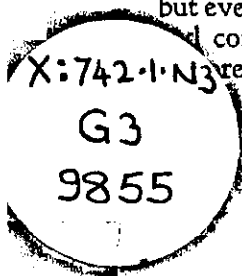


# A BUSINESS MAN'S VIEW OF THE WORLD CRISIS

By L. POTTER

THE AUTHOR explains the causes and effects of the crisis, and the difficulties in the way of recovery, from the point of view, and in the language, of a practical business man rather than that of an economist or politician. He believes that the growth of revolutionary ideas among our younger generation is due not only to the continued depression, but even more to the absence of any clear and constructive plan in the policies of present leaders with which to oppose the active and well reasoned propaganda of the Socialists. He suggests the lines upon which such a counter-appeal might be initiated by the advocates of Private Enterprise.



**A BUSINESS MAN'S VIEW  
OF THE WORLD CRISIS**

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*Of The*

WORLD CRISIS

*by*

L. POTTER

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## INTRODUCTORY

FOR personal reasons, into which it is unnecessary to enter, the author has preferred to adopt an assumed name, but it should be explained that this does not conceal a prominent personality, whether in finance, commerce, or industry, still less a politician or an economist. As the style of his work will soon make abundantly clear, he has little training in the art of economic or political discussion, and though he has a fairly wide experience of practical business—and of crises in particular—both at home and abroad, he is as ignorant of what is going on behind the scenes as the proverbial “man in the street.”

That a person with such limited qualifications should venture to add to the already vast output of more expert literature on the same subject may seem uncalled for, but he is not altogether without excuse. The issues at stake are still undecided; they concern himself, and indeed all serious business men, so directly and so vitally, that if anyone of them has, or thinks he has, anything to say which may be helpful to a clearer under-

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standing of the position, it becomes almost a duty for him to do so.

It is well known that after much hard concentration on a single subject, men are apt to reach a point where they cannot "see the wood for the trees in it." After four years of continuous preoccupation with the economic crisis and depression, many of us have come near to this point, and are frankly bewildered by the ever changing turn of events. Our statesmen tell us little of what is going on, or what are their plans for the future, if indeed they have any. Our financial and business leaders are, perhaps with more justification, even less communicative. We are left with the day to day comments and recommendations of economists, of the Press, and of irresponsible publicists of all kinds; but these, even where not too technical or abstruse for the ordinary man to grasp, are too often found to be inconsistent one with the other, and even with the facts as the business man knows them. Without some knowledge of the particular "axe to grind" in each case, whether this be an economic or political theory, or some more practical consideration, it is very difficult for the layman to judge between them.

The truth is that we are all, to a greater

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or lesser degree, groping in the dark, waiting for events to guide us, for leaders to lead us. Maybe this is inevitable, but the depression is not yet over by any means, and though in this country we may not be so much aware of it, the world around us is still studded with danger spots, and will remain so until economic and political equilibrium has been re-established. While we wait, therefore, for the new emergency, let us at least make up our minds clearly in which direction we wish to go, or be led, and not leave the choice entirely to the politicians, the Press, and the professional economists. One never knows but that they may be waiting for *us* to lead *them*!

The author does not pretend that he has anything very original to propose as a solution of our difficulties, but it occurred to him that the reactions and conclusions of someone outside the turmoil of politics or academic discussion, without preconceived notions or economic theories, whose only part in the matter has been to watch the practical effects of the crisis as these have developed on his own and other people's businesses—and whose only axe to grind is to reverse or correct these effects—may not be unhelpful at the present stage. But if he only succeeds in making the



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situation and its difficulties a little less confusing to some of his readers than they were before, he will feel amply repaid.

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*October 1933*

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## CHAPTER I

### THE SITUATION IN GENERAL

NEARLY every discussion on the subject of the economic depression opens with a reference to the anomaly that while we live in the midst of plenty, both actual and potential, such as the world has never known before, large sections of the population are being starved materially and morally for want of purchasing power and employment. Platitude though this has become, I do not hesitate to repeat it, as it is the one central fact which is clear beyond dispute, and should be kept in the foreground of one's thoughts all the time. It provides the *prima facie* reason for rejecting all arguments that the situation is normal or inevitable, and for insisting that all alleged difficulties in the way of recovery are illusory, and could be swept away almost overnight if we—that is the people of the world—seriously willed it.

There is no world war on today, nor even a serious threat of war—no plagues, pestilences,

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or other so-called acts of God to prevent us, nothing indeed but man's own unbusinesslike attitude towards this matter stands in the way of a perfect solution. While the management of nearly every other instrument for our convenience is organized on business or scientific lines, by common consent placed out of reach of national or personal prejudice, the most important machine of all, the mainspring of our whole well-being, is left open to the vagaries of mass-psychology. Everyone in the world today knows this to be true, yet submits to it. Has any crisis in the world's history, even the Great War, seemed so illogical, so unnecessary and wasteful as the present crisis?

It would be easy to write volumes on this theme of Poverty in a World of Plenty, and the bankruptcy of human wisdom which it implies, but since there is no disagreement about the main facts of the situation and in theory, at least, no serious person doubts that it ought to and can be remedied, it would only be wearying to enlarge upon it. Those of us who are still comfortably off, and see a certain limited prosperity growing up here and there around us, may be tempted to accept the situation as one which will gradu-

## *The Situation in General*

ally right itself without our conscious intervention, even in spite of such intervention; we may remind ourselves that other crises in the past have come and gone, and that this particular crisis is merely an exaggerated swing of the pendulum, following the equally exaggerated boom of prosperity caused by the War and the reconstruction after the War; that in short we are now "paying for the War," and any attempt to evade this responsibility by artificial expedients, if not actually immoral, is doomed to disappointment. I would remind those who cling to such consolation, that there are other directions in which the pendulum may swing than back to the good old comfortable days which we once enjoyed.

There are still incalculable numbers of the world's population, perhaps even a majority of the younger generation, who are deprived of all profitable employment or the prospect of it, and will remain so, so long as present conditions, or anything like present conditions, endure. It may be true that only a small proportion of these are actually without the necessities of life, and if it were confined to the older people, an enforced retirement from activity would be of no great conse-

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quence. But what will be the effect on the younger generation if this situation goes on indefinitely? Either they will become apathetic and drift into a life of parasitism of one form or another, a constant thorn in the side of their more fortunate neighbours, or they will refuse to take it for granted that prosperity for all is impossible, and will rise up and take by force what they believe to be theirs. Either of these developments mean an end to those comfortable days.

## CHAPTER II

### THE WAR AND AFTER THE WAR

THE outbreak of the Great War found us living in an age of steady economic progress and building up of wealth along traditional lines. Every ten years or so we experienced a crisis, more or less severe and unpleasant, following a speculative "boom," but these crises were mostly short lived, normal depressions in the course of the so-called "credit cycle," and did not seriously impede the general upward trend of things. In any case, nothing occurred for over a century to undermine the average man's faith in the accepted rules of good business and sound economic theory. In particular, it was taken for granted that for men or nations to live beyond their means was unsound, and though their means were limited by custom, even more strictly than today, to the money in gold or silver which in the last resort they could lay their hands on, there was always enough of such money somewhere, and enough confidence in the minds of those who had it to lend, to prevent a deadlock such as we see today.

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Bankruptcies were frequent, and often disastrous to those concerned, but losses were written off or made good, and fresh wealth accumulated. The business of the world rolled on almost without interruption.

In such conditions it was possible for a business man to lay his plans for the future with the full confidence that if he followed the rules of the game, he and his sons and his grandsons after him would enjoy their due reward of prosperity and security for an indefinite period. It was the golden age for the business man, if not for the masses of the population, and a great part, if not the whole, of the secret lay in the fact that the traditional rules of the game were easily understood, they were faithfully followed on the whole, and they worked.

Then came the Great War, and with it the first serious breach of the rules of the business game for a century.

When the War was threatening it was the common belief, supported by well-known economists, that it could not last for more than a few months or even weeks, for the very simple reason that there was not enough money in the world to carry it on. I remember well myself, when War broke out, counting

## *The War and After the War*

up the deposits of all the great banks and consoling myself with the thought that anyway, when this money was used up, and even if there were no run on it, it could not last much more than six months, the War would have to come to an end. Even more consoling was the thought that the German banks had only a fraction of the deposits of the English banks.

But our war-makers were neither business men nor economists, and took no notice whatever of the gloomy warnings of the bankers, still less of the economists. They decided to spend the money first, and think of ways and means of getting it later.

How successful this policy proved to be and how little, if at all, hampered by lack of funds was the conduct of the War, even in Germany, is one of the great marvels of history. It is a fact of primary importance when we come to consider the ways and means of dealing with the present crisis.

I will not burden my readers with the figures of War expenditure of the different nations, which are easily obtainable from the books of reference on the subject. Needless to say they were of astronomical dimensions.

That for all practical purposes, the whole



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of this sum may be taken as abnormal expenditure, over and above the Peace-time level, representing living beyond our means, in the orthodox sense, is proved by the fact that the civilian populations, even of the belligerent countries, were extremely prosperous most of the time, and lived more extravagantly than ever before or since. In other words, by whatever means the money was actually raised, call it income or capital or mere kite-flying finance, only a negligible part of it was provided by savings as we understood them in normal pre-War times. Notwithstanding the hardships endured by many of the belligerent nations, the populations of the world, taken as a whole, did not deprive themselves of any part of their normal civilian consumption in order to provide the costs of war; indeed probably the reverse was the case.

After the War there was a further vast abnormal expenditure on reconstruction and new construction, both by Governments and privately, and that not only among the belligerents but in neutral countries as well, particularly in South America. What this post-War expenditure amounted to can only be very roughly guessed at, but it must certainly

## *The War and After the War*

have been on a scale to compare with the cost of the War itself.

But this is not by any means the whole story. The exceptional expenditures on the War and reconstruction raised commodity prices, and consequently profits, out of all proportion to pre-War levels, stimulating further production, and raising the capital value of stocks and shares to undreamed of heights. In the United States particularly, speculators were not content to take actual earnings as a basis for capitalized values, but discounted a future of many years' uninterrupted progress in an upward direction.

Again, particularly in the United States, speculators, which included all classes of the population, treated as spendable income not only their dividends or other normal earnings, but to a very large extent turned their stock market gains, whether materialized or not, into money or credit and spent it. The spending of this money gave others a corresponding spending power, which was thus spread over the country and beyond. We have here a further sum of unknown dimensions, but again almost certainly on a scale comparable with the cost of the War, to add to our total of abnormal expenditures, of living "beyond

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our means," on money which did not exist before, but which seemed to rise out of nowhere just to meet the demand for it.

I do not think we should be far wrong if we estimated a grand total of somewhere around £100,000,000,000 as representing the abnormal expenditure, public and private, of the whole period 1914-29.

I have passed over the 1920-21 crisis because this crisis, though exceptionally severe in the fall in prices which accompanied it, causing the loss of the great majority of the fortunes of the so-called War profiteers, did no more than temporarily interrupt the flow of prosperity of the period. It was a crisis comparable in nearly all essential respects to the major pre-War crises, that is, a normal incident in the credit cycle, a true over-speculation crisis, which did not seriously affect the world's purchasing power or confidence in the future. What I have wished to bring out as clearly as possible is the fact that the years 1914-29 constitute an almost unbroken period of abnormal expenditure, both Government and private, on a scale far outstripping anything known before in history. As a result of this expenditure, practically the whole of which was unsound if judged according to pre-War

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rules, and of the increased production which it brought into play, the standard of living of the masses was raised enormously, and as we hope in the long run, permanently. Whether or no it ultimately turns out to have been a fool's paradise, this does not alter the fact that to the average man and woman, while it lasted, it meant genuine solid well-being, more solid by far than any of the economic theories and rules of sound business which were broken in the gaining of it.

Improved housing, good and plentiful food and clothing, congenial employment, facilities for education, travel, amusements, whatever it may be that makes for the greatest health and happiness of the greatest number, all these things were being secured in ever increasing abundance. Then about the middle of 1929, mysteriously, insidiously, like some creeping paralysis, the decline began, and has continued, with only slight and local alleviations, up to date.

## CHAPTER III

### THE CRISIS, FIRST STAGE, 1929-31

BEFORE going into the deeper causes which are said to underlie the disease from which we are suffering, and which certainly are preventing recovery, it may be useful to recall the outward and visible symptoms by which its progress was made apparent to the ordinary business man. What is usually regarded as the first break of importance was the boiling over of the very moderate stock exchange boom in this country, culminating in the Hatry crash about the middle of 1929. For many months before this event prices of commodities had been sagging, unemployment was on the increase, and it was clear that all was not well with our own country at least. But there had been no repetition of the feverish speculation of 1919-20. No obviously unsound structure had been built up, and it is quite certain that even our most cautious bankers saw no grounds for the development of a serious or prolonged world crisis. At the worst it seemed likely to be a normal set-back of the credit cycle type.

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In spite of strong resistance by the Americans, the Hatry crash, with which were associated similar collapses on the Continental bourses, was followed very shortly by the first of a series of Wall Street crashes, which had long been predicted on this side of the Atlantic, without however giving any rise to general fear that alarming consequences for the world would follow. The world was still amazingly rich in every form of material wealth, and this could hardly be seriously affected by the loss, however vast, of the paper profits of speculators.

So, at least, it was argued at the time by ordinary sound business men in every country, who confidently expected a gradual recovery, to begin say in the course of 1930 or 1931, through the normal working of the Credit Cycle, easy money, re-establishment of confidence, and so on.

As the months went by, and the trade returns and commodity prices, the unemployment figures, and other statistics which serve as a barometer for returning confidence, showed instead a progressive deterioration, it became clear that there were difficulties in the way of a normal recovery. Attention was drawn to the War debts still unsettled, and becoming

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more and more difficult of payment, the political tensions on the Continent preventing disarmament, tariff barriers, and all kinds of Government restrictions on trade, high taxation, the sterilization of gold by America and France, unbalanced Budgets, each of which, if not a direct cause of our troubles, could be shown to be a serious obstacle to a revival. Nothing, however, was done to correct these evils which tended to be even further aggravated by the crisis, and then about the middle of 1931 a fresh and more serious crisis broke out.

