

THE ECONOMIST IN  
THE WITNESS BOX

# THE ECONOMIST IN THE WITNESS BOX

*By*  
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AND  
N. F. HALL

BEING A RECORD OF A SERIES OF BROADCAST  
CROSS-EXAMINATIONS OF AN ECONOMIST BY A  
LAYMAN TOGETHER WITH CERTAIN ESSAYS  
RELATIVE TO THE BUSINESS IN THE STUDIO

1933  
IVOR NICHOLSON & WATSON, LTD.  
44, Essex Street,  
Strand, W.C.2

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*First Edition . . . . October 1933*

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9760

PRINTED IN GREAT BRITAIN

*To all who had the patience  
to go on listening*

## FOREWORD

IN the Spring of 1933 the British Broadcasting Corporation decided that an Economist should be cross-examined by a layman and that a microphone should listen to the conversation. The Economist was Mr. N. F. Hall, Head of the Department of Economics, University College, London; the cross-examiner was Commander Stephen King-Hall, known as a writer and broadcaster upon foreign affairs. He is also Secretary of the Study Groups Research Department at the Royal Institute of International Affairs. This book has been compiled at the request of a considerable number of listeners, who expressed a desire to possess a permanent record of an experiment in the broadcasting of economic knowledge which has aroused interest.

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## ECONOMISTS

THE subject of this brief essay is to be the economist with particular reference to his rôle in modern society. It is a subject worthy of a book by someone who knows much more about the subject than I can ever hope to know. Nevertheless, as the main business of this book is that of linking economics and the man-in-the-street in a mutually useful alliance, it is proper to start with a few remarks about economists. Moreover, I have some qualifications for making an attempt to vivisect economists. I approach them with all the excitement with which a naturalist will examine a new specimen, or a film fan will await the showing of a new Garbo picture. Four years ago I had never met a single economist. I hardly knew they existed. Then something happened in my life which brought me into touch with real live economists both in this country and abroad. I listened to them talking amongst themselves, I sat at meat with them, I have even seen a very famous economist in his bath. The more I have had to do with these people the more they fascinate me. For a brief period I went so far as to consider whether, so far as taking

a degree in economics makes one into an economist, I might not try to become one. But alas! I discovered that I must first matriculate, and a glance at the examination papers showed me that they were beyond my power to defeat. I was too aged a monkey to master new tricks. I have therefore been obliged to remain an enthusiastic amateur collector of economists and their works.

They are the most fascinating people to argue with; I place them very high in this respect. I have little doubt that the best way in which to learn a subject is to write a book about it, and if ever I can find out or satisfy myself as to what a book about economics should include and exclude I may attempt the task, but that question is the root difficulty of the whole subject of political economy. Sometimes I reach the conclusion that everything can properly be studied and discussed under the title economics, whilst at other times I find myself thinking that there is some truth in the quip that an economist is a man who knows a great deal about very little and he goes on knowing more and more about less and less until he knows everything about nothing. We shall have to give further consideration to this difficult question as to the duty of the economist, but before doing so it is worth noting that the social position of the economist and his influence on public opinion has varied greatly from time to time.



I suppose the earliest known example of an economist being made much of was the case described in the Book of Genesis. It is clear from the record of proceedings that when Pharaoh sent for Joseph after the Royal night had been ruined by nightmares the ruler expected some psychoanalysis. But Joseph—like many a Jew since—was an economist, and he gave Pharaoh a brief lecture of the trade cycle and the sequence of boom and slump. Moreover, Joseph went further than would be approved of by some living economists (Mr. Lionel Robbins, perhaps), though others (Mr. John Maynard Keynes, for certain) would applaud, when he recommended a policy. It was a proposal to inflict a planned economy on the Egyptians and a far-reaching degree of State intervention into economic life, including State control of a fifth of the arable land.<sup>1</sup> But the most extraordinary circumstance about the whole business was that Joseph's "Seven Year Plan" was accepted, and the economist was entrusted with its execution, so that he rode in the second chariot "and they cried before him: Bow the knee, and Pharaoh made him ruler over all the land of Egypt and said unto Joseph: I *am* Pharaoh, and without thee shall no man lift up his hand or foot in all the land of Egypt".

<sup>1</sup> It should, perhaps, be pointed out here that the notion that the state should not interfere with business is quite a modern and probably a transitory idea.

Truly those were great days for the science of political economy,<sup>1</sup> and the members of the British Government's Economic Advisory Council have not yet been allowed to ride in the second motor car on State occasions. In fact, I suspect that ever since its formation this Council has been lost in the Underground Railway. One last word about the economics of Holy Writ. It is laid down in Deuteronomy xv, verses 1 and 2, that "at the end of every seven years thou shalt make a release and this is the manner of the release. Every creditor that lendeth aught unto his neighbour shall release it; he shall not exact it of his neighbour or of his brother".

Unfortunately, Congress seems to have ignored these wise observations (hence the American Bank collapse) and concentrated on the next verse in Deuteronomy xv, which reads as follows: "of a foreigner thou mayest exact it again, but that which is thine with thy brother thine hand shall release". Events will, I suggest, prove to Congress that nowadays we are all "neighbours and brothers" in the economic sense.

This reflection brings me to the question of the position of the economist in human society. The

<sup>1</sup> Their like has hardly been seen since, though the name of Moley comes to mind as in some ways comparable to that of Joseph, for Professor Moley was the mainspring of President Roosevelt's "brain-trust", but unfortunately—certainly for my present purpose, and perhaps for U.S.A.—Moley was not an economist.

status of the economist depends upon the degree of well-being of the economic system. When the world is sick, and very weary even unto death, as it has been since 1919, and as it may be in 1950, men cry aloud for their economists. With spoonfuls of nauseous remedies of a deflationary character one school of economists gather round the hard and lumpy bed which men have made for themselves during the war years. Some of the foul medicine is forced down the patient's throat. A rival gang of practitioners, whom the orthodox describe as pseudo-economists, osteopaths, Christian Scientists and homeopaths of economic teaching, assure the invalid that the violent purges administered by the orthodox practitioner are out of date and that recovery can and must be achieved through the stimulus of a few injections of inflation. Let the patient have faith and say firmly, "Prosperity is just round the corner", and the corner will disappear. For one cause or another, probably as much from the innate vitality of man's economic system which survives both inflation and deflation, a recovery sets in. The slump passes away, and is forgotten in the joy-days of the boom of rising prices. The company promoter blows his brightly coloured bubbles which float invitingly into the hands of the clamorous public. From New York comes the glad news: "The tape is behind the Floor".

It is roses, roses all the way. This is when the orthodox economists shrink back into their academic obscurity like owls driven off at the dawn of day. The merry markets and the frisky bulls pay no attention to the lugubrious hoot of the wise owls that after the day comes once again the darkness. There is, in fact, a trade cycle in economists.

In the slump after the Napoleonic wars the economists were made much of, though even then, as now, there were not people lacking who denied to economists the right to exist. Thus the *Evening Standard* in a leading article in 1827:

“ Henry Drummond, Esq., of Albury Park, Surrey, was, two years ago, fool enough to found in the University of Oxford a professorship of political economy. There is no such science. All persons who profess this non-existing science and practise quackery under its name are mischievous. There can never be a science of political economy. Of true political economy there can be but one system—the Bible.”

As the world emerged from its convalescence after the wars of Napoleon, and as the pitiless doctrines of *laissez-faire* conquered the English mind, the economists shrank into obscurity like snails under salt. To men who believed that when every man doth what is best in his own eyes the State is guided as by an unseen hand, the economist seemed a purposeless academic animal.

The economists seem to have felt their position acutely. At a meeting of the Political Economy Club held in 1876 in honour of the centenary of Adam Smith, which was attended by Mr. Gladstone, then Prime Minister, Mr. Lowe, Chancellor of the Exchequer, the French Finance minister and a notable number of British and foreign economists, there was a general feeling expressed in the speeches that economists had almost exhausted their usefulness. Mr. Gladstone admitted that he was not sure that the last word had been said in the matter of currency reform, but in other directions he was not hopeful that there would be much for economists to do. Mr. Newmarch, the Treasurer of the Club, observed that :

“ On one of the points mentioned by Mr. Lowe, with respect to political economy in its relation to the future, I am sanguine enough to think that there will be what may be called a large negative development of political economy as will reduce the functions of Government within a smaller and smaller compass. The full development of the principles of Adam Smith has been in no small danger for some time past ; and one of the great dangers which now hangs over this country is that the wholesome spontaneous operation of human interests and human desires seems to be in course of rapid supersession by the erection of one Government department after another, by the setting up of one set of inspectors

after another, and by the whole time of Parliament being taken up in attempting to do for the nation those very things which, if the teaching of the man whose name we are celebrating to-day, is to bear any fruit at all, the nation can do much better for itself."

Mr. Jevons, in an article in the *Fortnightly Review* (Vol. 26, 1876), combated this pessimism, and his words have a peculiar interest to-day. He wrote :

"Now it is impossible to doubt that the *laissez-faire* principle properly applied is the wholesome and true one. It is that advocated by Adam Smith, and it is in obedience to this principle that our tariff has been reduced to the simplest form possible, that the navigation laws have been repealed, that masters and labourers have been left free to make their own bargains about wages, and that a hundred other ingenious pieces of legislation have been struck out of the Statute Book. But does it follow that because we repeal old pieces of legislation we shall need no new ones? On the contrary, as it seems to me, while population grows more numerous and dense, while industry becomes more complex and interdependent, as we travel faster and make use of more intense forces, we shall necessarily need more legislative supervision. . . . The numerous elaborate bills which each government of England has in late years attempted to pass, but generally without success, is the best indication of the needs felt. But I quite agree with Mr. Newmarch and Mr. Lowe that we should

not proceed in this path of legislative interference without most careful consideration from a theoretical, as well as a practical, point of view, of what we are doing. If such a thing is possible, we need a new branch of political and statistical science which shall carefully investigate the limits to the *laissez-faire* principle, and show where we want greater freedom and where less. It seems inconsistent that we should be preaching freedom of industry and commerce at the same time that we are hampering them with all kinds of minute regulations. But there may be no real inconsistency if we can show the existence of special reasons which override the general principle in particular cases. I am quite convinced, for instance, that the great mass of the people will not have healthy houses by the ordinary action of self-interest. The only chance of securing good sanitary arrangements is to pull down the houses which are hopelessly bad, as provided by an Act of the present ministry, and most carefully to superintend under legislative regulations all new houses that are built.

I will go a step farther, and assert that the utmost benefits may be, and, in fact, are secured to us by extensions of Government action of a kind quite unsanctioned by the *laissez-faire* principle. I allude to the provision of public institutions of various sorts—libraries, museums, parks, free bridges. . . .

A well-appointed meteorological office with a system of weather forecasts will be a necessary part of every Government, and will secure the utmost advantages to the community at a trifling

cost. I see no reason, again, why our streets and roads should, as a general rule, be fit only for passing along and getting out of as quickly as you can. With a trifling expenditure they might often be converted into agreeable promenades, planted with trees, and furnished with seats at the public cost. Our idea of happiness in this country at present seems to consist in buying a piece of land if possible, and building a high wall round it. If a man can only secure, for instance, a beautiful view from his own garden and windows, he cares not how many thousands of other persons he cuts off from the daily enjoyment of that view. The rights of private property and private action are pushed so far that the general interests of the public are made of no account whatever.

But the nicest discrimination will be required to show what the Government should do, and what it should leave to individuals to do. I do not in the least under-estimate the wastefulness of Government departments, but I believe that this wastefulness may be far more than counter-balanced in some cases by the economy of public property.

I have said enough, I think, to suggest that there are still great possibilities for us in the future. It will not do in a few sweeping words to re-assert an old dictum of the last century, and to condemn some of the greatest improvements of the time because they will not agree with it. Instead of one dictum, *laissez-faire*, *laissez-passer*, we must have at least one science, one new branch of the old political economy.



Were time available I might go on to show that this is by no means the only new branch of the science needed. We need, for instance, a science of the money market, and of commercial fluctuations, which shall inquire why the world is all activity for a few years, and then all inactivity; why, in short, there are such tides in the affairs of men. But I am quite satisfied if I have pointed out the need and the probable rise of one new branch, which is only to be found briefly and imperfectly represented in the words of Mill or other economists.

The future of political economy is not likely to be such a blank as some of the speakers at the centennial dinner would lead us to suppose."

History has justified Mr. Jevons.

There arose in the late eighties of the nineteenth century a certain man of Cambridge named Marshall, who wrote a book called *Principles of Economics* (first edition 1890), and thereby did that which some hold was the salvation of his craft, whilst others declare that he prostituted a science of which his intellectual attainments might have made him an ornament. In a phrase, the achievement of Alfred Marshall, worthy or damnable, according to one's "economic religion", was that he put "welfare into economics".

Ever since, some economists have continued to keep welfare in economics, whilst others have laboured to free the virgin *Economica* from the subtle and soiling arms of all-embracing welfare.

The chief practical consequence of the differences of economists as to what should be comprised within the limits of their studies has been to leave confusion in the public mind.

I have already pointed out that it is when the economic body is sick with crisis and depression that its owner, the public, shouts for his economists, and the post-war period has seen unparalleled demands for their services. When economists are dragged into the limelight in this manner, and when even Cabinet Ministers and Presidents keep Councils of Economists much as mediæval Monarchs and Princes supported artists, troupes of jugglers and jesters, when a book a week by an economist is a certainty, when the B.B.C. decides that an economist shall be cross-examined at the microphone, it becomes important to attempt to discover what an economist should or should not be expected to do.

Consider the function of a fire-engine. It sits in its garage until someone raises a fire alarm, whereupon the engine comes and puts the fire out and then returns whence it came. When the economist is called from the seclusion of his academic life to the fire of a world crisis, is it his business to advise as to how the fire should be put out, and even to throw a bucket or two of cold water on the heat of economic nationalism, or is it only his job to explain what fire is and analyze the process

of combustion? Should an economist diagnose, prescribe and treat, or should he stop short at diagnosis?

There is no final answer to this question because there is no exact definition of "economics". One economist will consider that it is his business to study "human behaviour as a relationship between ends and scarce means"; another will tell you that economics is the study of the causes of material welfare, or as Cannan put it, "why we are as well off as we are", to which L. M. Fraser wishes to add consideration of how we can make ourselves better off; whilst other authorities would make economics revolve round the problems of exchange of goods and services between individuals. These and other attempts to define the scope of economics fall roughly into two classifications. Firstly, that in which the economist is confined to discussion and examination of the means to certain ends; and secondly, that in which he is permitted and indeed instructed to take account both of the means and the ends. The first type of economist, if faced with a question of protecting British agriculture, will deal with the matter strictly in terms of the relative economic mechanisms of tariffs, subsidies and bounties, and the rise in the cost of foodstuffs. The second type of economist will allow himself to consider such matters as the possible gains or losses in the widest sense to the community as a

whole, of a given agricultural policy. The first type will confine himself to statements, the economic truth of which he can demonstrate as scientific facts; the second will go further than this, and endeavour to estimate the further consequences of these facts, thereby making of himself (according to his rival) something of a psychologist, a politician and a social scientist.

In real life the distinction between these two points of view is not so rigid as all that; in fact I only know of one absolute hundred per cent. cold-blooded economist, and as we picked gentians together in the Dolomites he explained to me that there were no English economists, for all Englishmen were too politically-minded to be real economists. Nevertheless the distinction I have endeavoured to describe does exist amongst English economists, and it is important to bear it in mind when considering the relation between economists and the public. The man-in-the-street is not much interested in "means"; he looks to ends, and is convinced that knowledge can only be excused by action. He finds himself unemployed, or unable to make profits and about to be bankrupt. He wants to know why, but only in order to know what he must do to get work or make profits. He asks his questions of his economists, and he receives answers varying in completeness according to whether they come

from a Category I or II man. Mr. Keynes being a brilliant five-valve super-hetereodyne economic set which can pick up any earthly station, and perhaps message of the stars as well, will give the enquirer his *Economic Consequences of the Peace* or *Essays in Persuasion*. Professor Robbins, a very pure Category I man, whom one might describe in wireless terminology as a crystal set with very sensitive cat's whiskers, will hand the enquirer his *The Nature and Significance of Economic Science*. Both answers can be useful to the man-in-the-street if he knows their respective limitations. He must remember that though crystal sets are limited in range, they are almost immune from atmospherics and interference, whilst the super-het is not only tempted to range the ether, but its loud speaker will often deliver a programme of classical music underneath which can be heard faintly the wails of jazz and the jests of variety.

And it is here that I must lay an accusation against both schools of economists. The "pure" economist does not draw sufficient attention to the fact that as an economist he is limiting himself to "deductions from first principles". The "political-sociological" economist does not make clear at which point he is leaving the field of deduction from first principles for the more speculative areas of inductive reasoning. Economists should—from the point of view of the public—

and also I am inclined to think from the point of view of their science (or craft), be more careful to distinguish between what they "know" and what they "think".

A navigator "knows his observed position by astronomical position"; he "thinks" he is in his Dead Reckoning position. Whether or not economists take my advice, the public, in considering the statements of economists, must sift out the fact from the fancy before they decide upon action, otherwise they may find that they have based a policy on "economic facts" which are only sociological suppositions.

Let me now introduce to your notice Mr. N. F. Hall, Head of the Department of Economics at University College, London. He is the economist whom the B.B.C. invited me to cross-examine in front of the microphone. I came to the conclusion that it would be helpful to me in my task if I first discovered what kind of an economist he was. So I asked him if he would be good enough to write me a note on the world crisis. He most obligingly granted this request and his analysis is printed in this book. He in his turn asked me to give him some idea of the type of question I proposed to ask him. Being by nature a decentralizer, I called the public to my aid and asked them through the microphone what question they would like to ask an economist. Approximately 4,000

questions and a considerable literature fell upon me. An analysis of this correspondence is also printed in this book.

Many listeners seem anxious to know how these discussions are prepared. They are not faked. It is true Mr. Hall and I had notes, because for one reason we were discussing extremely controversial matters, and the B.B.C. naturally wanted to know roughly what we proposed to say to questions such as "Are all bankers blood-sucking rogues who sell to the nation its own credit?" But in preparing the notes we played fair. I questioned Mr. Hall, he answered, and a secretary recorded the conversation. This record was used in the studio, and it is the record which is printed in this book. Now you had better get into Mr. Hall's mind by way of his analysis of the crisis, and then you will be prepared to judge the cross-examinations.

STEPHEN KING-HALL

## THE WORLD DEPRESSION

EARLY in 1930 the Young Plan was accepted as a "final" settlement of the post-war financial confusion. Currencies had been "restored"; budgets had been balanced, an international gold standard was in operation, and the tangle of financial obligations resulting from the war and post-armistice periods had finally been sorted out, under the guidance of the principle of "capacity to pay". The result was the unparalleled international depression of the years 1930-1933. By June, 1931, the Hoover Moratorium recognized the collapse of the Young Plan. By the end of September, Great Britain, by abandoning the gold standard, had to admit failure in her first attempt to restore the international monetary system, without which the world trade on any appropriate scale is impossible. By March 1933, the United States, the chief beneficiary of the war and post-war periods, had relapsed into a condition of primitive barter, and by June was admitting her structural inability to play the rôle of an international creditor power. In every country of the world the fruits of ten years of reconstruction were numbing and



demoralizing idleness. The leaders of industry and commerce were stupefied by fear into inactivity; and the Governments of the leading powers, overwhelmed by unnumbered responsibilities, agreed to meet in London for a World Monetary and Economic Conference.

The question is, why did ten years of reconstruction result in collapse? Was the objective of a restored international monetary system a false goal, or were the methods adopted to reach it mistaken? This is the great issue before the world in 1933. An understanding of the economic problems created by the events of the war and the post-war periods, is, therefore, of great importance for the work of the World Conference, and for understanding the issues with which it is faced. This essay, therefore, makes no excuse for going back to 1914 as the first cause of the world tragedy of 1930-1933. A re-examination of the economic, as compared with the monetary and financial effects of the World War, is essential to explain the real significance of the depression. The essential economic facts of the war years are clear enough. The current output of the most highly developed economic systems of the world was devoted, for a period of more than four years, to the production of materials and services which were used for purposes of destruction. It has been argued by high authority that the economic wastage

of the war period can be over-estimated. Statistics show, for example, that the current annual production of Europe, the area most directly influenced by the events of the war, had recovered by 1925-26 to something equivalent to its pre-war level. We had lost, it is argued, a part of a few year's output, and that the post-armistice period made good this deficiency with surprising rapidity. Annual output had caught up and surpassed pre-war output, and from that moment it has been assumed that the economic effects of the war period had exhausted themselves. The damage done had been made good.

This argument is fallacious. It overlooks the real and deep-seated economic consequences of the war, and it obscures the central political difficulty which had been created by the wastage of the war years. Instead of looking at the figures of annual output, a truer picture can be sketched if detailed statistical analysis is avoided, and attention is concentrated upon certain wider issues, which the statistical series at our disposal tend to conceal. The most difficult and intractable problem created in the economic sphere by the war is the result, not of a change in the magnitude of the annual output of the world, but of a change in its composition, and, more fundamental still, a change in the sources from which it is derived. The post-war boom and subsequent depression, particularly

in so far as they affected Great Britain, can only be understood against the background of the rapid changes in the general economic structure of the world demanded first by the war itself, and then by the restoration of Peace.

Before 1914 there was a world trading system. There were Tariff barriers and other obstacles to free international trade, but in general there were well-recognized channels of trade, and a degree of international division of labour which roughly fitted the relative productive capacities of the several countries and trading systems of the world. This system was the product of fifty years of slow growth, after the unification of the German Empire in 1870-71, and of the United States after the Great Civil War. The position was not stable. The channels of trade were not sharply defined, and the productive structures of the several countries were not unduly rigid in character. But there were generally recognized limits; and such changes as were necessary, as, for example, the displacement of the bulky semi-finished British exports by high quality speciality goods, came slowly and without causing major disturbances.

But the outbreak of the world war imperatively demanded a change in the whole international economic structure, which had to be brought about with great rapidity under pressure which regarded only political necessities, and not the comparative

economic aptitudes of the several trading countries. The belligerent countries were compelled to concentrate for the period of the war upon obtaining materials and services necessary for the prosecution of hostilities. They obtained these by using as many of their own resources as could be directed to the immediate production of munitions and other essential war supplies, and by inducing neutral powers to change their pre-war scheme of things so that they could undertake the production of direct and indirect war supplies. Moreover, this demand for essential war materials was dictated by the compelling and over-riding necessities of a struggle for existence. The goods had to be obtained in the minimum of time, and almost regardless of cost. There were not, and could not be, any nice calculations as to prices and costs. The relative physical aptitudes and the economic capacities of the different areas of the world for the production of different goods under a system of international specialization became, for the period of hostilities, irrelevant. There were, therefore, during the years 1914-1919, very far-reaching changes in the whole structure of production and exchange throughout the world. But before the change-over was complete, the signing of the Peace Treaties demanded a second and more difficult change. The productive system of the world, which had already in five years rapidly changed in

general character in one direction, was faced with the necessity of returning to something like its status quo. The economic history of the post-war decade is the story of the slow and laborious readjustment of the whole productive system of the world after the removal of the insatiable, but only temporary, demands of the war period. This readjustment is still continuing; the world depression has been a powerful means of accelerating it, because failure to adjust swiftly enough was the principal cause of the slump.

The difficulties of the period of readjustment would, in any case, have been stupendous; but they were made even greater by two special factors, the first, the technical methods of production necessary for manufacturing in the twentieth century, when fixed plant on a very large scale is an indispensable instrument; the second, the character of the demand under which the non-belligerent world had first changed its productive system. This second point demands attention first. We have already said that the demand for war material was based upon unescapable necessity, and not upon nice calculations of price and alternative ways in which resources can be used. The belligerents, during the period of hostilities, had no choice; they were compelled to obtain increasing supplies of copper, steel, coal, rubber, tin, cotton, oil, and essential fats and foodstuffs. These

things had to be got upon any terms which would be sufficiently attractive to producers to make them available. In belligerent and non-belligerent countries alike, labour and capital were transferred from their customary employments and mobilized for the period of hostilities for the task of meeting a temporary demand for these essential war goods.

At the conclusion of the hostilities, therefore, considerable distortion in the structure of production had taken place, and the vital point is that this distortion had only been brought about because producers, particularly those in non-belligerent countries, who adapted themselves to meet war demands, had been induced to do so by the opportunity which the insistent character of this demand gave to them of making higher profits in their new lines of production, than they had made in their old ones. This is the economic significance of the phenomenon of war profiteering. Had this distortion in the organized productive structure of the world occurred only in the output of war materials, the problem of reorganizing production as soon as the demand for war materials stopped, would have been relatively easy and fairly speedy in accomplishment. But still greater difficulties were created, because the war also required temporary changes in the organization of production of goods not directly required for war purposes. The markets of Germany, France, Great Britain

and other belligerents were, to a greater or less degree, deprived of the goods that they had relied upon these countries to supply. At the same time the power of the belligerents to buy the non-essential (for war purposes) products of the neutral countries, left these latter in a position in which they could not dispose of their normal pre-war output. Under such circumstances, the operation of economic forces was inexorable. The neutral countries, regarded as a whole, and including the United States, transferred their resources to produce locally, products usually obtained from the belligerents, so that in addition to meeting the belligerent demands for the essential war materials, they diversified their own local production in order to satisfy their local demands. The period of change was assisted by local profit inflations, which started with the industries supplying belligerent requirements and resulted in all the new local industries enjoying a period of seeming prosperity.' Here is the origin of that economic self-sufficiency which has reached such alarming dimensions in recent years.

To understand, therefore, the difficulties of the post-war period, it is necessary to examine the implications involved in the shift-over in demand and production caused by the war itself, closely followed by a second shift when the war came to an end. The first shift—to supply

war requirements, and to replace the discontinued exports of the belligerent countries—was relatively easy, because the basic cause for the change was the irresistible need, on the part of the belligerent powers, for essential war supplies. Most of these powers resorted to inflation to obtain them internally, and to exports of gold, or to the sale of holdings of foreign investments, to obtain them externally. The result was that in neutral and belligerent countries alike, the first shift-over occurred under the stimulus of inflationary forces operating, in the former case, through the unbalanced payments received from the belligerent powers, and in the latter, through direct general inflation. Hence the dual operation of extremely intense demand and general inflation made the development of industries, not previously located in the non-belligerent countries, unduly profitable.

Here it should be noticed that there is a divergence between accountancy and economics. The shift in the disposition of the factors of production in the non-belligerent countries during the war must ultimately have involved a continued reduction in the real standard of life of the non-belligerent countries. That is to say, the total consumable income available, measured in physical goods, must have been smaller owing to the redistribution of production under war circumstances. From the economic point of view, there-



fore, the adjustments would have been damaging to the neutral countries, but from the accountancy point of view all would appear to be well, the newly developing industries would be profitable in the accountancy sense, and the money incomes of the community would also be larger; but cumulatively the effects of the redistribution of resources would have made themselves felt, and, had the war been prolonged, there would have been a general, visible and substantial reduction in the standard of life, not only in the belligerent, but also in the non-belligerent countries. In actual fact, the decline in the standard of life was in part offset by the tremendous stimulus given by the war itself, by the development of new industrial processes, by improved and new productive and distributive technique, and by the general tightening-up of the system imposed by the urgent necessities of war. But if this technical factor in the general situation is omitted, the point remains that the development of new industries in the non-belligerent countries was profitable in the accountancy sense, but was not desirable in the general economic sense, as it tended to reduce the real income of the re-organized economic system. This could have been made clear at the moment it was occurring if it had been possible for producers in neutral countries to calculate the period during which they would be free from the competition of the

goods normally produced for export by the belligerent countries. If it had been known, for example, that the maximum period would be five years, depreciation at the rate of 20 per cent. would clearly have been necessary, and the true local costs of producing imports temporarily displaced by the war, would have been apparent. But the uncertainty of the period made calculations of this sort quite impossible, with the result that economic significance of what was occurring was still further concealed.

