaganda and its effects on public opinion, I was more cheerful, and endeavoured to show in "A Plea for Large Political Units" (1916 VII) that there was a probability of the confederates against the Central Powers becoming in the end the nucleus of a more comprehensive federation which would include the defeated powers. Now, in 1927, when we have seen the Locarno Pact and the admission of Germany to the Council of the League of Nations, it looks as if perhaps I was not far wrong.

With this idea in my mind I could do my best to help in the war without being oppressed, as many good men and women were, with the sickening thought that it was all to no purpose and possibly actually harmful. I made various practical suggestions of a positive kind, some of which were adopted (I do not say in consequence of my recommendation). But the greater part of my effort was directed to combating some extraordinary delusions which took possession of the minds of the people and their governors.

The earliest of these was the idea that there was danger of unemployment unless everyone continued to spend as before. This gave rise to what I have called the first war slogan, "Business as Usual" (see 1914 III).

It was short-lived, and soon gave way before a much more dangerous delusion, the belief that everything ought to be sold at the same price as before the war, and that anyone who sold anything at a higher price than that was an extortioner of so deep a dye that a new word, "profiteer," had to be invented for him. Regulation of prices, with the intention of keeping them down, began to be undertaken by the Government, and this of course soon led to what became known as the queue system of distribution; when there was a shortage of the supply of any article and the price was prevented from rising by regulation, so that the demand was not contracted as usual by a rise of price, the would-be buyers stood in a queue for the commodity in question, and those at the head of the queue got as much as they wanted, and those at the other end got none. The course of things showed a complete absence of any general appreciation of the function of prices. Hence the appearance in this collection of many protests, of which the most general is 1915 II, "Why some prices should rise," or as it was originally entitled, "The Good Side of Rising Prices."

The rise of prices which I defended was of course the rise in the price of particular things which happened to be in abnormally short supply or for which there happened to be an abnormally large demand. But it was not long before a different kind of rise of price, little thought of at first, the general rise of prices which is synonymous with decline in the purchasing power of money, began to force itself on the attention of the public.

Part of the depreciation of the pound merely corresponded with a depreciation of gold throughout the world. Some hoards had been or were being thrown on the market, and the usual demand of the mints for currency purposes was entirely cut off, while the production of gold proceeded with little diminution. The natural result was that an ounce of gold would buy less than formerly. Great Britain might, of course, by sufficient limitation of the issue of paper money and

closing the Mint and the Bank of England against the reception of gold, have kept the purchasing power of the pound above that of the old gold equivalent of a pound (123 $\frac{1}{4}$ grains of standard or 113 of pure gold). That would have prevented the rise of prices with all its attendant troubles, and have reduced the nominal cost of the war enormously and the real cost substantially though not nearly so much. But it would have given rise to considerable difficulties after the war, and in fact nobody asked for it.

All that could be reasonably expected was that the pound should not be reduced in value below its gold equivalent.

To the veteran Professor Shield Nicholson belongs the credit of scenting danger in the Currency Note issue as early as the first month of the War. In the *Scotsman* of August 18, 1914, he suggested that the notes might become inconvertible, and that if prices came to be measured in inconvertible notes, there would be no limit to the rise of prices except in the moderation of the authority issuing the notes (*War Finance*, 1917, p. 179). But most of us were lulled to sleep by the promise of the Currency and Bank Notes Act, 1914, that the notes should be convertible into gold coin at the Bank of England. We forgot, if we ever knew, that Ricardo, a hundred years before, had observed that gold coin which could not be melted or exported could be depreciated below the value of its weight in free bullion to a level set by the paper currency. I think I only began to be suspicious in 1916 and alarmed in 1917.

Late as this was, it was early if measured by the progress of general opinion on the subject. It is almost incredible now, but it is a fact that everywhere most of those who were regarded by the public as monetary experts refused to believe that the paper issues of their own particular country had anything to do with the rise of prices in that country. The usual line taken was to allege that the large additions to the paper currency were the effect and not the cause of the rise. The fact was never faced that under the pre-war gold

standard this doctrine would have appeared palpably absurd. Before the War it had become quite well accepted in expert circles that the rise of prices which had taken place since the nineties was due to the large amount of gold forthcoming from the Transvaal: no one had ever thought of suggesting that the rise of prices had called forth the gold from the mines in the mysterious way in which it was now supposed that the rise of prices was calling forth currency notes from the press.

Of the few experts who admitted that the issue of paper money had been the cause of the rise of prices many were angry with anyone who ventured to deprecate it, because, they said, the issue was necessary to finance the enormous expense of the War. They completely overlooked the fact that this enormous expense measured in money was largely due to the depreciation of money, and that if money had not depreciated, it would not have been nearly so large.

By 1918 I was thoroughly aroused, and in August of that year I found some distraction from a recent almost overwhelming private sorrow in devoting a strenuous month's work to writing the first edition of *Money: its connexion with rising and falling prices*, an elementary exposition of which the oft-recurring refrain is, "to maintain the value of a currency due limitation of issue is necessary." My publishers, rather to my surprise at that very difficult time, took the work in hand at once and it came out at Christmas. My sanguine hopes that it might make some difference were, like most authors' hopes, disappointed, and to my infinite disgust, the issue which had been defended as necessary to carry on the war continued on its evil course at nearly as rapid a rate after the Armistice as before it.