The immediate cause was the disclosure of difficulties in Austria in connection with the important Credit Bank of Vienna, in whose solvency most of the international banks of the world were interested. The industries in which this bank was involved were, owing to the fall in prices of commodities and tariff barriers between the Austro-Hungarian Succession States, being threatened with insolvency. The money of the Bank was said to be largely locked up in these industries. A race to withdraw credits from this Bank resulted, as it must inevitably result, in a suspension of payment and moratorium. It is only the first-comers of those who take part in a "run" who get their money out, so the

### *The Crisis. First Stage, 1929-31*

bankers cast their eyes around the world for other possible weak spots, and very soon fixed them on Germany and the German Banks. A German banking crisis followed, and the so-called Standstill Agreement with Germany, accompanied by a more general moratorium of foreign payments by that country. Other distressed countries were quickly drawn into the same net, until there were moratoria or exchange restrictions, defaults of one kind or another, in half the countries of Europe and practically the whole of South America.

It was not a question of bankruptcies or the difficulties of this or that individual concern such as business men were accustomed to in every crisis, and could to a large extent avoid by a careful and wise selection of correspondents. It was not even merely a question of Governments defaulting on their loans. Such experiences have been common in the past in South and Central America, and were no deterrent to future business in those countries. Whole nations now went into default, by simple Government decree, hundreds of millions of pounds and dollars and francs upon which bankers and traders had counted without thought of risk were suddenly frozen up



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indefinitely. The bankers cannot be blamed if they lost confidence, and in some countries at least lost their heads, for things were happening which had never happened before in their experience. An entirely new element of risk had entered into business, and one against which, individually at least, it was not in their power to protect themselves. The breakdown of credit was as complete as at the outbreak of the War, and international business on the old accepted lines was clearly coming to an end, perhaps for ever.

Since attention was now drawn to the possibilities of defaults on a national scale, and since it was believed abroad that England and English bankers were in a particularly vulnerable position in face of an international breakdown, a run was started against the pound sterling. It was rumoured that the international bankers and accepting houses of London were very heavily involved in Germany, there was a Socialist Government in power at the time, the Budget was unbalanced, and it seemed to the foreigner that his money would be safer at home.

One cannot blame the foreigner for taking this view, especially as he was not very happy with his own position; but though those who

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succeeded in getting their money out in time saved themselves a very heavy loss—at our expense—there is no question that they served their countries very badly. In September 1931, in spite of heroic and costly efforts to maintain it, England was driven off the gold standard. The world was panic-stricken — all except England herself, on whom the effect was one of almost instantaneous relief.

The Scandinavian countries and most of our Dominions and Colonies saw at once that they must adjust their currencies and price levels to ours, or lose our market for their products. Others, however, led by the United States and France, who by this time had accumulated together about three-fourths of the entire stock of gold bullion in the world, determined to maintain the value of their money in terms of gold.

It is interesting to note that though England was the inventor and pioneer of the gold standard game as played in the last century, the average Englishman has never idolized gold as an object of wealth in itself. His faith has lain rather in his banks, who have never let him down within living memory. In the United States, however, where the failure of banks is an everyday occurrence during periods

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of crisis, and in France where the people are disposed to hoard their money even in normal times, and are still suffering from the devaluation of the franc to one-fifth of its pre-War purchasing power, the instinct is still strong for gold as the only stable thing in time of trouble. Owing to this psychological situation, and partly perhaps to the hope that the prestige of London as the financial centre of the world would pass to them, France and the United States held firm. Holland, Belgium, Switzerland, Italy, and a number of less important countries, followed suit, as—nominally at least—did Germany, Austria, and most of the other defaulters, though they had ceased to pay their debts in gold or any other currency.

As we shall see later, however, the clinging to gold of all these countries was not a sign of strength but rather of weakness. It did not re-establish confidence, but led to what was probably the greatest example of financial panic in history.

Contrary to expectation, the depreciation of the pound sterling was not followed by a rise of prices in this country. As the world's largest importer of staple commodities, the price of these was forced to adjust itself to our reduced purchasing power, while all the time the same

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factors which had been steadily lowering price levels in terms of gold throughout the world were hard at work, as the vicious circle of universal liquidation kept on revolving.

It is hardly necessary for me to explain the process by which in times of crisis a fall in prices, whether in stocks and shares or commodities, aggravates the very lack of confidence from which it arose, and leads inevitably, and may be for no other reason, to further falls. Liquidation, at first voluntary, becomes forced, and induces more liquidation. So the snowball increases in size and speed as it zigzags down the slope of the hill. The working of this process must be well known now from bitter experience to everyone engaged in trading or banking during the past few years. In a normal crisis the release, after a longer or shorter period of liquidation, of cheap and plentiful money by the banks gradually re-establishes confidence, until, tempted by the low level of prices, the speculator or trader with a long view steps in, prices begin to rise again, and the process is reversed.

To return to the collapse of the pound sterling and its results. By easy stages the exchange value of the pound fell from a parity

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of 4.86 with the dollar to about 3.25, that is it lost approximately one-third of its gold value. Gold prices in the leading commodities, during the same period fell in about the same proportion. Whether due to deliberate management or accidentally, the purchasing power of our currency in terms of commodities remained therefore practically stable, and conditions generally showed no further deterioration. Indeed, owing to the benefit which our export trade received from the depreciation of the pound, and many of our industries from the newly imposed import duties, an actual improvement was registered in some directions.

Unfortunately, however, as we shall see in the next chapter, our gain proved to be the world's loss, and it is almost certain that the loss outweighed the gain.

## CHAPTER IV

### THE CRISIS. SECOND STAGE, 1931-33

THE centre of this stage of the crisis was occupied most of the time, as it is today, by the United States. It was here that the effects of the fall in stock exchange, and later commodity values, were most severely felt. Just as Europe and South America had borrowed money on a vast scale from the United States when prices were high, and found it more and more difficult to repay as prices fell, just as the United States became alarmed, and in their attempt to get their money back forced their debtors one by one into insolvency and default, so it was internally within the different countries themselves, but particularly in the United States. Faced with a 50 per cent drop in the value of its assets, production, or turnover, there are few businesses, whether in America or anywhere else, which can remain solvent, but when the drop is anything from 50 per cent to 80 per cent, or even 90 per cent, and under such circumstances forced liquidation is resorted to on the wholesale scale, as has always been the custom in the United

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States, the result is bound to be disastrous on debtor and creditor alike. As the banks fell upon their clients in the scramble to keep themselves "liquid," so in turn the public fell upon the banks, and broke them. Beginning in the country districts, then in the large provincial towns, and finally in New York itself, thousands of banks were forced to close their doors, until eventually the Government intervened, and a general moratorium was proclaimed in March 1933.

But in spite of its sensational character, there was nothing very remarkable about this American banking crisis, except its scale, to distinguish it from other similar crises in this and in other countries in the past. What is remarkable is that it followed, rather than preceded, a prolonged period of almost unexampled "easy money," and liberal Government assistance to distressed institutions. The disease had progressed too far for such remedies alone, and it is not difficult to see why.

Prices of all commodities had reached such a low level, and showed so little sign of improvement, that all possibility of adjusting costs to meet them was long past. In particular, debts of all kinds and taxes remained payable in full. When business does not pay, and there

### *The Crisis. Second Stage, 1931-33*

is no prospect of making it pay at existing prices, it takes a very bold speculator to borrow fresh money, no matter how cheap and plentiful. And it takes a bold banker to lend it, however much he may have of it.

The Americans thought that by merely creating new money or credit and making it cheap, somehow or other prices would rise and all would be well. But money left to itself in the banks, whether it be of sound or unsound origin, whether the quantity be large or small, cannot raise prices; it achieves nothing except possibly a feeling of confidence in the banks; and in America it failed even to do that. Money must be spent to have any meaning. This is a truism which I am ashamed to repeat, but it is remarkable how often it is forgotten when questions of the influence of monetary policy on prices, of inflation, credit expansion, or other panacea for our troubles, are being considered.

Side by side with the withdrawal of currency deposits from the American banks because their solvency was in question, there was hoarding of gold from fear that the dollar would be devalued. This conversion of currency into gold was being actively pursued not only by the Americans themselves, but also by



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the foreigner with his dollar balances. So when the moratorium was lifted, it was almost inevitable that the embargo on gold payments should remain for a while at least. Since America had more than enough gold in her vaults to pay the foreigner in full, it was hardly anticipated that she would go off the gold standard in the same way that England was forced to do. But there were other influences at work, and in due course, to the astonishment of the world, came the dramatic collapse of the dollar.

There was no counterpart to the American banking crisis in other countries during this period. In England such a development would be scarcely possible in any case, owing to the temperament of the people, who instinctively abhor panic, and the solidarity which invariably manifests itself in times of emergency. In many other countries the banks were more open to suspicion even than the American banks, and the currency situation certainly so, but their superior banking organization, and the tradition of Government support, prevented any outward and visible breakdown. Even in Germany and Austria, where all the banks virtually suspended payment in 1921, there had been no internal breakdown of

### *The Crisis. Second Stage, 1931-33*

confidence approaching that which developed in America.

The main trouble with which the countries outside the United States were concerned now, as ever since the beginning of the crisis, was the difficulty of meeting their external debts, principally those to the United States, whose prohibitive tariffs amounted practically to a refusal to take payment in the only form possible to the debtors, namely in goods. There is no question that a sense of the unfairness of being called upon to repay in gold what was borrowed in the form of America's surplus production, and that when prices were nearly double what they are today, contributed very largely to the breakdown of international confidence. It is such sentiments, even more than the actual inability to pay, which cause distrust of the fundamental soundness of things, and a disinclination to enter into commitments for the future.

Having settled their external debts by the simple process of not paying them, or paying them in part only, most of the European and South American countries set to work to reconstruct their finances, internal and external, to meet the serious fall in prices and their reduced trade figures. Higher and ever higher

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tariffs and taxes were imposed in protection of trade balances and national budgets. Since the imports of one country are the exports of another, this resulted in a steady, and in some cases catastrophic, fall in the foreign trade of all countries. One after another each country was driven to a policy of cutting itself off from the outer world, and trying to live on its own resources.

In the United States the task of orderly readjustment on these lines proved impossible. The plunge from previous prosperity had been so immense, that it must have seemed to the average man that the whole foundation of the business world would fall to pieces. Apart from the colossal unemployment and internal debt problem, there was a banking system, forced upon the country by the law forbidding inter-state branches of the big banks, quite unfitted to withstand the shock of a major crisis.

So we come to the events in the American banking crisis already described. The moratorium which marked the culminating point of this crisis, and which to the world at large was probably the most sensational event up to date of the whole crisis, coincided exactly with the entry into power of a new President,

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elected by an overwhelming popular majority to restore the lost prosperity. This must certainly be counted one of the most remarkable accidents on record, and one which may well prove a turning-point in the world's history. Here was an opportunity, if ever there was one, of breaking the deadlock and bringing about some gigantic stride forward.

It is too early yet to see clearly what the effect of America's new policy is likely to be, or even what that policy is. But it is evident that some powerful new factors are at work, and that the fall in the dollar has produced a psychological reaction, both in America and outside, very different from that produced by the fall of the pound sterling. This seems to be due to the fact that now, for the first time in this crisis, deliberate devaluation in terms of gold, and price raising, has become part of a nation's active policy.

In a later chapter I hope to deal with the more recent developments which may be regarded as the opening of a third and, let us hope, last stage of the crisis. The first stage was marked by the breaking down of the abnormal prosperity built up by the War and after-War conditions, the fall in values of stocks and shares and commodities to pre-War levels.

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The inevitable consequences of this fall in values, namely insolvency and default on debts, both internal and international, belong to this same stage, and reached their climax with the fall of the pound sterling. Had the crisis been a normal one, this would have been the end of it. Sanity would have reasserted itself, and recovery gradually come about by traditional ways and means.

But the crisis was not a normal one, and traditional ways and means, except to a limited and purely local extent, proved incapable of breaking the vicious circle, and lifting the world out of its rut. Our second stage saw a stabilization of the depressed conditions, during which the different countries so to speak retired into their shells, and attempted, successfully or unsuccessfully, to accommodate themselves to their reduced circumstances.

The banking crisis in the United States, though it actually fell in the second stage, might equally well and more naturally have fallen in the first. By what may prove to be a happy accident, however, it reached its climax when the world had already given fair trial to the policy of adjustment to poverty, of waiting for events to take their course. Maybe that now at last the spell of the depression has

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been broken, and that not only this country, but the world in general, will be forced to face squarely the issues in front of it, or be submerged in a new cataclysm.

## CHAPTER V

### CAUSES AND EFFECTS OF THE CRISIS

I AM aware that the story of the crisis which I have recounted in the preceding chapters is a mere superficial sketch, but it has not been one of my objects to write history. This has been and will continue to be done by others more competent than myself, and in any case the events are so recent that most of my readers will probably have a story, as good as or better than any I could write, already tabulated in their minds. All that I have tried to do is to give just sufficient reminder of events to illustrate the fact that, whatever may have been the underlying causes which gave rise to the crisis, the outward and visible progress of it has not differed in any essential respects, except size and gravity of the consequences, from many previous crises. From beginning to end nearly every step in the downward path can be attributed to a breakdown of confidence, the fear of something which might happen, but which had not actually done so.

I do not mean to imply that there has been

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no justification for a lack of confidence, or that what was feared did not eventually come to pass; indeed events have nearly always proved worse even than was anticipated—with perhaps the one outstanding exception when England went off the gold standard. What I do suggest is that had our confidence remained unshaken, had we all firmly believed that our prosperity would last indefinitely, and adopted our policies accordingly, few if any of the things we feared need have come true, or, if they had, their consequences would have been insignificant in comparison to those of the crisis itself. Just as a perfectly sound bank may easily be driven into bankruptcy by mere rumours that it is insolvent, so it is with prosperity, once the belief becomes general that for this or that reason it is likely to collapse.