This divergence between accountancy and economics is, in a large measure, responsible for the failure of the world system to adjust itself after the conclusion of hostilities. It was extremely difficult to get industries which had been temporarily stimulated to supply war needs, or which had grown up to replace the suspended exports of the belligerent powers adequately "demobilized". In all countries cogent arguments could be brought forward in favour of Government action, calculated to maintain industries which had developed or expanded during the war. From the accountancy point of view it could be argued with considerable plausibility that the war had revealed that the manufacture of certain goods, which had not been produced locally before the war, was in fact profitable, and that the non-belligerent Governments by tariffs, or some other method, should retain

the new profitable industries which had been developed by chance as a result of a war-time discovery. Facts and figures appeared to justify Government protectionist measures to an unprecedented degree, and these facts and figures were fortified by the political uncertainties of the time.

The position was made still more complex by the period which elapsed between the signing of the Peace Treaty and the restoration of some degree of economic stability among the belligerent powers. The industrial map of the whole of Central Europe had been entirely re-designed. It was impossible to forecast what the new economic and political grouping in Europe would be. The finances of all the Governments of the world were in a chaotic state; price levels, costs and foreign exchanges were all fluctuating from week to week and month to month, and the belligerent powers themselves were not, in the first few years after the Peace Treaty, in a position to resume their ordinary industrial life where they had left it off in 1914. Many of them were compelled to continue to buy in very large quantities the essential foodstuffs and industrial equipment from the only sources that could supply them, the non-belligerent countries and more particularly the United States.

Under circumstances such as these, it was practically impossible to see what was going to

be the ultimate international and geographical grouping of industry and agriculture in the post-war world. A return in detail to the pre-war system was clearly impossible. Not only had the war brought great political changes, but also the general impoverishment of the economic systems of the principal belligerent countries themselves had influenced their several economic positions vis à vis the non-belligerents, and had altered the basic economic advantages in production which had been the foundation upon which the pre-war international trading system had been built. This alone was sufficient to render the future obscure, and made the adoption of a wise economic policy unusually difficult. The situation was further complicated by the stimulus to invention, which the war itself had given. New methods of production, covering practically the whole of the industrial and agricultural activities of the world, had been discovered. The search for substitutes and the necessity of improving mechanical appliances for war purposes had enormously accelerated the pace of invention. This, naturally enough, did not slacken off with the conclusion of hostilities. On the contrary, it was strengthened and increased by the confusion and the post-war period itself, until it became a factor of equal importance with the economic results of the war in complicating the task of international economic reconstruction.

Under these circumstances, it was inevitable that mistakes should be made. The world trading system as the leaders of industry had known it before the war could not be restored. Nor could anyone reasonably forecast what the main characteristics of the international trading system of the future would be. Little guidance came from the past, the future was obscure; the inevitable tendency for perplexed politicians was, therefore, to try and hold on to what they had got. If they were the leaders of non-belligerent countries, a clear guide to their policy was to retain the position they had acquired, while their trade rivals were otherwise engaged. The belligerent countries, particularly Great Britain, naturally wanted to get back to "normal", this being somewhat loosely conceived as the economic organization of the pre-war years.

But before the world could even measure the degree of adjustment necessary in the structure of production, both industrial and agricultural, which was the real problem created by the war, some degree of financial reconstruction was essential. So long as inflation continued, neither excessive capacity in industries suited to their habitats nor the presence of unsuitable industries, could be measured, it could only be guessed. Fluctuating exchanges and price levels made any comparison of costs, the ultimate test, impossible. There were, therefore, two necessary steps in the work of reconstruction;

the first financial in character, involving the re-establishment of an international monetary system, the second more fundamental, but of equal importance, industrial and agricultural reconstruction. Attention in the period 1920-30 was quite properly mainly concentrated upon the first task, the re-establishment of a financial order. Budgets were balanced and national finances were reduced to something approaching order. This re-establishment was not completely accomplished, as the great issues of reparations and war debts dominated the whole scene. But a substantial measure of success was obtained, and as a consequence it became possible to stabilize the exchanges and, by 1930, the gold standard had been generally adopted, and the Young Plan seemed to mark the successful accomplishment of the first stage.

There are two reasons why the completion of this first and stupendous task did not produce more obviously satisfactory results. First, the interminable delays due to political uncertainty very substantially reduced the value of the achievement, because during the long period of disorder, the basic economic disharmonies, resulting from the war, became steadily worse and worse. Secondly, the re-establishment of the gold standard seems to have been generally misunderstood. It was not a signal that the whole of the disturbances brought about by the war were over. It only signified that

the cruder forms of local inflation had been checked. The re-adoption of a common international standard logically implied an intention to restore an international trading system comparable in general character with that which the war had destroyed. This implied a return to a system of international division of labour, and involved the demobilization of industries which had either been over-extended or newly established under the special and temporary stimulus of war and immediate post-war circumstances. From the economic point of view the resumption of an international monetary system in the form of the gold standard made absolutely essential an international redistribution of industry, agriculture and commerce on the principles of comparative costs.

In the circumstances that existed in 1925-28 this meant international deflation—not necessarily “commodity deflation” but “capital deflation”. The general public are now sufficiently familiar with the idea of inflation in the form of a general and marked rise in commodity prices; they do not appear to be equally familiar with the more fundamental and dangerous “capital inflation”. If a period of rising prices is prolonged, excessive industrial and agricultural profits accrue, not as the result of the efficiency of producers and a harmonious relationship between fixed plant and rate of turnover, but as the outcome of the price movements

themselves. These tend to encourage an over-expansion of fixed plant in industry, and tilled ground in agriculture, and are a principal cause of the existence of excessive productive capacity which has been visible in the basic industries in Great Britain since 1920, and in the world at large since the restoration of monetary stabilization period, 1925-28. As soon as inflation stops and prices become stable or tend to fall, the problem of redundancy, the result of the "capital inflation", becomes acute, and a period of what is called "cut-throat competition" and "dumping" is inevitable. It is the only way, apart from deliberate demobilization, by which the necessary adjustments can be made in the distorted capital structure. As soon as monetary stability was achieved in the post-war period, the "dumping" period set in and resulted in the great depression. The tragedy is that it was not foreseen, and that the plans were not laid during the period of monetary reconstruction for this equally important and probably more difficult industrial and agricultural readjustment. The difficulty was, however, that until an international monetary system had been restored, it was not possible to measure in the world at large the degree of international capital inflation which had accompanied the local inflations in the war and post-war periods. But as soon as some semblance of an international trading system was restored, the problem



became steadily more and more acute. Three forces operated simultaneously to make it so. First, the shifts in demand during the war and after the Peace, had caused an entirely new and necessarily temporary re-organisation of industry; secondly, the local inflations in the belligerent countries and the easy monetary conditions in leading neutral countries, had caused them to undergo a period of capital inflation; thirdly, the great improvements in industrial technique had been prevented by the general inflationary conditions that existed from causing, as they should have done, falls in the prices of consumers' goods, and consequent increases in and diversification of consumption

Before orderly and peaceable international trade could be restored, this problem had to be solved. This involved a general re-organization of the capital structure of the leading trading countries. Industries that had grown up to meet special demands of the war period should have been allowed to die. Excessive capacity which had inflated the capital structures everywhere should have been destroyed, and a general return to international specialization should have been the guide to the economic policy of all countries.

The gold standard system tried to bring this about. It put a check in 1928 to the excessive borrowing of Germany from abroad, for the purpose of further extending an over-developed capital

structure. In 1929, the normal mechanism of movements in the London Bank rate helped to check the Bull Market on the New York Stock Exchange, which was permitting the excessive inflation of the American capital structure. It also put an end to the valorization schemes which were supporting the over-developed productive capacities of the chief raw-material producing centres. It also served to check the attempt of Australia and other primary producing countries to support an artificially high standard of life by excessive external borrowing.

It is difficult, therefore, to escape the conclusion that the great depression was the first difficult and dangerous stage in the restoration of an international trading system, the second of the two great problems of reconstruction. The great fall in prices was the inevitable result of an inflated and artificial capital structure which was out of harmony with the specific productive aptitudes of the several trading nations. If this is true, then it follows the world in 1933 is at the parting of the ways. Either it can say that the recent social distress and the political disturbances, caused by the first attempt to restore a balanced international trading system, are too high a price to pay for it: or it can say that the depression had done so much to make an ultimate restoration of international order possible, that the fruit of four years of suffering shall not be thrown

away. If it decides on the first alternative it can, by following a policy of local self-sufficiency accompanied by quotas, tariffs, subsidies, trade restrictions, and fluctuating exchanges, maintain a series of stable but impoverished local economic systems. Alternatively, by restoring an international monetary system and by removing subsidies, it can lay the framework of a restored international structure. Quotas and special tariffs are probably inevitable, but they can and should be used with the ultimate objective of increasing, and not decreasing, international trade. Quotas, for example, for the imports of primary products into industrialized areas, may be a powerful agent in bringing about with a minimum of delay, necessary adjustments in the productive capacity of the over-capitalized agricultural areas. But they will only do this if they are not allowed to protect an inefficient or over-developed local agricultural industry in the industrial country itself, and if they are accompanied by a policy of writing off the bad debts of the agricultural countries so that their financial positions can be brought into harmony with the new trading conditions imposed by the régime of quotas. For industrial countries some form of tariff protection, on a temporary basis, for some local industries, is probably necessary, provided that it is possible to see that the period of the tariff is used to reduce to order the capital structure of these industries. This

is clearly necessary to restore efficiency and competitive power. The British iron and steel industry with its problem of obsolescence seems to be a fair example of such a case. But tariffs must not be used to equalize the costs of all imports and all local products. Any attempt to do this will simply delay the re-organization of capital structure of the several countries and make international trade impossible.

The economic arguments in favour of a policy directed towards the restoration of an orderly international trading system seem to be unanswerable, particularly for Great Britain. The increase in the mechanical and technical proficiency, make more, and not less, international specialization essential, if this improvement in the processes of production is to result in a higher standard of living and increased leisure. The pace at which an international trading system can be fully restored is a political matter. If the reconstruction of over-expanded local industries, and the change over to new ones, cause immediate social suffering, then provided that they do not impede the changes but only reduce the accompanying friction, necessary measures of temporary protection can be designed, to accelerate the change, and to bring it about with the minimum of friction. The problem lying immediately ahead is the strengthening of the political system of the world so that a flexible and harmonious economic system can be restored. The test of all schemes

for direct planning of commerce and industry must be the extent to which they provide for greater flexibility in the place of the present rigidity in the trading systems of the different countries.

This is the background against which the following discussions should be read. Although the Economist in the Witness Box is not a whole-hearted adherent of the gold standard system in its 1925-31 form, he advocates a return to it because he believes, that, in spite of its defects, it does provide what no other system at this stage can do as well, a definite link between the costs and prices of the different countries of the world. Without this, the reconstruction of a world trading system seems to him to be impossible, and without a world trading system, the standard of life in all countries will be lower than it otherwise would be. Given a restoration of an international financial system and a reinvigorated world trading system, it will then be possible to develop the international monetary system so that the fluctuations in the value of gold itself—its chief defect as a standard of value—can be obviated by rational policy, based upon improvements in the structures of the principal money markets of the world and the bank of International Settlements.

But the basic economic disturbances which are the legacy of the war have not yet been removed, and until they are tackled, monetary manipulation

to conceal them is a betrayal of humanity. At this juncture of affairs it is essential that the real difficulties of our civilization should be faced squarely. They are, in the economic sphere, principally related to the maintenance of harmony and balance between the different forms of productive industries. Without this harmony the fruits of knowledge, enterprise and labour go to waste ; with it, the individual, as well as the nation can emancipate himself to a large degree from economic necessity and drudgery. But it can only be achieved by a freer and more adjustable economic system. Monetary manipulation, shock factors aimed at producers' "psychology", schemes of made-work and the like are temporary palliatives, and dangerous because they conceal the problem of adjustment and re-organization which must be faced. It is easy to live for to-day and to be content with palliatives. They are almost a new religion, an insidious form of opiates for the people.

N. F. HALL.

*April 3rd*

## TALK I

THE series of talks began on the evening of Monday, April 3rd, and Commander King-Hall began by referring to the large numbers of letters which he had received from listeners. He selected from these letters a series of questions, such as: "What is the gold standard?" "What settles the value of the pound as compared with the dollar or the franc?" Mr. Hall replied to these questions in a brief but strictly accurate manner, with the result that his answers conveyed little either to his questioner or to listeners. Ultimately Commander King-Hall was compelled to abandon his direct method of questioning, and adopted the approach forcing system. He decided to take the agenda prepared by the committee of experts for the World Economic Conference, which he proposed to use as a "life-line" through the discussions. The discussion proceeded as follows:

K.-H.: As I want a guide, a sort of life-line to take me through the jungle, I propose to take as my guide this programme of the World Economic Conference. Do you follow me?

HALL : Not exactly.

K.-H. : Well, look at the thing. It says that the main points to be discussed by the Conference are seven in number.

HALL : Quite right. Here they are :

Money and Credit Policy

Foreign Exchanges

Price Levels

Movements of Capital

Tariffs

Quotas

Cartels

The first four are financial, the last three are economic.

K.-H. : Very well ; now I propose to start in and work straight through the list, and I'm going to question you on it. We'll go through the list fairly quickly, get as far as we can to-day, and complete it next time. Then we'll go into details.

Firstly, what is Money ?

HALL : Money is a very simple tool which people have found by experience to be very useful when they are exchanging goods with each other. It does away with the necessity of a man who has got a pair of shoes and wants to get a packet of cigarettes running all over the country until he finds someone who happens to have (a) a packet



of cigarettes, and (b) wants a pair of shoes. Money, therefore, is simply a time-saver and trouble-saver when people are making exchanges among themselves.

K.-H. : That's more the sort of answer I am looking for and is an excellent description, if I may say so, of the purpose of money. Now what is the thing itself ?

HALL : Well, to come back to my parallel of a tool, I suppose a spanner is a piece of steel. Money is any piece of stuff which is convenient for use as a means of making payments and which, of course, will be accepted freely in exchange for any other commodity. Copper, a bit of silver, a bit of gold, bit of paper—anything that is convenient to handle, anything which will be accepted without question.

K.-H. : Well, do you call a cheque money ?

HALL : No.

K.-H. : But hang it all, you said just now . . .

HALL : All right, wait a minute ! A cheque is a credit instrument. A sort of deputy money. You have gone on to the question of credit. A cheque is a means of *transferring* money from one person to another ; it acts just like money does in some circumstances, because the person who gets the cheque believes—that is the word credit, "belief"—that he will be able to get money for it.

K.-H. : If that is all there is to credit, it seems rather unnecessary to give it the honour of a separate heading on the programme of the World Economic Conference.

HALL : Fundamentally all credit is like the cheque. It has a very important place on the programme because the Conference has got to try and restore conditions of confidence and trust so that the credit system can work once again. It always take the form of some contract to pay money—usually at some fixed time and in a definite place. The various forms of what are called credit instruments are all right in normal times when there is a fair chance that the contract will be fulfilled. But if the people who have promised to pay the money that is due find that their plans have been upset, and that they cannot get the money, then the whole system may break down. Confidence will be destroyed, and no one will trust even perfectly sound credit instruments.

K.-H. : I suppose if the system of money and credit breaks down it becomes more difficult for people to exchange.

HALL : You are quite right, and if you cannot exchange goods, there is no point in producing them either. Less work and less trade if the money system breaks down.

K.-H. : I see what you are getting at, but surely you have gone a little too far there ; even

without money, there would be some point in producing just enough goods for one's own personal needs.

HALL: Yes, you are right up to a point, but if we all went back to the days when we each made for ourselves what we were going to consume, we would all have very little to live on, and be immeasurably worse off than we are to-day.

K.-H.: Right! Now to come back to the point next on this programme for the Conference, which I see is called "foreign exchanges". Kindly spread yourself on that for a minute or two.

HALL: Everybody gets frightened when the foreign exchanges are mentioned, and is prepared to take up the attitude at once that they are a sacred mystery of high finance which the ordinary person cannot understand. They have got a complicated side, of course, but at the same time, the principle they work on is simple enough. They are only a clever dodge to get over the difficulty that arises in foreign trade because the buyers and sellers of goods use different money, and find it difficult to settle their bargains.

K.-H.: How long would it take you to explain that dodge?

HALL: I think I could put the really important

idea across in about a quarter of an hour, not all the complications, of course.

K.-H. : I'll reserve it for a future occasion. I see the next point on the programme is price levels. What about them ?

HALL : You won't understand them until we have gone more deeply into the question of the foreign exchanges.

K.-H. : Well, what about the next point—capital movements ?

HALL : These are very important for international trade.

K.-H. : Hold on—what is a capital movement ?

HALL : A loan of money from one country to another for a long or for a short period. Their importance is this : the countries of the world are all in different stages of development—rich, poor, and medium. The poor must buy if they are to develop and grow richer. The rich must sell if they are to keep up their wealth. Hence the rich are obliged to lend money to their poorer customers to enable them to buy the goods necessary for their development. International capital movements are not, for the most part, plots of wicked financiers. They are the very life-blood of much of the world's trade.

K.-H. : Do you, in fact, say that a certain

amount of borrowing and lending between nations is essential for the continuance of international trade ?

HALL : Certainly I do, particularly for a country like ours.

K.-H. : Has this borrowing and lending now come to a full stop ?

HALL : Practically so.

K.-H. : Why ?

HALL : Because during the war and ten years after it, a great deal of international borrowing and lending was done for political and not for economic reasons. It has, as might have been expected, been found impossible to settle up these political loans, and the attempts made to do so have upset even the really sound loans.

K.-H. : To the great distress of the lending nations.

HALL : Yes, with the inevitable result that borrowing and lending have practically stopped, and international trade has been cut in half.

K.-H. : What, in your opinion, can the World Economic Conference do to revive this process of lending between states ?

HALL : Face facts, which means recognize that we have made a great many mistakes in international finance under the pressure of war and post-war difficulties.

K.-H. : Well, we must stop now. The present

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position is that you've touched on the first four points on the programme of the Conference. Next Monday I propose to ask you general questions on the last three points which are tariffs, and other barriers to trade.

*April 10th*

## TALK II

K.-H. : If you don't mind, Hall, before we start this evening I want to say a word or two to my friends. I have had a good many letters from them since our first talk, and broadly speaking, I find that so far as they had any complaints, they can be summed up as follows : "At the end of your first talk we felt that you put a number of points to Mr. Hall, but that when you closed down at 9.40 we were not very much wiser than we had been at 9.20." As to that complaint, I want to say that I think it is perfectly justified, but at the same time it was inevitable. I know, and I am now speaking not to you, Hall, but to my friends, that hundreds and hundreds of you wanted to get a straightforward answer to questions such as "What is the gold standard?" but I must ask you to believe me when I tell you that it is just as impossible to answer that question briefly and accurately in language understandable to the ordinary person without first going into questions as "What is money?" as it would be to answer the question : "What is body-line bowling?" without first saying

a little about some general aspects of the game of cricket. Of course everyone who is listening to me now knows enough about cricket to make it possible to go straight to the question of body-line bowling, but unfortunately there is ample evidence that most people do not know enough about economic matters in general, and the whole of that side of our social life of which banks, foreign exchanges, the gold standard, etc., are parts, to make it practical to plunge straight into questions and answers on specific details of the whole. Such being the case, I made up my mind, even at the risk of annoying listeners, to spend the whole of the first cross-examination, Hall, in trying to create a background or starting-point from which to get down to the concrete and definite questions to which listeners wish to have answers. You must remember that eleven evenings are to be devoted to this subject, and each discussion is part of a whole plan of questions which I have prepared.

Now, Hall, I am sorry to have kept you waiting like this—let's get down to it. Now last time I decided to use this programme of the World Economic Conference as my guide. So the next things I'm going to take are tariffs. Are they good or bad?—and don't forget every word you say is going to be taken down in evidence against you.

HALL: From the economic point of view there can be no question that they are bad, because every-



thing they are supposed to do can be done more efficiently by some other method.

K.-H. : Expand that cryptic statement.

HALL : I am glad to hear you say that because there are really a good many problems all mixed up in the questions of tariffs. Most of them are political, and not economic in the strict sense of the word.

Firstly, some countries need them to raise revenue for their governments. This is most true in cases of agricultural countries, where the income tax would be difficult to administer. We ourselves have had to use them to raise revenue during the past year. But notice here that a tariff that keeps goods out will not raise any revenue—as it is only payable on the goods which come in.

Secondly, there is the infant industry tariff; the McKenna duties belong to this class. It takes a period of years to develop a dyestuff or a motor car industry. Until such an industry is developed so that it can produce on a large scale, it cannot get its costs down and cannot stand against foreign competition.

Thirdly, there are certain vital industries, necessary for the safety of the country—iron and steel, perhaps—which the Government feels must be protected.

Fourthly, the present fashionable argument that you must put up tariffs yourself to have a weapon

in bargaining to persuade the other man to take his down. That again is politics, not economics. It is part of the policy of this country to-day. Funnily enough, it is a weapon that was first used against us about a hundred years ago by the United States and some of the Continental powers. They were quite successful in forcing us to abandon certain restrictions, particularly in shipping, of which we were very fond at that time. I hope that we shall be successful in using this rather dangerous weapon to-day.

K.-H. : Thanks for that description of the purposes of various kinds of tariffs. Now there are two further questions arising out of that. Firstly the purposes. Let me give you an example. Some people think it would be a good idea to have a larger proportion of our population working on the land. What do you say to that ?

HALL : I'm in this witness box as an economist—an economist has no views on this sort of question.

K.-H. : You do yourself an injustice there, Hall ; I know you have views on most things—but you are right in reminding me that it was an improper question. In fact, I was testing your economic purity, and you have emerged spotless. But now I'm going to give you a question you'll have to answer. I say, for the purpose of this discussion—that it is desirable to get more of our

people on the land. Now then, are tariffs on foreign foodstuffs the best economic method of reaching my object ?

HALL : Most emphatically not !

K.-H. : Why ?

HALL : Because we could do it cheaper and have much more control of the process if we did it direct by subsidy. Incidentally this method would be a constant reminder of the fact that this policy of Back to the Land was costing us something, whereas a tariff system tends to conceal the cost, and in the long run must reduce the total volume of world trade.

K.-H. : Do you maintain that it is the restrictive influence of tariffs on world trade which justifies their place on the programme of the Conference ?

HALL : Yes. You remember last week when we were talking about the exchanges and finance I was trying to show you that all these things exist to help to increase the volume of trade ? The reason why we want the total volume of world trade to grow and to increase is simply this ; that we cannot use efficient methods of production at all unless we use them to produce a very large volume. Without them . . .

K.-H. : You mean you cannot use them profitably ?

HALL : Of course. But I don't mean " profitable " in a narrow personal sense.

K.-H. : Well, come back to your mass production.

HALL : Well, I was saying that you cannot use efficient methods of production unless you have a big volume of output. If all the countries of the world try to make themselves separate trading areas, all except the very biggest of them will simply debar themselves from being able to use as efficient means of production as they otherwise could employ. Everybody in the country will work as hard and very probably much harder than he works now, but because the industries won't be so well organized and because the workers won't be so effectively supported by machinery and other equipment, they will all produce less goods as the result of their daily toil.

K.-H. : In fact, you will lose the economic advantages of mass production? Now I want to keep you strictly to the point about tariffs. Is your objection to tariffs from an economic point of view the fact that tariffs tend to divide the world into separate trading areas?

HALL : Yes—and the particular point about these divisions is this, that the total volume of trade done by each of those areas separately will be smaller than the trade would be in a world without tariffs. Without a big volume of trade we cannot use modern methods of production.

K.-H. : In fact, if the World Conference does

not succeed in lowering tariffs in a large number of countries we shall have in the next twenty years to put up with a much lower standard of living than might otherwise have been the case ?

HALL : That is very definitely the teaching of economics on this subject.

K.-H. : But don't let us lose sight of the fact that in using those words "standard of living" we are referring to material matters, and it is important to remember that we may prefer to have less to eat, or shall I say a less varied menu, and a less varied choice generally of goods in order to have the satisfaction of feeling self-contained and independent of foreign supplies.

HALL : Yes, you are now, of course, getting outside economic questions, but speaking not as an economist, but as a plain man, I agree with you, and it is exactly because of these non-economic considerations that it is going to be very difficult to reduce tariffs.

K.-H. : But although from the economic point of view tariffs reduce the total volume of trade, will there not always be certain people and interests who will gain from a tariff ?

HALL : I agree with that ; the difficulty of pulling a tariff down always is that you have to sacrifice some interest that has grown up under the tariff. It is always difficult to do this, and particularly so in the case of tariffs which I believe

are really based on fear and mistrust between countries.

K.-H. : They are, in fact, armaments of the war between countries—the economic war, and like all armaments are always considered, quite honestly, of course, to be defensive.

HALL : I think that's true, and the economic moral is that it is always very expensive to play for safety ; the more a country tries to defend its economic position by shutting itself off from its neighbours, the more it has to pay for its apparent security. On this tariff question each nation of the world has to choose between patriotism and prosperity ; if only it were possible for a large number of them to choose prosperity they could all be safe and patriotic at the same time.

K.-H. : I see the point, and it shows that these economic questions are not isolated matters, but only a part of the whole problem of modern life.

HALL : You mean . . .

K.-H. : Every word you said about tariffs can be applied to the Disarmament Conference. If it were possible for all the nations to trust each other and simultaneously disarm, they would obtain the security in search of which they at present keep armaments. It is a state of mind, of international

mistrust, which is at the bottom of the whole business.

HALL : Exactly, and if the World Economic Conference fails to do anything, it will not be because the economic problems will be too difficult, it will be because public opinion in the different countries will not allow anything effective to be done.

K.-H. : All right, that will be enough on tariffs. Now let's hear something about quotas, the next item on the programme.

HALL : Well, quotas and restrictions on imports are only another way of getting the same results as tariffs. Their object is to prevent people in one country buying more than a strictly limited quantity of goods from another country. They are supposed to be less dangerous than tariffs.

K.-H. : Why ?

HALL : Because it is argued that they do not raise the prices of goods in the same way as tariffs do.

K.-H. : How do you make that out ?

HALL : Because the goods which come into a country are not taxed at the port, and therefore on the face of it there is no extra price to be paid. Certainly the revenue gets no rake off.

K.-H. : Hold on ! You're going a bit fast there. Under a quota a smaller quantity of the

controlled goods comes into the country, and I should have thought this would have raised the price, in which case it sounds like six of one and half a dozen of the other to me.

HALL : I think most economists would agree with you there. In the long run they both have similar effects on prices, and of course both reduce the volume of trade.

K.-H. : To which one might add they both spring from the same causes. Let's take the last point on the programme, which is Producers' Agreements. What about them? What are they?

HALL : They are quite simply agreements made by the manufacturers of any product, say zinc, or copper or oil, under which they agree not to sell below a certain minimum price. Agreements of this sort usually go with tariffs because you can't get producers in a country together to fix prices if there is a chance that they will be under-sold by the foreigner.

