

THE GOLD TANGLE & THE WAY OUT

MEANING & CAUSES
OF THE GREAT
INDUSTRIAL COLLAPSE

BY

FREDERICK AND ALFRED WIGGLESWORTH

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THE GOLD TANGLE

*A perfect and just weight shalt thou have :
a perfect and just measure shalt thou have :
that thy days may be long upon the land which
the Lord thy God giveth thee.*

Deut. XXV: 15.

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INTRODUCTION

IN an era of the world's greatest productivity, occupying an Empire on which the sun never sets, enjoying the fruits of all the courage and self-sacrifice of generations that toiled and suffered, greatly adventured and greatly achieved and then passed into the unknown, we British people stand stricken, distressed, impoverished, losing our grip of Empire, our confidence gone, our credit depreciated, our industries paralysed, our people bewildered, our rulers distraught.

Yet we emerged victorious from the greatest war in history, our territory free from devastation, our Empire strengthened and consolidated, with fresh territory added, our capacity for common effort in a great cause nobly demonstrated, and our power to react to a great emergency tried and not found wanting.

Why then is Britain to-day in the throes of a crisis greater than any since the war? It is the purpose of this book to show the flaws in the national economy that have brought upon us a calamity only less than that of war, the sterilization of the lives of at least three millions

of our people and one-fourth of our industrial population. A citizen deprived of his livelihood is in little better case than a citizen deprived of his life, and although we have mitigated the worst consequences for the sufferers it has only been achieved by driving the evil still deeper and dragging down the strongest.

Has Britain the courage, the power, the will to take great decisions, to march boldly, to found her actions, not on the timid and wavering counsels of diverse committees and commissions, but on the less flattering warnings of her strongest critics at home and abroad, who see things in their broad, historical perspective, and know that no shifts or compromises can avail in a great emergency. The gift of leadership is still with us. The old spirit is not dead. We stand at the cross-roads. Which way shall we choose ?

APPENDIX I

COPY OF AN ARTICLE ON "THE WAR AND ITS EFFECT ON OUR CURRENCY," ISSUED JANUARY, 1918

1. **I**N view of the daily accumulating issues of War Loans, it is both natural and right that our Bankers and Merchants should at this stage earnestly devote their minds to the highly important question as to how the nations now at war will stand financially at the conclusion of hostilities, and how the interest on the debts incurred will be met. It is clear that the collection and redistribution of the vast sums that will become payable in interest on such huge borrowings will effect a radical change in society. We cannot have a great increase in the spending power of the non-productive holders of securities without an equivalent increase in production. But it is hardly conceivable that after the war the producer will be satisfied with a smaller reward for his efforts, whether he be artisan, farmer, merchant, or manufacturer, especially as the cost of production of every article will have

increased, while the amount produced will have diminished, through the loss or mutilation of skilled men. But again, if money is badly wanted for the restoration of enterprise, the return in interest on the investment of money cannot be reduced. If enterprise and initiative are urgently needed to restore the community to normal conditions, they must surely be better rewarded than in peace-time, not worse. Yet it is obviously impossible for everyone to have a larger share of the products of industry. Somebody or something must give way.

2. The problem needs deeper examination. If we are to make a true Balance Sheet of the nation the assets of the individual holders of goods and property must be massed with the assets under State ownership. Equally the indebtedness of the nation must be massed with the indebtedness of the individual. If the balance thus arrived at is true, the value of the goods and property held by the nation and its people, constituting its assets, should coincide with the proprietary claims of the nation and its people, constituting its liabilities. But when we come to look into the matter further we find that, since the war started, instead of an increase in the assets, there has been a serious shrinkage through the waste of war, the depletion of stocks and the difficulties of importation, the interruption to the repair and the

renewal of houses, railways, ships, etc., and our failure to make good the decay of property generally, except such as is urgently needed for war purposes, much of which may be scrapped on the declaration of peace. To take a single instance, the insufficiency of labour available for the weeding, manuring, and preparation of the land has caused great deterioration, which is showing itself in smaller crops. This has been brought to light in France, where steps are being taken to arrest this tendency.