I continued protesting all through 1919, and jumped at the proposal of my publishers, suggested, I believe, by Mr. Samuel Evans, that I should edit a reprint of the Bullion Report of 1810. This appeared in December under the title of *The Paper Pound of 1797 to 1821*—a

title which was intended to help, and I think did help a little, to make people think of the pound of 1914-25 as a paper pound. But a more powerful engine was set to work about the same time. In October I had grumbled to a member of the Cunliffe Committee about its inaction, and he admitted that it had "been in a trance for a long time," but said it was just going to meet again. It did so, and soon produced the Report recommending what became known as "the Cunliffe limit" on the issue of Currency Notes, and this was adopted by the Government in the Treasury Minute of December 15.

The battle, however, scarcely appeared to be won. If the limit held, the currency could not be increased unless its old par with gold was first restored, but there was nothing to show that the existing currency would be reduced in amount so as to bring that restoration about in the early future. Moreover there was no security that the Treasury Minute, made by one Chancellor of the Exchequer, might not be varied by another Minute, made by the same or a subsequent Chancellor. The idea that the limit would hold was openly derided by many of the foremost experts, and their contempt for it seemed to be justified by the fact that during the months from March to July the fiduciary issue of Currency Notes rose faster and to higher level than it had done in the corresponding months of 1919, terrifying the Treasury into the very pusillanimous action of practically enlarging the limit by declaring a few millions of notes forming the earliest issue to be "called in but not yet cancelled," and therefore not to be reckoned as part of the total outstanding. In the same period there was also a considerable increase in the Bank of England notes outstanding.

But appearances were deceptive. The increase of Bank of England notes was more than accounted for by the fact that some were being locked away against Currency Notes, which only meant that the public were exchanging £5 notes for £1 notes, and others were being taken by the banks in exchange for gold coin surrendered

at par to the Bank of England. The banks did not lend out these notes any more than they had lent out the stocks of sovereigns and half-sovereigns which they had held in reserve since the early days of the War. Whether they thought the Cunliffe limit would hold or not, they were cautious enough to assume that it would, and to act on that assumption with the effect of causing bitter complaint by borrowers who still foolishly wanted to borrow on the assumption that prices would go on increasing. The adoption of the Cunliffe limit by the Treasury did in fact stop the handing out of additional currency to the public from December, 1919, and stopped the rise of prices from the following April.

I had been ridiculed by some experts for saying in the preface to the *Paper Pound*, "When the scales at last fall from the eyes of the people of Europe, groaning under the rise of prices, they will no longer cry to their governments 'Hang the profiteers!' but 'Burn your paper money, and go on burning it till it will buy as much gold as it used to do!'" The people remained blind, but after keeping the total currency in the hands of the public nearly stationary throughout 1920, the Treasury got in (by taxation and borrowing) sixty-six millions of Currency Notes and burnt them, reducing the amount outstanding from the top point of £367,600,000 to £301,300,000. The total currency outstanding was further reduced by eight millions in Bank of England notes and at least seven millions in silver coin withdrawn from circulation. In the two years from March, 1920, to March, 1923, the pound rose from 70 to 96 per cent. of its par gold value.

As the articles numbered 1920 IX and 1921 III show, I saw little reason to complain of this policy, but sometime in 1923 it was dropped in favour of the "wait and see" policy of keeping the amount of currency stationary and hoping that restoration of the paper pound to gold par would be brought about by a fall in the value of gold. In the winter of 1923-4 the MacDonald Labour Government took office, and the article

1924 III was produced in the course of an effort to encourage it to resist the demands of the inflationists, big and "little." Fortunately the Government recognized that the wage-earners always stand to lose by rise of prices. It stood firm, and after two years' unnecessary delay the waiting policy justified itself, and the gold standard was restored by Mr. Baldwin's second government in April, 1925.

Meanwhile the relaxation of tension in this country allowed me to give some attention to South African, German, and French monetary conditions (1920 X, 1923 III and IV, 1924 I and 1925 I) besides dealing with a number of questions in monetary theory of general rather than immediate political interest. Articles on these subjects will be found scattered through 1920 to 1925. And as the European monetary situation slowly cleared up when the nations, one by one, found it easy enough to restore gold when they had once made up their mind to do so, a return of old and more general interests is observable, and the book ends with a lecture which, though delivered in my penultimate term, may be regarded as my valediction to the London School of Economics and a restatement of my belief in the gospel of mutual service not only as between persons inside each country, but also between the people of every country and every colour.

Those of the articles which are reprints were indebted for their original appearance to eighteen different publications, the names of which are duly noted at the heads of each article. Here I need only express my best thanks to all for their aid to my protest, and to the *Economic Journal*, the *Journal of the Royal Statistical Society*, the *Contemporary Review*, *The Times*, the *Manchester Guardian*, and the *Daily Mail*, for the kindly-given permissions to reprint which it was necessary to obtain from them.

I have corrected a few obvious slips of the pen and misprints, such as "creditor" for "debtor" and the omission of "not," and faults of expression such as "provide the want" for "satisfy the want," but other-

PREFACE

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wise *littera scripta manet*—I have resisted all temptations to try to amend the articles, whether previously published or not. When I have suppressed the names of correspondents and others it is because I have feared that they might dislike either the publicity or my version, explicit or implied, of their views.

OXFORD.

June, 1927.

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