K.-H. : Does, then, this point on the programme of Producers' Agreements only refer to producers inside each country?

HALL : No—although these producers' agreements began at the end of last century in the tariff countries, most of them are now international, and the world has been parcelled out into small



pieces for the benefit of powerful groups of producers.

K.-H. : What's wrong with that ? I can imagine circumstances in which it would benefit the consumer.

HALL : It all depends on the policy the producers' association adopts. If they content themselves with big profits as a result of keeping prices up, instead of seeking these profits by increasing the volume of their business at lower prices, they may in extreme cases strangle world trade, or at the best, make it very lop-sided. Let me give you a case in point.

K.-H. : Go ahead.

HALL : I was reading a book the other day in which a well-known man of business was arguing that these producers' associations were going to solve our difficulties by fixing prices and keeping them steady. To prove his point he quoted a table of figures to show that the prices of all those goods which in the past few years have been controlled by international rings had not dropped as much as the prices of uncontrolled goods. On the very next page, however, he gives a second list of figures. These showed the quantity of the output of the different sorts of goods over recent years. There had been some drop, perhaps ten per cent., in the output of goods whose prices were not controlled

by rings. The output of the controlled goods had dropped very largely indeed—in some cases rather more than fifty per cent. These big falls in output simply spread unemployment and misery and bring trade to a standstill. The author of the book did not seem to notice the relationship between the two tables of figures he had quoted. But, of course, it is a very important point, and I suppose the World Economic Conference has put Cartels and Producers' Agreements on its list because the time has come when we must face up to the problem of finding a way of preventing these powerful organizations doing harm which may be greater than the good they do under ordinary conditions.

K.-H. : Well, thanks very much. Now just to sum up where we have got to I have now had from you what I shall call a brief outline of each of the seven points on the programme—the four we did in the first talk, and the three we have just done. Time's getting a bit short, but there's one matter we have still got time to deal with. I have got a feeling that I now know something about each of the seven points . . .

HALL : That's all very well, K.-H., but are you beginning to understand how they all hang together ?

K.-H. : Look here, who's supposed to be

conducting this cross-examination? But as a matter of fact I will be honest enough to admit that I do feel a bit disjointed about them; I mean . . . I am looking round for a kind of clothes-line on which to hang these points.

HALL: That's a very important point. We make an awful mess of our tinkering bits of economic life, but we don't really understand how all the bits fit together. It is not any good pulling down tariffs if the money and exchanges system is so bad that people cannot trade. It is no use having a perfect money exchange system if short-sighted producers' agreements prevent prices from being changed when such changes are necessary if there is to be an increase in trade and prosperity. But it is quite clear that no one is going to invest any capital either at home or abroad unless there is some chance of the capital being used to employ labour, and to improve the purchasing power of the country. That is a point I would like you to think about. It is capital that employs labour and increases our earning and therefore our purchasing power, and not the way we print our notes or alter the Bank Rate. All these seven things we have been talking about make up the railway system for world trade. If the Conference is successful, it will give the All Clear signal and let the rest of us get on with moving the traffic about.

K.-H. : In fact the system has either got to work as a whole, or it blooming well won't work at all.

HALL : I say, by George ! You're becoming almost an economist !

K.-H. : Heaven forbid !

*April 17th*

### TALK III

K.-H. : Good evening, Hall.

HALL : Good evening.

K.-H. : To-night I am going to ask you questions about banks. My reasons for doing this are that I have had a large number of letters from people, some of whom almost suggest that bankers are knaves, many of whom seem to think they are fools, and all of them seem to agree that it is either something the banks do or don't do which is largely responsible for our present economic troubles. One line of criticism against the banks can be expressed as follows. My correspondents say that the banks can create credit and that this credit is the life-blood, so to speak, of the economic system. The critics go on to say that on the one hand you have great quantities of goods ; on the other hand a number of eager consumers, and that more credit or money should be created to bring the consumers and the goods together. What do you say to that ?

HALL : I like your analogy of credit being the blood-stream of the economic system. The

fashionable complaint at the present time is blood pressure ; you can have too much or too little blood pressure in the body. The difficulty about the bloodstream in the human body is to get the pressure just right. I suppose that the business of the banks is to keep on adjusting the supplies of credit and money so that there is neither too much nor too little in circulation. As to the critics of the banks, let me say at the outset that I think it quite inevitable that in certain circumstances there should be a large amount of ill-feeling against the banks and a lot of criticism too. I am not here to-night to defend the banks, but if they do their job of adjusting the supplies of credit and money properly, they are bound at certain times to have to put up with a lot of criticism.

K.-H. : Let me come back again to that analogy of mine which you accepted, of credit being the bloodstream. You said that the problem was to get the blood at the right pressure. Now my point is that not only can you have too high a blood pressure, but you can also have anæmia, which I believe is a shortage of blood. Now is it, or is it *not* true, that at the present moment there is not enough money, credit, purchasing power, in the hands of the people to enable them legally to obtain possession of these goods ? And if this is true, isn't that effect partly due to a shortage of credit owing to the policy of the banks ?

HALL : Well, there are a good many issues mixed up there if you don't mind my saying so. It is quite true that in the hands of the people at large at the present time there is not enough purchasing power to carry off all the goods available for sale—at least, not enough to carry them off on terms which would be acceptable to their owners. There I quite agree. What I don't agree with is the suggestion which seemed to come into your remarks that it was the duty of the banks to present the people with purchasing power to buy these goods. I think probably what is at the back of your mind is the fallacy that banks create credit out of nothing—out of the blue, as I seem to remember one of your correspondents putting it. They don't. It is true that banks can lend in the form of advances more than the actual cash which is deposited with them by their customers. But don't forget that they are only able to do business at all so long as people are willing to leave money in the care of the banks. They have to be particularly careful because they are handling other people's money. The banks give you a deposit on their books either in exchange for some definite security that you have got now, which is worth more than the deposit they create for your benefit, or, on a quite definite expectation that in a short while you will have something of value that you can sell or otherwise dispose of to repay their deposit for them. If you

haven't got any chance of earning the money to pay them back, and if you haven't got any sort of security which is worth at least as much, if not more than the purchasing power in the form of a deposit that you want to get from the banks, the banks will be quite unable to create any deposit in your favour. Try it and see.

K.-H. : I have. And the view you have just expressed certainly appears to be held by practical bankers, but—and this is the complaint of my correspondents—the banks have got hold of the wrong end of the stick. Why shouldn't I go to the banks and say to them : “ If you will give me some of this credit of which you, and you alone, are the purveyors, I can buy some of these goods which are lying about in heaps and sell them to people at a profit ” ?

HALL : Stop a minute—are you quite sure you can do that to-day or could have done it during the last two years ?

K.-H. : How do I know ? The banks have never let me try.

HALL : The banks' job is to know pretty well what your chances are.

K.-H. : Hold on a minute. I know quite a number of bankers, and I think they would agree with me when I say that it is not the banks' business to get mixed up with the management of industry as, for instance, is the custom amongst German



banks, and I am not convinced that bankers do know as well as, say, an industrialist or a big retailer, whether or not he can make profitable use of a credit.

HALL : Oh yes ; but there are two parties to any credit transaction. The industrialist or the big retailer who is a specialist in doing these things has no difficulty in getting credits from a bank. They have learnt by experience that he is a good man to back. These industrialists and retailers to-day who have got the knowledge and experience can get all the money they want from the banks and still leave a surplus. I don't think there has ever been any difficulty for a man with a good credit reputation to borrow money.

K.-H. : Yes, I agree with that, but why do banks say, as they are saying now, that they are looking for good borrowers—the word “good” is a relative term ? I quite agree that in these difficult times it is very hard for me to find a security which I can take to the bank knowing that that security will maintain its value, and find a ready sale if I cannot pay the bank back the money I want to borrow on that security. But my contention is that many of these securities would be quite all right in normal times, and that to get back to normal times we need a more liberal policy on the part of the banks. Do you disagree with that ?

HALL : It depends entirely on what you mean by “liberal”. I always regard a liberal person as

rather a wise person, not a lavish person. As a matter of fact, right down at the heart of this question we are discussing, there is this difficulty ; that the banks, from the economic point of view, are usually quite wrong when the public thinks they are right, and usually quite right when the public thinks they are wrong.

K.-H. : Here, that's altogether too cryptic. Just expand that a little.

HALL : Right ; when the banks are liberal in the sense that they will pass along the cash in exchange for any sort of security, when in fact you have got a situation like that which existed in New York in 1928 and '29, when there were 8,000,000,000 dollars worth of money lent to people who were using it to speculate with shares on the Stock Exchange—there was fine liberal policy for you. But what did it mean ? It meant that the banks were abusing their responsibilities in creating credit. They were creating an entirely artificial market for securities of all sorts and kinds. So long as the banks were willing to go on lending money, so long would the Stock market and other markets rise. Anybody who could get some sort of security and deposit it at the banks could sell in a few weeks the securities he bought with borrowed money for a tidy profit. Banks were very popular then. But what was really happening ? We see the situation more clearly to-day. While that stock market

was booming in America anybody could borrow money for industry to build new plants.. With what result? There is now capital equipment to make seven million motor cars a year in the United States. Probably under the most prosperous conditions, the States could scarcely carry off the output in one year of all that plant. Take the gigantic American steel plants, built during this boom period on the assumption that all these motor car factories were going to work full time. Sixteen per cent. of capacity to-day. What does that mean? It means acute suffering in the steel areas of the United States. Let us switch over to this country and look at the position.

K.-H. : Yes, I was just going to ask you to do that, and to remind you that British banking conditions are not quite the same as those of America.

HALL : No, but I don't want listeners to think I am being particularly critical of America. It so happens that the figures and illustrations of the principle I am trying to get at come more easily because their figures and information are so much better than ours. But let us look at the British statistics, from the Macmillan Report, for example, in 1928 about £120,000,000 of savings in this country were invested in all sorts of new securities. There was a boom on the Stock Exchange, you will remember. All sorts of people

took part in it; not only the rich—quite poor people did as well, and a good many of them did it on borrowed money. What happened to these £120,000,000 of new capital? By July 1931 half of it had disappeared. Too much plant to make, what shall we say, British films; too much plant to make artificial silk; too much plant for doing all sorts of new stunts—I don't despise these stunts, we want more of them. These new inventions are all increasing the variety in the economic system, which is what we want, but we do not want people running mad after a new thing. Now those, of course, are big examples, they are illustrations of what the economists call forced saving. Let me explain those words. They mean that by some involuntary action on the part of the system, as apart from the people, more time and labour and energy are taken up and used to produce capital goods instead of things that people can actually enjoy and use in their daily lives. That happens when the banks create credit too freely. And what is the result?

K.-H. : You seem to me to have given a most convincing story of a man who having been told that strychnine was a tonic, ordered a two-gallon bottle of it from the chemist and took it at a gulp. I am not for a moment denying the results of an *over-liberal* credit policy on the part of the banks. But what I am saying, and what I want your

opinion on now, is that it seems to me possible that the pendulum has swung too much the other way, and that at the present time we could do, not indeed with another overdose of strychnine, but say, just a little injection of it.

HALL : What I wish I could get you to realize is that for the first time in history we are definitely giving the system this dose of strychnine.

K.-H. : How ?

HALL : By exercising control of our foreign exchanges which is creating very easy money conditions in London.

K.-H. : But why isn't the easy money being used ?

HALL : Now I think we get down to the heart of our present troubles ; people are frightened of borrowing it.

K.-H. : But I say the banks are frightened of lending it.

HALL : I don't think so. They are frightened of lending it on wrong terms. The British banks have learnt their lesson.

K.-H. : Now I say we have got to the heart of the problem, because how the dickens can we find out what the right terms are ?

HALL : Wait a minute—you have misunderstood me. What I meant by saying that the banks want to lend on the right terms was this. It is the job of the banks to make temporary loans, and

in my opinion one of the biggest difficulties of British industry since the war, particularly the basic industries, has been that the banks have been too good to them, too kind, too frightened of public opinion, and I don't blame them. In some of the basic industries when the war was over and there was a short boom after the Armistice, banks lent money to these industries—expecting they would get it back quite quickly. They haven't got a lot of it back yet. They are owners of these industries. They never will get a penny back. But the banks ought not to be owners of industries. They ought to shut those industries down—put them into bankruptcy. If they had done it—what a howl there would have been! Creating unemployment! Seeking their own hand! Putting their own interests before those of the country! But they would not have been doing any of these things. They would have been clearing up an industry that wanted clearing up. Where there is an excessive quantity of plant you must get the excessive plant scrapped, or the whole balance of the industry is upset. You get bad labour conditions, bad unemployment, dwindling trade. If the banks had been supported by public opinion they could have done a tremendous lot to put our basic industries right ten years ago. But the country would not stand for it, and they did not do it. Now, what I mean by saying that the banks were anxious to lend on the right terms

is this. The banks know it is bad for an industry to be in the hands of its bankers. If the banks lend on very long terms—I mean by that four, five, or even six years perhaps—there is a danger that if bad times come the control of the industry will pass into the hands of the bank, and therefore the banks are now insisting that industry shall not run overdrafts for very long periods. In fact, credits should only be used properly for quite short periods. If people are so frightened about the immediate future they don't want to borrow for short periods because they might make losses, and that is why I say people are frightened of borrowing. They are frightened of borrowing for the sort of period over which it is right for the banks to lend. The banks should not, in fact, lend for a longer period than say six months or a year.

K.-H. : I daresay all that is very true, but of course—and I am sure I can include you in this—what I am trying to find is a way of starting up industry again. The impression you have left on my mind can be summed up as follows : Credit, we both seem to agree, is the life-blood of industry. I don't know whether we do agree as to exactly how credit is created, though perhaps we can agree . . .

HALL : I think the fact is that you missed my point that credit is like a quarrel. It takes two to make it. You have got to be a creditable person

before you can get credit from the bank, and it takes two people to create credit.

K.-H. : Yes, I don't quarrel with that description. But what I was saying when you interrupted me, was that leaving aside the question as to how credit gets created, the banks are what I am going to call the credit part of the machine—if credit is petrol, banks are the petrol tank. Do you disagree with that ?

HALL : Yes, I do.

K.-H. : Confound you ! Let me put the matter another way. Can you deny that the credit functions of the banks do, in fact, give them a dominating position over industry ? I don't want to exaggerate the position, but as you yourself said, if they give credit on too easy terms, they automatically transform themselves into industrialists, because they find themselves the owners of industries, and the point I am trying to get to is that when one is in a crisis such as we now are, someone, somebody, has got to make a decision and even, I will go so far as to say, has probably got to take a chance, and the dilemma as I see it, is that a good banker has got no right to take a chance, and yet the banks seem to me to be the only people who are in a position to take this chance.

HALL : I absolutely agree with you, that to get out of our difficulty a lot of people have got to take a chance. Some of them seem to be doing



it. But you will keep on talking as though the banks were to take the chance.

K.-H. : Yes, because you can't take a chance unless you have got some credit, and where are you to go for your credit if you don't go to the banks ?

HALL : For the sort of credit you want, very long-period credit with a bit of risk attached, go to the private investors or the finance houses, not to the cheque-clearing banks—that is the Big Five and a few others. Their business is short-term credit. You cannot take a chance with short term ; you cannot hold it for a long enough period to justify it.

K.-H. : It comes to this, Hall, in plain English, that you, as an economist do not really think there is very much in this—I will call instinctive feeling—which thousands of people seem to have that this obvious problem of bringing hungry consumers into contact with heaps of goods can be solved by action on the part of the banks, which I shall describe, no doubt not very accurately, as creating deposits and putting more money into circulation.

HALL : Quite frankly I don't. I cannot believe it is the duty of banks to create money to bridge this gap between poverty and gluts of goods. In the first place the loans are wanted for consumption ; it is ludicrous to think that you can finance consumption by loans. You cannot help people

in poverty by lending money to them. You must give it to them. It is not the business of the banks to give money. In the second place, if the Government took over the job of issuing the paper and gave it away instead of collecting money in taxes from the tax-payer, which might be another way of getting the money into circulation, the effect of that sort of procedure would be what happened in Germany in 1923. People scrambling for a potato, because the money system had broken down. That would be the crudest form of inflation.

K.-H. : Yes, yes. But surely a lot of that argument went west when we left the gold standard, didn't it ?

HALL : I'm afraid that last remark of yours, King-Hall, means that you must be very shaky about the gold standard.

K.-H. : You will be better able to form an opinion on that matter after your next cross-examination, because the gold standard happens to be the subject I propose to question you on next Monday.

*May 1st*

#### TALK IV

K.-H. : To-night, as I told you a fortnight ago, I am going to ask you questions about the gold standard, a subject on which you feel that I am rather shaky. I felt that remark of yours, Hall, and I am just going to give you one or two impressions that I have got about the gold standard and ask you to tell me whether I am right or wrong. First of all, am I right in saying that if Great Britain is on the gold standard one knows exactly how much gold one can buy with a pound ?

HALL : Yes, that's all right.

K.-H. : And secondly, that if Great Britain is on the gold standard the Bank of England is obliged by law to buy and sell gold at a fixed price ?

HALL : Yes.

K.-H. : And finally, that one of the most important consequences of two or more countries being on the gold standard is that the rates at which the currencies of these countries exchange with each other remain fixed within small limits. In other words, if France and Great Britain are both on the gold standard, I can save up for a

holiday in France with a confident feeling that for every pound I put by, I shall, in due course, get 125 francs for it when I carry it over to France ?

HALL : Yes, I think those details are all right. The gold standard is a device for fixing the rates of exchange between different countries.

K.-H. : As I understand the matter, the practical effect of the gold standard is that since by its use the national monies of different countries are connected to gold—and I shall hope on another occasion to ask you to explain how they are connected with gold—the economic systems of the gold standard countries are linked together. It is impossible, for example, for prices in one gold standard country to rise far above or fall far below prices in another gold standard country. I want to make it clear, Hall, that I am not attempting to explain the details as to how this is brought about ; I merely want to hear whether this general conception of the gold standard as being a kind of invisible link between countries is more or less true.

HALL : Yes, King-Hall, you have certainly got the big idea there all right. I should like just to elaborate it a little . . .

K.-H. : Please do.

HALL : . . . and explain how theoretically—notice I said “theoretically”—what a beautiful piece of machinery the gold standard is when it is working right. Imagine all the principal trading

countries on the gold standard and all playing the first rule of the gold standard game, which is that the quantity of their currency must be related to their gold holding.

K.-H. : One moment. Does this mean, broadly speaking, that the more gold a country holds, the more paper money it can issue for circulation ?

HALL : Yes, that's the point. I'd like to strengthen that remark of yours. Not only may the country issue for circulation, but it *must* issue more money, and of course if it loses gold, it must contract its money. If the money in the banks is reduced, they will have to contract their advances, so all forms of payment will be adjusted.

K.-H. : Can we then say that Rule I of the gold standard game is that a country must increase the quantity of its money in circulation if it gets more gold, and must decrease if it loses gold ?

HALL : Yes, that's Rule I, and all the other rules follow from that first rule. The reason why under normal conditions a country on the gold standard gets gold is that its exports are more than its imports. This must mean that in comparison with other countries its prices are a little below those of other countries.

K.-H. : Let me get this quite clear. A country will gain gold because it is selling more abroad than it is buying, and this fact must be a sign

that its prices are low, relative to those in other countries.

HALL : Yes, that's right. Now this is where the real beauty of the gold standard machinery comes in. The cause of a country being able to get gold is that its prices are too low. As it draws in gold from other countries it must increase the quantity of its money as laid down in Rule I ; other countries will have to reduce the quantity of their money because they have lost gold, and this will bring the prices of the two countries back into line with each other. The country getting gold will increase its money and slightly raise its prices ; the country losing gold will decrease its money and slightly lower its prices.

K.-H. : I am now going to surprise you, Hall, by telling you that many of my clients will not understand that when the country receiving gold obeys Rule I and increases the amount of its money that that action will raise prices. I must just ask you to give me a simple example showing how and why an increase in the quantity of money raises prices. This is only an interjection, but we must get this point clear before we go on with the gold standard.

HALL : Well, I know this is rather a muddling idea, but the point really is that if we all woke up to-morrow morning with twice the amount of coins in our pockets, and twice as much money in the

bank as each of us has now, the result would be that shop-keepers would simply double the prices they charge for their goods. None of us would be any better off. The effect of an increase in the quantity of money is to lower its value. The value of money is nothing more or less than the quantity of goods it will buy. If you have got more money and only the same number of goods to buy, you will force prices up. That is what I meant by saying that the country importing gold and thereby increasing its quantity of money under Rule I of the gold standard will, as a result, see its prices go up.

K.-H. : Well, thank you, Hall ; I think that's pretty clear. But anyhow, the important point to get hold of is that an increase in the quantity of money does bring about a rise in prices, and we are now talking about an increase in the quantity of money brought about through an influx of gold. Rule I of the gold standard.

HALL : Yes. Well now, my point was that when countries are on the gold standard and gold moves from one country to another, the effect is to raise the prices of the country getting the gold and lower the prices of the country losing the gold. The effect of these price changes will be to make the balance of trade between the two countries equal, so that the gold movement will stop. That's why it is so very important that the rules of the gold standard game

should be kept, because the real justification for movement of gold is to adjust prices in the two countries.

K.-H.: The gold standard, in fact, pays precious little attention to national frontiers and even national ideas, for it assumes a world in which countries whose prices are low will at once find themselves selling goods to people in countries where prices are high, and directly this process starts, the mechanism of the gold standard tends to stop it by raising prices in the selling countries, and lowering prices in the buying countries.

HALL: Yes, that's the idea. Now for the second rule. This relates to borrowing and lending money between countries. Supposing that one country is exporting more than it is buying and has so large a balance in its favour that a very big gold movement is needed, let us say £100,000,000 a year would be necessary to settle that balance.

K.-H.: One moment. The gold movement would be needed to settle the balance between the countries because it could not be settled by the exchange of goods. I would like to ask you why it may not be possible for the trade balance to be met by goods.

HALL: Well the reason for that is that the country which has got the surplus of exports does not want to buy, however low the prices may be, goods which the other country might be able to sell.



K.-H. : You mean, for instance, that there is a limit to the amount of raw materials which an industrial country is prepared to buy from, say, countries in tropical parts of the earth ?

HALL : Yes, that's the idea.

K.-H. : All right, you were explaining that it would then be necessary for this unbalanced state of trade to be settled up by a large shipment of gold from the debtor country. Is that right ?

HALL : No, that's not quite right. My point was that when you get this big lack of balance between countries—the figure I used was £100,000,000 for example, the shipment of gold would be so big that it would smash up the prices in the country losing the gold and have too big an influence on the prices of the country getting the gold. In these circumstances the second rule of the gold standard comes into play, and that is that the country with the surplus must lend abroad as much, and no more than, its surplus ; so not only does the gold standard, when it is working perfectly under Rule I, link the prices and the quantities of goods traded between countries together ; it also links together loans from one country to another. The country cannot lend more than the surplus of its trading account. In this way practically everything that comes into international trade is linked up if the gold standard is working properly.

K.-H. : Well you have certainly given listeners

something to think about, and there is no doubt one can't hope to understand the gold standard without doing some thinking.

HALL : There is just one more thing I want to say about it. The gold standard is only one simple way of keeping the prices and other trading relations of the different countries linked together. If you are going to have any international trade at all they have got to be linked up whether we use the gold standard as a means of doing it or some other means.

K.-H. : I know how interested people are in this question of the gold standard, so I make no apologies for keeping on at it—especially from a non-technical point of view, so to speak. Would it be right to say that another way of looking at it is that it exists because there is not an international League of Nations note which everybody will accept at its face value all over the world ?

HALL : You mean some sort of definite international money ?

K.-H. : Yes.

HALL : Yes, that's right. Gold has been a sort of international money. No one thought it out or planned it. It came to occupy that position more or less by accident. I don't think it has done its job perfectly by any manner of means, but still it has been the first experiment in developing an international money.

K.-H. : I like this idea of thinking of it as a form of international money, and may I say that a country is on the gold standard when it legally ties up its national money with this international commodity of gold, and that if you break the connection between your national money and this international commodity of gold, then you are committing the act of leaving the gold standard ?

HALL : Yes, and you are creating a crop of difficulties for yourself and everybody else, because you have got to find some other means of linking up your prices and your costs with other people's prices and costs, or upset your foreign trade and other people's as well.

K.-H. : Why do you say that you have got to link up your prices with other people's prices ?

HALL : You cannot help doing that if you are doing any international trade at all. If this country is importing raw cotton, for which it has got to pay in dollars, and is going to sell abroad motor cars, the cotton importer will have to think how much he can pay in dollars for the raw cotton ; the motor car exporter will have to think when he is making his cars how many dollars, francs, or other foreign currencies, he can get when he sells his motor car. What the cotton importer has to pay for his raw cotton is going to affect his plans for cotton manufacturing. What the motor car exporter hopes he

is going to get for his cars is going to have a big bearing upon his production plans, so whether you are on the gold standard or not, so long as you have got to buy from abroad and sell to foreigners, there will still be a great deal of connection between the cost of foreign cotton on the one hand and the price you hope to get for your motor car on the other. If you are going to do international trade at all, you simply cannot escape from this relationship between our prices and our costs, and the foreigners' prices and the foreigners' costs.

K.-H. : Something you said in your last remark has suggested a point to me. You said that the English motor-car manufacturer would have to work out how much in foreign currency he would get for his cars, and of course he also has to go on and think out what this will mean when he changes his francs, or whatever it may be, into pounds so as to meet his wages bill. Now would you claim that one of the advantages of being on the gold standard is that he will know more or less exactly what his exchange rates are going to be ?

HALL : Yes. That, I think, is the most important claim that can be made for the gold standard. Because the gold standard links up these national monies so that the rates of exchange cannot vary, except a very small bit, your importers and exporters can lay plans well ahead knowing how many pounds they will have to pay to buy American cotton, or

knowing how many pounds they will get when they sell their motor cars.

K.-H. : Before we end your examination this evening, Hall, I would like to ask you this question. I will tell you in a minute why I have asked you the question. The question is this : for many years before the War we had been on the gold standard ; we made great sacrifices after the War to get back to the gold standard. Why were we forced to leave it again in 1931, and so cut ourselves off from this international money system ?

HALL : A proper answer to that question would involve the whole history of our finance and trade since 1914. I cannot do more than just touch on two or three points. Remember the rules—first, that a country gaining gold must let its prices rise, and that a country losing gold must let its prices fall. And the second rule, that a country must not lend more than its trading surplus to foreigners. In the years after the War these rules were not kept, either by us or by the other gold standard countries. Not, I think, because we were naughty and didn't want to keep the rules, but because sheer political necessity made it impracticable to do what the rules required.

K.-H. : For instance ?

HALL : Well, let's take this first rule, that a country losing gold must let its prices drop. If you let your prices drop you must let your costs go

down as prices fall. This means that amongst other things that must come down are wages; I mean, of course, money wages and not real wages. If when you lose gold you cannot get your costs down, you cannot push out more exports to redress your balance of trade. We could not get our costs down in this country quick enough when the costs and prices in other countries were falling, and that broke up the automatic machinery of the gold standard. Then, secondly, there were rather a large number of artificial, international loans, mainly connected with settlements after the War—loans to Germany; for example, as well as reparations and War Debt payments. These payments were calculated without any reference to the balance of payments of the different countries, and they could not be adjusted as the balance increased or decreased. That put a very big strain indeed on the machinery of the gold standard. And then just the third point. In 1931 the shock of the breakdown in world trade which had been going on for over a year created a very strange and artificial state of affairs. People were trying to find some other way of keeping their money. They could not buy stocks and shares with it because they were all falling on the world's markets, following the breakdown of the New York Stock Market. They could not buy goods because the prices of nearly all goods were falling, so people all over

the world were trying to keep their money safe simply by leaving it in the banks on deposit in safe money centres. A great deal of this loose money had come to London because of the reputation of London for safety, and then in August and September, 1931, people began to be frightened that London was not as safe as they thought it was. I don't want to go into the reasons for that to-night, but I think the fact is clear enough that hundreds of people all over the world had got the wind up about the safety of London; whether they were right or wrong is another matter.