There is nothing new in this view of a financial crisis, as an affair mainly of psychological reactions, and if it is true of the present crisis, it is even more true of previous ones, perhaps all except those brought about directly by wars, failures of crops, or similar events outside the business man's control. It is indeed just what one would expect of a crisis which ends up with



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the anomalous situation described in my first chapter.

This is not a question of academic interest only, as it may appear at first sight. It has a very definite bearing on the importance which we attach to the different factors commonly regarded as having led up to the crisis, and to the means by which they may be overcome.

The War debts and heavy international borrowings after the War are a case in point. What in 1928 were perfectly good debts, have become bad and doubtful mainly, if not entirely, owing to the fall in prices of commodities, and consequent restriction of trade between debtor and creditor. The trouble is clearly a result of the crisis rather than a cause of it.

If this is so with debts, it is even more true of what is loosely called over-production. Except in the case of a few commodities like coffee, and perhaps rubber and wheat, it is very doubtful if there has been any genuine over-production, in the sense of production beyond the physical capacity or desire of the world to consume. The apparent over-production in general has arisen only when purchasing power, instead of expanding progressively with production, began to decline, and the decline of purchasing power is a

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result of the crisis rather than a cause of it.

It is the same with high taxation and unbalanced budgets. In times of prosperity, profits and incomes generally are high, and taxation, though always unpleasant, is tolerable. It is when the depression comes that the burden is felt to be intolerable, and business enterprise is strangled by it. The consequence is a fall in the national revenue, and since Government expenditure is more rigid than private expenditure, an unbalanced budget is inevitable.

Again, the accumulation and sterilization of gold in France and the United States is often described as one of the prime causes which have led to the fall in prices, and thus responsible to a large extent for the crisis in general, and there can be no question that it has been one of the most serious factors working in this direction. Had these two countries followed England's practice in the past and used their gold as a basis for expanding credit and lending abroad, the world might have been saved at least half of its present troubles.

That gold accumulated in these two countries was merely the result of their favourable trade balances, and by itself could do no harm. The harmful consequences only begin

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with the refusal to expand credit, and in particular to relend abroad. But unless we believe that these countries entered into a Machiavellian plot to bring prices down, which in the case of the United States, with her strong interest in maintaining prices, is unthinkable, the failure to expand credit can only be due to lack of confidence on the part of bankers and investors. Here again, therefore, it is lack of confidence which leads the way, and the rest follows after. Whether the gold standard as such has been to blame in this connection is a different question altogether, and one which is better left to a later chapter.

Tariff barriers, and other forms of Government interference with free trade, provide perhaps the only exceptions to the rule that what are commonly referred to as causes are in reality effects of the crisis. It may, for example, with a good deal of truth be argued that the prohibitive tariffs of the United States made it impossible, from the very outset, for that country to maintain the rôle of a creditor nation, and that therefore the loans which they made to the world outside, which formed the principal basis for the prosperity of the years 1922-28, created fundamentally unsound

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conditions long before there was any thought of a crisis.

There was indeed no escape from the dilemma in which the United States was placed by the fact, which unfortunately she did not realize in time, that either her tariffs or her external loans were unsound. Nevertheless, had prices remained high, and the wave of prosperity in the United States continued unbroken, indirect repayment through third party countries, producers of raw materials required by the United States, would not have proved so difficult, and the vast expenditure of American tourists might well have supplied the deficiency.

Alternatively America would sooner or later have come to realize that her tariffs were a bar to her position as a great financial power, and might have consented to some reduction. How much easier would such a step have been brought about with no unemployment at home, than it is today, with ten millions or more unemployed?

Though, as I have tried to show, most of the so-called underlying causes of the crisis are in a sense illusory, since on analysis they turn out to be rather effects than causes, there is no doubt whatever that they have all contributed in greater or lesser degree to accentuate

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the breakdown in the course of its progression. It is still more true that they are effectively preventing a revival, and must be cleared up, settled in one way or another, before any lasting recovery can be hoped for.

There is one more factor to which I have not yet referred, but which, though mostly sub-conscious and unexpressed, I myself believe to have contributed more than any of those mentioned to the breakdown of confidence, and that is the distrust of the average business man, and particularly banker, of the old school, in a prosperity built up on the reckless expenditure of the War and after-War reconstruction. I will deal with this point of view more fully in a later chapter, and will only add here that, though this distrust may have been as much of an illusion as any of the others, it is far more difficult to clear out of the way, and may in fact prove the rock upon which all our efforts at recovery will be wrecked.

If all that can be said of the alleged causes of the crisis is that they were mainly illusory, what of its results? The tangible wealth of the world has not been destroyed to any serious extent, even after four years of deepening depression. There are vast stocks of commodities of every kind awaiting consumption, and the

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factories, if idle, are intact, and ready to produce whatever the world may need in almost unlimited quantity. There are no shortages anywhere or of any kind except perhaps in Russia.

And yet our depressed conditions are certainly no illusion, something quite definitely has been lost, to account for the stupendous contrast between conditions today and those of 1929.

In Chapter II I laid stress on the fact that, in the course of the years 1914-29, what may be called the abnormal expenditure of the world reached the colossal figure of something like £100,000,000,000, or probably more if we add to it the expenditure of all the indirect participants in the prosperity of those years. Though practically the whole of this money was raised by unsound, or at least unorthodox, finance of one kind or another, it created a prosperity which was very real to those who enjoyed it. I am no economist, but I do not think there can be any reasonable doubt that what has happened in the last four years is simply this, that while production has remained scarcely affected, the whole of this abnormal purchasing power has vanished, and the money values created and supported by this purchasing

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power, have, if not altogether vanished, been approximately cut in half.

If this is a true view of what has happened, and we leave aside for the time being the practical difficulties, then our task is at once more simple in kind, but more staggering in size, than is usually supposed. In order to get back to 1929 we have somehow or other to recreate lost purchasing power, or more strictly speaking the *exercise* of purchasing power, on the scale of the abnormal expenditure of the sixteen years 1914-29, or say an average of about £6,000,000,000 per annum. And if we are to secure lasting prosperity, we must continue this process indefinitely, even increasing the scale to provide for the expanding production of the world.

How to accomplish this task, without building up a fresh structure destined to collapse in due course, is the problem before us.

## CHAPTER VI

### THE WAY OUT

So far in our attempt to picture the wood away from the trees, we have arrived at a conception of the crisis as a gigantic breakdown of confidence—the bursting of a bubble as some would call it—the causes of which are as many and varied as the trees in the wood, but hardly sufficient to justify such a complete collapse and deadlock as we see today. Moreover, most of the so-called causes are found on closer inspection to be rather effects than causes at all.

As a result of this catastrophe the purchasing power created, whether wisely or unwisely, in the course of sixteen years of almost unbroken prosperity has been ruthlessly cut off, and we see no way of regaining this prosperity except by restoring the lost purchasing power.

Theoretically there is another way out of our troubles than in attempting to get back to 1929, or any of the years of post-War prosperity, and that is to get back to 1914. After all is said and done, pre-War days were the golden age, as we are only now beginning



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to realize, for the well-to-do classes, if not so much for the masses of the people.

But the practical difficulties of retreating backwards to an age when the circumstances of the world, material and psychological, were so different from what they are today, are so obvious that it is scarcely necessary for me to discuss them.

To mention only two of the difficulties, there are first of all the huge debts, Government and private, internal and external, bequeathed to us by the War and post-War period, which would have to be scaled down to such a degree in order to meet pre-War revenues, that a fresh and perhaps more terrible crisis would break out if we so much as talked about the matter. Then even if by superhuman sacrifices debts could be adjusted, there is not the slightest chance that the masses of the people will consent to go back to pre-War standards of wages and living, without a struggle and perhaps a social revolution.

There is much talk of the necessity to "cut our coat according to our cloth," of "healthy bankruptcies," of "coming down to earth," and similar sentiments, but I do not think anyone seriously believes in or advocates a return to pre-War days. Maybe the post-War

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era, with its terrible potentialities of collapse, is not the pattern we should choose for our new prosperity, but the world demands at least an attempt to keep pace with the amazing production of wealth of which it is capable.

Whatever path of reasoning we select, we shall find that there is no alternative but to restore the lost purchasing power required to balance the new scale of production, and that our practical considerations are limited to ways and means of achieving this. To even attempt to create equilibrium by cutting down production to meet existing purchasing power, is now generally recognized as not only impracticable but wicked.

Were I a trained economist, I would be tempted to proceed here with a dissertation on the meaning of money and credit, and their relation to price levels, on the difference between bank money and money of account, of inflation, deflation, and reflation, and all the other abstractions with which we have grown rather weary in the last few years. Fortunately for my readers, I am not an economist, and I have to approach my subject in the more familiar language of ordinary business affairs.

It is however absolutely necessary that we

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should have a clear conception of money and credit, in other words purchasing power, which fits in with what we know of their behaviour and functions. Otherwise we cannot even begin to understand what the crisis is all about, or how we can recover from it. Too many give up the subject as a mystery, too deep for the ordinary person's comprehension, when in reality there is no mystery, and the issues are perfectly clear. All too often, what is confusing us is not the subject itself, but the experts' way of putting it.

The average person's conception of money goes no further than the coins and bank-notes with which he is familiar, and which he vaguely assumes to be manufactured by the Government and the Bank of England respectively, as and when earned by the people. If cheques come his way, he infers from this only that the bank is holding the money, always the same coins and notes, in safe custody for those who have accounts there. Now that gold has ceased to circulate as currency, probably nine persons out of ten hardly connect it with money at all, and are at a loss to understand what purpose it can possibly serve.

Such a conception of money clearly does not account for all we know of its behaviour

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during the last few years, in particular for the fact that such a vast amount of it, or at least of spending power, has vanished off the face of the earth. Some people will tell you that the banks have got all the money, and will not let it out; but we have only to compare the figures of their cash holdings with what the world has lost in spending power, to see the absurdity of this. To make good this loss, we want very much more money than all the banks together either hold or ever held.

So we are driven to look more closely into the part played by credit, for here appears to be the key to the mystery. The coins and bank-notes, even the gold, are still existing somewhere; they have hardly been destroyed at all, only credit is gone.

If we look upon our coins and notes, as they ought always to be looked upon, as just so many tokens or counters with which we are provided to play our business game, the game of exchange of goods and services, then it becomes clear what has happened. The counters are still there all right, in the banks and in various people's pockets, but they do not circulate freely any more, and the game is coming to an end. It is coming to an end because in the first place the banks stopped

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lending the counters to the people who had spent theirs and wanted more to go on with. Then the people naturally became nervous and would not lend to each other, refusing to part with their goods or services unless the counters were handed over at once against them. Finally, to make matters worse, the people began to throw doubts on the genuineness of the counters themselves, that is at least the counters of other people. So the game simply could not go on.

Similarly in business life, the breakdown of credit, which is based on confidence, brings trade to a standstill, and the fall in prices goes hand in hand with it. Goods and services keep piling up without finding a buyer, since most of the people have no counters left to play with, and cannot borrow any, and those who have some left will not part with them. They prefer to keep them in the banks, or better still in their pockets, for a rainy day.

If my simile is a true one, it serves not only to throw light on the process of breakdown, but also on the ways to recovery. If there were enough counters to go round before the breakdown, when the game was in full swing, it is clearly unnecessary to create a lot more of them. This could only serve to make them all

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of less value, and though it is a good thing to raise prices when they have sunk so low, it might lead to the people refusing to part with their goods for fear that more and more counters would be produced, until in the end they might become valueless. Thus, the game would come to an end in a different way.

What must be put right is what has gone wrong, and that is the free circulation of the counters. Lending must begin again by the banks to the people, and by the people among themselves, and the genuineness of the counters must not be questioned. In other words confidence, upon which depends credit and enterprise, must be restored before the game of exchange of goods and services can be started again.

Having arrived at a conception which, whether technically correct or not, appears to fit in with what we know of the behaviour of money and credit, we shall find it much easier to understand the different ways and means of bringing back our lost prosperity.

To begin with, it is better to leave aside the practical, and in particular the international complications, and confine ourselves to making up our minds what would be the best solution if the world were an homogenous whole, and

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all men were reasonable and sane. Then we can proceed to adapt this to meet the difficulties which we know to exist.

The essential thing is to have a clear picture of what we want ourselves, and what we believe to be the most reasonable way to set about getting it. Without this the difficulties may appear insurmountable, and our wood will be entirely obscured by the trees in it.

## CHAPTER VII

### WAYS AND MEANS

CONFIDENCE, and with it credit, has broken down and must be restored. Prices have fallen so low that neither debts nor costs of production can be met; so prices must be raised. The exchange of goods and services is coming to a standstill for lack of enterprise, and must be set in motion again.

It is essentially one and the same problem, which we express in different ways, according as this or that factor appears to us the more important and deserving of first aid. The symptoms of the disease, however, are so interdependent, that it is useless to attend to the one and leave the others out.

It would be logical to expect that since it was the breakdown of credit which led the way in the downward path, the restoration of the same should lead the way in the upward path. This has always been the traditional theory and practice in the past, and on the whole it has worked. But this crisis is not a normal one, as we are now beginning to realize only too well, and is not working out



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according to plan. Here and there locally, in this country in particular, credit, and confidence of a limited kind, has been to a very large extent restored by traditional methods, and business has revived in consequence; but in the world at large, and particularly in the field of international trade, similar efforts have been unavailing. The basis for a general revival has been found to be lacking.

Attention has thus more and more been turned towards the other side of the picture, namely the raising of prices. It would be easy enough to raise prices to almost any extent, by the simple process of printing millions of new bank-notes and distributing them gratis among the people to spend. The effect would be instantaneous. Debtors would automatically become solvent and repay their debts, and production once again be profitable. But what about credit, without which the exchange of goods and services could not be revived?

If the new money did not inspire confidence, it could hardly be expected to restore credit, which rests on the willingness to lend it. The people would spend the money as fast as they received it, but they would not lend it if they thought it might be worth less—or perhaps nothing at all—when time came for repay-

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ment. The creation of new money in this crude way, when there is no confidence, and for the sole purpose of supplying a demand or need for it, is what the Germans and Austrians did after the War, and we all know the result of it.