3. What, then, have we to set against these greatly reduced assets? Apparently an enormous increase in the liabilities. If, for illustration, we put our present assets (allowing for the great depreciation that has taken place during more than three years of war) at the equivalent of sixteen thousand million pounds, or say a reduction of 20 per cent from an estimated figure of twenty thousand million pounds before the war, we find, *per contra*, that our liabilities, i.e. the proprietary claims on the British estate, have increased from twenty thousand million pounds to twenty-five thousand million pounds or thereabout. These liabilities consist of bonds, mortgages, stocks and share certificates, and other forms of legal security, all representing so many pounds sterling, to which must be added the various issues of Government loans, war bonds, exchequer bonds, exchequer bills, etc.

Clearly there is one way only possible to equate these two, debit and credit, and that is by altering the measurement of value, and breaking the nexus between the pound sterling and its gold equivalent. But, indeed, the nexus has already been broken, and the Continental exchanges begin to expose that fact. When trade once again resumes its normal course, the real value of our tokens of currency will be revealed.

4. We have always been used to thinking of the connection between the pound sterling and the gold sovereign as inviolable, but we must clear our minds of any such delusion and face the facts courageously ; and we shall not be alone in having to do this. The other belligerents and possibly some of the more harassed neutrals will find themselves in exactly the same plight ; our enemies in a far worse one, for their resources are exhausting themselves more rapidly than ours.

5. In discussing this problem we have to remember that we have really no valid precedent for the existing conditions. Never before in the history of the world have debts been incurred on such a scale as now. No conflict has ever been fought with more determination, and the issues at stake have never been vaster. It is certain, therefore, that no financial consideration will deter either side from fighting this war out to a finish, so long as the belligerents

have the man-power and the energy to devote to war. No capitalist or body of capitalists, however powerful, could, even if they attempted it, succeed in depriving a determined people of victory because of the possible financial losses that would be involved. Again, it must be remembered that a large proportion of the money spent on this war has been spent on the basis of a sovereign with little more than half its normal buying power. Is it likely, even if it were feasible, that any Government would attempt to redeem these debts on a scale nearly double that on which they were contracted, by re-establishing the spending power of the sovereign that prevailed before the present war? The truth is that we cannot reconcile the pound sterling and the gold sovereign. Every commodity in Great Britain has had to be valued higher, in order to equate our present liabilities, and the same is true of gold, although it is not yet apparent. The cost of producing gold at any moment must depend mainly on the cost of commodities in general; and the gradual closing of the less remunerative mines will lead to a falling-off in production and increased purchasing power for gold. It is true that, if gold ceases to be in demand for purposes of circulation, to guarantee the exchanges or to maintain the hoards of the European powers, the market may be satisfied with a smaller

supply. But the cost of mining must eventually dictate the equivalent in produce that an ounce of gold will buy.

6. A proof of the stability of the present increase in general values, and of the fact that the credit balances of the community are for the moment greater than the assets, may be found in the rise that we are witnessing in the price of many commodities which are in no way essential to war, such as curios and other objects of art. This rise is taking place, although for the time being there is practically no competition for such articles from rich Americans or Colonials. No one would be so ill-advised as to buy these articles in the expectation of losing money in their resale after the war ; and doubtless, the purchasers realize that the market is at present comparatively free for those who have a surplus to dispose of, and that after the war, when trade resumes its normal flow, the opportunities of sale will be greater than ever.

7. It is clear, then, that by a fairly elementary method, viz. the balancing of the nation's books, we can arrive at the real depreciation of the currency, but of course, in making up a Balance Sheet, we must take into consideration a good deal of loss on stock exchange valuations, though in many cases these losses are only temporary. Nor must we lose sight of the great diminution in our holdings on Foreign and Colonial invest-

ments, the sale of which has, in many cases, been effected in conformity with the requirements of the Government: but the money so realized has undoubtedly been re-invested so that the nominal amount of wealth remains as before. Making this and other allowances, our Balance Sheet will still result in a *reductio ad absurdum*, unless we greatly reduce the spending power of money to all and sundry, rich or poor, worker or *rentier*. But with a population reduced or partly incapacitated by war, the competition among workers for employment and among producers for a market will certainly be less strenuous than formerly, and this should ensure an adequate share of the nation's produce to all who take part in its creation or distribution. It follows that, through the same causes, a smaller proportion of the nation's produce will be available for that section of the population which contributes nothing actively to the nation's output, and which depends solely on the interest of its investments (so-called unearned income), especially as the class of non-producers will be greatly swollen by the thousands who have been bruised or broken in the war, or whose strength or efficiency has in one way or another been impaired by the strain and stress. It is clear that if the effort to secure an adequate share of the nation's produce for the working community meets with resistance, we shall have a

period of great unrest, class conflicts, and strikes ; and if the nation's needs are great, as they will be, any resistance to these demands will have feeble success.