K.-H. : At the risk of getting into hot water, Hall, I am going to say I think they were absolutely wrong. However, I agree with you it is a political matter we cannot discuss to-night.

HALL : Well, King-Hall, as a matter of fact I rather agree with that involuntary aside of yours, but still the fact remains that they began in great haste to withdraw very large sums of money indeed. That pushed our exchanges right down, and then of course gold began to go out as well. That was the last straw which broke the camel's back of the gold standard, which was already overloaded with rigid wages and political loans. The fact is that the gold standard can only work under stable economic conditions—it cannot be expected to compensate for all sorts of political and emotional

activities which haven't any real connection with the trade position of the country.

K.-H.: You have raised enough questions in that last statement of yours to keep us going for another forty minutes. But I asked you why you thought we had left the gold standard, because I propose in the next talk to ask you to go into the question of what has been happening since that event.



*May 22nd, 1933*

## TALK V

K.-H. : You recollect last time, Hall, that you were good enough to answer some questions of mine on What is the gold standard? I think you will agree that you were giving me the theory of it.

HALL : Yes, I was trying to give you a simplified picture of how the international exchanges work, with most of the complications left out.

K.-H. : Unfortunately, in this sad world the complications seem to be very important.

HALL : I am afraid that's all too true, King-Hall.

K.-H. : I don't, for instance, want to go over our last talk again, but you will remember when you pointed out the difference in prices between two countries, which influences the flow of goods between those countries, you were assuming of course that this flow would not be impeded by tariffs of any kind.

HALL : Yes, that assumption was made. Even with tariffs the prices and gold movements I was talking about, do still continue to influence the flow

of goods, though not as quickly nor as easily as they would do without tariffs.

K.-H. : I have been making these preliminary observations as I want to put a little suggestion into your mind before I start asking you some questions this evening. The suggestion is this : that there are so many artificial restrictions, political and otherwise, put on to world trade that until they are either removed or very substantially modified it is not really practical politics to consider the existence of the gold standard. Would you like to make any remark on that ?

HALL : I should. I don't altogether agree with you. Ideally, of course, it would be very nice to be able to settle all these questions of Tariffs, Quotas, Restrictions, Fluctuating Exchanges, at one blow. But I shudder to think what will happen at this coming World Economic Conference if they try to discuss anything so long as the exchanges are free to fluctuate. None of the delegates will know what the others are talking about. But I like your idea that the real solution for all these things is to be found in some sort of simultaneous settlement. It sounds to me, King-Hall, as though you had been thinking over my concluding remarks in our second talk, when I suggested you were becoming "almost an economist" !

K.-H. : I continue to reject that suggestion. However, before we get on to the outlook at the

present moment, and it changes so rapidly that I feel that when I do start asking you questions about the problems of to-day, I shall have to come armed with a copy of the latest Reuter telegrams, I think it would be profitable if I were to ask you a few questions, starting, so to speak, from the moment when we left the gold standard in 1931. So much seems to have happened since then, that I think I must take that as my starting point.

Now in general terms what happened when we left the gold standard ?

HALL : Since foreigners could not withdraw their money from London in the form of gold, and as they were still anxious to get their money out, they had to sell their pounds for what they would fetch, so the exchanges moved rapidly against London. This was due to two things ; partly to those floating balances I was talking about being withdrawn, and partly due to our trade being unbalanced as our imports were very large, and our exports were very low, not only of goods, but also of services, such as the use of our capital, which must be paid for by interest, and the use of our ships, for which freight charges have to be paid, and other things of the same sort were very low owing to world depression. Under the influence of these two forces, of high imports and low invisible exports, the exchanges dropped steadily downward so that instead of the pound buying

4½ dollars it bought only about 3½, and instead of 125 francs only about 80.

K.-H. : I remember that rather precipitate fall in the rate of exchange, and, if my memory serves me right, there was a feeling of some alarm, perhaps that is too strong a word—shall I say some anxiety, even in well-informed quarters, as to the bad consequences of this big fall in the amount of foreign currency which a pound would purchase. I was probably too ignorant to share this fear myself, but could you explain why it was thought that this bad drop might be a serious matter ?

HALL : I think there were two points really. When you are off the gold standard you have got to be very careful what you do, and I think in September, 1931, that is, after that second Budget had been passed through the House of Commons, there was some fear as to whether the Budget in fact had been balanced. It had been balanced on paper, that is to say that experts had estimated that a certain amount of money would come in by taxation, but nobody could be quite certain that when March, 1932 came that the money would actually have come in. If it had *not* come in the Government might have had to finance ordinary expenditure by borrowing, like they did during the War. That would have meant inflation—a big rise in prices and all the difficulties that come with that. This fear was never realized.

K.-H. : Thanks to the British tax-payer. Let us pay our little tribute to his efforts.

HALL : I am glad to join the tribute. From the economic point of view the action of the British tax-payer then and since has been of tremendous importance for the future of this country. But now I must get on to the second fear that was in people's minds when we left gold. I am coming now to one of the most fascinating and perplexing points in recent economic history. Because something happened in the autumn of 1931 which has only made its weight felt in the world during the past two or three months. You will remember that as soon as we went off the gold standard the Government thought it necessary to pass a bill against profiteering. This means they expected some fairly big rise in prices.

K.-H. : Why ?

HALL : Because of the fall in the exchanges. The English importer of cotton when we were on the gold standard could buy for one pound 4.86 dollars, and for 4.86 dollars buy a certain amount of cotton. When we went off the gold standard and the exchange dropped to 3.50 dollars, it seemed reasonable to suppose that we would have to pay more pounds to buy the cotton. That would mean, of course, that as our exchange dropped, the prices of all sorts of foreign goods in pounds ought to

have risen. In the first few weeks they did rise. Not as much as was expected, but still, they rose. Since then they have continued falling, and every time our exchanges dropped, instead of the English prices rising the foreign prices have fallen, with the result that our prices now are only 2 per cent. lower than they were in 1931, while the prices of the gold standard countries are from 15 to 20 per cent. lower. That is a tremendously big point, and I think it means this, that when we went off the gold standard, we and the world found out how strong in some ways Great Britain was. We were the biggest single buying power in the world.

K.-H.: I believe that I have seen somewhere that we absorb one-fifth of the total world's export. Do you know if that figure is about right?

HALL: Yes, I should think that's just about right, and that means that the British buyer could say to the foreign seller: "I know that you want five dollars for that quantity of cotton to cover your costs, but my English pound will only buy  $3\frac{1}{2}$  dollars. I can't afford more than one English pound for your cotton, so here's  $3\frac{1}{2}$  dollars—take it or leave it." And the foreign sellers had to take it, and the more our exchanges fell the more their prices fell. This country had got deep into an economic war to the knife with all the gold standard

countries because we were able to push down their prices and make them push down their costs. Hence the second fear of the authorities that we might be in for a period of profiteering and high prices when we left the gold standard, turned out to be groundless.

K.-H. : Thanks. Now it is a funny thing, Hall, and I may say it is one of the things that makes me feel I am not really an economist, that though I did not have those fears in 1931, I am bound to say that as time has gone on I have not been feeling quite so happy about this business. As I understand it, the position soon after 1931 was that we practically said to the world: "We British are so important as consumers that we almost think you ought to insure our lives because if anything happened to us what would you do with all your products?"

HALL : Well, that's one way of putting it. But don't forget that our export trades are very important, and the foreign consumer can ask us to insure his life too.

K.-H. : Ah! I was just going on to ask you about the export trades, because I happened to be up in Lancashire not long after we went off the gold standard, and I found a certain degree of optimism in that part of the world. I gathered that going off the gold standard had helped them a good deal. Will you just comment on that before

I ask you some questions about those fears of mine which I now have ?

HALL : I don't think there is any doubt that quite a number of our export trades were helped, Lancashire, for example, until Japan followed us off gold. Some of them were helped too much. A few weeks after we left the gold standard I was in a big northern town and all the producers there whose industries badly needed reorganizing were lying back in their chairs thinking that now we were off gold there was nothing more for them to do but to rake in the cash. English goods were cheaper to the foreigner to buy when we left gold, because it cost him fewer marks or francs or dollars to buy the pounds to pay the English exporter. So we got an advantage every time our exchange dropped in selling our exports. As a matter of fact, we lost a good deal of that advantage right away because a number of countries put on extra duty or a restriction or quota to prevent our exporters getting what they called an unfair advantage by the fall in our exchanges, but there is no doubt, particularly at first, we did get quite a nice little fillip to our export trade that helped us a lot last year. But now what about those fears of yours ?

K.-H. : Well, in the first place as you pointed out, we forced the foreigner to lower his prices, and if there is one thing more than another which



you economists do seem to agree about, it is that some rise in the general price level is desirable—in fact, it seems obvious even to me that it cannot be a sound thing for, say, agriculturists all over the world to be selling foodstuffs at below cost of production. Granted then that we want to raise prices how can we do so when they are being forced down by this war between currencies ?

HALL: Well, now, King-Hall, I must warn you that we are getting on to a very dangerous, controversial subject, and I want first of all to cover myself. I have been saying things which may be misunderstood. I am going, in fact, to say that our going off the gold standard damaged other countries, particularly the United States. In saying that, I want to make it quite clear that I am not suggesting that we did it deliberately with malice aforethought to try and drive America to make easy terms for our trade. I am certain there has not been any plot or deliberate hostility on our part, because we were absolutely compelled to go off gold after we had done everything we possibly could, even to the extent of borrowing large sums of money from France and America to try and stay on. I am not in the confidence of those who have been shaping our policy, particularly in the last six months or so, all I can do is to tell you some of the effects as they appear to the watcher outside.

These effects have been two. First of all our falling exchange pushed prices down in the gold standard countries, particularly America, and, as American prices fell, their farmers and the banks who had lent money to them, got into greater and greater difficulties. Secondly, a number of countries had to put on these quotas, extra tariffs and restrictions, and in addition to that we put on tariffs ourselves, thus making world trade more and more difficult and continuing the fall in world prices, because all these restrictions made it more difficult for people to trade and therefore decreased the demand for practically every sort of good. We managed to keep our own prices stable, and that perhaps has made a rallying point for the world, but practically everybody outside has been in increased difficulty since we went off gold. We've escaped some, but not all, of these difficulties.

K.-H. : My second cause of alarm has suddenly become greater. It is this. I put it to you, and you agreed, that we found ourselves in an unexpectedly strong position when we left gold, because of our importance as consumers. Now, supposing all these difficulties you have mentioned continued to increase, supposing world trade continues to go down, supposing—to take an extreme case—it becomes practically nothing—what will those other countries care then for our point of

view? They will say: "When the volume of world trade is very big you British are certainly very important, but now there is no world trade, we are all trying to be self-contained. 'We don't care what you say or think.'" Can you remove that fear, my economic friend?

HALL: I can't altogether, because I share it myself. The fact that we are up against is this. When we went off gold we really intensified the economic war between nations. We won the first battle of the war, but as time has gone on, the advantages we got by going off gold and by winning that first battle, have got progressively smaller and smaller. You remember I said that the fact of our going off gold was to push prices of the gold standard countries down. The first shock of that was serious, but it has continued so long that most of these countries have been able to do a great deal to adjust their costs, and are now finding themselves able to compete with us again, in spite of the exchange advantage that we get. Moreover, we were able to push prices down because there was a buyers' market, that is to say, there was a surplus of goods. As that surplus gets used up the decreasing supplies of goods will make it a sellers' market, and then we shall feel the disadvantages of having a depreciated currency. In the same way the benefit our exporters got is disappearing, if it has not already disappeared. By

our own action we have put great pressure on the costs of other countries, and have removed the pressure on our own costs. The result is that our competitors have got their costs down and I am not at all sure that we, having been lulled into a false sense of security, have taken as much trouble as we should have done to get our costs falling in line with those of our competitors. The position as I see it is that the fears that people had when we went off gold were not immediately fulfilled, but if we are not very careful we shall find that going off gold gave us a temporary breathing space which we have not used as well as we should to keep our position in world trade. After all, that still is the big problem of this country. By our shipping, by our overseas investments, by our big basic industries—textiles, iron and steel, motor cars, tin plates, and so on we are for good or ill linked up with the trade of other countries. I think in the next year or two we shall have to do something to show that when we went off gold we did not give up our international trading position.

K.-H. : I am very glad to hear you make that last remark. I don't want you or listeners to think that I am a pessimist, and I expect you will agree with me that in the long run the outcome of all this depends upon the character of our people. . . .

HALL : Yes, I am sure it does.

K.-H.: . . . a character in which we both have confidence . . .

HALL: Yes.

K.-H.: The question is, have we got the guts, if I may use such a blunt word over the wireless . . .

HALL: I hope so.

K.-H.: I hope so too, anyhow, I've used it . . . and the question is in what direction should we bend our shoulders to the task of once more making ourselves the hub of a great world trade. It seems to me we have two choices. Either we do our utmost to restore the old system which would, I suppose, include our return to the gold standard—and to restore that system, I take it, is the business of the World Economic Conference—or else we can attempt to build up a new system.

HALL: I feel strongly that unless it can count on reasonable stability in the exchanges, the World Economic Conference will simply repeat the story of the Tower of Babel. I myself hope, therefore, that it will begin by getting the general agreement necessary to make a return to the gold standard possible.

K.-H.: I am not misinterpreting you then if I say "you don't believe in the possibility of a new system."

HALL: If the nations can agree to return to the gold standard under proper conditions, that,

as I said just now, is the first and most important job of the World Economic Conference. Any partial plan of reconstruction like a special area of the world trading in sterling, might, I think, have been possible two years ago, but only ideally possible—the practical difficulties of managing sterling and the countries on sterling have been too much for us. If we go back to a properly organized gold system, I believe that the big powers will be able, once confidence in the system is restored, to develop the way in which they manage the system so that it becomes much more suitable than it has been in the past. In these two talks about the gold standard I have only dealt with the advantages of gold. I have left out one big disadvantage which has played a big part in making the gold standard work badly. It is a difficult subject—it deals with changes that take place from time to time in the value of gold itself. I don't believe that in our present difficulties we ought to sacrifice the advantages of stable exchanges which gold definitely gives, because of some of these other disadvantages which I have not dealt with. For if the nations do go back to gold, they ought to go back determined, after they have got the gold system working properly, to take another step forward and improve the way in which the gold system works.

K.-H. : I wish that last speech of yours, Hall, could have been taken down by every listener, for

I want to cross-examine you on it in the next talk. I want to ask you what seems to me to be the vital question ; it's all very well for you to insist on the need for a return to the old system, but is it practical politics to get international agreement on the various important matters which must be settled before we can get back to gold ?

May 29th, 1933

## TALK VI

K.-H. : Good evening, Hall !

HALL : Good evening.

K.-H. : Now to business. Let me remind you that at the end of your last examination I elicited from you the statement that, taking all things into consideration, you believed that the wisest thing the world could do would be to get back to the gold standard, and that whilst not disputing the wisdom of your opinion I suggested that in order to achieve this feat it would be necessary to overcome some difficulties. I then said that, at your next examination, which is the one you are now about to undergo, it would be useful if I cross-examined you as to the nature of these difficulties and the possibilities of their being overcome. May I just add that I shall not think it a satisfactory answer if you tell me that these difficulties will *have* to be overcome because the situation will be so serious if they are not overcome.

HALL : Well, I am sure that is the right way of setting about it because at the end of my last examination I was only emphasizing the importance



of stabilizing the exchanges. We hadn't any time at all to deal with the difficulties. I want to face them, but which particular ones have you got in mind ?

K.-H. : Well, here are a few to go on with, and I'll leave you to pick out which you think will be the most controversial. Here's my little extemporized list : (a) War Debts ; (b) Reparations ; (c) Exchange restrictions ; (d) Tariffs, and last, but not least, what should be the new stable values of the dollar, the franc and the pound ?

HALL : A pretty little list. From the economic point of view, with the exception of War Debts and Reparations, which are mainly political, the new rate of exchange for the franc, the dollar and the pound and the other currencies is of great importance because you cannot discuss tariffs or quotas until you know what the costs in the different countries are going to be. My own personal view on the political question is that this country, which has to finance so much of world trade, cannot go back to gold until a final and workable solution of Debts and Reparations is reached. I cannot say how that settlement must be reached, because I cannot say how the American Congress is going to behave, but I am convinced that until some sensible settlement is reached we shan't be able to help the world and ourselves by going back to gold.

Your tariff issue is much more difficult ; that again is largely political. The Secretary of the American Treasury a month or so ago said that he thought the world had been "starved down" sufficiently to face up reasonably to the tariff problem. I hope it has.

K.-H. : Well, I'm sure it hasn't.

HALL : The World Economic Conference will show which is right. I rather fear you may be, but it does not affect my point that you cannot discuss tariffs sensibly if the exchanges are fluctuating all over the place.

K.-H. : We are in complete agreement on that. Granted that we should aim at stable exchanges, do you mean that we should all aim at restoring our currencies at the old rates of exchange which existed before we left the gold standard, i.e., to quote a practical example, 4.86 dollars to the pound ?

HALL : Oh ! I certainly didn't want to suggest for a minute that we ought to go back to gold at the old parity. That, I think, would be very unwise. Even now that America has left gold herself and looks like starting some sort of internal inflation, I still do not think that that old dollar parity is practical. And certainly to go back to the old rate of 125 francs to the £ is quite impossible.

K.-H. : Why ?

HALL : Well, King-Hall, you remember last week I pointed out that the effect of our going off gold had been to enable us to keep our price level fairly steady, while the price level of the gold countries had been pushed down by between 15 and 20 per cent. If we went back at the old parity we should have immediately to reduce all our costs by 15 per cent. and more, or else we should lose nearly all our export trade and be flooded with foreign imports, because going back to gold at a high rate would make our goods very expensive for the foreigner to buy and the foreigners' relatively cheap, in spite of tariffs, for us to buy.

K.-H. : Well, that point is clear. You want to go back to gold but not at the pre-1931 parity. Now then, Hall, imagine yourself to be an American Treasury official and I am an English Treasury official. We are both men of goodwill, anxious to end the world crisis, but at the same time with a strong sense of our duty towards our respective Governments. Make a proposal to me as to what you, as an American Treasury official, think should be the parities at which the dollar and the pound should go back to gold, and give me your reasons, and don't forget we have got a Frenchman who is expected to join the party any moment.

HALL : Well, King-Hall, speaking as an entirely disinterested American representative on this problem, I should suggest a rate of 4.00 dollars to the

pound. Speaking as the American Treasury to you, King-Hall, as an English Treasury official, I should point out to you that the recent rise in American prices—British prices have not risen quite so much—has brought the true rate up a good deal above the figure of 3.30 dollars that it was at Christmas. I should also point out to you that the rate of about 3.45 dollars which lasted through February and March and the first part of April was so low that large numbers of people moved what you called 'bad money' into London, which means really that in the opinion of foreign exchange experts all over the world your rate was so low that it was bound to rise, and that if these people could get money into London they would make a big profit when the exchange *did* rise. From the American point of view I think \$4.00 is a pretty fair rate. It takes the pressure off our American prices, it leaves you on level terms with us, so far as selling exports is concerned, and it should solve this question of bad money that is worrying you because no one is going to speculate for your exchange to go up if you stabilize at that level. You have already got more gold in the Bank of England than you have ever had in your history. The withdrawal of that gold has been a nuisance to us in America, and we don't want to see many more big gold movements. If you stick to \$4.00 you will give these big money movements that have been

upsetting us all, a rest, and that will pay you in the long run because it will make the whole of international finance more stable.

K.-H. : Thanks. Now don't have a fit at what I am going to ask you to do now—I wouldn't ask it of you if I didn't know that your mind can work pretty quickly when you want it to—I want you to slip into reverse, so to speak, and imagine me as the American Treasury official and you take the part of a British Treasury official. Now let me hear you, speaking as a Britisher, state the case for what you think should be the parity at which we might return to the gold standard, and of course give the reasons for your opinion.

HALL : Here, I will just get up and walk round the table so that I can look at the matter from the other point of view.

K.-H. : Don't forget to come back to the same position with regard to the microphone or you will upset the balance.

HALL : Well, I understand you are Commander King-Hall representing the American Treasury. Speaking on behalf of the British Treasury it is my duty to inform you that His Majesty's Government in Great Britain proposes to return to the gold standard at a time to be determined in the near future, at a rate of exchange of 3.50 dollars to the pound sterling. You look surprised—I might say almost disappointed—at this suggestion. We have

given our most careful consideration to this problem, and after viewing it from all angles have concluded that in fairness to ourselves and in the interest of international trade, the rate we propose of 3.50 does substantial justice to all parties. Perhaps you would like me to explain why the rate of 3.50 has been proposed. Our experience in the past twelve months in operating the Exchange Equalization Fund has shown us that at the rate of 3.45 we were able to keep our exchange steady in the interests of world trade, and at the same time to provide an adequate cover in gold against money that was pouring into London for speculative purposes. We in Great Britain in the past seven years have had very embarrassing experiences with this inflow of foreign money held there for safe keeping owing to the prestige of the London money market. The withdrawal of this money at short notice has once in the past driven us from the gold standard, and we are resolved that at whatever rate we return to gold there are to be no possibilities of speculative balances accumulating in London ready to be withdrawn when any wave of pessimism sweeps over their foreign holders. On the experience of the last twelve months we have concluded that the rate of 3.50 provides adequate sterling for foreigners who need sterling for bona fide trade purposes, and at the same time enables Great Britain to carry on her export trade on terms of

equality with countries with lower wages and a lower standard of living. While we recognize that the charge has been made against us that this low rate of exchange has been prejudicial to the prices at which foreigners can sell their goods to us, we nevertheless remind you that by a series of trading agreements we have made special provision for imports of foreign-produced raw materials, and we believe that the general international stability, that will come if the rate of exchange which we suggest, is adopted, will lead to a restoration of confidence which is the first essential for a general rise in world prices. Our view at the Treasury is that it was not the rate of exchange, but the general decrease in world trade which caused prices to fall in America and elsewhere as our exchange fell. Given stability and given the restoration of confidence we believe that the recovery in prices, now long overdue, will be possible. We attach great importance to stabilizing the pound sterling at a rate which will inspire universal confidence, and would remind you that the pound sterling is still used in a very large number of international trading and financial transactions throughout the whole world. The weakness of the sterling exchange has been more prejudicial to foreigners who relied upon its strength than it has been to ourselves, and we feel it to be imperative in the interests of the world to stabilize at a rate which at first sight may

appear low to you, but which we are confident will commend itself to you when you have reflected upon the important part that a strong sterling can play in the economic recovery for which both our Governments are so arduously working.

K.-H. : Enchanté de faire votre connaissance, cher collègue !

HALL : My dear King-Hall ! Who on earth are you or myself supposed to be representing now ?

K.-H. : I am representing the franc. I told you there was a man from the French Treasury in the ante-room. He has now joined us, but he is not going to remain in my personality for long, for I am now going to ask you to be good enough to imagine that you have just arrived from Paris, primed with the point of view of the French Government on the questions we have been discussing. The French Government feel that it is vital for them to be in on this matter, and they have sent you over to look after their interests. You can speak in English.

HALL : Well, I think this is the most difficult jump that you have asked me to make, King-Hall. I hope I shall be fair to the French point of view, anyway, I will do my best. Speaking on behalf of the French Treasury I have to point out to you in Great Britain that the French Government views with alarm the proposal that the pound should be



stabilized permanently at a rate of about 86 francs to the pound. The French Government feels compelled to point out to you, and will raise the same objection with America, if she stabilizes the dollar below its old parity, that French industry has been the victim of that weak and mistaken finance in England and America which drove you both off the gold standard. In the interests of economic stability and security the French Government feels that it can be no party to an agreement in which the benefits of the instability of the past few years go mainly to those who had to sacrifice the interests of foreign depositors by defaulting on their agreements by suspending the free exports of gold. We have not forgotten that we in France had to stabilize the franc at one-fifth of its pre-war rate, but we would remind you that this policy was forced upon us by the great sacrifices we had made during the war, by the invasion of our territory for four and a half years, and by the urgent necessity of restoring at great cost our desolated areas, at a time when the enemy responsible for the desolation was either unwilling or unable to pay its full share in the shape of reparations. We would further point out to you that we have already, with great regret, been compelled to impose restrictions on the imports of British goods, when the low rate of exchange enabled your exporters to compete unfairly with French manufacturers.

In the interests of international amity and sympathizing with the difficulties of your export trade—and particularly your coal trade—we have made very great concessions in spite of the advantages you have had owing to the depreciated exchange. We feel that if you were willing to make your share of the sacrifice by reducing your costs and by allowing the gold standard to work freely, particularly when gold exports leave the London market, you would be quite able to maintain the gold standard at the old rates of exchange of 125 francs to the pound. There is a further point which may have escaped your notice. France, as the result of the sacrifices she has made, and of her financial integrity during this period of unparalleled world depression, has acquired a very large gold holding. This gold has not yet made its presence fully felt in France by allowing French prices to rise. There are signs that this rise in prices in France is already beginning. If you will do your share by returning to gold near the old parity, the confidence in world trade and French trade will be so great that the rise in French prices will continue. As French prices rise and world confidence is restored the international operation of economic law will redistribute among other powers a part of the French gold holding. This holding will be further reduced as France takes once again her old place in international finance by assisting world

recovery by a wise and cautious policy of lending abroad.

The French Government would remind you that if you return at too low a parity there may be a considerable outflow of gold from France. This will embarrass the whole of our finance, and France, who has been alone the stable rock to which world trade has been anchored during the upheaval of the last two years, would herself be the victim of instability; and the confidence which we all wish to see restored will be further reduced by the strain put upon French finances by your selfish and short-sighted policy. This lack of confidence will not harm France as much as it would harm others. France is used to finding herself in a position of isolation. She has courageously faced this in the past, and will do so again in the future. Her foreign trade is of less importance to her than your foreign trade is to you in Great Britain. She could, with her colonial dependencies, very nearly support her own population, and the French people have a realism and capacity to face facts which would enable them to follow their Government in making France self-sufficient if the policies of other countries forced her to pursue a policy so contrary to the interests of the world of which we are all a part.

K.-H. : Well, Hall, reviewing in my mind the three points of view you have given me, it sounds to me like a pretty international kettle of fish. And

yet if the World Economic Conference is to succeed these divergent views must be made to meet in common point. Presumably there must be give and take.

HALL : Yes, I don't think any of us can hope to get in detail all we want.

K.-H. : Now I am going to ask you in your proper capacity as an economist, a question which I want you to answer solely from the point of view of the interests of world trade. What, in your opinion, are the points which must be safe-guarded and ensured in any agreement as to the return to the gold standard which may be reached by Great Britain, the United States and France? What, in short, must these three countries aim at ensuring in their agreement?