It is equally, if less obviously, futile to try to restore confidence by the mere creation of new credit, and without reference to the enterprise which brings about the raising of prices. Just as money serves no useful purpose if it is not spent, so a readiness to lend money, or sell on credit, leads nowhere if there are no borrowers. And there will be no borrowers, solvent or insolvent, that is, there will be no enterprise, so long as business does not pay and there are no prospects of improvement. So we come back again to the low level of prices, and the vicious circle is complete.

Why is it that this particular crisis refuses so persistently to respond to orthodox treatment? What is the peculiar quality in the lack of confidence of today which makes it so perverse? If we can find the answer to this riddle we shall be a long way nearer a solution of our difficulties than we are today.

A great deal has been said by politicians, economists, bankers, and others regarding the influence of War debts and all the other debts,

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public and private, which have become unpayable, of tariff barriers, exchange and trade restrictions of all kinds, the maldistribution of gold, unstable exchanges, unbalanced budgets, over-production of this or that commodity, and a host of other specific evils, on this question of recovery of confidence. Such problems indeed occupy nearly all the attention of our leaders. I have already indicated in a previous chapter that the influence of these so-called major factors in the direct bringing about of the crisis may easily be exaggerated, and that most of them, on analysis, may be shown to be effects rather than causes of the real trouble, which appears to be something much more elusive. The events of the crisis have illustrated, over and over again, how easily a more or less subconscious and unreasoning distrust of conditions may lead to violent breakdown. Along with the depressing influence of debts and the other tangible facts mentioned above, there undoubtedly ran an undercurrent, possibly much stronger than we realize, of distrust in fundamental conditions. Just as it may be that distrust of a prosperity, raised on a foundation of abnormal and unorthodox finance, was the biggest, if least apparent, factor in its collapse, so a distrust

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of the basis of business conditions today and in the future may be still the root of the trouble. If so, it becomes a question of psychology, in a sense even of make-believe, and must be approached as such. Our one solid fact is the vast, almost unlimited wealth of the world in every material sense that matters: our make-believe is that we are poor. What we have to do is to convert this make-believe to the fact that we are rich beyond the dreams of avarice.

But now the question arises, Whose psychology have we to approach to bring about this great conversion? Is it to be the politician's or the economist's, the banker's, the producer's, or some other class of business man's? Or have the official and salaried classes, the so-called rentiers and investors in Government stocks, and even the general mass of voters, to be considered first? For there is no doubt that the psychological reactions of the different classes of the population to the same stimulus are by no means identical, and may even be diametrically opposed.

Then again, is it the older or the younger generations whose reactions and interests are the more important?

These are not academic questions, they are

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questions of immediate practical importance. Indeed they take precedence over almost any of the other matters which engage the attention of our politicians, in or out of World Conference. Business and politics today, as always, depend for their success more on a right judgment of psychology than on any economic theories or formulae, more even than on Science, and it is sheer waste of time to discuss ways and means out of the depression except in terms of their psychological reactions.

So far, or at least up to the entry of President Roosevelt on the scene, it seems clear that in nearly every country the positive steps which have been taken to deal with the crisis have been following the lines of orthodox tradition. It has been considered sufficient intervention by the Governments to encourage the banks in a policy of cheap and plentiful money, and leave the rest to the initiative of the business community. Discussions have from time to time been entered into, both between Governments and Central Banks, with a view to international co-operation on a common policy, but these have been mainly in the direction of stabilizing exchanges, removal of trade barriers, or similar arrangements of a more or less negative character. The recent World

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Economic Conference appeared at first sight to have a more positive objective, but when it came to the actual discussions, it was found that most of the participants were still as far from any definite plans of action as ever.

Positive action by the different Governments has been practically confined to the erection of tariffs and embargoes, exchange controls, moratoria, and similar devices for protecting their countries against the effects of the crisis or the foreigner, and having the result of restricting further and further the volume of international trade, with little or no corresponding expansion of their internal trade. The balancing of budgets has also received a great deal of attention, and Government expenditure has been more or less drastically cut down in order to effect this. Hand in hand with the balancing of national budgets has proceeded the balancing of private budgets, and the cutting down of expenditure has perforce been extended throughout the whole world.

If the psychological effect of such procedure has been considered at all, it has been what is called public opinion, that is, at the present time, mainly conservative opinion which has been in view, and that for the very good reason

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that upon such opinion, rather than that of the masses, or of any particular classes of producers or traders, depends the restoration of general confidence and credit.

In the chaos of general conditions, political as well as economic, which was brought about by the first onslaught of the crisis, and existed say up to the end of 1931, a policy of "safety first" was probably inevitable. In the state of public opinion at that time, with Socialist Governments in power in most countries of the world, anything in the nature of a new experiment would have been open to suspicion, and might well have led to social collapse. There was, moreover, no very clear reason for doubting that the well-tried policies of the past for dealing with similar situations would fail to act in the case of the present crisis.

It is only in the course of the last year or so that it has become evident that some more positive intervention by Governments may be necessary before the business world will in turn abandon its negative attitude.

In this country, at least, credit has been restored to a remarkable degree. Confidence in the Government and in the general financial stability of the country is probably more firmly established today than at any time since

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the War. The huge War loan conversion scheme was a brilliant success, and might well have been the starting-point for a real revival of trade. The increase in capital value of other Government stocks extending simultaneously to all gilt-edged securities, and later to high-class industrial shares, created an expansion of spending or borrowing power of enormous dimensions. But the power was not exercised, at least not in the direction or to the extent required, for what was still lacking was enterprise.

Confidence in Government securities, and other investments of a safe and readily negotiable character, is a great blessing to those who hold them, and may be an indispensable first step to a wider revival. But it cannot bring about such a revival by itself, and in the absence of any will to new enterprise. Enterprise is based on confidence in business conditions, and in particular the prospect of making profits, not on the price level of Government securities. It is indeed a commonplace of business experience that when trade is bad the price of gilt-edged securities goes up, and vice versa, when trade becomes active, the price goes down. The great achievement of the Conversion scheme, hailed by our



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politicians and by the Press as a stroke almost of genius, and as the beginning of a new era, raised no corresponding enthusiasm in the business world, in the industrialist, the farmer, or the trader. Even the relief from taxation, which it made possible, negligible as this would be in comparison to the advantage of a trade revival, was denied him.

I have dealt with the episode of the Conversion scheme rather more fully than, as a factor in the general situation, it deserves, because it shows so clearly how far we still are from a serious consideration of the psychological reactions aroused by this or that procedure or policy. No appeal has yet been made to the one class we should be looking to to lead the way to a business revival. The bankers have received a fair share of consideration, and this has been right, for they are the source of new credit, but it is not the function of the bankers to lead, rather to follow and assist. The rest of the population, the investors in safe securities, capitalists of the class which lives on so-called unearned income, the official and salaried classes, the wage-earners, the professional classes, and all those persons who are only indirectly concerned with the creation of new enterprise, have been thought of,

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only the "entrepreneur" himself, and the producer, have been left out.

That a number of wage-earners and salaried persons are unemployed, and like the business man who looks to profits depend for their future on new enterprise, has been the subject of grave concern, but except for the tariffs and the doles little or nothing has been done to help them. Their psychology is not considered any more than is that of the entrepreneur.

Since we live in a democracy, and since the average voter, no matter what his real interests, has too little understanding of economic and financial questions to think them out for himself, it is perhaps hardly surprising that proposals designed to promote profits should not receive as much attention as matters of more obvious public interest. When this also happens to be the interest, even if narrowly so interpreted, of the great majority of voters and supporters of the Government in power, when it agrees with the views of leading authorities in banking, economics, and general affairs, in the City as in the country districts, the scales become very heavily weighted against the "profiteer," or anyone who can be classed with him.

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The psychology of the ruling classes is well known in matters of financial and economic policy, and it has been appealed to on the whole with success. Their confidence may be said to have been restored, British credit stands higher than ever, and the London Season has been a huge success.

But still business does not pay, and we have nearly three million unemployed in this country alone.

## CHAPTER VIII

### REACTIONS OF THE BUSINESS MAN

SINCE it is mainly to the business man, particularly the business man of what the economists call the "entrepreneur" class, whether he be producer, trader, or banker, that the world looks for a revival, it would be logical if we paid at least as much, if not more, attention to the study of his mentality as we have done to that of the general public.

Unfortunately the entrepreneur is a comparatively rare person, and expresses himself little in public. He has usually few interests outside of his business, and mixes little with statesmen and politicians. He does not write books, and seldom even letters to the Press. But if the story of the building up of the great economic structure which exists today were ever written in its true perspective, it would probably surprise us to find how dependent its progress has been on a mere handful of pioneers, men often socially obscure but of exceptional force and vision in their line. It has been the same with all progress whether in science and invention, in art, in politics, or

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whatever makes for the advance of our civilization. One man leads and the rest follow. The masses do not move by themselves, and if they do, it is rather to obstruct and destroy.

If we wish to make progress now we must appeal to the pioneer in business, more directly and clearly than we have yet attempted to do. We must give him a foundation for his enterprise, remembering that he is rather a simple person, generally ignorant in matters of high finance and economic theory, neither disposed nor able to invent for himself a new order of things. He takes conditions as he finds them, and if he is satisfied he begins to build upon them.

But something has happened to undermine his confidence, and we must find out what it is. Then we can think out more clearly our ways and means of satisfying him. He will not help us much in this, because he is a creature of instinct rather than logic, and is only dimly conscious that he is the man we are looking for. Besides, the older generations of his kind have been more or less completely paralyzed by the War and after-War crises, and the younger generations have hardly come into being yet.

Since our man is somewhere in the general

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body of business men, from which he may be as yet hardly distinguishable, his outlook is probably still dominated by his environment, and our first step should be to enquire more closely into what this is.

In a general way it may be said that business does not pay, has not paid for two, three, or even four years past, and prospects of improvement are too uncertain to encourage the business man to proceed except from hand to mouth. The reason his business does not pay is that while his costs, including interest on debts, can hardly be reduced further than they have been already, prices remain too low, turnover too small, to give him a margin of profit, or at least a profit sufficient to justify the risks. He is not tempted to enter into any new commitments, to borrow any of the money which may be freely offered to him, until he sees quite clearly and with good reason that the conditions for his business are going to improve, and that the improvement is likely to be sustained.

The speculator may be willing to begin operations on a much slighter promise, taking care that he is in a position to retreat at the first sign of a set-back, but this is not the kind of man we have in mind when we are con-

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sidering the building up of a new prosperity. What we want is the permanent investor, the man who will lock up his fortune in his enterprise, and take the risk, for good or for ill, of the future.

Why is the business man so much more pessimistic and difficult to move today than he used to be in previous crises? The answer to this question is not difficult to anyone who has been in active business through the period of the last twenty years. Too many things have happened which have never happened before in his experience, which could never have been anticipated or guarded against, and he is not taking any chances.

From the time of the outbreak of the War, with its wholesale destruction and confiscation of private property, made legal by the Peace treaties—in the case of our late enemies and some of our allies with negligible compensation or none at all—the casual interference with private contracts by Governments on grounds of national expediency; the depreciation after the War of nearly all currencies on the Continent, together with the securities depending on them—in Germany and Austria, to the point of their becoming practically worthless paper; frauds, bankruptcies, frozen credits,

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fluctuation in prices on an undreamed of scale—the business man has suffered from a continuous series of shocks, which have undermined his faith in the fundamental basis of his profession. He has been helpless, either to avoid them or to deal with them when they came.

In spite of man's happy instinct to forgive and forget, a scar has been left on the business man of the present generation, particularly in the international field, which will take more than a vague promise of improvement, an instinct that the swing of the pendulum is due, to heal. In many, perhaps even a majority, of the older men the will to new enterprise has been definitely killed. Safety for their past gains, if any are still left to them, is their chief concern rather than future profits.

What then can be done to restore confidence and enterprise, at least in those who are not so deeply sunk in gloom or debt that they will not respond to any inducements? We may come to the conclusion that the task is a hopeless one, and that after all the private entrepreneur of the old school, if not doomed to complete extinction, has become a factor of very much less importance than formerly. His place has been taken by the huge industrial



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trusts, which by their very size and momentum are compelled to carry on and extend, whether the prospects for making profits are good or bad. Transport, lighting, and all forms of public utility, a larger and ever larger proportion of our basic industries, the banks, all are being driven by circumstances to become semi-national institutions, to which the older incentives to enterprise may soon no longer apply. The tendency is carefully noted and welcomed by our Socialists.

But the time for a Socialist State has not yet come, and may never come if private enterprise is given a chance to recover its old force and meaning. What is quite certain is that it will come, and come very soon, if the present chaos of conditions, which are neither the one thing nor the other, is allowed to continue. In any case, the incentive or need to make profits is still the main driving force of our economic progress, while the making of losses is the main cause of depression. And whatever social system we prefer, in our business affairs at least, both ends must be made to meet.

We have seen that the business man, while as an investor in safe, fixed-interest bearing securities, or as a lender of money in general, he has regained much of his old confidence, is

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still holding back from any serious new enterprise. If this is so in the internal business of this country, it is even more so in international business, which continues in virtual liquidation. We have seen further that the faith of the business man in the basic conditions for the making of profits, and the sense of assurance that they will not be taken away from him, or lost in some fresh cataclysm, has been so rudely shattered by his experiences of recent years, that he will not respond to the old inducements of cheap money and general financial stability. Something more is required, some new inducement which has not yet been tried.

Many of the older generations may be beyond appeal, and it is to the younger members rather that we should direct ourselves. They have not the same memories of the past, their minds are still open, and having no fortunes to fall back upon in retirement, present conditions of inactivity and hopelessness are intolerable. It is clear that our pioneers are to be sought in their ranks or nowhere.

I have said little up to now about the great class of producers as such, though they are clearly the chief sufferers from the depression and would be the chief gainers from a revival,

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because they are not the people who initiate new business. In their game of production they are now, as always, brimming with enterprise and new invention, ready to respond immediately to any demands which may be made upon them. They are even too active for existing circumstances, as we see from the continued piling up of ever more and more attractive goods for which there is no money to pay. But they are helpless without the entrepreneur, and the entrepreneur in turn is helpless without the conditions for his enterprise.