8. In considering this problem of the future state of our currency, it must be borne in mind that our modern banking system makes our currency much more fluid than it was a hundred years ago. Our cheque system, in effect, is equivalent to the free issue of paper currency by the banks. This has been frequently shown, and may be put succinctly in this form—that a bank is practically always ready to make credit advances to a merchant of proved respectability and solvency on the security of goods. It is perhaps not generally understood that the merchant is the banker's ally and guarantor, for one often hears complaints of the less generous treatment accorded by bankers to producers. The merchant takes the risk of the market, and it is his constant duty to liquidate stocks, unlike the manufacturer who is biased in favour of his cost of manufacture, even when the demand for his product has ceased through some new invention, change of fashion, or other cause. Now, whether the bank pays the merchant in paper notes of its own, as in former days, or by allowing him to draw cheques on a credit placed at his disposal in its books, as in modern times, the result on the circulation is

the same. In the first case the notes issued swell the circulating medium. In the second case the advance placed at the credit of the merchant being drawn upon, reappears as a deposit with the same or some other bank, and the net result is that the aggregate loans and deposits are still equal to one another. To that extent the circulation is expanded and a corresponding expansion in the value of commodities follows, checked only by such a rise in the rate of discount (the Bank Rate) as will cause liquidation and stimulate export abroad.

9. Before the war, our exchanges were regulated through the Bank of England, which was responsible for the stock of gold held in this country as the basis of our currency, and the import and export of gold were left as far as possible free. But even in times of peace this method was not always entirely successful, notwithstanding the loyal co-operation of the joint stock banks; and the Bank of England was frequently compelled to enter the market and borrow funds which it did not need and did not intend to use, solely for the purpose of enforcing the official rate of discount. At the beginning of the war this system broke down, as it was bound to do, and the export of gold was, and still is, prohibited, as anyone who attempts to go abroad with gold in his possession will quickly ascertain. Thus, the exchanges

have for the last three years ceased to be controlled by gold shipments, the control now being secured by the flotation of loans as an offset to our purchases from other nations. This means of regulating the exchanges by the discount rate may well be continued after the war, but it can only be supplementary to the more effective method of fixing from time to time the gold equivalent of the pound sterling, and this can best be done by a Committee, or Commission especially appointed to examine into the nation's assets and liabilities. We shall thus be brought face to face with the question, as to whether and how we shall preserve a stock of gold, if we fail to equate our pound sterling with gold. If we do not wish to prohibit the export, we shall have to fix a new rate for the purchase, not £3 17s. 10½*d.* per oz. as formerly, but possibly £5 per oz., or some other figure representing our true financial position. Indeed, it is arguable that we should stand to benefit by ceasing to settle debts in gold, as our foreign customers would then be compelled to take our manufactures in exchange for our purchases from them, instead of taking precious metal, the transport of which, if not intended for commercial purposes, is purely wasteful.

10. If we attempted suddenly to bring back our values to their gold parity, the result would be disastrous to trade and industry by bringing

about an enormous fall in values, accompanied inevitably by tremendous depression and numerous failures. A rapid fall in values will always discourage production and thus cause unemployment, because no man will willingly create a supply of goods which are likely to result in a loss on sale. Unemployment diminishes the spending power of the community, and thus we are driven into a vicious circle in which conditions go from bad to worse ; and the very cause that would bring about these conditions, viz. the attempt suddenly to reinstate gold values, would increase the load of debt on the community, and intensify the misfortunes of the manufacturer, distributor and worker. The truth is that the restoration to gold parity can only be brought about by a gradual and natural process. As the debt is paid off the value of the pound sterling will improve automatically, and the quickest way to pay off the debt is clearly by stimulating the population to the fullest possible measure of activity. Any attempt to restore the purchasing power of the pound sterling by other means than by paying off the debt, as, for example, by a drastic rise in the rate of discount, would defeat the purpose aimed at. It would withdraw from industry the very funds that are needed to carry industry on. It would have a similar effect to the foreclosure of a mortgage, or a forced sale in a moneyless