HALL : Well, King-Hall, the general answer to that question is that they must aim at a rate that will have a fair chance of working steadily without any change in the next fifty years. That means, I think, that the rate must not be so low as to keep up the pressure on the prices of the gold countries—that would be fatal, and was what the American Treasury official was worried about, and also the Frenchman. I think most Britishers would agree when I say that the rate must not be so high as to damage unfairly British exports and to put great pressure on our costs here. That was the big thing at the back of the mind of the British Treasury

official. And thirdly the rate must not lead to big, and, perhaps, sensational gold movements. That was the trouble at the back of the mind of your imaginary French official. I think that somewhere in the middle of the three figures that I made those three officials quote is the sort of rate of exchange for a return to gold which will satisfy those three points. I am quite sure that they can all be satisfied if they are faced up to squarely.

K.-H. : By which you really mean in a spirit of give and take ?

HALL : Yes, King-Hall, that's really what I do mean.

K.-H. : And perhaps a little more give than take ?

HALL : Yes, a little more give than take so long as none of my three points is really sacrificed.

K.-H. : Frankly, nothing you have said this evening has made me envious of the job of the people at the World Economic Conference, but I can see that they have no chance of overcoming this difficult task unless their publics are prepared not to be too worried by their representatives at the Conference behaving internationally.

*June 5th, 1933*

## TALK VII

K.-H. : Good evening, Hall.

HALL : Good evening.

K.-H. : To-night, Hall, I want to ask you some questions on what I shall call the theme of raising prices. Unless my memory is at fault, when Roosevelt and MacDonald issued their joint statement after our Prime Minister's visit to Washington, they referred to the need of raising the price level. In fact, this business of raising the price level has become rather a blessed expression—a sort of panacea for many evils, and I am by nature suspicious of these catch phrases. They either mean too much or too little—so to-night I propose, with your assistance, to vivisect this frequently made statement that we must “raise the price level”. As a start we'll just get our definitions right. Here's the first question :

“What price level are the economists talking about?” Wholesale or retail, and if wholesale—the price level of what commodities? All commodities including services, such as broadcasting, or any selected commodities? It's a bit of an

omnibus question, but get your teeth into that and let's hear what it tastes like to you.

HALL: Thank heaven you began like that. There is more confusion about this business of raising prices than about anything else in the present depression, because almost everybody talks about a different set of prices and means something quite different by "raising prices". There is nothing more difficult to discuss than these averages of prices. They are nasty, slippery statistics, and not very good ones at that. There is one point I would like to begin with, and that is that the prices of primary products . . .

K.-H.: Please define primary products.

HALL: Primary products are such things as wheat straight from the farm, cotton straight from the farm, coffee before it has been roasted or ground, tin ore, raw sugar and so on. Now one feature of this depression has been a very big movement in the prices of these primary products. Let me give you a few figures. Since the end of 1929 up to February of this year the prices of these primary products fell by more than 60 per cent.

K.-H.: Is that all of them or a number of them?

HALL: That is an average of about ten of them. The biggest fall was the case of rubber, the smallest was coffee. They averaged at about 60 per cent. Now, since 1929 there have been two

periods in these price falls: one up to May last year when the prices fell very rapidly; and the period since May last year when there have been rather smaller movements, some a little down, some a little up. Now that is a very important point, because if you look at the figures of the stocks which were being carried of those commodities, you will find they rose by 50 per cent. during the period in which I said that prices were falling rapidly, and since then prices have been fairly stable or falling only slightly. These stocks had actually begun to decrease.

K.-H.: One moment; if stocks have begun to decrease—I take your word for this, but feel bound to say that I am not convinced that the statistics in the case of many primary products are sufficiently good to enable us to feel very certain as to what is happening to stocks. . . .

HALL: Well, I agree there, but I think they are good enough to let us see the difference between a big increase in stocks and fairly stable or slightly falling stocks.

K.-H.: All right, I will take that. Granted that stocks have begun to decrease, why are you economists fussing about getting their prices up? Surely the prices of a commodity which is decreasing in quantity will rise automatically, provided anyone wants to use it?

HALL: Oh, I quite agree with that. I am not



one of those economists who are anxious to see prices rising artificially, and that is why I have dragged in all these figures about primary products and stocks. If you think over the very small volume of world trade there has been since last May, and see that even during that time stocks have been stationary, if not falling, I think you will agree with my next point, which is that quite a small increase in the volume of world activity will have quite a big effect on the prices of these primary products.

K.-H. : Can I take it then, that you do want the prices of primary products to rise, provided that rise is due to a genuine increase of trade activity ?

HALL : That is exactly what I do mean, and I am terrified of loose talk about policies aiming at raising prices, because I don't want to see prices of the primary products rising as a result of market speculation in these big stocks, as the result of easy money or artificial credit policies. Let me expand that point a bit. The serious trouble, caused by the excessive fall in the primary products, has been the decrease in the power of countries producing these goods to buy industrial products. The world depression began in Australia and the Argentine and spread to the industrial countries. Recovery of a solid and durable character can only come by restoring the buying power of the producers of primary products. I am afraid of direct monetary

inflation, or even of threats to inflate, because I do not think that it will have the effect of bettering the position of the real producers. Suppose we and other great powers publically announced that we were going to inflate. At once a good many people would get rid of their bank balances and buy some of these stocks of raw materials, hoping to be able to sell them later on at a profit. They buy, not to *use* the materials, but to speculate, because they are afraid of holding money. A rise in prices of this sort will be a little help to the producers, but not much, because the speculation will be in *stocks* and not in the new harvests. As the new harvests come into the market there will be a tendency for the rise in prices to stop until the harvests are disposed of—and then, if the inflation continues, the upward movements of prices will continue, and stocks will accumulate. Seeing the higher prices, producers will probably plan a bigger output for the second harvest. By the time that their crops are ready or can be forecasted, there will be a further pressure on prices, and there will be a very strong probability that the speculation bubble will burst, and we shall be back where we started.

K.-H. : It is very clear to me, Hall, that it is no good your trying for a job in President Roosevelt's administration from what I can make out of his domestic inflationary programme.

HALL: He seems to have so many—I think he could fit me in somewhere.

K.-H.: I quite see that you want prices to rise due to genuine increase in trade activity, but surely the World Conference is thinking of raising prices by some kind of monetary action, and do you tell me that you don't approve of this method of raising prices? Because if you do think that, we need not discuss the question of raising prices as a separate problem. We can simply call it one aspect of the problem of increasing international trade. But I have the impression, and so have many other people, that the policy being aimed at is to raise prices first, in order to stimulate a resumption of trade.

HALL: Yes, they talk about co-operation amongst the Central Banks to secure a rise in prices. That raises a very big point—what the Central Banks can and cannot do to raise prices. We haven't discussed that point yet. When we talked on Easter Monday about the business of Banks—and repudiated your suggestion that the Banks could create enough credit to solve our difficulties, I was talking about the commercial Banks, not the Central Banks. I was interested to see that nearly all the people who wrote letters to *The Listener* about that talk raised that point. Most of them referred to the increase in banking activity based upon the issue of Treasury notes during the War.

If the Central Banks adopt a policy by which they increase the cash holdings of the ordinary commercial banks, they do enable the commercials to follow a more liberal credit policy.

K.-H. : Do you mean that the Central Banks can create credit—and that they can issue more cash which enables the ordinary banks to create more credit ?

HALL : If the Central Banks double their note issue and then put their notes into circulation by using them to buy securities in the market—they transfer credit. They take out of the market some of its securities. They give the commercial banks cash and take away their reserves. The ordinary banks get no interest on cash. So they in their turn must either buy securities in the market—or they must persuade the public to borrow from them.

During the last year or so, the money authorities in England and in America seem either consciously or unconsciously to have been following this policy. The cash holdings of the big British Banks have gone up considerably—by more than £30 million in fact. But the results of the increase in the cash holdings of Banks both here and in the United States, have been pretty disappointing.

K.-H. : Why “disappointing”—what did people hope would happen ?

HALL : They hoped that the increase in cash would enable the Banks to increase their advances.

The increased cash and advances taken together would, they hoped, bring about a rise in prices, restore trade to normal, and cure unemployment. The people who hoped this believed—and still believe—that the crash in 1929 and 1930 was due to a shortage of gold and of credit. They thought that as trade increased the money supply had not increased in line with it, and that the result was that prices fell owing to the shortage of purchasing power, and depression was inevitable. The people who believe that the depression was caused by an alleged shortage of Bank credit believe that it can be cured by what they call the creation of enough credit. Their hopes must be disappointed by what has happened in the past twelve months, during which that policy has been followed without stopping the depression.

K.-H. : I see, and I rather gather you do not belong to that school of thought yourself, and that you would advance in opposition to those people the fact—because I think it must be admitted that it is a fact—that for at least a year the principal Central Banks have been pursuing a policy through and by which credit has been very plentiful, but still there has been no improvement simply because you can fill up the horse trough with water until it flows over, and you can lead the jolly old horse up to the trough, and even push his nose into it, but that won't necessarily make him drink—in

other words, the plentiful credit available has not been used.

HALL: Yes—it has not been used yet. The difficulty has been to get the money into circulation. To change your metaphor, King-Hall, the credit breakfast is waiting on the table, but we have got to get up and dress and get it while the rules of the house are that breakfast shall not be served in guests' bedrooms.

K.-H.: I should be unfair to a large body of opinion in this country if I did not point out to you that they would say that industry and enterprise are so weak that the controllers of credit must at least bring a cup of beef tea upstairs before the invalid can get up and stagger down to this plentiful breakfast of easy money which is awaiting him.

HALL: I don't think the invalids are as bad as all that. They don't seem willing to call in the doctor, who might recommend rather unpleasant doses of reorganization for them.

K.-H.: Well, some of those letters in *The Listener* the other day seemed to suggest that we could get the money into circulation during the War, and therefore we could get it into circulation to-day. What is the difference?

HALL: Inflation during the war was really a form of Taxation. The Government *had* to have money and to have it quick. It couldn't wait until the proceeds of loans, or of taxation had come in.

They pushed the money into circulation quick enough, and the Banks could use the extra cash to increase their advances because many people wanted to borrow to make essential war supplies. Hence we got the money into circulation, we got a feverish activity, and we got inflation with all its after-effects—some of our industries badly over-capitalized, a large part of the country completely impoverished, and all our costs in different sections of industry and commerce at sixes and sevens. It has taken us twelve years to try and put things straight—that is the evil result of inflation. Even Germany—who was supposed to have benefited by her inflation—finds herself laden up to-day with debts, and in chronic depression and disorganization.

K.-H. : You mean that we are suffering from an over-dose of drugs and that we ought not to take another dose even to help us out of our misery ?

HALL : I don't think that we ought to take another dose of Government inflation. But I am prepared to agree that some Central Bank co-operation to increase the basis of currency and credit might help us. As a matter of fact, I recommended just that in my last talk.

K.-H. : You are referring, I take it, to your suggestion that we should go back to gold at about 120/- to the ounce instead of the old 85/- ?

HALL : Yes, my recommendation that we and the other powers should agree to return to gold

below the old parity necessarily means that a given amount of gold is the basis of my suggestion. That means a moderate inflation.

K.-H. : Well, then, you think that if we do go back to gold on the terms you suggest, and thus inflate moderately, there will be a rise in prices ?

HALL : Yes, I do. I confidently expect that over the next few years there will be a comfortable rise in the prices of primary products, enough to cover the cost of their production, and to enable the raw-material producing countries to pay some of their debts and to begin buying manufactured goods again.

K.-H. : Why are you so confident ?

HALL : Because we have reached the stage when we can begin to get the money into circulation.

K.-H. : You said a few minutes ago that we had been disappointed because we had failed to get the money into circulation. What is going to work the miracle now if nothing has happened in the past year ?

HALL : I didn't say *nothing* had happened last year. The difference is pretty largely psychological and not economic. If people will only firmly believe that the worst is over and launch out again into trade and commerce, there will be pretty steady recovery.

K.-H. : Yes, but why should they believe it ? What inducement is there ? Convert me ! I'm a



pessimistic, semi-bankrupt industrialist. Excite me to spur myself on to a fresh exhibition of enterprise !

HALL : Well, you remember the figures I gave you of the prices and stocks of raw materials at the beginning of this talk. They mean that any increase in activity will get raw material prices up. Secondly, people should be able to borrow with greater confidence. The difficulty about borrowing is that you may be asked to repay at a very inconvenient moment. Cash is now so abundant, and stabilization at 120/- will keep it so, that there should be no fears in this sense. Then also the easy money of the past year is having its effect. Industries have been able to get their fixed charges down by paying off bonds and debentures at low rates. Above all, our Government has been able to do that, and as soon as unemployment begins to decrease, that should make the Budget position much easier. As a matter of fact, recovery is already beginning—more ships and factories—that is the best news we have had for three years.

K.-H. : You seem to be optimistic to-night, Hall.

HALL : Not unduly so. There is still the big IF. If we don't get stability we cannot get confidence and recovery.

K.-H. : Yes, I recognize your IF. But so far you have only dealt with the technical side of the matter. You've talked about the prices of primary

products, and you seem to expect that they will rise. What does that mean for the ordinary man, and for the prices that you and I will have to pay in the shops for our goods? Will they go up too—and doesn't that mean that wages and other things will rise? I'm not at all happy about the prospect of these price rises.

HALL: I don't think you need have much fear. You remember my figure of the fall in the prices of primary products since 1929?—60 per cent. was the figure. Manufactured goods at wholesale have only fallen half that amount and retail prices only about 20 per cent. I don't think that the rise in retail prices as we are concerned will be noticeable unless we all go mad and have inflation on the war-time scale. Retail prices might go up by 10-15 per cent. in the next few years. But as there will be more employment, and as there should also be a lower rate of taxation—the ordinary man ought to find himself better off.

K.-H.: That sounds suspicious to me. There seems to be a catch somewhere. These raw materials for the past year or two have been pretty cheap. They've fallen 60 per cent. didn't you say? Retail prices have fallen only 25 per cent.; a nice extra margin of 35 per cent. has gone into someone's pocket. Who has been making that nice little bit?

HALL: I don't think you ought to calculate on that basis. The prices of raw materials are not

the greater part of the cost of the retail goods in the shop. Manufacturing costs, transport costs, and then the costs of the retailer himself all have their part, and none of these have fallen by as much as 60 per cent. They have fallen a little, but they have remained quite high enough to absorb that 35 per cent. difference you spotted.

K.-H. : Right, I accept that. I suppose you would maintain that as prices of raw material rise, their manufacturing costs, including wages, need not rise in the same proportion, so that we shall not find ourselves much worse off as a result of this policy of raising prices.

HALL : Yes—I think that is probably true. As recovery comes most of us will be better off, not because we will get increases in our money incomes, but because there will be more regular and continuous employment. In your poorer districts, for example, there will be less need to help out friends and neighbours as the people in employment have been doing so splendidly in some of the badly hit industrial districts. The shops will be getting bigger turnovers so they won't need to increase their prices very much, and the manufacturer will get a steadier turnover which will enable him to keep his costs down.

K.-H. : You don't think that wages will rise then ?

HALL : That's a big question to ask at the end of a talk. I notice that they have begun to rise in

America already, but they had fallen there more than they did here. You will remember that Imperial Chemicals Industry were able to restore their wage cut a few months ago. Beyond that I can't generalize. In the very depressed industries I expect that if recovery is really solid there will be room for increases in wages. What are called the sheltered industries is another problem. But you can't lay down any hard and fast rule. It won't help the export trade if their costs are put up by wage increases. They will stand just where they stand now. It would be criminal to raise false hopes. All you can say definitely is that the result of the stabilization which I suggest will be to take the pressure off wages, and to give more continuous and steady employment. It will be time enough to talk about wages when we have got some sort of security again for the mass of the people.

K.-H. : Well, we must stop for to-night. Now, Hall, it may be a very great thing for the world that the World Economic Conference is opening next Monday, but it is an extraordinary inconvenient thing for us.

HALL : How do you make that out? The British position seems to me as good as anyone's.

K.-H. : When I used the word "us" just now I was referring to you and me. Don't you realize that such members of the public as have had the courage to go on listening to us all these Monday

evenings will expect us to deal with the opening of the Conference, and that we shan't know until about four o'clock on Monday afternoon what, if anything, will have happened on the first day ?

HALL : The embarrassment will be yours, King-Hall, rather than mine. I shall be ready to answer questions as usual. As I suppose you will naturally be wanting to ask me up-to-the-minute questions, you had better spend your next Monday afternoon in a newspaper office.

*June 12th, 1933*

## TALK VIII

K.-H. : I wonder whether the historian of the future will consider that to-day is a turning point in human affairs—one of those landmarks which are so convenient as chapter headings if one is writing a book ?

HALL : Personally, I'm not sure that they will. The opening of the World Conference is just another paragraph in your historian's big chapter entitled "Clearing up the Mess After the War". The historian will get everything into perspective, which we find it extraordinarily difficult to do.

K.-H. : I mentioned the historian of the future because I want to try to discuss with you the prospect of the World Economic Conference which His Majesty opened this afternoon. We have necessarily in these talks of ours had to go into a certain amount of economic detail, but this evening I want to take a broad view. I have the quite definite objective, or perhaps I should say "the hope" that in twenty minutes our listeners will feel that we have given them a background against which they will be able to watch the developments of the Conference.

HALL : That sounds a useful, if ambitious, task. Go ahead.

K.-H. : In the first instance I want you to outline the ideal economic world. What you might call the hundred per cent. perfect economic world ; the economist's dream if you like.

HALL : Well, that's pretty difficult because economists have given up writing Utopias. I take it that the sort of world that an economist would like to see would be one in which men really took full advantage of the opportunities which their knowledge and skill and science gives them in developing and improving their general standard of life.

K.-H. : Would such a world necessarily be a free trade world ?

HALL : I don't think a completely free trade world is possible, but it certainly wouldn't be a world in which men invent and try to use all sorts of machines, which require the widest possible market to carry off their output ; and then, having set up their machines, try to protect them by cutting up the world into little trading units, most of which are far too small to make it profitable to use modern methods of production at all.

K.-H. : And what would be the position of planning for production in such a world ? Would production be related in some way to consumption over a reasonable number of years in the future ?

I ask you this question because I notice at the present moment that an attempt is being made to do something about the world wheat situation.

HALL : The "planning" as you call it would be practically automatic. The production system would be so organized that it could adjust itself quickly and without friction, according to the needs of the consumers. This would make it unnecessary to attempt to stimulate artificially any particular sort of production, wheat least of all. If the productive system were flexible in this way, there would be in the future no such thing as what you call "the world wheat situation". That is simply the result of trying to keep up wheat prices, while ignoring the fact that artificially high prices stimulate extra production and make ultimate falls in prices quite inevitable.

K.-H. : Even granted that men were ready to behave in a very intelligent manner, how is one going to foresee what consumption is going to be, both in volume and in nature ?

HALL : We shall never do that completely, unless we are going to give the people no choice in deciding what they shall eat or drink, or wear, and how they shall spend their leisure. It is just because we cannot foresee what people are going to want to do that we must make a flexible productive system. If we don't we shall have to return to a sort of Feudal System, complete with rationing, to



make people consume what their masters have produced. For fifteen years we have used political power to try and protect production, instead of trying to get the system flexible again. We now have two alternatives, either to return to the war-time rationing system, or to make a real attempt to get some flexibility into production once again.

K.-H. : To come back for a moment to a remark you made just now, in which you referred to the fears and mistrusts in human minds which caused men to take deliberate action of a nature which prevents them from getting the full advantage of science. Either men don't know what a jolly good time they could have if only they'd act differently, or else they do know it but they deliberately prefer to, shall I say, cut off a national nose even if it does spite their own international faces? What do you think about that point—is it ignorance or viciousness, or both?

HALL : I don't think it is either of them. The fact is, it is much more difficult to keep your production system flexible so that you can introduce new methods without friction, than it is to protect existing interests. Flexibility requires greater political skill and greater political courage than does the maintenance of the status quo. The reason for this is that it is very difficult to see that industrial changes, which bring about the decay of old industries, will create at least as much, if not more,

capital and new employment as they destroy. Take the case of the displacement of horse transport by the motor industry. The grooms, the horse-breeders, fall into unemployment. The farmer who grows the hay and oats to feed the horses—his men fall into unemployment. The saddle-maker, the leather-maker and the carriage-maker fall into unemployment. All you see as a result of this change is a tremendous sacrifice on the part of the farmer, the horse-breeder, the carriage-maker and all the related industries. Now it is a guess, and only a guess, as to what is going to replace the horse and carriage. You can't see for certain the gigantic motor works, road builders, countless little garages, and filling stations, the imports of oil, the steel works, the electrical equipment makers, covering the whole country and replacing by a new and growing industry an old and well-established one.

Now it isn't either ignorance or viciousness that obstructs the change, because when you give up from horses and take to motor cars, there is going to be some suffering. The groom is not necessarily going to be the chauffeur; the farmer who grows the hay and the oats is not necessarily going to be the oil and petrol manufacturer.

K.-H. : I should think its almost certain that he won't be.

HALL : . . . and the displaced carriage-maker is rather unlikely to be the body-builder of a new

motor coach. So from some people's point of view the change must be harmful. From the national point of view we are all going to be better off by speedier, cheaper, more efficient transport. But if a government had to decide whether to make a change like that from horse traffic to motor car traffic, I think the odds are that it would be practically impossible for the government to shift over from horses to motor cars.

K.-H. : Yes, I see your point. We are necessarily—and I might add, as far as I am concerned—quite deliberately, beginning to give some weight to social and psychological considerations, not perhaps strictly within the framework of economics, but we can make our own precedents in this business as we go along, and I have been asking you these introductory questions because I feel so strongly that underlying all the difficult economic problems before the World Conference, are so many political and social questions which it is not, strictly speaking, our business to discuss.

HALL : Oh—I would suggest you are going a little too fast. The point I hoped that we were going to make was that during and after the war the industries of all the different countries of the world had to make big changes like the change from horses to motor cars, and that the governments have tried to obstruct these changes coming about.

K.-H. : Yes, I see that point ; I agree with it, and they obstructed them for political and social reasons.

HALL : Yes, agreed.

K.-H. : Now this Economic Conference has really got to see what progress it can make without laying impious hands on certain social and political ideas, which in the first place are held very strongly by the States concerned, and in the second place are not really on the agenda of the Conference.

HALL : Well, I think I see what you are getting at. These social and political questions, such as the English and American standards of living in comparison with the Japanese standard and so on are a big, real influence . . .

K.-H. : Hear, hear !

HALL : . . . underlying the difficulties of the Conference, but as I see it, this Conference is meeting because the economic side of this problem is triumphing over the political and social sides. We, in England, and in America are facing this prospect, that however much we may want to avoid it, unless we can, by making concessions, get world trade going again, our standard of life will shrink and dwindle, and our hope in meeting competition from countries with a lower standard of life by mutual trade to raise their standard so that in a few years, or, I fear, longer, we shall be able to do increased trade on more even terms.

K.-H. : I venture to say, Hall, that the point you have just made is perhaps one of the most important that have come out in the course of these discussions. It seems just the kind of thing which anyone, even without economic training, can get hold of. For instance, I am not going to pretend that all our listeners have been able, or will be able, to follow the technicalities of stabilizing exchanges, but am I not right in saying that in order to stabilize the exchanges, and in order to find out at what levels they should be stabilized again, account will have to be taken of these different standards of living in various parts of the world ?

HALL : Yes, that was what I meant by saying in one of our talks that we had got to stabilize the pound, so that our costs could be compared with costs elsewhere. Differences in costs are the very foundation of trade, and they in their turn are based upon differences in earning power amongst the various peoples and areas of the world. The war, with all its economic complications, smashed up the trading system which had grown up as a result of these differences in earning power and costs. It is not possible to put the world system back again as it was before the war, and it is a painful and difficult task to build up a new system. It can only be done by some sacrifices, particularly in those countries with relatively high standards of living. But, as a matter of fact, these sacrifices,

involving the removal of protection from some industries for example, will be more apparent than real, because if a world trading system is not reconstructed, the countries with a high standard of living will not be able to maintain their foundation of local constructional trade. If once a world trading system can be started going again, the strongest forces will be set to work to raise the standard of life in the poorer as well as in the richer countries, so that as time goes on there will be a reduction in these differences of social conditions, which cause so much friction. This can only come about if the wealthier countries are willing to trade with countries with a lower standard, and in particular are able to help them to develop their own resources by lending capital to them. The meeting of this World Conference seems to me to be a pledge that the very great difficulties in the way of restoring a world trading system are going to be tackled, although I don't think that we can expect any quick results from their meetings.

K.-H. : You said that for a certain period we must make concessions in order to bring about the permanent solution of the problem, which is so to increase world trade that the standards of living of our competitors in, say, Far Eastern countries, will rise towards what we consider to be normal in this country. Now then, taking the concrete case of the competition between the

Japanese and European textile workers, what are the sacrifices which Europe must make in order to bring about a rise in the standard of living of the cotton operative in Osaka ?

HALL : A very interesting example and a difficult one. Our trouble is that the Japanese costs are so low that they have been increasing very largely their exports into our market. If that continues, Japan will have to import an equivalent volume of goods to balance her trading account. If she doesn't import these goods, the exchanges will move strongly in her favour and make her goods more expensive in the markets where she competes with us. The problem will solve itself, provided that we can keep our heads and reduce the suffering of individuals, including displaced labour, during a period of adjustment.

K.-H. : Now do you conceive it as being part of the task of the World Conference to come to some mutual agreement with, say the Japanese, as to what is to happen during this period of adjustment ?

HALL : Yes, I do, provided that the agreement does not achieve its result by reducing world trade in textiles. All that agreements of this sort should deal with are "unfair" competition, such as exchange manipulations or subsidies. Not with real difference in costs, which are the foundation of all trade. Subsidies is really the most short-sighted thing

that a nation can indulge in if it is intended to help exports. If it is successful it will, for a short period, make our exports bigger than they otherwise would have been. But the economic consequences of this are inevitable. Ultimately the increases in exports will turn the exchanges in favour of the country giving the subsidy, lead to an import of gold and a general rise in prices and costs, which will cancel out the advantage obtained by the subsidy.

K.-H. : What about shipping, does the same argument apply there ?

HALL : A nation is successful in competing for the carrying trade if all the costs of shipping—the building of ships, the harbour dues, everything else in its country, are low. If you help shipping by subsidies, those subsidies come out of the taxpayer's pockets. The increase in taxation pulls up all your costs, and then you become like a dog chasing its own tail, the more you push up your subsidy, the more you increase taxation, the more you handicap your shippers, the worse placed they are internationally ; and it is only a matter of when your pride will let you stop.

K.-H. : Yes, pride, and here we are again at one of those semi-political economic questions. I agree with every word you have said as an economist, but what is your answer to, say, the Italian Government, to quote but one example, which feels that both as a question of international prestige



and national defence, Italy must have a large mercantile marine? They probably recognize they are paying a price for it, but that is no consolation to our poor shipping people.

HALL: My answer is—hence the World Economic Conference. I take it that in our heart of hearts, all nations—with tariffs, subsidies, quotas and the like, have come to the conclusion that the game is not really worth the candle. None of us can stop for reasons of pride, prestige, and security, and so on, unless the other people are going to stop as well, and so we have a solemn meeting of the Conference. From the economic point of view I think this is the World's Face-Saving Conference. We are going to hold each other's hands and agree mutually at the same time to stop doing things that we have found do not really pay us, and then we can all go home to our various countries and say: "We were getting on all right, but to help out the other chap we had to agree to make some sacrifices in the interest of general world prosperity."