So we are at a deadlock. Either we go on as we are, sliding a little backwards and forwards, with no serious attempt to attack the root of our problem, in the hope that some day something may turn up to help us out. Or we take a definite step forward, a little in the dark perhaps, but one which we know beforehand will appeal to the only class of our population who can supply the missing link.

And let there be no mistake: the alternative to the private entrepreneur is the State entrepreneur, and the entry of the State entrepreneur means Government control and Socialism. We have already seen to what an

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extent political and bureaucratic control, on its more negative side of restriction and interference, has developed and continues to develop throughout the world, how this has contributed to the breakdown and is obstructing a revival. Just as a rise in value of Government securities denotes lack of confidence in business enterprise, so the tendency to Socialism is a symptom of failing prosperity in general.

So long as we are without a counter-plan which will give encouragement to our younger generations, looking hopelessly around for some prospect of active employment, the appeal to Socialism in one form or another will be difficult to resist. And I assume that most of my readers still believe that the freedom of the individual, within a certain framework of the public interest, will in the future, as in the past, prove the more healthy and vitalizing influence in our progress.

## CHAPTER IX

### STABLE MONEY THE FIRST STEP

So far I have confined myself to the conditions which have combined to destroy the will to new enterprise, and among business men, at least, I do not anticipate any serious disagreement on this side of the subject. When, however, it comes to suggesting the steps which should be taken to bring this enterprise to life again, we enter at once a field of theory and argument, and we have to choose a certain line out of many and follow it out, meeting one by one the objections which we know will crowd in upon us on every side. Even among the comparatively small class of "entrepreneurs," there are differences of mentality and interest which make it dangerous to generalize, and our appeal has to be directed, deliberately, to those whom we believe will prove most helpful in the building up of the future.

I have already indicated that it is natural that we should consider the younger generations rather than the older in this connection, but I should perhaps add that this is not meant to imply the young in years and

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experience so much as those whose outlook has remained sufficiently unbiassed to be still capable of adapting itself to new conditions, and grasping new opportunities. For good or for ill, the world has changed, and changed so fundamentally that the conditions which gave rise to the security and confidence which existed in the past, are either impossible to reconstruct, or would be inapplicable, and lose their old meaning, under present day circumstances.

We are, therefore, to a very large extent driven to invent new conditions to replace old ones, always bearing in mind that human reactions, and in particular the incentives to business enterprise, remain comparatively constant, and are the foundations upon which we have to build.

There may still be some few among the older generations whose vision of the future is limited to a reproduction of conditions of the past, who believe that, broadly speaking, what is required, and indeed all that is required, to make the world go round again, is the clearing away of the debris of debts and taxes, restrictions and interferences of all kinds, left to us by the War and after-War conditions. How we are to gain this blessed relief is left

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to our imagination, or to some mythical dictator who will one day rise up for the purpose; but both common sense and reason tell us that this is an idle dream, and that, moreover, dictators are more inclined to add to our bonds than to release us from them. But even if by some miracle all our burdens could be cast off overnight, we may be sure they would very soon reappear in full force, as the inevitable accompaniment of our modern economic development.

Whether we like it or no, we have to face the fact that debts must be paid, not evaded; that however much general conditions may have changed, and whether our minds are young or old, the sanctity of contracts will always remain a corner stone, as indispensable in its way as the incentive to make profits, in our appeal to sound business enterprise. Unfortunately also we must accept the fact that the political interactions of the modern business world have become so far-reaching, that Government interference, or intervention of one kind or another, has come to stay, probably even to grow in importance.

Our practical problem is therefore limited to finding ways and means of making the best of necessary evils, that is, on the one hand, to

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making the repayment of debts as little burdensome to new enterprise as possible, and, on the other, to guiding the tendency towards Government control into more fruitful channels than heretofore. If approached in this way, we may find that not only may the debts prove actually helpful, as an incentive to revive the flow of exchange of goods and services, but even that Government interference may be turned to good account, as a regulating influence, outside the scope of private enterprise, to preserve equilibrium in our foreign trade, and between production and purchasing power generally.

Once we make up our minds clearly that we want to create a safe and paying basis for the business world, and that we will look at all our problems with this single purpose in view, overcoming theories, prejudices, or traditions which appear to obstruct a solution on business-like lines, we shall have won half our battle. For this will be the surest way to appeal to those others of the same mind, upon whom alone we can rely to help us out of our troubles. If our concrete proposals, and the actual steps which we may take in fulfilment of them, spring from a similar straightforward attitude, then we may regard



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our battle as as nearly won as it is humanly possible to win it.

With nothing but this broad principle to guide us, therefore, I propose that we begin our attack. And I would select as our first object the most tangible and pressing of all the obstacles to a revival of enterprise, which I need hardly say is the low price level of commodities. For whether it be strictly cause or effect of other evils with which we are confronted, to the great majority of business men it is the fall in prices which has hurt most directly and vitally, and the absence of any sustained recovery or prospect of such recovery which is holding him back from further enterprise.

I am well aware that the price level is not the only, or even the chief, obstacle to a revival of enterprise, that indeed to the entrepreneur, and still more to those upon whose financial support he depends, considerations of a more general and fundamental character weigh more heavily against it. The breakdown of international credit and good faith, and the spread of Communistic ideas, and of political disturbances of all kinds, are perhaps the most powerful of all deterrents to the making of plans for the future.

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I am also aware that it is not production which needs reviving or stimulating, but rather the distribution of purchasing power, which is only indirectly affected by the price level, and depends primarily on credit conditions.

But if I am thus to some extent "putting the cart before the horse" in selecting price raising as the first object of our attention, this is because I see in this the most practical step towards a more comprehensive plan with which to oppose the Communist or any other revolutionary programme. If we think we can protect ourselves from the spread of any of the political tendencies of our age which we fear, by means of arguments or sentimental appeal, we are fooling ourselves. The only possible way lies in a counter appeal which will prove stronger, more particularly in the eyes of the younger generation.

In theory, at least, all are agreed on the desirability of a rise in prices, to somewhere near the level required to meet existing debts and costs of production, with a fair margin of profit; but what we do not so much agree on are the ways and means to bring this about, in particular whether it should be left, as in the past, to the spontaneous interaction of

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supply and demand, or be deliberately engineered and controlled by Government or other central authority. While there is general consent that Government intervention is required for the removal of all the more obvious obstacles to a rise in prices, and that the policy of cheap and plentiful money should be continued with every possible encouragement, any more direct and positive action has so far been considered unsound, and probably unnecessary.

If we waited long enough there is little doubt that sooner or later prices would rise, if only from the decline and decay of production. But this would mean the going back to pre-War conditions to which I have referred in a previous chapter, and I will assume that all my readers agree that this is both impracticable and undesirable.

But even if this were not so, and prices were to begin to rise almost at once as a result of some fortuitous circumstance or change of sentiment, it would be a bad and almost certainly only a temporary way out of our difficulties. It would be almost as bad, and have almost the same results, as the haphazard creation of new money by merely setting the printing-presses to work,

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and only the speculator would be tempted by it.

For the building up of new enterprise of a lasting kind some assurance is required that the new level of prices is under control, that it can and will be maintained as well as checked. And for this the price raising must be part and parcel of a settled policy. This was not necessary in the past when men had confidence in general conditions, but the experiences of recent years make it necessary today.

There is no question that these experiences have produced in the mind even of the least thinking of business men an entirely new outlook on the relationship of money and prices. On the one hand, he has seen his money lose its value, and even become worthless, while still in his pocket, and, on the other, he has seen it disappear, as if by magic, in the great crash of credit and prices of the last few years. He has come to the conclusion that money is not what it used to be, and cannot be relied on any more. All his accounts and calculations have gone wrong owing to this strange behaviour of money, and it must be stabilized before he can get on with his business.

And if his mind works still further along

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these lines, he finds that what he means by stabilization is stable prices for his goods and services. Stability in terms of gold or foreign exchanges may be good things in their way, but they appear to the average business man as theoretical advantages which do not directly concern him, and he leaves them to the banker and the economist to puzzle over. Indeed, I do not think that many practical business men would take the trouble to study the detailed provisions of a new monetary plan very closely, so long as it was frankly designed to secure stability of prices, and was sponsored by men in whom he had confidence.

Whether gold can be fitted into any plan which is designed to stabilize money in terms of commodities I do not know, and I do not think it would matter very much to the business man either way. Probably nine out of ten of the younger generation at least have lost whatever respect they were once taught to hold for gold, since its behaviour in the last few years. But if there was any danger that the power of gold, as this has been exercised in recent years by certain foreign interests, or of the exchanges, or any other extraneous influences arising from the abuse of gold, might bring about a relapse

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in prices at some future date, then our new standard would have to be fully protected against such eventuality.

The objectives of our plan are thus perfectly clear and straightforward, and it remains only for our experts to tell us how to secure them. I am no expert, but every business man knows that our financial machinery, even as it exists today, is capable, by means of variations of the bank rate, the control of new investment, and recently the manipulation of exchange rates, of exercising a very effective control over the volume of money and credit in circulation, and thereby of the value of money in terms of gold or commodities.

Hitherto this control has not been directed to securing stability of prices, so much as of exchange rates, in which gold plays a more important part than the price level of general commodities. A change in the direction of this control, namely towards the raising of prices of commodities and maintaining them, would therefore seem to be an easy first step.

But it would only be a first step, and since the essence of our plan is that it must be successful from the very start, we must be prepared to accept any alterations in our

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financial machinery which the experts tell us are necessary to adapt it to our ends. Whether it be devaluation in terms of gold, or the scrapping of gold altogether as a basis for our currency, all our preconceived beliefs and theories on the subject must be discarded if necessary. I have heard it suggested that the solution is to have two different kinds of money, the one for currency purposes and the other for accounts. It sounds a fantastic scheme, but if I were told that this was necessary to secure us against a fresh crisis, I would have no hesitation in accepting it.

And if a remodelling of our monetary system and financial direction is insufficient by itself to start the ball of new enterprise rolling, we must overcome even our deep-rooted objection to Government intervention in the form of guarantees, expenditure on public works, reconstruction of industry, rebuilding of slums, or whatever it may be.

In normal times, or after a normal crisis, such extraneous assistance would probably be unnecessary, but we have a long way to go before the purchasing power which has been lost is restored; and just as it was Government expenditure which formed the starting-point and basis of the prosperity which ended in

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1929, so Government expenditure, even on a large scale, may be necessary to fill the gap before private enterprise comes back into its full swing.

No monetary plan, however well managed, can by itself create the demand which in the last resort determines the price level. Demand arises from the *expenditure* of money and credit, not the mere creation of it, so that if for one reason or another private enterprise fails to respond to our appeal, the Government must inevitably step into the breach, or the plan collapses; our money would become once more unstable, and we should be worse off than we were before.

It is not within my province as an ordinary business man to go into the technical details of the machinery for regulating price levels, or of the way in which this would be co-ordinated with the finance of whatever Government enterprise might be required. I would no more think of devising such a plan or even making suggestions on the subject than I would of erecting my own electric lighting plant. But that a workable plan to meet all or nearly all our requirements is impracticable, or even as difficult as the erection of an electric plant, I refuse to believe.



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I have sufficient faith in our experts to entrust them with both design and carrying out of any plan, once they know clearly what we want of it. Probably the plan, or even a choice of plans, is ready at hand for the mere asking for it.

What is difficult, and may even prove impossible, is to overcome the distrust of any new experiment in connection with our monetary affairs on the part of many of our leading bankers, economists, and Government officials. The peculiar dependence of finance and credit on the psychological reactions of the public, which I have emphasized throughout, makes it of the utmost importance that we should overcome, rather than override, the fears and suspicions which will be aroused by any new venture, particularly in the minds of those at present in control of the machine.

If the gold standard were a new invention today it would be regarded as the wildest of wild theories, without even logic and reason to recommend it. It is only because its origins can be traced back to prehistoric days, that it has grown up with the ages, adapting itself step by step with the world's economic progress, that it has been accepted for so long. And it may be only because it has been so

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accepted, that until recently at least it has worked so amazingly well.

It is more important therefore that any new plan which we have in mind should be generally accepted than that it should be perfect in this or that detail. And the difficulty is not in its designing or working, so much as in "getting it across" to the people; and once again we are faced with a problem of psychology.

## CHAPTER X

### OBJECTIONS TO PRICE RAISING

THE objections to any scheme for the deliberate raising or control of price levels are many and varied, and must be cleared away so far as possible before it will receive any wide support, and before therefore we can proceed to consider its further implications.

In the first place, though our main consideration is for those who will most directly and obviously benefit by a rise in prices, we have to reckon with the opposition, or at least the apathy, of the very much larger body of those who at first sight would appear to lose by it. This class includes all those whose incomes are more or less fixed in terms of money, and whose interests are thus only indirectly dependent upon business profits. The threat of a rise in the cost of living, the cry of dearer bread, has again and again proved the most potent of all weapons in the hands of our politicians. The promise of business prosperity has carried little weight against it, and in this country at least has never yet won an election.

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That higher salaries and wages, and full employment, go hand in hand with remunerative prices and profits, is not even yet fully appreciated by the masses of the population, who continue to regard the national income as a fixed quantity, of which they are entitled to an ever larger share.

But I must assume that the depression of the last few years has impressed upon every thinking man, whatever his personal interests in the matter may be, the fact that if prices remain below costs of production, either salaries and wages, and even interest on debt, have to be cut down to meet the fall, or business must go into bankruptcy and close down altogether. On a national scale this means that in the end, even those fortunate few who have a first charge on the country's production, the holders of Government stocks, and at long last the Government officials themselves, are forced to go without.

And I will further assume that, even were the above not clear, all serious persons today have sufficient public spirit to welcome a revival of business prosperity, notwithstanding any slight increase in the cost of living which it might entail, provided it can be achieved

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without more damaging repercussions in other directions.

Then there is the objection that it is not any failure of our monetary machine which has led to the fall in prices, so that even if it be admitted that, by manipulation of money and prices, we can bring about a temporary revival, this will be worse than useless if the root causes of the depression are left untouched.