market. Such a debt as we have incurred during the war can only be paid off through the energy, skill and application of our people, and cannot be paid off on short notice, however great our efforts, or however rapid the expansion in our population. Indeed, an artificial decline in trade would in itself check the growth of our population and delay the process of recovery. We need not expect an exhausting war of these dimensions to recur for some generations. As we pay off the loan its value will rise, and the rate of interest will fall, which will benefit the trading community; and the money taken from the tax payer and reinvested by those who are repaid will certainly find its way back into new and fertilizing enterprises, and will keep our population healthily employed.

11. The process of paying off the cost of the war will obviously be greatly facilitated if the energies of the nation are properly directed into remunerative or constructive labours, such as will benefit the whole community, and strengthen it for competition abroad. It is an error to think that our population need be worse off through the war, once the great struggle comes to an end. History records that the country was very prosperous after the great plagues in England, when the loss of life was excessive. But we need not expect that we can revert to exactly the same conditions as before the war. Our

nation will not be able to indulge in so much luxury or idle sport. We shall need to devote our brains and activities to the creation of a much more compact and effective organization in every industry ; and it is time for us to realize that the Germans themselves are already preparing for a movement of this kind, by consolidating their principal trades into large trusts. We shall need to spend more money on education, on scientific research, in the encouragement of invention, and the exploitation of new territory, on the improvement of agriculture, and the housing, the health, and the condition of the people generally, in order to secure the best results. It is unavoidable that taxation should fall heavily upon property as distinguished from service. Where the services of all men are required to re-establish the health of the community, we shall be unable to encourage any diversion of the people's energies for the purpose of ministering to the extravagances of the wealthy. Large fortunes have been accumulated in this war, and it would be disastrous to us as a nation if they were used for purely selfish purposes. It would be a foolish conclusion to think that when peace comes all our efforts may cease, and we may sink back into our old easy-going methods. In the process of restoration we can afford to carry no passengers on the ship ; and every one

will have to pull his weight on the oar, if we are to overtake other nations in recovering from the financial losses of war. This alone is the strongest possible argument that can be offered against any attempt to put a premium on idleness or unproductive labour by attempting to force the value of money back to its old level before our debts are paid.

12. The suggestion here made therefore is that we shall set ourselves to work with all our energy to pay off these debts, and that we shall contemplate a gradual restoration of the pound sterling to its former gold equivalent, not by artificial or inadequate expedients, but by the simple and courageous method of paying off our debts. Even from a military point of view it was a disadvantage to us to start this war with a heavy burden of indebtedness inherited from the days of Napoleon the First, and the nation must for its own safety set itself to work with patience and perseverance to clear off every penny of the vast accumulation of debt that is now being contracted if it is to place itself in an unassailable position against the contingency of a future struggle like the present. In the century following the Napoleonic wars we were fortunate to have an enormous increase in population, and an unprecedented increase in their productivity, owing to the rapid extension in the application of the recently

invented steam engine, and the stimulus thus given to the genius and inventiveness of the race in every direction. This made it a comparatively simple matter to supply the produce called for by the owners of the National Debt ; and we were thus able to maintain our sovereign at its gold parity, though after Waterloo there were times of great distress, and Wellington himself may have realized how hardly the effort bore upon the people. It would, however, be folly to count on an equally striking development in the productivity of our people in the coming generations. But there is something to be hoped for in the great part our women have assumed in national life. They have shown their capacity to carry on in the absence of the men, and in this fact there is great promise that their co-operation in industrial life will be a valuable addition to the wealth production of this country, let us hope without the sacrifice of home life. The training in the habits of industry will have a far-reaching effect on the life of the nation, especially in those families where the daughters were formerly never given the opportunity to fit themselves for a life of useful service to their fellow creatures. We must not assume that this is really the last war. That is a delusion. War is as much a part of human life as the struggle for existence is in the plant or animal world. Who knows what great and

startling changes may take place in the world's constitution during the next hundred years? Who at the time of Trafalgar or Waterloo could have predicted the character and extent of the present struggle, or the marshalling and disposition of the contending forces?