K.-H.: Well, only hope you are right, but I have got an uneasy feeling that the process of education—and by that expression I mean nothing more nor less than the world crisis . . .

HALL: Very good description.

K.-H.: . . . has not yet done its work. Do you feel that at this Conference some kind of self-denying ordinance about subsidies will be agreed on?

HALL : Not if you call it a self-denying ordinance.

K.-H. : Well, you can call it what you like, but do you think it will happen ?

HALL : I should call it a Mutual Self-Liberation Ordinance.

K.-H. : But think of the vested interests all over the world.

HALL : But think of the terrible budgetary positions all over the world. Most of the governments only want to be given a little Dutch courage to stand up to these vested interests, and it is so much easier to stand up to them internationally than nationally, and if you can say to your own local vested interest : "My dear chap, we would love to help you, but sixty-five other nations didn't want us to," then this problem of vested interests becomes, I think, easier of solution.

K.-H. : Except that the vested interest chap can always appeal to the short-term view by pointing out to his Government that if this subsidy is removed there will be a large temporary increase in unemployment.

HALL : Yes, I agree there, but again it is to be a World Conference, and they will be able to point to other advantages. If they are raw-material producing countries, for example, they could say : "Stable exchanges, rising raw materials prices, better prosperity for our farmers, hence we

sacrificed you much as we like you, dear little over-protected local industry." Or if it is, shall we say, Germany, with shipping subsidies they can say : "Yes, our little subsidy has helped employment in its worst phase. Now the World Conference has stabilized the pound there is less competition for German export trades ; recovery in employment on a big scale to offset possible decrease in employment in shipping." And so on, all through the list. It is just because all the problems are to be put into a pool and solved mutually that you strengthen the hands of the governments against their vested interests.

K.-H. : Now taking up that point of all the problems being in the pool in front of the World Conference, or Face-Saving Conference as you called it, isn't one of their difficulties going to be where to make a start, or can these things be grappled with simultaneously ? Can we, for instance, simultaneously stabilize the exchanges and come to some kind of international agreement, call it a truce or whatever you like, on the subject of subsidies ? That seems to be a practical difficulty.

HALL : What I should like to see this Conference do, would be this : set up a series of equal, parallel committees with specific limited terms of reference—one on exchanges, one on bounties and subsidies, one on prices of primary products, one on international lending and borrowing, one on tariffs.

Give each committee a time limit, say that by 2nd July, that gives them three weeks, each committee has got to lay on the table broad general conclusions for the solution of these problems; then have your plenary session of the whole Conference, accept or reject the broad general conclusions such as, for example, a tariff truce for two years, the abolition of subsidies to be completed in twelve months' time, *de facto* stabilization of principal exchanges, and so on. Then appoint under the League of Nations, which after all is organizing this Conference, small groups of experts to watch and report in detail on special problems which have been rather hardly dealt with by the big, sweeping general principles.

K.-H. : You optimist ! Let me be the devil's advocate in this matter. First of all your separate committees, say the one on tariffs, will say that it cannot reach any decisions until it knows what the monetary committee is going to do.

HALL : I shouldn't put up with that argument for a minute. I should say that the exchanges are going to be stabilized by international agreement, and they have got to work out their job on the assumption that that is done.

K.-H. : All right, I thought you would say something like that. And that gives me a very good opening for my second point, which is that you don't need three weeks in order to get these

platitudinous generalities which will come out of your committees.

HALL : No, but you need that amount of time so that each Delegation can learn that the other Delegations really mean business, and intend to try to put into practice the reasonable principles they are discussing. But I am sure that the crucial point is that the Conference ought not to try to settle all the details, but they must act quickly, particularly as many of the delegates must be beginning to be aware that world recovery is already on the way. If they are going to keep all the big major economic issues affecting everybody's trade in the hands of a conference of sixty-six nations for a period of months, they are going to delay world recovery. My idea would be for the nations to agree at least that they would not do any more of the trade-destroying things they have been doing for the last four years. That in itself should loosen up the whole position very considerably. Will the delegates have enough courage to do this? My hope is that the signs of recovery will give them the courage.

K.-H. : It seems to me the Prime Minister summed up the task of the Conference pretty accurately when he said, at about 3.25 p.m. this afternoon, that "the nearer we can make the world an economic unit the better it will be for each nation," and he was but dotting the i's and crossing the

t's of what His Majesty had said: "I appeal to you all to co-operate for the sake of the ultimate good of the whole world."

HALL: Exactly, and it is the recognition of that fact which wants real courage, and courage implies a change of heart on the part of national governments, and of course of the peoples in whose name those governments speak.

K.-H.: My last word to listeners is this: watch the World Economic Conference as a mirror, in order to see whether in it and its proceedings are reflected that change of heart which my colleague here has expressed the belief is the essential thing.

HALL: I think that's the correct way for everybody to look at it.

June 19th, 1933

## TALK IX

K.-H. : Well, I suppose one of the most interesting, and in fact exciting things which have happened in the economic sphere since we last spoke has been the Debt agreement with America.

HALL : Yes, I admire Roosevelt's pluck. He is going to have an awfully stiff time with his Congress when it meets again.

K.-H. : Yes, but it doesn't meet until January.

HALL : No, and I only hope the world will have got a long way on by that time.

K.-H. : Things certainly move pretty fast nowadays. But to come back to this Debt arrangement, or rather, provisional arrangement. The biggest surprise in the business as far as I was concerned was the arrangement by which we decided to pay in silver, and this gives me a very good opening to ask you some questions on a subject which is in front of the World Conference, and which we have not yet covered in these discussions, i.e., this silver business.

HALL : You *are* fond of having this "something-or-other Business", King-Hall. It was "this

world wheat situation " last week. What's biting you about silver to-night ?

K.-H. : Oh, I'll be precise enough. It must be within your knowledge that the American delegation to the Conference is understood to hold the view, which indeed is shared by a number of other people, that it might assist the monetary affairs of the world if silver were made more use of as a base for currency and credit. Of course, I know it is a very old controversy but it certainly is very alive again to-day. Could you describe to listeners in broad outline the proposals of the advocates of silver ?

HALL : I shall have to think a minute about this.

K.-H. : Go ahead ! But time is precious.

HALL : What you think about the silver problem all depends on whether you are an Englishman trying to sell goods to China, which uses silver for currency, or whether you are a member of the Government of India, which has got a big stock of silver which it is trying to get rid of, or whether you are a producer of the metal.

K.-H. : Yes, I see that, but I should call all these people " vested interests in silver."

HALL : And you are right.

K.-H. : I want to know whether, in your opinion, there is anything in the argument that the stocks of gold in the world are insufficient



as a basis for world credit, and should be supplemented in some way by the use of silver ?

HALL : Week by week, King-Hall, your questions get more and more unpleasant. Here we are back again at the problem of the foreign exchanges. The suggestion you refer to, that we should use silver as well as gold as a reserve for the Central Banks of the world really amounts to this, that instead of holding, say, £300 million in gold against its note issue, the Bank of England should hold £300 million, made up of £200 million in gold and £100 million in silver. With gold at £6 an ounce and silver three shillings an ounce, that means they have got to hold 40 ounces of silver for each ounce of gold. There is no harm in that, but if you remember our talks on the gold standard, we saw that the reason why the Central Banks hold metal reserves at all, is to be able to adjust the credit of the country when metal comes in or goes out. Suppose that they hold a joint reserve of gold and silver, 40 ounces of silver being equivalent to each ounce of gold. Then if you or I go along to the Bank, and get, say, £6 worth of metal for export. If the reserve was all gold we should get one ounce by weight of gold, but if the reserve is both gold and silver, we should get 20 ounces of silver and half an ounce of gold—20½ ounces of metal by weight, instead of one ounce. In practice, of course, these dealings in metal for export when the exchanges

require bullion movements, take place in hundreds of thousands and millions of pounds worth, so the suggestion that the Central Banks should hold joint reserves of gold and silver simply means that a greater weight of metal will have to be moved at a higher cost from one central bank to another, when these bullion movements are necessary to adjust the exchanges.

K.-H. : Yes, I see that objection, but I am not very impressed by it, if, as I suppose the silver advocates would claim, there are compensating advantages. Do you see any advantages in the proposal? Does it broaden the base of credit?

HALL : Oh, it broadens the base of credit all right, but we discussed that before, and agreed that it is not an increase in the supply of credit which is wanted, it is greater confidence to enable people to use what is available. That is why a good many advocates of silver want to see the position of silver helped.

K.-H. : They are thinking of it, in fact, as one of a number of primary commodities of which it would be useful to raise the price.

HALL : I only wish they were. You have put your finger right on the point there, King-Hall. What you cannot get people to understand about the silver situation is this. For countries who do not use silver as the basis of their currency, silver is like any commodity; its price goes up or down

with the prices of other commodities. They get mixed up between the position of China, which uses silver as money, and our position where silver is just one among many commodities. If these people would co-operate in the general scheme for raising prices, they would find that the price of silver would go up along with other prices.

K.-H. : Thanks. I referred just now to what I called "vested interests in silver". There is one of these which seems of particular interest to people in this country, and that is the Far Eastern peoples who use silver. Would it help them to consume more of our industrial goods if the price of silver could be raised ?

HALL : Yes, it would. The price of silver falls, and in the Eastern countries which use silver as currency, each unit of their money buys fewer English pounds, so that they find it more difficult to buy English exports. The fact is that the fall in the price of silver in the last three or four years has done for China just what we did for ourselves when we went off the gold standard.

K.-H. : Well it seems to me it has done China a jolly good turn then by isolating her from the world crisis.

HALL : You're in great form to-night, King-Hall ; that's exactly what it has done, but from the point of view of the British exporter it had this undesirable effect. It has been better for the

Chinese to develop their own local manufactures than to buy imported manufactures. As soon as the price of silver begins to rise again imports from abroad will be cheaper to the Chinese, and they will be able to buy more British goods.

K.-H. : Well, do you know what I shall expect them to do then ?

HALL : Put a tariff on !

K.-H. : Exactly ! In fact they have recently raised their tariff against everyone.

HALL : Quite right.

K.-H. : There seems to be a good deal to be said on both sides in this silver business. Would you sum up quite briefly by saying what on balance you hope the world Conference may be able to do about silver ?

HALL : Yes, I should like to do that, but I want to bring in one more point first. I said just now that the price of silver had fallen along with other prices. As a matter of fact it has fallen a little more than other prices for a particular reason. In 1927 the Indian Government withdrew a lot of silver coinage from circulation, and has been selling that silver in the world markets. In February, 1930, the Indian Government made an offer to the producers of silver in the world that it would enter into an agreement with them, that if they would limit their sales of silver the Indian Government would co-operate in holding

up its supplies. If the World Conference, as a side issue, could get that question cleared up, the rise in silver prices would then come along with general world recovery, and a great deal would be done to get trade with Eastern countries going again. But, I stick to the point that it is more important to get agreement among the silver producers and the Government of India, than it is to try and get the big Central Banks of the world to load themselves up with silver. There is also one little thing I would like to see myself, purely for æsthetic reasons ; I would like to see the British Government put a little more silver into our sixpences, shillings and half-crowns, so that they don't look quite such cheap specimens as they do to-day. We might help the agreement along by joining in at that stage. But do not let us confuse the main problem of exchange stabilization by adding to it bi-metallism or any other complications.

K.-H. : Before we leave this question of whether gold needs backing up with silver, there is just one point I would like your view on. You may remember the report of the League of Nations Gold Committee a year or two ago hinted that, taking a long-term view, there might be a shortage of gold in the world unless some new large gold mine was discovered.

HALL : I quite agree that if we do not learn how to make better use of the gold supplies we

have got, and if trade develops substantially, as I hope it will do, then in the next thirty years, the Central Banks may find that their gold reserves are getting rather small in proportion to the amount of credit they are dealing in. If, in the future, they stick blindly to their old rules and regulations, this might become a nuisance. My own answer to that is that there is a body in existence called the Bank for International Settlements. Now that Bank for International Settlements at the present moment is limited to doing one job, and that is to transfer money in connection with War Debts and Reparations and other special payments between the different countries.

K.-H. : Don't forget its function as a club where Central bankers can meet without causing headlines in the papers.

HALL : Your intuition passes belief ! I was just going on to say that you cannot get a body like that set up, which brings together the principal Central Bankers of the world, without those active-minded men seeing new possibilities for developing the instrument that they find ready to hand called the Bank for International Settlements. I believe that in the coming years, as soon as the different personnels have got to know and to trust each other, the Bank of International Settlements will be a Central Bank for the world so that you can pool your gold in that bank, and it will be able to make

a little gold go a long way by transferring surpluses from one central bank to another to even out payments between countries. This will enable the banks to mobilize and expand international credit as trade increases, and to do for the world as a whole, what each Central Bank does for its own country.

K.-H. : In case listeners fear that your picture is rather idealistic it might interest them to know, and I think you will agree with me, Hall, that the ideas you have just been expressing were, to my certain knowledge, in the minds of some of the people who were first responsible for putting up the idea of the Bank for International Settlements—very practical men of the world they were, too.

HALL : That's very interesting, King-Hall. You know as a matter of fact, this Bank of International Settlements is growing in a way that is very true to form. You remember it began simply to do this job of transferring the payments involved in the Reparations settlement.

K.-H. : It was an International Debt-collecting Agency.

HALL : That's right. Well, as a matter of fact, with some minor modifications the Bank of England began much in the same way.

K.-H. : Whose debts did it collect ?

HALL : Well it didn't really collect debts. King William the Third was fighting a war in Flanders ;

he could get cash in England but he couldn't transfer the cash to Flanders to pay his troops. There were a group of people in London who had business connections with Antwerp who could help him with the transfer problem, and that, I think, was one of the big things in bringing the Bank of England into being. Nobody thought it all out as a Central Bank of England. The Bank of England itself had been in existence for 150 years before it realized that it was special and different from other banks. I think the Bank for International Settlements is going to grow in the same way.

K.-H. : And of course I suppose you would agree that the great advantage of an organic growth such as you have described is that the thing grows up in answer to real needs, and is in no sense an artificial attachment to the economic system.

HALL : Yes, that's why I am enthusiastic about the Bank of International Settlements.

K.-H. : And talking of the organic growth of this new instrument, it gives me an opportunity of asking you some questions on another point in connection with the proceedings in the present Conference. Did you read Daladier's speech ?

HALL : I did.

K.-H. : Well then, you noticed that he mentioned the question of international public works ; so did several other people. What do you think of that idea ?



HALL : That's a bit vague, isn't it? Do you mean that to cure unemployment the governments of the world ought to agree that all of them at the same time will undertake to spend certain amounts of money in carrying out public works?

K.-H. : Something like that and even a bit more. It is only vague because the world "international" had made it a new idea.

HALL : But the idea is this ; that one country alone cannot undertake public works, because if they are financed by borrowing or by issuing more notes there will be a rise in prices, and the exchanges will be upset. The international idea is that the leading governments, coming together, should put their public work programmes into operation simultaneously, so that any rise of prices in one country is balanced by a rise of prices in another country, and the exchanges remain stable. That is really the heart of the idea.

K.-H. : Yes, I did mean that, but a bit more as well, which I will come to in a minute, but first of all, what do you think of the proposal, that there should be co-ordination of national public works in the sense that everyone would start at the same moment on road schemes, slum clearances and so on and so forth.

HALL : I think the idea is very interesting and stimulating in the academic lecture-room. But as a cure for our present evils, I cannot see that the

scheme has much to commend it, for just this reason, that the different countries—France, Germany, America—all have a different series of problems with regard to their public finances. If we were all starting level with a clean sheet, then you could get an agreement to keep in step, but take Germany for example. Her foreign exchange difficulties are due partly to over-spending on town halls, and other public works since the inflation. France has got a difficult budgetary position made more delicate by the rebuilding of her devastated areas. Great Britain has got an enormous internal floating debt left over from the war. The United States has got at the moment an unbalanced budget, but she has not been playing with this public works idea before the last twelve months. The rest of us have. I cannot see, therefore, that this idea of international co-operation on a programme of public works can really help. Theoretically it might, but practically the difficulties, owing to the different recent histories of the four leading countries, make the problems almost insoluble.

K.-H. : I don't like you on this point, Hall. Supposing I bring you down to concrete proposals ?

HALL : You will be the first person I have ever known who does. Please do.

K.-H. : I shall not have the slightest difficulty in meeting your request. There have been actual schemes put up to League Committee for the

construction of thousands of miles of road in Central and Eastern Europe, which apart from the expenditure of labour and material will open up backward parts of Europe. There have been other schemes for electric grids covering Central Europe; in fact, if time were not short I could give you a very interesting lecture on this subject.

HALL: Yes, I think it's a suitable subject for lectures!

K.-H.: Confound you, I didn't mean you to interrupt me there! I only want to add this one point; that apart from any economic value in these schemes, don't you think they will help towards peace if the peoples of some European nations could be linked up through large scale common public works?

HALL: Oh, it would be admirable. But, who is going to own the new roads? They are going to be built, presumably, by money supplied by England, America and France.

K.-H.: At suitable rates of interest.

HALL: Yes, and at suitable rates of default.

K.-H.: But why? Surely we are presupposing—and I admit this is fundamental—a return of confidence? Otherwise you would rule out any resumption of international lending. You don't want to do that do you?

HALL: I certainly don't. If the development of these European roadways will be truly productive

in the sense that they will increase the export surplus of the countries building the roads, then there will be no need for any international plan to get the roads built. Restore confidence and the road builders will be able to borrow the money. But if you start the Central and Eastern European countries with debts to build roads that are economically unjustifiable, you are simply replacing their War Debt obligations, which have killed international confidence in the last four years, by a road debt obligation, which will have just the same result.

K.-H. : I deny absolutely your right to assume that these schemes are economically unjustifiable.

HALL : I am not assuming that. I am saying that if they are economically justifiable you don't need an international agreement to finance them.

K.-H. : Where does the money come from, then ?

HALL : You need the restoration of general confidence when recovery in trade will lead to export surpluses which can properly be lent abroad. Don't put this country into the position again of having to lend abroad long loans which are greater than its surplus on its trading account.

K.-H. : Unfortunately, Hall, time is up. I want to say that I don't think we have half thrashed out this point of international public works, and

I prophesy, whatever you say, that we are going to hear some more of it in the next five years.

HALL : I am quite sure we are.

K.-H. : And I hope I shall have an opportunity of saying something to you from this chair about the subject during that period. Now another thing I have realized with a shock is that next Monday will be our last talk. Looking back over this series I am reminded of something Lord Kelvin said on his death-bed. The more he knew, the more he realized the more there was to find out.

HALL : Well, I certainly feel that way myself. My extreme caution on these advanced ideas that you keep springing at me is due to the fact that I think a great many people put them up without thinking out fully all their implications. I have not done much more to-night beyond thinking out some of the difficulties in the schemes you put forward. There is a lot more to be said on both sides, but unfortunately there is a limit to what can be said in twenty minutes, so I don't want people to think I have said the last word on the subject.

*June 26th, 1933*

## TALK X

K.-H. : Good evening, Hall !

HALL : Good evening.

K.-H. : Well, this is our last talk . . .

HALL : Yes, I'm afraid it is.

K.-H. : . . . and there are a good many points that I want to touch on to-night. But first of all, I see we have had an opportunity of participating in the World Economic Conference.

HALL : Oh, what's this ?

K.-H. : I am referring to the resolution put forward by the British Government in which they stated that public opinion must be educated in the real meaning of the phrase "balance of trade", and must be made to understand that it is difficult for a creditor country to have a favourable balance of trade.

HALL : I should put it stronger than that. I should say impossible, if it is going to remain a creditor country.

K.-H. : Well I'm not going to let you start having an argument with the British Government, but I do think it would be useful to explain, especially

as this is our last talk, exactly why a creditor country—by the way, are we still a creditor country?

HALL: Yes. Just!

K.-H.: Thanks—why a creditor country cannot have what is called a favourable balance of trade.

HALL: Well, half a minute, King-Hall. We may be going a bit fast. There is a good deal of confusion between what is called the balance of trade and the balance of payments. The balance of trade usually means the difference between your total imports and your total exports. If you have more exports than imports people talk about a favourable trade balance and vice-versa. As a matter of fact the balance of payments is much more important to any highly organized country than the balance of trade, because the balance of payments includes all sorts of things that don't go through the Customs houses and do not appear in the trade returns. For example, the world has to pay us large sums of money each year for using our ships for carrying cargoes of, shall we say, silk, from Yokohama to San Francisco. A great deal of banking business is done for the world by London that has to be paid for in the form of commissions, and then we have got big investments abroad on which interest has to be paid. All these payments of money represent our invisible exports, and help us to buy. If you are a creditor nation you cannot bring home the interest on the money

lent abroad, unless you have an import surplus, so if you have invisible exports your visible items cannot balance.

K.-H. : In other words a great deal of confusion and misunderstanding grows up through the use of this expression "balance of trade" owing to people thinking that the word "trade" covers all the commercial activities of the inhabitants of this country, whereas in the official returns it only covers the sale and purchase of goods that go through the Customs houses ?

HALL : Yes, that's right. Every month we publish our trade reports, and the newspapers very often make quite a fuss about them. These figures in the newspapers only refer to the visible items.

K.-H. : And I think should never be published without the invisible receipts and disbursements being put alongside them in brackets.

HALL : Well, in theory I agree with that, but in practice it would be very difficult indeed to get a reliable figure for the invisible items. The Board of Trade does its best once a year, and the figures are published usually in February for the preceding year, but I don't think they could do it monthly. You get the same result, however, if the newspapers publishing the visible items would simply put a note reminding readers that they are only half the story.



K.-H. : Thanks, that's cleared up that point. You remember in some of our earlier discussions we expressed the hope that the exchanges, as regards the dollar, the franc and the pound, would be stabilized—in fact, we almost suggested that such stabilization was essential.

HALL : Yes, I still think it is.

K.-H. : Well, I'm glad you haven't ratted on it, because it seems a bit embarrassing when one opens one's paper and reads that in the opinion of the American Government measures of temporary stabilization would be untimely. Hasn't this action on their part put us all in the cart? What do you think about it?

HALL : I think it will put America in the cart if she doesn't look out. This divergence of opinion between European countries and the United States is very interesting. England, and I think France as well, believe that if you can get stability and restore confidence you will bring about a genuine, healthy rise in prices by getting the credit, which is now abundant, into use. That is a point that we have frequently discussed in these talks, and I myself stick to the view that confidence, by getting a greater volume of activity going in the structural trades, is absolutely indispensable for recovery. To be permanent, this must start with constructional activity and not with speculation.

K.-H. : And now for the American view.

HALL : That's a little different. The American President has been given powers by his Congress which will, if he uses them, enable him to carry out direct governmental inflation by such means as an emergency issue of currency, by vast schemes of public works financed by borrowing, and various other detailed proposals. The fact that he *may* use these powers has made a large number of people in America anticipate that American prices will rise. The result has been a big jump up in prices and in Stock Exchange values since he took those powers. He is free to use them so long as the dollar is unstabilized. What he is saying to us is : " We want direct inflation in America. If we stabilize the dollar it may check our inflation. Until your governments in Europe agree to take the same sorts of powers as we have done and begin direct inflation, we will not stabilize the dollar."

K.-H. : You said just now that American policy was a little different. In that remark I suspect you are being tactful. To me it seems fundamentally different.

HALL : Yes, you are right.

K.-H. : Well then, granted this honest difference of opinion on such an important point—a difference of opinion held by two great groups of peoples, both living, mark you, in the same world—can the two policies proceed side by side without very important and perhaps unfortunate reactions either to us or the Americans ?

HALL : I think they might if the President and his advisers can be persuaded to see precisely what the British and French point of view is. He says direct inflation is necessary to raise prices. If he stabilizes his foreign exchanges he cannot get direct inflation, therefore he cannot get rising prices. We say over here : "We are sick and tired of direct inflation in Europe. We have had too much of it since the War. We cannot fool the people here with inflation ; but if we can restore confidence we will get quite considerable rises in prices which will be healthy and permanent, and not like your little inflationary boom which you are engineering in America." I think if the Americans could understand that, in the light of European experience, restoration of confidence and stability will be the only certain, secure way of raising European prices, they will realize that if they come in on the stabilization game there will be plenty of room for them to raise American prices along with European prices.

K.-H. : Yes, but you haven't really answered my question, perhaps it may be an unfair one because you are not supposed to be a prophet ; but my assumption is that the Americans will not realize our point of view as described by you, and that on the contrary they will press for us to accept their point of view. Now, if that situation arises does that mean—and I am going to put it bluntly—an

economic war between the two protagonists, because if so it seems to me it will be a disaster.

HALL : I don't think an economic war is inevitable. I do think that if America follows her present shock tactics policy of direct inflation she will, in a year or two, be very sorry for herself. What she is engaged in doing is destroying by internal inflation her position as a creditor power.

K.-H. : Granted that that occurs—I have been brought up to believe that in the modern world it is impossible for one great area to get into economic trouble without it afflicting everyone else. Are you sure we shall not also be very sorry for ourselves, not through any inflationary misdeeds of our own, but because we shall not have been able to escape the consequences of inflated America, or can we isolate ourselves from her ?

HALL : We cannot isolate ourselves entirely, but if we, and a sufficiently large part of the rest of the world, can agree on our stabilization and confidence policy we shall be able to get a substantial volume of world trade going again even though we have to count America out for the time being. The position will not be as healthy as it would be with America in, but it certainly will be better than if we follow the American lead of direct inflation.

K.-H. : Well, it seems to me that the outlook is very uncertain, and that to adopt a nautical

simile, we had better make all snug, and stand by for squalls.

HALL : I don't think that's necessary. To carry on your nautical simile, let's steer a course to avoid the storm area.

K.-H. : A very good idea, but I wish I knew what direction to give to the helmsman.

HALL : Well, tell him that trading relations with the United States for the next year or two are going to be rather confusing and difficult, and that the other countries ought to allow in their policies for America's special difficulties. Meanwhile we can stabilize *de facto* without her.

K.-H. : Now we have got about ten minutes left, Hall, and I have been thinking how they could be most usefully used from the point of view of an average listener whom I have in mind.

HALL : Well, what sort of person is he, or she ?

K.-H. : I am thinking of a person who has had no economic training, was at school, ten, twenty or thirty years ago, has heard vaguely about Adam Smith and an economic man, but who nowadays takes an intelligent interest in world affairs, realizes when he opens the paper (every time I say " he " I mean she as well), and realizes when he opens the paper that half the news is of economic questions—War Debts, exchange restrictions, tariffs, all the

things we have been discussing. He has tried to follow these talks of ours; he has got something out of them.

HALL: I am very glad to hear he has.

K.-H.: I am going by the letters we have received . . . but equally—let's be frank about it—we have not had time to go into the detail which these people would have liked. My imaginary friend writes to me and says—and now comes the question to you, Hall—"How much and what kind of economic theory must I read up in order to be able to follow the economic news of the day?" Can you, as a professional teacher of economic matters, help with some advice on this point?

HALL: Well I should like to do that very much, as I do think it is very important that people should get their minds into the right tune for thinking about economic things, and there are certain definite methods of analysis which you must use as a guide through the maze of all the different complex, confusing odds and ends; if people want to read something to get a lifeline through the welter of economic questions constantly cropping up, I think they must begin by trying to get the general principles of economics into their minds, and that means, I'm afraid, that they ought to read one of the better small books on economic theory, and read it really with the object of seeing how economic problems are analyzed and pulled to pieces for

discussion, and also how the different bits of the economic world dovetail into one another.