This might be a sound argument if we were not going seriously to attack those root causes, but until we have at least some show of reviving prosperity, we cannot even approach them. A beginning must be made somewhere, some time, we must get our more enterprising and far-seeing men on to the job, and for that we have in a new monetary policy the most straightforward and easy first step.

Later on we may find that owing to tariff barriers, or other international complications, our objects can be only half attained, that the present distribution of the world's, or even of our own internal, purchasing power, frustrates all our efforts to keep pace with increasing production, that millions of men will continue to be displaced from employment by the sheer efficiency and rapidity of the modern machine, or may be a hundred

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and one new and unforeseen difficulties, but we shall have made progress. We shall be in a better position to deal with such problems than we are today. Indeed, in adopting our new monetary policy we shall be so committed to face, and overcome, the difficulties which may threaten its successful working, that we shall already be half-way to finding a solution.

Probably the most widespread objection to any plan for a currency adjusted to general price levels and production rather than gold, or what is called a "managed" currency, centres round the word inflation. As we saw during the political crisis in this country in 1931, the idea of going "off gold" brought instantaneous visions of the inflationary collapse in Germany and Austria after the War, and handfuls of million and billion mark notes were held up to impress the people with the effects which they might expect from anything of the kind. Even today the word inflation is used vaguely to describe any increase of money or credit beyond what is outstanding at the moment.

But the word itself implies an expansion beyond what is normal or desirable or safe, something unsound and liable to collapse,

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and it is for this reason that its indiscriminate use may be so misleading. Strictly speaking, the word should be confined to an expansion of money and credit beyond the point where there are sufficient goods and services, at normal or reasonable prices, to cover the increase. To say that if there is no effective demand for these goods and services, they do not count in our calculations, would be true enough if we were not going to spend the new money and credit, and thus create the very demand which is lacking. But even if the money were not spent, the worst that could happen would be that our plan for raising prices would be still-born; prices might indeed relapse to new low levels owing to disappointed hopes, but this could hardly be regarded as an effect of inflation.

It will be seen at once how far we are from anything approaching true inflation. There is a glut of goods and services awaiting consumption, such as has never been known before, and prices, if not exactly normal or reasonable, are abnormally and unreasonably low.

The troubles of inflation arise only when there is a shortage of goods either in the world as a whole, as was the case during and immedi-

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ately after the War, or in a particular country or countries, as in Germany and Austria after the blockade. Today, except in Russia and a few South American countries who have insufficient credit to enable them to buy what they need from the world outside, the fear of inflation is an illusion.

In any case a managed currency is intended not only to raise prices, but to check them when they go too high, and as we know from experience, it is much easier to check them than to raise them.

The world requires fresh purchasing power to the extent of several thousand million pounds a year in order to restore the price level and prosperity of the years preceding the crisis. Until new money and credit reaches some such figures, we need not even think of the word inflation. And by what time, if it ever comes, the production of the world will have been so increased, that a new platform will have been raised upon which to base our calculations.

I am aware that the matter is in practice not quite such plain sailing as it appears from my above remarks. In the case of one country acting independently, no matter how large and important the country, there are



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movements in the exchanges with other countries which create complications, and the free exchange of goods and services between one country and another is necessary to make effective the demand for them. But at present we are dealing with the world as an undivided whole, and leaving the consideration of the international complications to a later chapter.

There is also the somewhat obscure, but possibly for that very reason more serious difficulty, of bridging over the inevitable lag between purchasing power of the consumer and production, which tends to shoot forward ever further and further ahead of it. This may lead to some control of direction of the new expenditure, in order to minimize the tendency and prevent a fresh collapse of prices, but with Government credits at our disposal, it is clearly capable of arrangement one way or another.

Next in importance to fears of inflation as an obstacle to our plan, I would place the fear that it would be the "thin end of the wedge" of Socialism, of political control of our economic affairs. But if Government intervention and regulation in times of crisis means Socialism, then we have seen Socialism in full operation ever since the outbreak of

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war. Maybe it was a bad thing, but it was inevitable, and the harm cannot be undone now.

Since Governments have played such an important part in building up the structure which has collapsed, and by their continued restrictions and impositions of one kind and another have placed everywhere difficulties and obstacles to the smooth working of our economic machine, their responsibility in the matter is very great. But it is responsibility to the enterprise which they have killed, and which needs their assistance for recovery. It is not an excuse for a new social order.

Only when we have given private enterprise a fair chance, when we have tried our experiment and failed, can we gracefully hand over the reins to the Socialists.

Together with the fear of Socialism, we find the fears that if our money affairs were divorced from the rigid and automatic control of the gold standard, they would be open to manipulation for political ends, and subject to all the vagaries of democratic sentiment. But there is no reason why the machine should not remain in the same independent hands as it is today. It can be made subject to as much rigidity in its rules and regulations as is the working of the gold standard; only the

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rules and regulations will be different, and being more scientific, can be even more rigidly enforced. If it is properly designed in the first place, it will automatically meet our changing conditions and requirements, and there will be no call to interfere with it.

If Government guarantees, or Government expenditure on a large scale, become an inevitable supplement to our plans, then admittedly there is more cause for alarm. But are we not "between the devil and the deep sea"? If prosperity does not return within the next few years, say before the term of office of our present Government expires, we are faced with the practical certainty of Socialism of one kind or another; the demand for it will be irresistible.

The introduction of a new monetary system by a national Conservative Government is one thing, but as the untried experiment of a Socialist Government it is quite another.

If it is the distaste and distrust of a settled plan in place of the present absence of it, the idea that this is contrary to our national tradition, which is rather to meet our emergencies as and when they come upon us—the policy of "muddling through" which has been so successful in the past—one may say,

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equally or more truly, that the absence of a reasoned plan and objective is causing the gravest distrust and lack of confidence in the minds of all our more enterprising and far-seeing business men. Without a plan which will secure them against periodical collapse of prices, they will themselves make no business plans.

In the past the place of a plan was taken by the settled conditions, the blind faith of the business man in the accepted rules of the game, which he had found to work. Now he finds that they do not work, and he has lost confidence in them. Far more than any positive or theoretical desire for a scientific regulation of our affairs, it is this distrust of the old game which calls for our attention. It has left a wide open gap in our economic life which must be filled.

It has been a great mistake that the idea of economic planning and scientific reorganization has been allowed to become so generally associated with the Socialist programme. It has given rise to the myth that the Socialists are the only intelligent and thinking people in the political world. In reality neither planning nor science have anything to do with Socialism, and fit in equally well with the

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continuance of private enterprise. Only modern conditions demand them.

Whether from a political point of view it is practicable or not I am in no position to say, but from the business side I can see little objection to the setting up of an economic or industrial board occupying a similar independent, but genuinely national, position to that of the Bank of England, and with similar powers. Such a board might even be appointed by the Bank of England, and exercise its powers of control and regulation of industry exclusively through that institution.

It is well known that, though directly or by law the Bank has no power of control over the uses to which money and credit is put, in practice such control can be, and sometimes is, a very rigid one, particularly in connection with foreign loans and credits. There would be nothing very revolutionary, therefore, or Socialistic, in a more extensive, or perhaps I should say more positive, exercise of these powers in connection with a new monetary policy. By means of the practical veto which it possesses over any large-scale new investment, and assuming all Government expenditure were placed under the same supervision, the Bank would probably be in a position even

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today, without requiring any fresh powers from Parliament, to regulate our trade and industry so far as this will ever be necessary or desirable.

As in the case of a new monetary scheme, once we know exactly what we want, we shall find the experts ready at hand to work out the details and carry it through successfully. There is no need whatever for politics or Socialism, even for "red tape," to enter into the matter at all.

## CHAPTER XI

### DEBTS AND DEFICITS

OUTSIDE of the international complications which are of a more practical nature, there are a number of theoretical difficulties, which are bound to occur to the practical business man when any fundamental change of policy is suggested, and if he is unversed in pure economic thought, are apt to lead to doubts and hesitations on his part. This is due mainly to his habit of looking at all his affairs in terms of accounts, that is in terms of money only.

I have tried to avoid as far as possible dealing with my subject on lines of economic doctrine, since being no economist I would soon lead myself, if not my readers, far out of my depth, and end in making it more confusing than it really is.

Since, however, any plan for raising prices, whether by the orthodox methods of indirect encouragement or by more deliberate and direct action, involves a vast expansion of credit and new expenditure, public or private, there is bound to be some anxiety as to the ultimate outcome of it all, and doubts whether

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the new structure will be any less likely to collapse than the old. And this raises economic points which require the most careful thinking out, if we are to be convinced that we may have faith in the future.

We shall always have to reckon, and reckon very seriously, with the head-shakings of our champions of sound finance on the old lines, who will be for ever reminding us that the waves of prosperity built up by the methods which they condemn, have in the past sooner or later crashed; and what they say is only too true. But they crashed because they were left to themselves, and because certain principles, namely those of our sound finance school, have been freely applied to their destruction.

One of the problems which, like the skeleton at the feast, always lurks in the background of one's mind in moments of enthusiasm about the building up of the future, is how to deal with the debts and deficits in account, which will surely come along in its train. We have seen how the piling up of debts, both public and private, during and after the War, was one of the most important factors in the crisis, and how it is preventing our recovery; how, when it became feared that debts would not



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be paid, there was a rush to collect them, which led to moratoria and bankruptcies and the refusal to make further loans, in short to the breakdown of credit.

While, as was pointed out, the debts became unpayable mainly owing to the catastrophic fall in prices which we hope to avoid in the future, there is no doubt that the piling up of debts beyond certain limits is a bad thing. Even at the height of our prosperity and price levels it is probable that the proportion of the world's total wealth represented by debt, and thus of the world's production and income which was charged to pay the interest on debt, was far higher than it had ever been before, and than was healthy. After the crash the proportion became fantastic, so that today it almost seems as if the creditors of the world are the only people with money to spend. At least this would be the case if the interest on the debts was actually being paid.

All business men know what the burden of debts means to them, whether they can and do pay them or not. At the first approach of difficult times they hang like a pall over our enterprise, and we begin at once to think of ways and means to cut down our expenses and reduce our commitments. Those of us

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who are creditors are similarly only too familiar with what is called the "debtor mentality," that mixture of self-pity and arrogance, and the tendency to blackmail, which becomes more and more evident as the repayment of the debt becomes irksome or imminent.

The well-known proverb that if you lend money to a friend, you lose not only your money but your friend, extends also to business relations, and when the evil becomes as exaggerated as it is today, it may almost bring trade to a standstill.

But how are we to get along without borrowing and lending? Our modern progress in business has been based on it, and without the banks at least, business life could not carry on for a day. The problem becomes particularly important in connection with any new plan of revival, for one can hardly conceive of such revival without the borrowing of money on a huge scale, both privately and by Governments, if Government expenditure becomes necessary. This will mean the piling up of new debts on to the old ones, and so the process might go on *ad infinitum*.

No business man, whatever his economic theories, looks with favour on debts which

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are not intended to be repaid sooner or later. No arguments would convince him that there was not something unsound in the piling up of debts for ever.

But there is another side of the picture and the debt system has its good points, quite apart from its indispensability. There is no doubt, for instance, that the existence of the vast British Government debt, held by hundreds of thousands of the population, is one of the reasons why this country as a whole appears to feel the effects of the crisis much less than others. The owner of £1,000 of War Loan, even if on analysis it be only a claim on the country's revenue which does not yet exist, has the certainty of receiving his interest regularly, and this gives to his bonds a value practically equivalent to money for the whole capital amount. He can either spend it or use it for his business at any time he chooses. If that £1,000 of Government debt had never been incurred, or if the owner in a fit of magnanimity, cancelled or destroyed it, this it is true would relieve the Government, and theoretically but less probably the taxpayers, of an annual charge for interest and eventual repayment, but the immediate effect would be the disappearance of £1,000 of perfectly

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good purchasing power, and the country would be the poorer thereby.

We arrive at the conclusion that not only is the creation of debts of direct benefit as the source of original purchasing power, but that their existence afterwards in the form of bonds is a source of stability and further potential purchasing power. It is only when the repayment of the bonds, or of the interest on them, becomes doubtful that they are a source of weakness.

It follows that from an economic, if not a political, point of view, we have no reason to be afraid of the expenditure of Governments, any more than of municipalities or private concerns of undoubted stability, being financed by issues of bonds, even if the ultimate repayment of the bonds is extended almost indefinitely. It further follows that if during periods of trade depression, or for other unforeseen circumstances, even the interest on the bonds becomes a burden, there is no objection save that of economic theory, and a great deal of tangible advantage, in funding the interest by the issue of fresh bonds.

If during the present crisis the British Government, instead of maintaining and even increasing the very real burden of taxation,

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had added a few hundred millions to the national debt, none but our financial purists would have been any the worse for it.

Our aim, however, should be to avoid the piling up of debts wherever possible, restricting them to Government and other bodies of undoubted solvency. Then if the money is spent on objects wisely calculated to repay it, and if we are really determined to maintain our prosperity and price level, we need not fear a repetition of the present situation. But we should strive as soon as possible to create a situation in which the investor will be ready to take the full risk of new enterprise, to have a real stake in the future prosperity of the country, and not merely a charge on it. It is to the creditor class, who, together with the fixed wages and salary earners now form a majority of the population, that we owe the greater part of our difficulties today, for it is mainly their inertia, their "safety first" mentality, which is blocking the way to a genuine revival.

Associated with this question of debts is the balancing of budgets, both public and private, which causes such concern and leads to such distress in times of depression.

We all know that it is necessary to make

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both ends meet, and that the alternative sooner or later is to become insolvent, and cause loss and distress to our creditors. But it is equally clear that the cutting down of expenditure, again both public and private, in times of depression leads to even more widespread distress, liquidation, and loss.

The private person, or small business concerns, usually have no alternative but, in their own interests and protection, to cut down their expenses strictly and ruthlessly to meet reduced income. But to larger business concerns, and public bodies of good financial standing, there is an alternative way out of the dilemma, and that is by borrowing instead of cutting down expenses.