13. The question of stabilizing our exchanges with the Colonies and Dependencies cannot be dealt with here, but it is obvious that they must share financially in the burden of Empire as they have done in a military sense, if they wish to maintain the old relations between their currencies and ours. Already a suggestion in this direction was put before the Imperial Mission Section of the Tariff Reform League last April by Sir Joseph Ward, the Finance Minister of New Zealand. The appointment of a Committee to consider the problems connected with the Currency is an important step in the right direction, and the future health of the whole trading community may depend on the conclusions at which they arrive.

APPENDIX II

MEMORANDUM SUBMITTED BY THE AUTHOR TO THE "MACMILLAN COMMITTEE" ON FINANCE AND INDUSTRY

1. **T**HE War brought about an immense increase in the documents of title which establish a claim on production. This increase took the form, not merely of currency notes unbacked by gold but in an increase of the British national debt far beyond all previous imaginings.

2. To the Cunliffe Committee towards the end of the war was referred the question of how we were to return to the gold standard. That body consisted mainly of bankers, and the question was considered almost purely from the banker's point of view. The effect of the huge increase of paper liabilities that did not take the form of circulating medium was not brought under consideration as a possible source of disturbance to the policy outlined.

3. In 1917, while the Committee was still sitting, the writer perceived that this great mass of unproductive debt (i.e. liabilities incurred with-

out any increase of production to compensate them) constituted a most serious obstacle to our return to the pre-war rate of exchange with the dollar or gold, and issued a warning early in 1918 in the form of a memorandum of which we submit a typewritten copy. The analysis of the situation makes interesting reading now, but attention is directed especially to paragraph 10. Had the procedure there outlined been adopted, British industry would have been relieved of the terrible strain under which it has laboured for the last twelve years. Our wealth would have increased, and the loss of some 3,000 million working hours of our industrial population would have been converted into profitable production.

4. As a remedy for the conditions foreseen, the writer proceeded strongly to advocate the establishment of a new and more scientific standard of value. The Cunliffe Committee had themselves shown that the Bank of England maintains parity between the pound sterling and gold by the Bank rate and its market operations. In effect, the currency and credit system of Great Britain before the war was controlled not by a holding of gold proportionate to the vast turnover of Britain's national and international trade but by the Bank's skilful management of the discount market. A stock of gold of only about £30 millions, a derisory figure compared to the huge stores now held in the United States

and France, was considered an ample margin to work upon.

5. It was clear that we could control the value of our currency to conform with a commodity like gold, varying greatly in supply and in the cost of production, and subject to the eager competition of other nations to secure it in bulk against the eventuality of war, while appealing strongly to the hoarding instinct of primitive peoples.

It was even clear that we could so control the value of our currency as to improve its relation to gold, which, in fact, was the problem to which the Cunliffe Committee directed its attention. The object of a gold currency is declaredly to secure stability of values, and especially stability as measured by the great international produce markets which are the real currency of commerce, and the greatest influence on the exchanges. Clearly, if the gold link fails us, there is nothing to prevent the functioning of our banking system in favour of a stable level of values as tested by an aggregate of those vital products, the food and raw materials that are the basis of our existence. The business world, indeed, has found it almost impossible to control its operations without reference to numerous Index numbers, such as those of the *Statist*, *Economist*, *Times*, *Financial Times*, *Bradstreet*, etc., etc. England, the great centre of

international trade, with markets daily regulating the value of the products of every nation, has in its hands the power to make the pound sterling the symbol of stability for the whole world, if she wills it.

6. The Cunliffe Committee were asked the question, "How are we to get back to the gold standard?" and they answered it, in practically one word—"Deflation." They did not warn us that deflation must be applied not merely to the paper in circulation but equally to our immense paper liabilities bearing interest, and failing that, that there would be a progressively increasing proportion of the nation's production absorbed by non-producers (as now shown by Sir Henry Strakosch), thus aggravating the cost of production for the producers, destroying their trade, increasing unemployment and still further augmenting the number of non-producers. Can anyone at the present moment guarantee that the downward tendency of international values will not continue? There is still no indication of a lessening in the demand for gold. It is quoted at a premium in London to-day. In Australia and New Zealand and in the South American States it stands at a fairly heavy premium. How then shall we bear the further increase in our unproductive liabilities that will ensue with a further rise in the value of gold?