K.-H. : Thanks, Hall. Would you be prepared to give me a list of say six cheap—they must be cheap—non-cranky books on elementary economic theory, which you would recommend to, well say our average listener ?

HALL : I think it would be difficult to do that, King-Hall, but books such as you mention are readily available in any public library, and I hope some of our listeners will give themselves a short course of reading in economics.

K.-H. : Well, that may do for the average listener, but a good many of them have got children. I don't know what your experience was, Hall, and perhaps my own was unusual as I went into the Navy, but I have no recollection of ever having been brought into contact with economic subjects at school. Shouldn't they be just as important a matter nowadays as geography or history, or any of the other subjects ?

HALL : Personally I think they are every bit as important, and I know in some schools they are beginning to teach economics. The importance of learning as soon as you can something about the real character of our economic problems cannot be over-estimated, because most of us grow up knowing nothing whatever about it, and then our emotions or good will get aroused by some problem, and we

have no time or opportunity to get a picture of the whole thing. I would like people to get out of their heads the idea that economics is an obtruse, unreal, fantastic subject. On the contrary, it is really very simple. What economics is trying to teach and explain is just this : that it is more important to watch the balance between the different forms in which a nation holds its wealth than the total size of all its wealth. The study of these harmonies and proportions is really a very fascinating and extremely human subject, but it does take a little time to get people used to looking at it in that way. You really don't know much about how to keep your body healthy unless you know how the different parts fit together, and in schools to-day we at last teach people the essential things about the human body ; but it is equally important that people should understand how the different parts of the economic system fit together. If, King-Hall, people had learnt the rudiments of economics in schools twenty years ago, we could have made a much better job of these talks because we could have assumed that lots of things that we have had to explain would have been common knowledge to our listeners.

K.-H. : Yes, I have been very much struck in correspondence that we have received by, on the one hand, the unanimous and very lively interest displayed by everyone in these problems, and on



the other hand, the obviously great difference in the degree of theoretical knowledge which exists in the minds of our correspondents, and I am sure that speaking as an ordinary listener myself, it is my duty to say that my experiences with you have taught me that one must be prepared to do a bit of studying of the framework, so to speak; of man's economic life before one can discuss with any profit the economic problems of to-day.

HALL : Yes, it is nice to hear you say that, but there is just this word of warning. I don't think economics can give you an answer to your problems ; it can only give you help in making your own decisions, because there is an economic side to all problems, but there is a political one, too. Let me show you what I mean. Take slum clearance. This problem will never be solved from a study of economics alone—it is a fundamentally moral problem. I think to-day economic analysis can show that to clear the slums by public finance might lead to certain difficulties. If the people of this country understand these economic difficulties and really want slums to be cleared they can then decide that the slums must be cleared by a special method, and instead of the Government having to raise the money at the economic rate of, shall we say, 4 per cent., let the public show its really moral belief in the urgency of the problem by putting up the money at the uneconomic rate of 2 per cent.—

understanding that this moral problem of slum clearance, after the economic analysis has been made, demands a sacrifice from the people who feel strongly that slums must be cleared. Now that is really what I mean when I say that economics cannot answer your problems. It will help you to measure the difficulties and decide how big an effort you are going to make to get over the difficulties.

K.-H. : To sum up what you have said, I feel that economics and economists, whilst telling men how they should get their bread, do not, and never have pretended to, deny the truth of the fact that man does not live by bread alone.

HALL : Yes I cordially agree with that, but think the present situation is even more dangerous than that remark of yours suggests. The present danger is that people think of the economic system as a sort of magician that can do all sorts of things for them and be blamed when it doesn't work right. Get them to understand that their will and their wishes are the mainspring of the whole system, and also to realize what can and cannot be done by the system, and then you will have less false hopes and bitter disappointments.

K.-H. : Well, time's up. Good-bye, Hall, and thank you very much for answering my questions.

## RETROSPECT

### SUPPLEMENTARY DISCUSSION [NOT BROADCAST]

K.-H. : I heard from the Publisher this morning, Hall, that this book of ours is going to press next week, and I suggest that it might add to such value as it may possess if we could include in it some remarks upon the developments which have taken place in the economic situation during the month which has elapsed since we concluded our discussions at the microphone.

HALL : Well, a good deal has happened since then. The Conference went into vacation yesterday. There have been the currency pronouncement by the Empire delegation; the collapse of the speculative market on the New York Stock Exchange; Mr. Roosevelt's new military orders to encourage people to get back to work—which of these do you want to talk about?

K.-H. : Let me take that last point you mentioned, first. These encouragements on the part of President Roosevelt to get people back to work—are they not being accompanied by legislation strictly limiting the time they are to work? To put my question in a general form, do you think Roosevelt is going to get away with it or not?

HALL: For a start let us distinguish between the economic and the legal position. He is really up against this. The things he wants to do, such as minimum wage legislation, reduction of hours, and so on, are not supposed to be permitted by American constitution.

K.-H.: Even after all the powers he has had from Congress?

HALL: No, not even then. Congress has no power to alter the fundamental principle of the constitution, that a man cannot be deprived of his property except by due process of law. That is by being charged with and convicted of some crime. It has been held that minimum wage legislation is "unconstitutional", because the lawyers say it deprives a man of his right to spend his money as he pleases. Nobody has yet brought a case before the Supreme Court to judge whether the national economic reconstruction legislation is unconstitutional or not, but the fear that someone might do so limits Roosevelt's freedom of action very considerably. He has got, in fact, to try and persuade people voluntarily to agree to his codes. He is trying to do that by getting public opinion on his side, so that people who do not pay high enough wages or work too long hours will be boycotted. That is what all his enrolling people as generals, colonels . . .

K.-H.: In fact, all the ballyhoo . . .

HALL : . . . exactly, is about.

K.-H. : That's all right, but what I want to know is will he get away with it ?

HALL : Well, frankly, King-Hall, I am not a psychologist, but I am inclined to think that Roosevelt will get away with it.

K.-H. : Which part of "it" ? The psychological or economic, or both ?

HALL : The psychological, which for the last year has been America's biggest economical problem. I don't think his codes will be adopted in detail, but he will persuade enough people to begin production again to get the wheels of industry turning in America. He is most likely to be successful, I think, in his Farm Relief Bill, by getting mortgages reduced. I don't think he will be able to get very far with his attempt to reduce the hours of employment. But if he helps the farmers by reducing mortgages and getting agricultural prices up, that alone ought to do a good deal to help America internally.

K.-H. : Can I summarize your view as follows : that you believe that there is a fair possibility of Roosevelt being able to relieve the internal American situation by persuading creditors to let debtors off part of their obligations ?

HALL : I think that's really what it amounts to, but the President won't succeed in his ballyhoo if he puts it as bluntly as that !

K.-H. : No, no ! Of course I was speaking to you, not to a small-town banker in the Middle West ! All right then, let us assume that through a general writing-down of obligations the American internal position is improving. What effect will this have on the international situation ?

HALL : That's very difficult to forecast at this particular moment. The recent collapse on the New York Stock Exchange and commodity markets seems to have put an end to Roosevelt's attempt to raise prices by threatening to use direct inflation. I don't myself think he will carry inflation of that sort very much further. The result should be some appreciation of the dollar so that it stabilizes round about 4.30 in the late autumn, and, of course, once the dollar does settle down the whole international monetary situation will be easier.

K.-H. : One moment—surely the figure you have just quoted will not suit our book, will it ? It sounds too high to me. Assuming our price level remains stable, would not a dollar of that value give a great advantage to America over our exports in the world market ?

HALL : I don't think so. I am allowing in that figure for some increase in American costs, as the result of higher wages and a shorter working week. It is impossible to say exactly what effect the rise in prices of primary products and other increases in American prices will have. It looks as though

we shall have to give up hoping for a \$ 4 pound, and accept one rather higher, round about the figure I guessed at just now.

K.-H. : Since we are on this monetary question—which was the hurdle which brought the World Economic Conference to the ground? What is your opinion about the pronouncement made by the British and Dominion Governments (less Ireland) on Thursday, July 27th, from which—so far as I could make out—it now appears to be the policy of the British Government to invite any nation, which is feeling a bit lost in the present confused state of affairs, to link its financial fortunes up with the pound sterling.

HALL : Come, come—I think that's going a bit far, isn't it? The declaration said that "the ultimate aim of monetary policy, as soon as prices had been raised to a stable level, should be the restoration of a satisfactory international gold standard—the standard to be operated with a view to avoiding, so far as may be found practicable . . ."

K.-H. : That's a good one!

HALL : ". . . undue fluctuations in the purchasing power of gold." Did you notice that a leading Swedish newspaper, on the same day, said that other countries might be willing to come into a sort of sterling area agreement, but they could not do so until the British Government had enunciated a policy for sterling?

K.-H. : It is rather improper of me, Hall, to take this opportunity to advertise one of my own works—however, it is now out of print, so I venture to remind you that in a pamphlet I published eighteen months ago, I suggested to H.M. Government that they should immediately convene a conference of possible users of sterling, and propound such a policy. Do you not think that what the writer of the Swedish paper had in mind may have been some observations which Mr. Runciman made on the subject of public works—observations which, although qualified in various ways afterwards in the House of Commons, certainly left on my mind, and I imagine on those of the foreigners, the impression that the British Government is not in favour of using capital expenditure on public works as a means of raising prices ?

HALL : That's a very big point, and I think our "no" to public works was as decisive in the wreck of the Conference as President Roosevelt's "no" to stabilizing the dollar. A number of the countries that might publicly and officially stabilize their currencies in terms of sterling do not want to do so because they want to try public works. It is interesting to notice that a number of these countries—particularly Sweden, for example—were neutrals in the World War.

K.-H. : Just explain why you think that point is important.



HALL : It is important for this reason : it means that the technical financial position of those governments is very different from that of Great Britain. We did our public works during the War, making very expensive holes in Flanders and elsewhere with high-explosive shells. The result is we have got a very heavy budget debt charge which some of those neutral countries have not got. I think it time enough for Great Britain to talk about raising price levels by public works when these neutral countries have incurred an internal debt in proportion to that carried by Britain.

K.-H. : I appreciate the force of that argument, to which, in fact—although I am not quite on your side in this matter—I would add that we have also undertaken many public works such as large-scale road construction, during the post-war years ; but it is very difficult to persuade the man in the street—with whom I think I class myself in this matter—that one is doing something stupid by putting an unemployed man, who is at present drawing money on the dole, to the job—say—of building a very large public swimming bath on the outskirts of some great city.

HALL : That sounds very pretty, provided the man on the dole, out of his dole, can pay for the bricks and other materials needed to do the work. If he can't do that, there is a big capital burden placed on the Government. The heart of this

matter is really financial. Let me give you a few salient figures. It is argued that if we spent, say, £300 million on capital account, we might take a large number of men off the unemployment register, and the cost would be, at four per cent., £12 million a year. From this sum should be deducted the present charge on the Exchequer for unemployment pay to these men. But, unfortunately, the charge on the Exchequer would be much higher than this; if the Government carried out capital expenditure of £300 million, there would be no doubt whatever that the short money rates in the London market would rise from their present level of below one per cent. probably, I think, in about a year, to about four per cent. At the present moment our Floating Debt is £900 million. We can take £400 million off this as representing the exchange equalization account, and one or two other things. That leaves us with £500 million effective debt already incurred. Well, while the short money rates are below one per cent. per annum, this costs the Exchequer each year less than £5 million. If we raised short money rates to four per cent. a year, the Floating Debt would cost the Exchequer, at four per cent., £20 million a year, which means an extra £15 million a year on the budget in addition to the £12 million cost of new loan.

K.-H.: But surely the argument runs that, partly due to the actual expenditure on raw materials,

and partly due to the psychological value of giving industry a kick, the revenue would be more buoyant ?

HALL : That's a very important point. My own view is that the buoyancy of our revenue, even given industrial recovery, will be much less than some of the experts predict. Our principal source of raising revenue is Income Tax. For social reasons we have got a very finely graded income tax, so that incomes below £300 a year pay practically nothing, and very large sums come from the big income tax-payers. This is all very nice from the point of view of social justice, but it makes the total yield of income tax very inelastic. I think that in our present income tax system we should not count on any very large increase in the yield, as unemployment declines and trade recovery comes along. Certainly the Government could not expect to get back in income tax any substantial part of the capital spent on public works.

K.-H. : Of course that argument has been put up before, even when income tax was only sixpence in the pound. I don't want to take up a strong political point of view in this discussion, but I must say that during this year of alleged depression, I have not noticed any heartrending signs of hardship on the part of the substantial income tax-paying class, amongst whom I might almost include myself.

HALL: Oh, don't misunderstand me, King-Hall! I was not suggesting that it was wrong to tax the rich people heavily; my point was that the income tax as a possible means of raising revenue, is not so complex and elaborate that its elasticity as a revenue producer has been substantially impaired. By elasticity, I mean that relatively big changes in the rates are necessary to bring about big changes in yield, and that if recovery comes by relieving unemployment and the man with an income below £300 a year, the revenue will get very little additional money in income tax.

K.-H.: To jump from the particular to the general, I am sure that the ordinary person in this country feels that if there really is a depression, and if the situation is really serious, then something ought to be done about it, and that it is all damn nonsense when he opens his paper and reads that on July 27th, 1933, thousands of cases of oranges have been thrown into the sea as it would be a loss to land them. He becomes thoroughly impatient with economists and others who are able to give him a perfectly sound economic reason why these oranges have fallen into the sea, instead of into the stomachs of poor children. And similarly with this unemployment business. He feels that it is all nonsense that men, willing to work, should have to be kept alive at the tax-payer's expense, when there are slums to be pulled down, and when,

to quote one example which has just come into my mind, every time we have a wet winter, hundreds of people in the Don Valley are flooded out of their homes. The ordinary chap feels that if there are sound economic reasons for doing nothing, then we had better forget economics and talk politics.

HALL: I don't think there are sound economic reasons for doing nothing. But the dumping of your oranges into the sea, and a proper Don Valley drainage scheme, are both largely administrative questions. The picturesque scene of dumping oranges into the sea would not have happened, and the emotions of yourself and the man in the street would not have been aroused, if the orange exporters were in touch with the marketers of oranges in this country. In the same way, your Don Valley drainage scheme was held up more because of administrative difficulties connected with regulations of local government, and the legal positions of riparian owners than by the strict economics of the problem. It is possible, for example, with regard to the Don Valley, that with proper town and rural planning, it would be found that the economic way of tackling the problem of flooding would be to move all the houses on to more suitable sites instead of draining the land. All sorts of detailed calculations of relative costs would have to be made, but at the moment there simply is not the machinery to do this. Too many different "authorities" are

responsible. Economics cannot give a final decision either to your drainage or to your oranges problems. Administrative and practical details are the decisive factors in both cases.

K.-H. : Do I understand from that answer that you are in favour, then, of some form of planning which would need political force behind it, in order to create conditions in which various schemes will become economically possible ?

HALL : Yes, I am in favour of what you call planning, if by that you mean give economic forces a chance to work, instead of putting all sorts of obstacles in their way.

K.-H. : Well then, I am certainly not in favour of your type of planning, because surely if your remark were carried to its logical conclusion it would mean that if a man could not find work he must go bankrupt or he must starve.

HALL : Not a bit.

K.-H. : Why ? He isn't producing anything.

HALL : There is no permanent economic law which says that a man who is not producing must starve. If you examine the economics of the thing carefully I think you will find it is probable that as economic efficiency increases, a very much larger number of people will be able to gain a reasonable livelihood without doing what you call "producing anything". If, after examining the problem, you found that efficiently organized industry and

commerce in this country could provide an adequate standard of living for the people by employing only those between 17 and 55, then my planning would develop the employment policy necessary to make this possible. It would also include carefully administered provision for the training of people up to 17, and the provision of adequate leisure for those over 55.

K.-H. : And I hope some education for those under 17 as to how to use this leisure which they are to get when they are 55.

HALL : Yes. I kept off the word " education " and used the word " training " because I wanted to include all those sorts of things in it.

K.-H. : Then I agree with you.

HALL : By the way, I am not laying it down as an economic fact that we could produce all we wanted by employing those between 17 and 55. My point is that if it can be shown that such is the case, then planning involves the devising of the necessary social machinery to make it practicable to adopt an employment policy restricted to those in this age group.

K.-H. : Now one more question, Hall, to wind up this supplementary discussion. Give me your frank opinion—is the outlook for the economic situation, so far as the ordinary person in this country is concerned, serious—or is it not? Before you answer that question let me just explain why I ask it.

We read the Prime Minister's speech at the opening of the World Economic Conference; we listen to his speech at the end of the World Economic Conference: we are told at the beginning of the World Economic Conference that humanity is face to face with a great crisis, and we read at the end of the World Economic Conference that the Russian delegate, who agrees in this matter with Mr. Lloyd George, is of the opinion that the Conference has done precisely nothing, and I am bound to say most of the other delegates seem to agree with this version. At the same time, we are told in the House of Commons by the Parliamentary Secretary to the Board of Trade that there are definite signs of recovery in this country. A few days later the Postmaster General says that the Post Office statistics tell the same story. There are guarded references to the same effect from directors of big companies. Both things cannot be true. Either there is a recovery now well under weigh, in which case it seems common sense to leave the thing to develop on its own—incidentally, I believe this is really the policy of the British Government—or else we are on the edge of the Valley of the Shadow of Death, and if that is true we ought to do something, and do something drastic.

Now then, you take a deep breath and say a bit.

HALL: You may remember early on in our talks at the microphone, I said that I felt there were



signs of general recovery, and that the restoration of what I rather loosely called "confidence" was the vital thing? I also stressed the difference, you will remember, between *fear of inflation*, leading to a rise in prices by speculation, (such as that which took place in the United States in June this year), and a *restoration of confidence*, which takes the form of a five-year slum clearing scheme, or the building of new factories, and the setting-up of new plant for carrying out new industrial processes, such as conversion of coal into oil. I also took the view that the world needs confidence, rather than fear, if it is to get out of depression. I do not think that the suspension of the World Economic Conference has destroyed the recovery that was beginning before it met. It is true that if the exchanges could have been stabilized, and if definite and explicit policies with regard to the orderly reduction of tariffs, or the winding-up of subsidies could have been reached, recovery in my sense of the word, might have been accelerated. But on the other hand the Conference might have done a number of dreadful things. Take the Economic Commission, for example, Mr. Runciman, on 26th July, stressed the point that the Economic Commission had studied seriously the problem of relating production and consumption, and that it had been found impossible to make detailed agreements controlling the output of particular com-

modities until the two had been linked together. It sounds like mere words : a platitude with an attitude. But our economic life since the war has been so crude that an elementary but essential point of this sort has been ignored. Compare Mr. Runciman's statement to the Conference, with the mad schemes that were operating before the Depression began, to hold up the prices of such important raw materials as rubber, coffee, cotton, and wheat. These "valorization" schemes of 1927-29 contributed largely to the crisis, because they made no attempt to link up production and marketing. They were simply colossal gambles which encouraged excessive production. The World Economic Conference has at least avoided setting up bigger and better valorization schemes on an international scale. That looks to me like a first step along the road to economic sanity.

Let us switch over to the Monetary Commission. You remember our talk on silver. On that matter the Conference seems to have avoided the danger of taking a step backward by arousing all the emotions connected with bi-metallism. They have got a rather clumsy scheme for linking up production policy in the silver-mining countries with the sales policy of those countries, particularly India, which have big reserves of the metal to dispose of. That is sensible and reasonable, and will be of considerable help in making trade with the East more stable, for

as long as the agreement holds. It is, incidentally, a big score for the Government of India, which seems to have persuaded the governments of the silver-mining countries to buy large quantities of silver from their own mines to hold up the prices during the period in which the Indian Government is getting rid of part of its excessive reserves.

Now, to come back to your question as to whether the outlook for the economic situation, so far as the ordinary person in this country is concerned, is or is not serious. It is impossible to answer that question by "yes" or "no". The economic outlook depends pretty largely upon political and emotional factors. Let me say that if we get any major disturbances such as another European War, or a worsening of the political situation in Germany, for example, there seems to be every likelihood of fairly steady improvement in the general economic situation of this country over the next five years. The ordinary person should be able to go on with his every-day affairs with steady confidence. I don't think he ought to pay too much attention to the speeches of politicians on important occasions. It is true that if certain things could be done, such as stabilizing exchanges and reduction of tariffs, recovery might be a little more rapid, but a rapid recovery is more difficult to manage than a slow and steady one. Your politician must pitch his tone too high when he is making public speeches, in order to

have something to bargain with when he is inside the Conference room. And the human being is a pretty resilient animal. He tends to do his best to get over his difficulties, and in doing so he leaves the politician behind him.

K.-H. : Viewing the whole economic situation in as an objective manner as I can ; looking at our present difficulties in the light of the developments of the past three or four centuries, I've reached the conclusion that there are very definite limits to the extent to which any given generation of men can either send their economic system to the devil or lift it up into heaven. This complex collection of so-called economic forces, which are nothing more than the outward expression of man's hopes and fears and desires, can only change for better or worse as man changes his attitude towards the problems of life on this earth. His feelings about such things as property ; his acquisitive instincts ; his fear of his neighbour ; these are emotions deep-rooted in centuries of time. He has to-day reached a stage when technically he could operate an economic system founded on a different spiritual basis to that upon which his traditional system has been established, but his time on earth is very short, and almost as soon as one generation have learnt a little, often by painful experiences in wars and crisis, the moment arrives when the next generation forces its way into authority. We must for ever be

starting afresh, not quite from the beginning, but from far further back than would be the case if three hundred years was the normal span of life. The economic system is a deathless affair which has to be operated by a succession of short-lived mortals. We sadly need a continuous device of executive action based on the *whole* of the past experience of man. As it is, the chain of knowledge derived from experience is perpetually broken by death, and the most we can do is to appeal to our historians to weave some half-truths into the gaps.

HALL: What is your conclusion from this diagnosis?

K.-H.: That in the words of Psalm 119: "The Lord is King, be the people never so impatient: He sitteth between the cherubims, be the earth never so unquiet." There is only one sound line of progress and that is back to the fundamental principles of Christianity. The New Testament is the text book on Economics to whose teachings we should do something more than pay lip service.

HALL: There I entirely agree with you. The most frequent cause of breakdown in the economic system is fear. Wars, tariffs, currency manipulation, and all the other obstacles to human welfare, are ultimately based on fear. As I understand it, the New Testament gives the only practical policy for getting rid of fear, personal, national, and international. The economic system in particular

cannot work in a period of fear, panic, and suspicion. That is the real reason why economic matters have attracted so much attention since the war. Christianity claims that true love can cast out fear. In the economic sphere that means that if we trust our fellow men and fellow nations, we will find that our differences are a great source of economic strength and well-being. Without Christianity, we shall continue to lose our chances, and make only a second best out of our opportunities.

## AUTHOR'S NOTE

The following analysis of the correspondence received in connection with the broadcast talks was prepared by Mr. A. T. K. Grant. We decided that as we might be somewhat prejudiced examiners in this matter, it would be more satisfactory to invite a competent jurymen to give us his impressions of this correspondence. Mr. Grant is a member of the staff of the Study Groups Department of the Royal Institute of International Affairs, in which capacity he is engaged in research work into international economic problems.

S. K.-H.

N. F. H.

## WHAT THE LISTENERS THOUGHT: A SUMMING-UP

GIVEN the circumstances, it was inevitable that in the weeks preceding the World Conference a series of discussions on economic problems of the day should be productive of a great deal of correspondence. Given the further fact that, in the "Economist in the Witness Box" series, the two protagonists had specifically asked for questions and comments from the general body of listeners, it was only to be expected that the flow of query and criticism should reach alarming proportions. The present note is an attempt to describe some of the more significant or more representative views or difficulties of these correspondents, and to suggest certain conclusions which emerge from the reading of several hundreds of letters and several thousands (for the letters which ask only one or two questions are few and far between) of questions.

### I

Before attempting to describe the ground which the writers of letters wanted Commander King-Hall



and Mr. N. F. Hall to cover, it may be well to begin with some general impressions. The letters were of every sort; there is no ground for suggesting that these talks appealed to one type of listener as against another. Some were obviously dictated by a business man to his secretary; others were equally obviously traced out with difficulty by hands unused to putting pen—and sometimes pencil—to paper. Every type of letter-writer between the two extremes was fully represented. It is difficult to believe that an expert in judging people from their handwriting would have found any general characteristic common to the greater proportion of the writers. Such was the diversity which these letters suggested.

This diversity showed itself not only in the manner, but also in the matter of the letters themselves. Some writers were genuinely puzzled, and wanted an explanation of this or that aspect of the complex economic working of modern society. Others felt only too strongly the shortcomings of our society and were anxious to put forward—often with a wealth of detail and argument—plans for its reform and reconstruction. Many were disillusioned by experience, and were obviously more anxious to catch out the “Economist” than to acquire information. One or two had a particular grievance—sometimes a grievance with no bearing on economics. For a large proportion of those

sending letters it was the economic system, and those responsible for it, who were on trial, and they were anxious to egg on Commander King-Hall as prosecuting counsel. From their standpoint, Mr. Hall as an "Economist", should have been not in the Witness Box but in the Dock.<sup>1</sup>

In spite of the diversity of the letters as a whole, in some respects a general verdict is possible. The standard of intelligence which they represent is definitely high. Writer after writer is arguing, and arguing on reasoned lines, from his or her own experience. The questions are thought out, and the suggestions, however inadequate, have a bearing on the problem. But, if the standard of intelligence is high, the quality of the intellectual enterprise shown by correspondents is surprisingly low. A few obvious exceptions apart, hardly a single writer appears to have tried to read a book on Economics (or to have succeeded in reading one to any purpose). If these letters can be taken as a fair sample of what listeners think, listeners look to economics as dealing merely with the bread-and-butter question; and the bread-and-butter question is formulated either in terms of personal experience or of the daily newspaper. Of objective interest in how the economic world goes round, there is practically

<sup>1</sup> Thus one ardent critic: "All these 'Economists' or 'Professors of Economics'—as they seem to dub themselves—are hopeless! You cannot nail them down to anything; they sail off in a sea of words just as a cuttle-fish ejects an obscure fog of fluid (or gas!) when cornered."

none. The interest in economics seems to be born of the depression and of the more spectacular of recent happenings accompanying it. The desire for knowledge has been awakened, but so far it is largely the desire to know "what's gone wrong". For the educationalist the problem must be to turn this rather morbid interest in economics (a neurotic's interest in his own diseases) into a healthier understanding of economic processes.

How little the writers of the letters had read, showed itself in the typical queries: why are we so poor when technically our progress has been so rapid? Why need starvation and unemployment exist side by side? These are obvious and sensible questions, but they do not start from an understanding of the workings of a specialised world dependent on exchange for its welfare. In the world to-day, surely, the surprising fact is as follows: We have millions of people consuming a whole range of goods and services, each of whom helps to produce perhaps only one type of goods or services. How do we ensure that each person produces the things the world in general wants, so that the range of its supplies is proportioned to the range of its wants? In short, how is harmony maintained in a specialized world?

The reading of any competent introduction to economics, and the understanding of some elementary aspects of the price system would have given to a

large number of questions a greater relevance and a greater thrust. Even the most determined opponent of the existing economic system must admit that it is a remarkable thing that we do tend to produce food or amusements approximately in the proportion that we want them—and do not all become farmers or film actors at once. And once he admits this, that there is a tendency at work which prevents us all becoming the one or the other, he must at least allow the desirability of examining this tendency and approaching the whole problem in its light. Yet any understanding of the price system and the part it plays in the world—of its merits or its demerits—was conspicuously absent from the bulk of the correspondence. It may be rather pedantic to point to this; but it is evidence of the fact that, for a large *and intelligent* body of listeners, even the most elementary propositions of economics are a closed book.