If we picture the world as an economic whole, whose revenue and expenditure account is on the one hand the total production of goods and services, and on the other the total money and credit outstanding, that is the counters, which are used to pay for them, it is clear that if the two sides do not balance, it must be due to one of two things. It may be due to an over-production of goods and services beyond requirements, which today is only partially true, or to a deficiency, or failure to circulate, of the counters. If the game

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were properly played, the loss of the counters would be immediately restored by the putting into circulation of fresh ones, and certainly not by withdrawing more counters and thus increasing the deficiency.

Theoretically therefore, there is nothing unsound in creating fresh money or restoring lost credit, that is to say borrowing, to make good deficiencies, as an alternative to cutting down expenditure, which is merely adding to the destruction of purchasing power. Indeed, quite obviously the reverse is the case.

But the world is not an economic whole and consists of a vast number of separate entities, some well managed and some badly managed; some producing more than they can sell and others spending more than they can produce, and to make matters worse, while their debts and costs generally remain the same, the money values of their goods and services are subject to ups and downs which cannot be foreseen. So the world has inevitably come to condemn the practice of borrowing to cover up a loss, which may never be regained.

Since we shall always have to contend with the mismanagement, miscalculation, or misfortune of this or that nation or business, an indiscriminate practice of meeting deficits

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by borrowings will lead to bankruptcy, even in a Socialist state, but if we adopt a monetary system and economic policy which secures for us a volume of money and credit calculated to balance our production of goods and services, we can look on the matter with entirely different eyes. There would be no excuse for a world-wide liquidation to meet deficiencies such as we see today, and it is this, rather than the necessity to use our judgment, that we want to avoid in the future.

I am well aware that these views are familiar to all economists and financial experts, that the arguments which I have put forward are as old as the principles which they attack, and have broken down time and again in the acid test of business life. The world is no place for ideal systems, whether social or economic, and probably never will be. But if instead of worrying ourselves so much about our figures of account and other abstractions, we would concentrate in the future more on the objects and uses to which our money and credit may be put, on securing such a distribution of it as will make effective the demand for our production, on removing artificial barriers and restrictions on free exchange, and on all the other realities which precede and give rise



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to our figures, then we would be well on the road to progress.

It is not idealism we want—that we have in plenty—so much as a new and more business-like attitude towards our problems.

When war was the object we were all without a moment's hesitation ready to discard any theory or principle, sound or unsound, which might stand in the way of a successful issue. Our objective was clear, and we set about attaining it in a businesslike way. Now we are faced with an emergency almost as grave. But with peace and prosperity as our objects, and when the money is needed for construction which will repay it, in place of the destruction which lost it, we hesitate.

Can it be that our cynics are right and that a catastrophe of the nature of the War is necessary to prove to us how rich we are, that our poverty is an illusion?

## CHAPTER XII

### TARIFF BARRIERS

I HOPE that my readers will have followed me to the point of agreeing that there is, in theory at least, a strong case for breaking with our traditional ideas of sound money and sound finance, and taking an experimental step forward. Some I know will not, but if a majority are with me I am satisfied.

But there are practical difficulties in the way, to which I have so far only alluded in general terms as the international complications. These are certainly serious, and may well postpone any ideal solution to the far distant future. But as in most human affairs, if we are sufficiently determined, there is a way out or a way round, if only to a compromise, and we need not throw up our hands in despair.

The trouble lies in the fact that the world is not an homogeneous whole, that as the recent Economic Conference has once more so clearly illustrated to us, each of the different nations of which it is composed has its own ideas of its interests, and that for all immediate and practical purposes it is a waste of time to

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try to convince them, at least by talking to them, that we are right and they are wrong.

As I have already pointed out in a previous connection, the difficulty is not so much to find a way out in itself, as to "get it across" to the people; and when we have to consider not only our own people in the matter, but the whole world, the task becomes wellnigh impossible. Only by action and results, that is by example, can we ever hope to make any real progress towards international co-operation.

And even then we must not be too optimistic, after our experience with our traditional Free Trade policy. Maybe Free Trade was the right policy for this country, even the right policy for the world, and the world profited by it greatly. But they were not convinced; one by one the different nations broke away, placed barriers in our way, till at last we in turn were forced to abandon the policy in self-defence.

It was the same story with the Gold Standard, which in our hands was so admirably suited to our circumstances and interests as the world's financial centre. And the world profited by it. But in other hands, with different interests and in different circumstances, it has broken down.

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Let us by all means try and try again to reason with our neighbours, to come to agreements where we can, compromises, even pious resolutions, on the various problems we have in common; it has an educational value if no other. But to stay our own hands while we wait for a co-operation which may never come is not practical business.

Our problem now is to see how far our plans for a new policy in our monetary and financial system break down against the fact that the world is not yet ripe to become a single economic unit, and how far they can be adapted to it.

The most obvious, but not necessarily the most serious, obstacle to the free exchange of goods and services, upon which a trade revival depends, and which alone in the long run can justify and support a rise in the price level, is tariff barriers. Their effect is not only to reduce the total volume of international trade, but indirectly also, as we have seen in the case of the United States, they make a free lending policy by the country which maintains them on a prohibitive scale both unsound in theory and unworkable in practice. And liberal lending by the richer to the poorer nations, as between individuals within the

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nation, is the basis of international credit and the free circulation of purchasing power. We can never hope that the full productive capacity of the world will find effective demand for its products until all or nearly all prohibitory tariff barriers between the nations are removed.

But tariffs are not always prohibitive even if high, and if a sufficient quantity of imports are admitted to balance normal exports, the aggregate trade exchange should not be seriously affected. Even in the United States, the original principle upon which tariffs were erected was to secure a higher standard of living for the American people, against the competition of more cheaply produced foreign goods. It was not to prevent the foreign goods from coming in at all, and there are indications that the earlier principle will be returned to, now that production has reached saturation point, and there is no object in fostering new industries.

In any case, and even if tariffs of any kind are a hindrance to the building up of a perfect economic machine, we have to recognize that the latter is not the only object of mankind, nor even the chief object. It is only a means to an end. A healthy community, whether it

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be a large nation or only a small town or village district, needs a well-balanced division of employment to meet the divers<sup>e</sup> characters and abilities of its members. A whole nation of coal-miners or textile manufacturers, for example, even of farmers and farm labourers, would make a poor community, and in the long run a poor market for the world's goods.

Free Trade on the old lines has broken down, even as an ideal. This country has become over-industrialized, over-specialized, may be even over-populated. Tariffs for assisting us to a more well-balanced division of industry and occupation have long been called for, even before the crisis intervened. In particular, the sacrifice of our agricultural interests, of our once prosperous countryside, to the greater voting strength of the townsmen and general body of consumers, appealed to by that fear of a rise in the cost of living, which blocks the way to so much progress, is one of the most shameful achievements of our democracy.

When therefore the removal of tariffs is being considered, it is a compromise or balance with other interests that we have to find, and this balance can only be decided by each nation for itself. But there are some

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tariffs, the erection of which serves no vital need or political object of the people, and it is these that we should endeavour, and indeed have a better chance in practice, to eliminate from the world's economy. I allude to tariffs which nations are forced to raise in protection of their balance of trade, or in retaliation against each other, for these can only serve to impoverish both the country raising them and the world in general.

As we have seen in the case of unbalanced budgets, or deficits in account of all kinds, the cutting down of expenses to meet them directly aggravates the cause of the trouble, and should be avoided wherever borrowing is possible and justified for the purpose. So it should be with national trade balances, and before tariffs are raised to protect them, the countries chiefly affected should get together, and see whether loans cannot be arranged provisionally and the trade kept going. There is no practical difficulty here, for our international bankers and issuing houses have a long and wide experience in such matters, and are well able to judge how far such loans are justified, to distinguish whether the trouble is due to some accidental failure of crops, temporary over-production or fall in price of

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certain commodities, or similar local disturbance which can be overcome, or whether, on the other hand, it is due to a more permanent loss in productivity or markets, or to extravagant over-spending. All that is necessary is that our money markets should be thrown open to such loans.

Here, therefore, is a direction in which we can make some definite headway towards the breaking down of tariffs, by simply making them unnecessary. The trade between this country and nearly all South America, the distressed countries in Europe and the East and, more important than all, our Dominions and Colonies, can be substantially restored by such means. It will not be the same trade or the same distribution of it, since our own producers and more particularly our agriculturalists have now to be considered more than in the past; but if we adopt a new basis for our monetary policy, and thereby a permanently higher level of prices for agricultural produce and raw materials, all those who enter our system will share in the advantages, and the aggregate volume of trade exchange need not be affected.

The case of the United States, France, and other countries with naturally favourable trade



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balances is a different one. The tariffs here have been created solely and frankly for protection of home industries, the ultimate if unconscious aim being to build up a national economic system as self-supporting as is possible with the materials at their disposal. If these two great democracies, or any other countries, wish to attain or to preserve such an aim, nothing that the rest of the world can say or do will deter them, and we must face the fact that it is a tendency which is being followed by the whole world. Maybe we ourselves will be driven along the same road. If so, it will be a great loss to the world, but we can at least console ourselves with the reflection that the British Empire represents the only economic unit which will have a chance to succeed in such a policy.

If we must have a "closed system" we should strive to make it as wide as possible, to provide an outlet for our whole production, excluding only those countries who have no use for our goods, and whose goods in turn we do not require. Since the successful working of such a system will depend so largely on the extent of the lending and borrowing between its members, such countries are indeed better excluded. For we must always bear in mind

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that though, so long as there is unemployment, we may be far from the limit of what we can afford to lend in the products of British industry, debts have to be repaid, and are only sound where the lender can see his way clearly to such-repayment in the only form in which it can be made in the long run, namely in goods. If we always keep clearly before us this guiding principle, we can go ahead with our plans, whether it be for a closed or an open system, or a compromise between the two, without fear that the new structure will collapse like the old one.

## CHAPTER XIII

### THE FOREIGN EXCHANGES

WE arrive now at what is perhaps the most troublesome of all the trees in our wood, one which is for ever thrusting its branches forward to obstruct our view, and which we have learned to regard as some mysterious and sinister monster against which we remain practically helpless. Its influence extends not only into economic and financial affairs, but to the political field as well; national policies are dictated by it, even Governments may be brought down by it, as was our own in 1931, and the strongest countries live more or less permanently under its shadow.

In the past the foreign exchanges were a subject of minor interest except to those immediately concerned with their workings, the Central Banks, the dealers in bullion and "arbitrageurs," and students of the byways of commerce. They were the barometer by means of which the balances of international trade could be detected and regulated, and led to nothing more serious than occasional shipments of gold, and small variations in

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interest rates. Their movements were well understood, and easily corrected by such means.

But in recent years there has grown up, partly as a normal accompaniment of the increasing wealth of the world, but latterly also owing to the tendency on the part of those in possession of this wealth, to keep it unspent and uninvested, a vast pool of liquid capital which moves about freely from bank to bank, and from country to country, at its owners' will. The abnormal growth and behaviour of this fund of international money is one of the many fruits of the great breakdown of confidence, the fear of new enterprise which has brought the world's trade so nearly to a standstill.

The amount of the fund is estimated at over £2,000,000,000, belonging to banks and private capitalists of all nations; it moves about here and there and everywhere, with little or no reference to the requirements of trade, but with astonishing rapidity and decision, in search of a safe or remunerative home. Owing to the sudden demand for this or that currency far exceeding any normal supply, or on the other hand the offer of it in excess of demand, there is hardly any limit to

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the fluctuations in rates which may occur, the depreciation or appreciation in the value of a nation's money which may be brought about, even in the course of a single day. The size of our exchange equalization fund, namely £350,000,000 is an indication of what is required to counteract such fluctuations, and even that vast sum would probably not suffice to withstand any determined movement between two of the big financial centres.

It may easily be imagined to what an extent the views of those who direct the movements of such a fund may affect our lives and fortunes, for upon the value and desirability of our money in their eyes largely depends our price level and cost of living. When we are told that we must be extremely careful about taking any new step in connection with monetary or financial policy, this is not so much due to any consideration of the soundness or otherwise of the policy, regarded on its own merits, as to fear of the reactions which may be produced on the minds of those who direct the £2,000,000,000 fund. The views of these gentlemen may coincide with those of many of our own bankers and treasury officials, but the deciding factor, which turns the scales almost invariably on the side of

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caution and inaction, is the effect, actual or anticipated, on our foreign exchanges.

Unfortunately we are faced here not with any question of theory or illusion, but of fact, for it is beyond argument that the interests of holders of money as such clash with the interests of the producers, and of all those classes of the population who are looking for a revival of prosperity. In particular they clash with any plans we may have for price raising—which implies depreciation in the purchasing power of money—and so long as we are at their mercy every practical step in our progress must remain blocked.

I am far from wishing to imply that bankers and capitalists generally, still less what is called the "City," represent the money interests alone. In our own country, at least, it would be hard to find a banker or private capitalist of standing, who is not at least equally interested in the general prosperity of the country, as he is in preserving the safety and value of his money. But in America and on the Continent, as we know from recent developments in those countries, there are people who would convert their whole fortunes into gold if they could, no matter at what cost or damage to the public interest. And when

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exchange movements have once started, other, innocent, parties are forced, whether in their own defence, or in the case of banks in defence of their depositors, to join in, and protect themselves as best they can.

Up to a few years ago, the existence of a large fund of floating capital was regarded as a source of great strength to the financial centres in which it reposed. London in particular, as the principal seat of such funds, belonging to all nations of the World, employed them to immense advantage in financing international trade. They formed the basis of the discount market and acceptance credits, the short loans against produce, or stocks and shares, and most of the other financial operations which combined to give this country its unique position as the centre of the world's commerce and banking.

Though it is sometimes doubted whether the country as a whole gained as great advantages from the international activities of London as did the foreigner, this criticism could only properly apply to our home industries and agriculture. On balance, there can be no question that the financial pre-eminence of England up to the time of the War was by far her most valuable economic asset, the one possession

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above all others for which she was envied by the foreigner.

Apart from the traditional honesty of its bankers, what attracted the foreign money to London was the fact that it could be converted at any time into gold and shipped overseas. London was thus in those days the safest home for money, in times of crisis probably the only safe home.