7. This fact becomes obvious: that our return to the gold standard on sound economic lines would always be conditioned by our regulating uniformly to the value of gold all those items of cost that enter into the nation's business Balance Sheet. Yet we exclude from the operation of the gold standard a vast mass of values which are each year absorbing an increasing share of the nation's production and are thus reducing the volume and raising the cost of our exportable surplus.

The values excluded from the operation of gold are mainly:

- (1) The National Debt.
- (2) The Social Services.
- (3) Education.
- (4) Unemployment and other benefits.
- (5) Fixed, Interest bearing loans, mortgages, debentures, etc.
- (6) The Wage-Level.
- (7) Professional Fees.

These create an appearance of welfare in some quarters and especially in the Southern Counties, which is not borne out by the actual state of trade, the condition of the great Northern Industrial areas, or the profits of enterprise. We include the wage-level for a very definite reason. A fixed unemployment wage tends to stabilize all wages at a fixed figure, even without the operation of trade boards or the resistance

of the trade unions to change, and thus wages tend to be settled without reference to the international level of gold prices.

8. This fact may be very saliently expressed in the following way. Let us imagine a State which decides to have a currency based, not on gold, but on an equal wage at all times for the same labour—in other words, a “labour unit,” not a “gold unit.” In the working of such a standard, the credit system would be expanded until the surplus of labour was absorbed up to that margin which is prudent to keep for the sake of efficiency and the needs of new or expanding industries. Such a standard would be perfectly feasible, but there are objections to it which cannot be discussed here and it could never become an international standard. The same procedure must be adopted as in the case of gold ; a fixed price for labour and the absorption of all the surplus that is offered at the fixed price. The procedure is now normal with us. We are prepared to absorb the whole surplus of labour at a fixed and fairly generous price. The people of the United States many years ago adopted the same principle in the case of silver at a time when bimetallism was looked upon by many as a feasible policy. The result may be imagined. The unwanted surplus of silver grew to such alarming proportions that purchases had to cease and the consequences were disastrous.

Our own policy cannot be more successful, although carried out on a more heroic scale, and it becomes still more dangerous when, included with it, we have so huge a volume of public expenditure excluded from the operation of deflation.

9. It now becomes clear how France, who suffered far more heavily than we in the Great War, both from loss of life and the devastation of an important section of her territory, has not suffered from the devastation of peace as we have.

France to-day is far more truly on the gold basis than we. Her debts have been scaled down to figures which are well within the capacity of the national industry. Wages and cost of living are on the pre-war gold level, while ours stand nearly 60-70 per cent higher, and the consequence is inevitable. France is a magnet for gold because gold will go where it receives the best service. Even her Bank rate of 2 per cent does not repel it. Every other nation, except ourselves, has *deflated its debt*, either by writing down the value of its currency, as in the case of the other European belligerents (whether victors or vanquished), or, as in the United States, by substantial reductions of a debt which, from the start, was much lighter per head than our own. The service of our debt costs practically the same in 1930 as it did in 1920.

The real weight is, of course, far more serious, and continues to grow while we are at the present moment incurring fresh debts for unproductive purposes, such as the unemployment fund.

10. *To conclude.* Our return to the pre-war gold standard has been made without due regard to all its implications, or an adequate survey of the circumstances. We have wrecked our great industries in the process, and it is doubtful if we can regain much that we have lost. A very great deal is at stake, not merely industry, but our financial power as well, our ability to uphold the Empire, and our military and naval power which, in the last analysis, is bound up with the strength of our industries. A clear-cut decision is needed. We may before long have to face a break with gold, simply because the strain has become intolerable, while there is nothing to prevent its becoming even worse.