## II

The central position around which the greater number of queries are grouped is a natural and obvious one. The world is not hampered by lack of technical knowledge to produce. There are millions of unemployed anxious to work. There are millions in want, and ready to consume. People

have money which they are willing to invest in productive processes. But instead of these factors being brought together, goods are being thrown—as in the case of coffee—into the sea. Is there anything but madness in this; is it a sign that the whole system is breaking down? Anger, despair, reproaches, suggestions, all follow one another. Can nothing be done to bring together unemployed producers, unsatisfied consumers, in active capital? is the burthen of query after query. “Why is it that the shops are crammed full with the necessities of life and the mass of workers are unable to buy them?” asks one correspondent; and another, “What remedy can be proposed for bridging the gulf between the world’s capacity for production and the world’s capacity for consumption?” “Is it possible to have over-production in any single article which is vital to human comforts?” These questions are representative of a multitude.

Many felt that the remedies must lie largely in the monetary sphere. A few were sympathizers with particular schools of thought; admirers quoted Dr. Eisler, J. A. Hobson, Arthur Kitson, Lord Melchett, A. de V. Leigh and Major Douglas. Only the last-named appeared to have any substantial following. “What are the objections of the ordinary economist to the Douglas Social Credit System?” is asked, though with differing emphasis, several times, but on the whole the followers of specific

schools of thought are few ; the generalization made earlier on in this paper, that listeners did not seem to read economic text-books, would seem to hold good of unorthodox writers as well. "What steps should be taken to obtain steady purchasing power ?" is a more typical query than the one about Major Douglas. Listeners maintain their preference for experience, as opposed to schools of thought.

A question which many readers found very perplexing was that of the need for higher prices as a prelude to revival. "Experts are unanimous in saying that before a world economic revival can take place, prices must rise. I accept that, though I don't understand why." "In what way can it be said that a return to prosperity can only be achieved through a rise in the price level ?" Or again, "What is controlled inflation ?" A large number of critics were doubtful of the effect on retailed prices. "I can understand that if prices rise, unemployment will diminish and my income-tax will go down, but that hardly seems enough to balance my increased cost of living." "How can wholesale prices be raised without producing similar results in the retail ?" "Of course, I know the theory is that the rise should be only in wholesale prices and should have no effect on retail prices. Who, but a Cabinet Minister, would have such faith in the retail trader ? You may have heard a Wireless Appeal a week or so ago in aid of the Deep

Sea Fishermen. We were told harrowing tales of the terrible risks they ran in order to give us fish, and then were forced to sell it at 2d. per lb. In yesterday's paper the wholesale price was less than 1½d. per lb. and several tons were left unsold. My fishmonger tells me he buys direct from the catchers, yet his prices are : Turbot, 2s. 6d. per lb., Halibut, 2s. 3d. per lb., Plaice, 1s. 4d. per lb., Dover Sole, 1s. 11d. per lb., Cod, 1s. 4d. per lb., Cod's roe, 1s. 2d. per lb., Haddock, 1s. 1d. per lb., Herrings, 2½d. each." And later on the same writer goes on to point out that, though the wholesale prices of meat and fish have fallen in some cases by more than half, "I am still paying the same price that I have done for the last ten years". Specific instances of the unjustified spread between wholesale and retail prices are given by correspondent after correspondent. One method of bettering things, concludes a writer whose view is representative of many, "would be the lowering of retail prices of nearly everything, and it should be done by order of the Government". Equally vigorous are the complaints against high rents.

An interesting question, illustrating the difficulties of several, is that of a correspondent who asks, "Suppose that the price of a primary product (say wheat) can be raised somehow, so that it becomes a paying proposition, would not the result be a large and rapid increase in supply (thanks to modern

machinery) which would bring down prices again ? ” Here, of course, lies the confusion between the idea of raising all prices at once, and that of artificially raising the price of one particular product while leaving other prices where they are. Everything hangs on the relative profitability of producing wheat and other things. The point is worth mentioning, as confusions of this sort were to be seen in several letters.

It was only to be expected that the interest in things monetary should be large. While some argued in a general way that real wealth was not gold, but “ capacity to produce and deliver goods ”, and wanted a “ currency based upon production ”, others paid attention to more specific and detailed problems. The question of credit creation aroused controversy of the acutest sort. On the one side comes the criticism “ I make no comment on the discussion last Monday, except that the Economist made one statement which he must not be allowed to get away with. ‘ The banks,’ he said, ‘ lend other people’s money.’ Now that is just what the banks like us to believe, but it is not true. It shows in fact a grotesque ignorance (of which I can hardly believe Hall is really capable) not only of current thought on the subject of finance, but of a position taken up by the bankers themselves. (See especially McKenna’s Speeches on Post-War Banking Policy). My reason for troubling you with this letter is that



I think your series of talks will yield no result of any value whatsoever, unless they focus attention on the power possessed and exercised by the banks (including, of course, the Central Banks) of creating and destroying deposits. A large and growing body of opinion is convinced that in the creation and destruction of credit by the banks is the key to our economic maladjustments. To hear an economist (though I think little of them!) repeating the hoary fallacy that the banks are merely the custodians of their depositors' money makes me want to break my receiving set." The opposite point of view is stated equally vigorously. "If I understood you correctly, you implied that banks were not doing as much as they might, or should, to help industry. Now I spent forty-one years of my life in a bank in Lombard Street, seventeen of the later years in the Loan Department, and in charge of the Loan Securities. In all that time I do not remember our house turning down a temporary loan for genuine business requirements. You must realize that the funds of a bank must be kept liquid, and long-term loans may not be made, but very exceptionally. Your opponent, Mr. Hall, was very kind to you, for he might have reminded you that the funds held by banks are not their own, but are entrusted to them by their public, for *safe custody* and the public are entitled to withdraw their money, when required."

On the whole these letters illustrate very fairly the strong terms in which the discussion of credit was conducted. But the subject is not really complicated. If I have a shop, I offer goods for sale; I may not sell any; it may be because my prices are too high, but in that case I should be blamed for keeping my prices too high and not for failing to sell goods. After all, the banks "create credit" in the sense that they offer credit facilities, but in the process they are not supposed to contract losses, and if they think they can lend profitably, they are only too anxious to do so. If industry is to be subsidized, the responsibility must rest with the State, which governs the legal and social framework in which the banking system does its work.

If general criticism of the banks as credit monopolists cuts little ice, specific criticisms are much more to the point. One writer raises the question of the fall in security values reducing the value of collateral and so diminishing possibilities of borrowing—an extremely interesting question which certainly deserves a full investigation. Others pertinently discuss the rate on bank advances. "Why do the banks charge 5 per cent. on overdrafts whilst, 'owing to the super-abundance of money for which it is difficult to find profitable use', interest on deposits has been reduced to  $1\frac{1}{2}$  per cent.?" is a question reflected in many letters, one of which even shows how, by going outside the 'Big Five', over-

draft facilities can be secured on much more favourable terms. Another writer, more interested in the general aspect of the question, asks "Why is it that there seems to be so little connection between the bank rate and the current lending rate of the banks? Is the bank rate something concrete, or is it a purely theoretical figure; if the latter, what is its significance and how is it arrived at?"

The working of monetary systems, whether of national banking systems or of an international gold standard, required a good deal of explanation, and the scope of the many points which different correspondents wanted explained cannot be indicated here. "If all the gold in the world were to suddenly vanish, would the people perish, or would they just get together and select something else to take its place, with appropriate conventions, and then go on very much the same as before?" asks one critic; and another, "Possessing most of the world's gold, why is it that America is so poverty-stricken and is calling for more gold from her own people, whereas Britain with only a fraction of her gold is not so stricken?"

The paradoxical results of exchange fluctuation give rise to experiences such as the following. "I recently transferred a sum of money from South Africa and I found that a hundred pounds in Africa became £150 over here. I have had the reasons explained to me, though I don't pretend fully to

understand them, but my question is not as to reasons or causes. It is : out of whose pocket does the £50 profit to me come" ? (The answer would seem to be : The unfortunates in South Africa who get money from England, but that has been put right since South Africa went off the Gold Standard.) The Exchange Equalization Fund also raises difficulties. One writer asks " Why form an Equalization Fund of £150 million in 1932 to keep down the price of sterling, when in 1931 we were borrowing £100 million from France and America to keep sterling up ? " Another question is " As I understand it, the Bank's legal buying and selling price for gold is 77s. 10½d. (or is it 84s.) whereas the world's price is about 120s. sterling. I should very much like to know exactly how the Bank pays for all the gold it has acquired lately ? " (The Exchange Equalization Fund provides the answer.)

As far as measures of reform went, one correspondent suggested that all the gold supplies of the world should be put in an " International Gold Bank " which would act as a World Central Bank. Another is for pegging the exchanges, and not using gold at all. " The fact is that exchange rates have never been completely stabilized on gold, though they have been and can easily be absolutely stabilized on paper. The only time in history that the dollar sterling rate was stabilized was during the War when no gold changed ownership."

What part can the Government play in preparing the way for revival? is a natural approach. "Mr. Chamberlain knows that the only lender who can possibly advance money without the usual type of collateral security is the State, and for this reason alone it is necessary for the Government to take over the onus of putting all idle money into circulation. The first essential is to get that money which is unemployed to the assistance of those persons who are unemployed, to their mutual benefit, and this can only be done under the present scheme of things by the Government borrowing unemployed money and arranging for it to be spent in non-productive work." Why the work need necessarily be unproductive is not quite clear; there are many suggestions among other letters for work of a productive character. House building is one form of Government enterprise which several writers would like to see developed.—"Something that will be a national asset, viz., the clearance of slums, the building of healthy homes, and the modernizing of the railways". "Why are we not increasing national wealth by reclaiming land from the Wash? The Lincolnshire land is the best in England. And why do we allow the land springs to push scores of acres of good land into the sea along the Norfolk coast for want of drainage culverts?" "There are, quite near to where I am writing (in Lancashire), two or three miles of unfinished new main roads.

A lot of money has been spent, but now all the gear has been taken away, the men dismissed, and the land is unavailable for its original use—farming: while extra expense will have to be incurred in restarting the work. Meanwhile the workers are being supported during their workless period by those who have been lucky enough to keep their job.” “The Goldhawk Road, Shepherds Bush, is in dire need of relaying.”

The idea of an unbalanced budget also finds favour. “Why be afraid of not balancing the budget (on paper) because of reducing income tax, when such a reduction would tend to increase both profits and income tax return?” Another suggestion dealing with a different aspect of Government action is to be found in the question, “Would you be in favour of a clause being applied to all fixed interest bearing securities, varying the rate of interest with the price-level, to obviate injustices which arise through movements in the price-level?”

The consideration of wages and hours reveal differences of opinion based on the experience or instinct of various listeners. “I am a farmer,” one correspondent explains, “normally employing two men. Farm products have fallen to pre-War and lower level, while wages remain double. . . . To avoid a lowering of returns the total quantity of work must remain constant. I have to do the work of the dismissed man as well as my own.

Briefly, the retained man gets the wages of the dismissed man while I do his work." Another correspondent asks: "Does not the rate of wages paid for labour affect the amount of labour which will find employment? If so, should not the basis of wages be the rate at which the supply of and demand for labour will be equated? Is not the failure to observe this principle one of the causes of the present amount of unemployment?" The writer of these questions seemed to forget, with his static assumption, that the cutting down of wages in itself affects the demand for labour, in so far as it slows down the money being expended on goods and services by those in receipt of wages.

The opposite point of view is shown in the demand for shorter hours. "It seems obvious to me that there is one way, and one way only, to cure the world's unemployment, and through this the depression. I refer to shortening the working hours, or days, of the working man. This question is gradually assuming greater prominence, though I have stated to friends before the depression proper was upon us that working hours must gradually tend to be shortened to avoid chaos." Another critic very pertinently asks: "Why did Great Britain vote against a 40-week at Geneva? And why did only two other States, out of 34 at the Conference, side with her?"

The subject of tariffs aroused a good deal of

vigorous controversy. There were one or two questions of the less obvious sort. "There is an improvement in the trade balance of this country, according to figures recently published by the Board of Trade (including invisible items). In your opinion, how much of this is due to tariffs, and how much to the fact that we are off the gold standard and can undersell competitors who are still on that standard?" Another questioner discusses specialization in accordance with natural advantages. Do not tariffs rather work against the principle "That industries generally establish themselves at the most suitable and efficient places?" But most of the questions here cover familiar ground.

The feeling behind several of the letters was that the farmer was not having a square deal. "Why is it that farmers, engaged in absolutely the most important service to the community it is possible to imagine, are forced to dismiss workmen, reduce production and go without the better things of life, whilst the community as a whole is pushing the wireless licence figures up by leaps and bounds, buying cars and filling the cinemas night after night?" The following letter is perhaps worth quoting almost in full:

"I am an old farmer, now retired and looking out on a bit of country that is new to me.



As I had not seen one for some forty-five years I went three months ago to a 'meet', and I 'see a fine lady get on a white horse'. She came about twenty-five miles in a car with a man to drive it. The horse was waiting; it had come in a 'box' with a driver and a groom. The economics of this lady's day out is beyond me; I give it up.

"The little hillside I look out on is a little wilderness of whitethorn, blackthorn, rushes, blackberries and rough grass. The rent is low, but—well, I'm sorry for the farmer. This wilderness faces south, and this with the nature of its soil makes it an ideal spot for a fruit plantation. It should be cleaned, drained, manured and the little river along the bottom conditioned and straightened to prevent flooding. Pay? Oh yes, it would pay somebody sometime, but it would take twenty, perhaps five and twenty years to turn the corner. Now this wilderness, that is a potential paradise, is chiefly regarded as part of a huge playground for a lot of idle wastrels to gallop over once a week through the winter. Meanwhile we have three million unemployed. Has economics anything to say to all this, or is economics just cackle, no egg?"

No attempt to describe the ground covered would be complete without a brief comment on

one very curious feature : hardly any of the writers showed any pronounced political views whatsoever. After one of the broadcasts one listener felt that what he had heard was "propaganda on behalf of the Chancellor of the Exchequer", while another complains of the broadcasters' subservience to the "Socialists"; there were two or three letters in these strains, but they came to little and seemed fairly balanced on both sides. A few enquiring minds raised the possibility of combining the better features of both Capitalism and Socialism. "It is obvious that production is being curtailed and enterprise is not forthcoming because of a lack of confidence on the part of manufacturers and their bankers that sufficient goods will be sold to make a handsome profit. Do you not think that this proves conclusively that a system—the individualist system—that depends upon whether or not a profit can be made, is too precarious and does, in fact, sooner or later, reach a state of deadlock? On the other hand, a system such as that being tried out in Soviet Russia, that has more or less removed private incentive to gain may also reach a state of deadlock owing to the inefficiency and lack of enterprise of those engaged in industry. Do you think it possible to evolve a system that will combine the advantages both of private enterprise and of corporate organization?" But the approach, almost everywhere, was non-political. A lack of

interest in Socialism was combined with a pretty complete scepticism as to the Capitalist system as it works to-day. The general attitude—uncertain, doubting, but desperately wanting something to happen—is perhaps fairly summed up in the question: “If Robinson Crusoe were cast again on his island would it be advisable for him to build his house, grow his food, and make his clothing, or would it be better for him to wait till the whole world comes to a definite agreement as to economic conditions, hours of labour, armaments, standards of living, and a thousand other things?”

### III

The above is an attempt to describe roughly what listeners were thinking about as regards economics and economic problems of the day. It still remains to assess the value of the dialogue method that was employed and the way in which the ground was covered, and to add a few general observations on the spreading of economic knowledge to a wider public.

One critic attacked the “lay-out” of the series strongly. “To discuss at the *beginning* of a series of talks on economics such questions as money and finance is utterly absurd. These are topics that can only be properly appreciated by those

who possess some knowledge of plain economic teaching on the subjects of production and distribution." He suggests beginning with such questions as: What are the factors of production? What decides the relative shares of the products that are called rent, wages, interest? and other questions of this sort. This criticism seems to touch on certain aspects fundamental to the sort of work under discussion.

It must not be forgotten that *The Economist in the Witness Box* series was, in fact, trying to do three things at once:

- (1) To provide a background of general economic principles;
- (2) To provide a description of certain economic institutions (e.g., the gold standard); and
- (3) To explain the world economic situation as it is to-day, and the difficulties arising out of it.

While the speakers would have discussed either (1) or (2) without reference to (3), they could not discuss (3) in any way without reference to (1) and (2), and (3) was the subject of real interest. They could, it is true, have discussed (3) and assumed a knowledge of (1) and (2) on the part of the listeners, but that would have been quite unjustified. In fact, they had to try and explain what they could

of (1) and (2) as they went along. The criticism quoted above is unfair as applied to a series of ten or a dozen talks, but it does provide a valuable signpost which may be of help in the spreading of economic knowledge. It might be worth considering having a series of educational talks directed purely to explaining certain elementary economic principles—a series combined with suggestions for reading for preference, so that those who are really interested are able to follow up what they hear from the loud-speaker. It might be worth considering also, as an entirely separate series, talks on “economic institutions”—the Bank of England, the “Big Five”, the Stock Exchange, and so on, and their working. All these might be in addition to talks on current economic events; the point is that listeners who have followed the other series will be able to get all the more out of these topical talks. A proper appreciation of current economic happenings requires a fair amount of knowledge and understanding, and it is the majority of listeners who have taken the trouble to write in about this series have not had the opportunity of acquiring this knowledge. Unless they are given it, the tendency will still be either for listeners to fail to grasp what the argument really is, or for them to listen in the hope of hearing something that reassures them in their preconceived ideas. And this is definitely undesirable. Some “teaching” on

elementary economic principles and on economic institutions would help to prepare the way ; it may be that listeners are fundamentally lazy and would merely switch off, but personally I doubt whether there is any ground for reaching so pessimistic a conclusion.

Lastly, the dialogue method. There are plenty of dialogues dating from Victorian days, in which the Good Child asks its Mother various questions concerning man's doings and the universe, and receives reassuring answers explaining how all is for the best in the best of all possible worlds. This was not the intention behind the present discussions. Implicit in *The Economist in the Witness Box* series was the idea that Stephen King-Hall was the *spokesman of the public* (and not just himself, or the Good Child). It made it harder for Noel Hall, but the public's questions had to call the answers. There was no point in a put-up job to enable the Economist to work off what he wanted to say alone ; that would have been an entirely different series of talks. The economist, after all, was in the witness box, and not in his lecture room. It is not necessarily a fair criticism to say that had the questions been arranged differently the result might have been clearer. It is quite legitimate to hope that the B.B.C. will provide the Economist with a lecture-room instead of a witness stand on some other occasion ; it is not

legitimate to complain that the one is not the other.

My impression<sup>1</sup> is that the first two or three talks were a little disappointing, and that after that they improved enormously as the protagonists got used to the game, and that towards the end listeners were looking to this series as an exceptionally successful one. There are ample letters to support this view, though this is not the place in which to quote from the many letters of good wishes which were forwarded through the B.B.C. The possibilities of the dialogue method strikes me as being very great, just because it is able to express an outlook (e.g. that of the man-in-the-street), and not merely raise a series of questions. (Parenthetically, could we not have a cross-examination by a "plain man" of politicians, taking a Conservative, a Liberal, a Socialist, a Communist and a Fascist in turn, one talk devoted to each?).

To sum up : Listeners (meaning by "Listeners" those who chose to write in) are very interested, thanks to the crisis, in economic problems ; they have very little economic knowledge, and certainly not enough to enable them to understand economic problems with any exactness ; the problem of building up this "approach" to modern economic problems is a difficult one, in which the B.B.C. must play its part ; it is difficult just because the

<sup>1</sup> Shared, I understand, by the two protagonists themselves.

necessary "grammar" of economics is dull stuff, while the actual problems themselves are not. From the listeners' point of view, *The Economist in the Witness Box* seems to have been a very successful series of talks.

A. T. K. GRANT.



## SELECTED BIBLIOGRAPHY

## SELECTED BIBLIOGRAPHY

THE most difficult part of the business of studying contemporary economic problems is the selection of books. The selected bibliography which is given here does not pretend to be exclusive; it is hoped, however, that the brief notes which are given about the books which are mentioned may help the layman in carrying out for himself further study of economic problems.

### ECONOMIC THEORY

Economics has developed in the past two hundred years a technology and methodology of its own. Some acquaintance with theory is of the greatest possible value before any attempts are made to study a particular problem. Without it, the way in which a professional economist deals with special problems may be misleading, and probably irritating to the non-professional reader. It is, therefore, well worth while to spend some time at the beginning by reading as a whole, one or more books on Economic Principles. The reader should try to grasp the book as a whole, noticing

particularly the *method* by which the complex subject matter is split up into its component parts and the way in which the several parts relate together. Of this class of book, the most inclusive and brief is

MISS H. M. SCOTT. *The Approach to Economics*. (Christophers 2/6.)

PROFESSOR E. CANNAN. *Wealth*. (P. S. King 6/-)

views fewer topics, but goes deeper into general theoretical issues. Professor Cannan's approach to the subject is less technical and more humanistic.

If further time can be spared for a study of the methodology of Economics

Mr. J. N. KEYNES. *Scope and Method of Political Economy*. (Macmillan 8/6.)

or PROFESSOR L. ROBBINS. *Nature and Significance of Economic Science*. (Macmillan 7/6.)

are both of great value, and will do much to remove misapprehensions, and increase the command of the lay reader over the whole field of Economic Literature.

More advanced students of Economic Theory should find any of the following stimulating :

P. H. WICKSTEED. *The Common Sense of Political Economy*, Vol. I. (Routledge 8/6.)

G. CASSEL. *Theory of Social Economy*, Vol. I. (2 Vols. 42/-)

F. A. FETTER. *Economic Principles*. (The Century Co., New York 12/6.)

Once some acquaintance with general theory has been obtained, the way is prepared for studies

of special problems, particularly of Currency and Banking and foreign exchanges, which occupied a large part of this series of talks. Two separate subjects here need to be studied. *First*, the organization of Banking in London and elsewhere.

BAGEROT. *Lombard Street*. (John Murray 6/-.)

first published more than half a century ago, is still unequalled, and this read in conjunction with the report of the Macmillan Committee on Finance and Industry (H.M. Stationery Office, Cmd. 3897, 1931) should be sufficient for London.

PROFESSOR W. E. KEMMERER. *The A.B.C. of the Federal Reserve System*. (Princeton University Press, 12/6.)

gives an account of the objectives of the American banking reforms carried out in 1913, and enables the reader to get some idea of the difference in development and structure of the British and American systems, although it does not attempt a direct comparison of them.

J. P. DAY. *The Money and Banking System of the United States*. (Macmillan 4/6.)

was specially written for the non-American student, and contains a useful discussion of American Banking policy up to the crash on the New York Stock Exchange in 1929.

*Secondly* the general theory of money, banking and the foreign exchanges must be tackled. On

this subject the books are legion and the controversies are acute. As a general introduction to the subject—

MR. H. WITHERS. *The Meaning of Money*. (John Murray, 6/-.)

can be recommended, to be followed by the earlier chapters of

MR. J. M. KEYNES. *A Tract on Monetary Reform*. (Macmillan, 7/6.)

MR. D. H. ROBERTSON. *Money*. (The Cambridge Economic Handbook Series, Nisbet, 5/-.)

is written with all its author's charm and brilliance. It is brief and inclusive.

MR. R. G. HAWTREY. *Currency and Credit*. (Longmans 16/-) particularly the first thirteen chapters, and his *Gold Standard in Theory and Practice* (Longmans 5/-) should be consulted.

For the Theory of International Trade,

MR. P. B. WHALE. *International Trade*. (Home University Library Series 2/-.)

is very useful. For those who are interested in the more extreme forms of monetary doctrine, which usually gain considerable attention during periods of trade depression, Mr. E. F. M. Durbin's brief study of extreme monetary theories and his criticism of them, contained in his

*Purchasing Power and Trade Depression*. (Capes 6/-.)

is to be recommended. For simplicity, lucidity and charm of style, three small pamphlets written

on monetary and foreign exchange problems by Nassau W. Senior over a century ago still are unrivalled. They have recently been reprinted under the auspices of the London School of Economics, their titles are—

Transmission of the Precious Metals from Country to Country.

The Value of Money.

The Cost of Obtaining Money.

They cost 3/6 each volume.

### CONTEMPORARY PROBLEMS

The World Depression has been accompanied by a very large output of studies of all types, written from every possible point of view and ranging over a great variety of subjects. All that is attempted here is to select a few of those which bear more or less directly on the subject matter of the talks.

#### I. THE GENERAL WORLD SITUATION.

To obtain a general background of facts and figures, relieved by expert analysis and discussion, the publications of the League of Nations are invaluable. Messrs. George Allen & Unwin, Ltd., 40 Museum Street, W.C.1. (League of Nations Department) published in June, 1933, a small descriptive catalogue of the more important League of Nations publications relating to the World

Monetary and Economic Conference. This can be obtained free on application to the publishers. The general reader will probably obtain what he wants from the following, all of which are obtainable from the League of Nations Department of Messrs. George Allen & Unwin :

*The Course and Phases of the World Economic Depression.* (6/-.)

*World Economic Survey, 1931-2.* (6/- net, cloth 7/6.)  
(A 1932-33 edition is being published in Sept., 1933.)

*The Report of the Gold Delegation of the Financial Committee.* (2/6.)

A Committee appointed by the council of the Royal Institute of International Affairs in 1932 attempted to review for the lay reader the economic controversies relating to monetary policy during the depression. The first report of this Committee was published by the Oxford University Press, under the title of :

*Monetary Policy and the Depression.* (7/6.)

## 2. GREAT BRITAIN.

PROFESSOR T. E. GREGORY. *The Gold Standard and its Future.* (Methuen 3/6.)

written shortly after the suspension of the Gold Standard is valuable.

JOHN A. TODD. *The Fall of Prices.* (Oxford University Press 2/6.)

was published in 1931, and contains a brief account of the facts of the fall in prices up to that date, the

probable cause of the fall and possible cures. It is brief but very readable, and includes interesting diagrams and tables of figures.

Those who are particularly interested in the problems of *Silver* will find the small pamphlet prepared by Professor Gregory at the special request of the Manchester Chamber of Commerce—

*The Silver Situation.* (Manchester University Press 1/6.)

brimful of information, explanations and cautious comments.

Those who wish to explore the Tariff question will find in *Tariffs, The Case Examined*; written, by a committee of Economists, under the chairmanship of Sir William Beveridge (Longman's, 7/6) a professional counterblast to the views that are most popularly held and expounded on this question.

### 3. THE UNITED STATES.

A special bibliography would be necessary to deal adequately with the American Situation, but a book published by Twelve Princeton Economists, just before President Roosevelt came into office, called—

*Facing the Facts.* (G. P. Putnam, \$3.00.)

presents an excellent background against which the experiments of the present régime in the United



States can be judged. *Gold and Monetary Stabilization*, Edited by Mr. Quincy Wright, and published by the Chicago University Press at \$2.00, early in 1932, also deserves more attention than it has received in this country. Appendix I of this small book contains six practical resolutions signed by twenty-four American Economists of widely different schools of thought. For those who hold that no two economists can ever agree, this appendix should make interesting reading.

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