11. If we retain gold as a measure of values, every value that we deal in must move in conformity, our national expenditure must be well-nigh halved, and the whole of the system of doles and benefits must be radically revised, and even then we must take steps to restrain international competition for the gold supply. If these measures seem too drastic, we have only one alternative : to break with gold and declare that the British currency will in future represent

an equal purchasing power in the great international products, and that gold will no longer be bought or tendered at a fixed price. Such a declaration would be an effective answer to the modern gold hoarders of whom the United States, who obstruct the import of our products and insist on gold in exchange, are by no means least blameworthy. The machinery of the exchanges would adapt itself to the change with far more ease than enabled us to handle the vastly more difficult post-war exchange chaos. The Bank of England would not be forced in a period of bad trade to increase its discount rate in a fresh onset of deflation, and thus to aggravate the woes of the industrial community. Buyers and sellers, debtors and creditors, bondholders, preference and ordinary stock holders, would know that the scales were held equitably between them, and that price had a definite meaning not attachable to the vagaries of gold. England, with a currency consisting of the very articles that we trade in most freely, would find no hindrance to the payment of her debts.

12. The abandonment of free trade, which is now receiving increasing support in all quarters, is, in effect, a confession of defeat, of our failure to adjust ourselves to gold ; and the purpose of the new orientation may be declared to be that of dissociating national values from the international (or gold) price-level. That policy may

succeed in its aim. We shall be more self-contained. What we lose in international trade, we shall gain in working for ourselves. But our status, as a great international emporium, will by that degree be diminished. It is, in effect, a weak substitute for the strong policy of reconstructing our whole economic system in favour of equality of treatment to every constituent of production ; labour, capital, management, and not least enterprise, and that equality of treatment will never be secured until the most important element in all contracts, the price, is a guarantee of stability and fair play.

13. The present state of England exhibits many of the signs that betrayed ancient Rome, the high standard of living, which agriculture and industry were unable to make good in the markets of the world, the growth in the numbers of officials, the multiplication of the unfit at the expense of the fit, the efforts to maintain an unsound economic structure by excessive taxation, and the liberal distribution of doles. No committee that has been appointed since the war has been charged with a more important mission. It *may save Britain* and its Empire.

14. The sum of the matter seems to be this : that England blundered profoundly in assuming that the question of a return to the gold standard and the terms of that return was purely a banking question. Our action was premature,

and had no relation to the huge commitments we had undertaken in debt and social services. We sacrificed industry to finance, forgetting that finance is the child of industry. Our pride in victory deceived us, and the crisis which every belligerent in Europe but ourselves has undergone, has still to be faced by us. That crisis has been brought appreciably nearer by the recent sharp improvements in the value of gold as measured in those commodities that bulk most largely in the international trade of the world, and it would be like the act of a foolish gambler holding stock on a falling market, to assume that the fall of values due to the appreciation of gold, has ended. The evidence of statisticians is strongly against such an assumption. Gold is in far greater demand than before the war for currency and banking purposes, and there are no fresh sources of supply of the metal in sight. The Transvaal, which furnishes about half the world's needs, is not an inexhaustible field.

15. England has prospered in the past by leading the world. She must lead still, and her leadership can best be exercised by placing her whole economic system above the dominance of any one metal or article. We set the fashion in gold, and the whole world followed, to our undoing. Like leaders of fashion, we must lead in a new direction, and that direction can only be towards a sounder and more scientific measure

of value. It is due to the age of science in which we live.

16. No Scientist would tolerate an elastic yard or a fluctuating ounce. We prescribe the metal, the temperature, even the barometric pressure, in which our yard is to be measured, but we leave the most vital measurement of all to the accidents of fortune, and our very future is compromised. As to the question whether such a standard is feasible, the Committee have only to take evidence. The writer, with a practical experience of over thirty years in the City of London, which includes very considerable dealings in the Exchanges, is satisfied that there is no obstacle, practical or theoretical, to the achievement of the end desired. The Bank of England which, with difficulty, equates our values to the erratic movements of the yellow metal, could, with far less difficulty, equate them to secure at all times to all holders of the pound sterling an equal purchasing power in the world's great produce markets. There would be far less chance of the breakdown of its control than there has been in the past, and it would be in the common interest of every section of society, of labour, of capital, and of enterprise, to uphold its power for their own security.

17. The legalization of such a standard presents no difficulty whatever.

SUMMARY OF POINTS FOR THE COMMITTEE

1. The cardinal defect in the report of the Cunliffe Committee was the assumption that the centre of gravity of the British economic system would remain unaffected by the prodigious debts incurred during the war, and that a return to the gold standard was merely a question of monetary deflation.

2. In the last analysis, the burden of debt has to be met out of the productive resources and labour of the nation, which are generally now summarized roughly under the heading of "Industry."

3. Every other nation but ourselves has either devalued its currencies and thus reduced its debts to correspond with the ability of its industrial structure to meet them, or, like the United States, has vastly increased its industrial resources, and simultaneously cut down its debt. The United States debt has fallen in this way from 240 dollars per head of population in 1919 to 140 dollars in 1929. Our debt remains substantially as it was, but in real weight is at least fifty per cent greater.

4. Our return to the pre-war rate of exchange with gold has therefore subjected our economic system to a strain which may before long lead to consequences far more serious than any that have yet appeared.

5. That strain has been aggravated by certain causes, chief among which may be cited—

- (a) The adoption of the gold standard by practically every other nation in the world, a condition of things which is new to history and which has immensely increased the competition for any free supplies of gold.
- (b) The tariff barriers that have been erected throughout Europe and, still worse, in the United States of America which in effect put a heavy premium on gold as a means of settling debts.
- (c) The practice of the Federal Reserve Board of the United States in holding stocks of gold far in excess of the needs of their banking system.
- (d) The low value fixed for certain post-war currencies and especially the franc, which has enabled the countries so placed to stabilize at practically the pre-war level of values and thus to draw gold strongly into their coffers, as France is doing.
- (e) The unrest in India and elsewhere which encourages the hoarding of precious metals in preference to investment in securities. Witness the decline in Indian securities.
- (f) The demand for gold in connection with reparations.

6. In considering the internal working of the gold standard it becomes obvious that it fails to function efficiently under a system by which a large section of our economic activities is stabilized without reference to gold. Wages, as administered by trade boards and trade unions, debt, social services, unemployment pay, pensions, etc., constitute one standard of measurement in large part immutable, while the products of industry generally, except in the sheltered trades, are valued by reference to gold. The former thus exact an increasing toll on the nation's output, leaving a continually smaller surplus available for the outside markets at an enhanced and therefore increasingly unmarketable price.

7. As long as gold remains an alternative form of payment to the products of the nations, the money illusion will remain and the free exchange of products will be obstructed, as it is now even by the most enlightened races ; the sense that *money* means *power* will prevail over all more rational considerations and the international rivalries that are the seed-bed of war will be fostered. Our own Free Trade principles cannot stand under the strain of present developments and are fast breaking down.

8. A break with the gold standard, as established in 1925, seems therefore inevitable unless Britain is content to lose her financial and

industrial power and to be overwhelmed by a gradually but steadily increasing load of debt, of which there are grave symptoms now. Such a disaster will accelerate the break-up of our Imperial connection and will leave us much in the condition of Spain after the loss of her colonies.

9. The situation can be saved from the moment it is realized that there is no magic in gold or the gold standard. England, who has led the world so far and who, in Pitt's phrase, "Saved Europe by her exertions, and can save it by her example," can confer on the world the greatest boon of all time, a scientific standard of measurement for values, and it is only by concentrating on this aspect of the matter that a solution of our present difficulties can be expected.

10. The pound sterling must be made the symbol of stability, not a mere piece of metal subject to the vicissitudes of the mining industry and the caprices of a world which attaches a kind of superstitious reverence to this particular metal and buries it out of sight and utility in immense quantities.

11. The powers now possessed and wielded by the Bank of England are just as available to maintain stability of the price-level as they are to maintain parity with the erratic movements of gold. The same machinery will function, but with greater simplicity as the world will better

understand its operation. The trade and employment of the whole world would tend to be stabilized in a way that has hitherto been impossible.

12. We have learnt that the actual handling of gold is not necessary to a sound banking system and that the Bank of England can perform its duties without paying out sovereigns. The time is therefore ripe to consider whether a sounder unit can be put in the place of this metal, and England has the unique advantage of being the centre of the world's commerce and therefore able to link its currency and credit system direct to the great basic products which form the real circulating medium of international trade.

13. All the means by which this could be achieved are in our hands ; the Banking mechanism and its control by the Bank of England, the Exchanges, the produce markets and money market where values are brought to the hourly test of actual dealing, the indexes of price fluctuation compiled by numerous observers, the world survey of trade conditions that is accessible to every man or woman in the City of London. Nowhere else in the world are the conditions more ideal for the step which may save Britain from economic extinction and will lift the world on to a new plane of economic and social progress.

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