After the War the situation changed entirely. Not only did other financial centres arise, New York, Amsterdam, Switzerland, and latterly Paris, to compete with London for the privilege of housing the world's floating money, but London having been forced to abandon the free export of gold during and immediately after the War, never completely regained the confidence of the foreigner, even after resuming this. The constitution of the fund itself, also, was undergoing changes, the foreign-owned money growing larger in proportion to the British, and lending it a more unstable character. When, therefore, the crisis came in 1931, the money, which had once given such strength to us, proved our weakness, and so long as world conditions remain unsettled, it will prove a weakness to any country which gives it a temporary retreat.



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But the fund continues to exist; we cannot destroy it. It may be here today and gone abroad tomorrow, but it will always be somewhere. And while it exists we must be prepared to deal with it. I have already referred to the equalization fund recently raised in this country for this purpose, and it is clear therefore that our authorities are fully alive to the situation. Though we are, quite properly, kept in ignorance of the exact system of working of this fund, it seems reasonable to suppose that, broadly speaking, it is being employed to buy gold, or some foreign currency convertible into gold, against all foreign purchases of sterling suspected as of abnormal or speculative origin. In this way we are in a position, so far as the equalization fund will go, to accumulate a set-off to the "bad" money which seeks a home with us, and to repay it as and when withdrawn, without prejudice to our exchange rates. In other words, we neutralize the fluctuations in the value of our national money which would otherwise be caused by the erratic comings and goings of the speculator.

But now let us consider how the operations of this international fund, and of the foreign exchanges, affect our plan for a managed

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currency based on commodity prices rather than gold. Unfortunately we have every reason to believe that the directors of this great fund of floating capital think primarily in terms of gold as the basis of their security. Their reactions are in a general way the reactions of hoarders, to whom money is synonymous with gold and gold with wealth, and indeed the only real wealth to hold in times of crisis. It would be difficult to persuade such people that any purely managed currency was worth much more than the paper it was written on.

And they can hardly be blamed for taking this view seeing that in nearly every crisis in history, and most of all in the present crisis, it has been the holders of money and gilt-edged securities, particularly in the gold currencies, who alone have remained unscathed. Regardless of the social justice of the matter, it is the selfish money grabber, the "safety first" man, who has come out on top every time; the man who has been ruined is the man who invested in business or goods, the man of enterprise who placed his money to some useful purpose.

We may therefore be quite certain that any attempt on our part to dissociate our currency from gold, particularly if the avowed object

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of this were to expand its volume and thus raise the price level, would cause instantaneous alarm among the foreign holders of sterling. There would be a scramble to sell it, maybe even on the part of some of our own nationals, and transfer to other currencies still attached to gold. So long, in fact, as there still exist any gold currencies to buy, we must be prepared, as a first repercussion of any price-raising plan, to see all foreign money withdrawn from us, and a considerable part also of our own money may leave the country together with it. And unless we wish to join the group of exchange defaulters, Germany, Austria, and the South American States—and such a step would be suicidal for a country with our traditions and hopes—we must be prepared to pay out on demand, and trust that we are rid of the menace for the future.

If our exchange equalization fund is being worked on the lines which I have suggested above, the repayment of the foreign money should present no great difficulty, but in any case, even should our exchange be violently affected, this need not worry us so much as those who wish to withdraw their money. The story would work out more or less as it did in 1931, only with this difference, that

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while at that date we were caught unawares, without a plan for dealing with the situation, we hope that in the future we shall have such a plan, so that in our country at least our money will always remain stable, and stand where we wish it to stand.

In a previous chapter I left it as an open question whether gold and the gold standard could be fitted into a plan for a currency based on the price level of other commodities. The question appears to depend upon how far the world as a whole is prepared to follow us off gold. If the whole world should be agreeable to abandon gold, then I see no possible object in retaining it as a basis in any shape or form. The objections to it have become more and more apparent as the crisis has developed, and indeed what is sometimes referred to as its outstanding virtue, namely that it possesses an intrinsic value accepted by all countries, has proved its unsuitability to modern business conditions. As I have tried to emphasize in other connections, most of our troubles and difficulties can be traced to our habit of regarding our business affairs in terms of money and accounts, rather than in the goods and services which underlie them; indeed the present crisis may be described as nothing

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more or less than a gigantic liquidation of accounts, an attempt by the people of the world to turn everything they possess into hard cash, preferably gold. Unless we can magnify the world's stock of gold to cover in full all the wealth that there is in it, such an attempt is, of course, sheer madness.

What we should try to achieve in future is the gradual giving way of the incentive to hoard money, as if it constituted wealth in itself, in favour of its liberal use as an instrument for our enjoyment and the production of fresh wealth. But so long as there is intrinsic value in our money, so long as it is attractive and profitable to put it away in stockings or cellars or in the vaults of the banks, we shall always be liable to periodic attacks of panic and liquidation such as we have witnessed in the last four years.

How much better it would be for all concerned, if on occasions of nervousness and unsettlement the scramble was, as in old days, to buy land and houses, cattle and sheep, or whatever it might be that possessed the most tangible value at the time!

But while there remains any important group of countries which prefers to stay on gold, we cannot easily discard it from our

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plans; we shall always have to protect ourselves against speculative influences on our exchanges, whether in favour of our currency or against it. For that purpose we shall require a fund of gold—or gold exchange—such as we have today.

If gold were abandoned altogether as a standard for money, even for foreign exchange purposes, and by the whole world—and if this country and the United States do not return to it, such a situation might become inevitable—a very curious position would arise. Those countries which remained last on gold would be left with a hoard of metal, the value of which would be purely nominal—since, except as a basis for currency and exchange, the use of gold is comparatively limited. The different currencies of the world would then be free to find their levels *inter se*, based on their relative purchasing power, the credit of the countries of issue, and perhaps other considerations as well. My own view is that after a comparatively short period of fluctuations first one group, then another, and eventually the whole world, would be forced to come to some understanding for stabilization on the basis of price levels.

Upholders of the gold standard tell us that

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such a condition would mean endless chaos in the exchange markets until in despair, either we should return to gold, or be driven to invent a new standard as inflexible as gold. And they are probably right in the case of those currencies which might be left high and dry, with no alternative standard or plan. But if this country—supported as we should be by the Empire and an ever-growing circle of foreign countries—had already established a new basis, whatever instability there might be would be outside our system and not within it. In their own protection the rest of the world would be forced to stabilize their currencies in some relation with ours, or go without our trade, and we need have no doubt as to which course they would choose.

In conclusion there is little in this bogey of the foreign exchanges which need debar us from arranging our own monetary system to suit ourselves. We already possess, in our exchange equalization fund, a powerful instrument for dealing with any annoyances in this connection which are likely to be encountered, and if necessary this fund could be enlarged without much risk of loss.

Since gold, under present conditions, and in its present distribution, has proved itself

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an element making for instability and panic, it should be our ultimate aim to abandon it once and for all in favour of a more stable monetary standard. Since the world would be likely to follow our lead in this matter, if indeed they do not take the lead themselves without waiting for us, the sooner we establish our new basis and acquire the necessary experience in the working of it, the more certain we shall be that it will be our system which will be accepted. Then it may be that the history of the gold standard, as it developed in our hands in the last century, will repeat itself.



## CHAPTER XIV

### RECENT DEVELOPMENTS AND CONCLUSIONS

SINCE my first chapters were written events in the United States have been moving very rapidly, but their ultimate direction is not yet by any means clear. The sensational rise in commodity and stock exchange prices in the first few months of President Roosevelt's "Prosperity drive" was based on little more than speculative anticipation. It is not surprising, therefore, that it should have collapsed—or at least subsided for the time being—as soon as it became clear that, in a world which is still pulling in all directions, there is no short cut back to prosperity.

But the reaction appears to have been even more largely due to the realization—or reminder—that there is a distinct socialistic and bureaucratic bias behind the activities of the new regime. It has never been part of the Roosevelt political philosophy that the benefits of returning prosperity shall fall exclusively, or even mainly, to the profit-maker; indeed he has made it very clear that in his view the crisis may be attributed to mal-

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distribution of the country's purchasing power, to the excessive share of the proceeds of production which has been retained as profits, distributed or undistributed, and employed in still further increasing production, rather than consumption. Be that as it may, he seems to be aiming at a far more fundamental reorganization of industry, and even of Society, than is likely to appeal to those at present in control of business affairs, and if he persists in this he will probably forfeit the support which is necessary to carry through his plans by orderly and constitutional means.

In any case, the President has a very difficult task ahead of him, playing a lone hand in the midst of a somewhat contemptuous, if not actually hostile, world, both inside and outside his own country, and with a people whose tradition is towards mass explosions in one direction or another. The extent to which speculation, or perhaps I should say the speculative outlook, dominates the business world in America is hardly appreciated on this side, especially when we look at the vast and successful enterprises which have come through as a result of it, or in spite of it. The slow building up of business enterprise from generation to generation, which has been so

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characteristic of progress in Europe, has never appealed very strongly to the Americans, and since the abnormal boom of prosperity following the War, the principle of "get rich quick" has become more firmly rooted in business life than ever.

With such material to work on, any new experimentation is fraught with danger, and it is even more necessary than in more conservative countries that plans should be thoroughly well sifted and thought out from the beginning. On the other hand, if the plans are logical and clearly set out, there should not be the same opposition to a new order of things as in older countries, which are tied to traditions, and it is more likely that they will be successfully carried through.

But it is precisely here that there appears to be serious weakness. No considered or consistent plan has yet been made known to the business public, who are left more or less in the dark as to how they should proceed in their operations. Rumours there are in plenty, but of the vaguest kind; from one day to another we hear different estimates as to the degree to which price raising, inflation, or devaluation of the dollar, will be carried, and there is incessant talk of reorganization of

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industry, for which an elaborate system of codes has been invented, but by what process it is intended to enforce these, it is not very clear.

Can any conditions be imagined more demoralizing to a people of the American traditions and temperament, hardly recovered from the severest crisis in their history? Or better calculated to scare the business man away from any serious new enterprise?

If the President and his advisers are determined to continue along such lines of indecision, of haphazard bureaucratic interference, if this is what they mean by experimentation, it can lead to only one of two ends, the one a complete Socialist State in which private enterprise will have no part, and the other chaos, and the eventual break-up of the Federation. Mussolini, it is true, found a middle course, and so may Hitler in Germany, but to an individualistic and democratic people such dictatorships, even if practicable, are scarcely distinguishable from Socialism.

Here in Europe we may be inclined to smile at the spectacle of God's own country in the throes of revolution, but will it not be something of a tragedy for us all if the land in which the capitalist system has been most

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thoroughly tried out, and which appeared to have reached the platform of material prosperity to which the rest of the world aspired, proves to us that this platform was rotten all the time? The only honest laughter in such an event should come from the present rulers of Russia.

But it is perhaps foolish to judge the situation in America from superficial and premature impressions, based on the more sensational reports which reach this side, and even more foolish to venture prophecies on the strength of such impressions. One thing, however, is clearly proved by the erratic movements of the exchanges and commodity markets in the last few months, and that is that whatever the plans may be, they are still too indefinite to enable the business man, even the speculator, to base any serious or sustained operations on them. And in so far as this is the case they may be said to have failed. If there is a lesson for us in it, this is not that all plans as such are a mistake, but that they must be thorough and consistent, and appeal to the business world if they are to receive the support which is necessary to carry them through. Above all, they should be entrusted to men with practical experience of

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business and the business man's psychology, working under the aegis of such a personality as our governor of the Bank of England, not to a group of professors and economists under a political boss.

It may be regrettable that America did not take the opportunity of the World Economic Conference to invite our co-operation, and that we did not take the same opportunity to offer it, but under the circumstances, and with no definite plan of our own upon which to base it, such co-operation could hardly have proved very useful to either side. In the same way our apparent determination to keep our currency stabilized on the French franc, that is on gold, which has been widely criticized as a backward step, was probably inevitable in the absence of any alternative basis of stability. And in view of the indefinite and frankly experimental character of the American plans, stability of some kind was essential for the time being.

That the fall in the dollar has in fact produced no important reactions in this country, whether in commodity or stock exchange prices, may at first sight seem rather surprising, when we remember what happened in the outside world after we ourselves left the gold

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standard. It is a further proof of our unique and dominating position in the markets of the world, and our growing independence of the foreign exchanges.

The slow improvement in business which was already taking place in this country before the American banking crisis reached its peak, has continued its course almost without a break, prices tending slowly but surely upward. It might almost be said that the monetary policy advocated in this book is being followed in practice, if not yet confessed to in theory, that unconsciously and according to our traditional policy, without any fixed plan, we shall at long last arrive at the same results.

But will they be the same results? How are we protected against a fresh speculative boom on the one hand, and an eventual collapse on the other? Until these questions can be answered satisfactorily confidence of a permanent kind, upon which alone a sound structure for the future can be built up, will remain out of our reach.

There has as yet been little improvement worth considering in our agriculture, in our shipping and export trades, indeed in any of the staple industries which have been the backbone of our prosperity in the past and

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made this country so pre-eminent. The revival of home industry here and there, of transport figures, or of the distributing trades in general, is merely a reminder that the population must continue to live, to feed and clothe and amuse itself, and in the absence of foreign competition there must necessarily follow a certain expansion of home activities, together with some improvement in prices and unemployment figures. But this is not prosperity, it is little more than a redistribution of activity, a further adjustment to poverty, and towards stabilization of the depressed conditions. And that seems now to be our chief danger, that we shall muddle through to a *modus vivendi*, which will be tolerable to those in possession and to the more comfortable and unambitious classes generally, and thus an excuse for not facing the issues.

But there is no hope for our younger generations in such an outlook. As any active man in search of a job will tell you, the most important of all signs of real recovery, the spirit of new enterprise, is as dormant as it was a year ago. And it will remain dormant so long as there is no security against a repetition of the calamities which have befallen the business world in the last few years.



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It would be foolish, even if it were possible, to forget too readily the experiences which we have been through, or to hide from ourselves the fact that while the influences which gave rise to them are still lurking in the background, a repetition is not only possible but almost certain. In a world as unsettled as it is today, and must remain for a generation or more, there can be no possible doubt on this point.

Let me recapitulate as briefly as possible what I would propose, and what I feel sure many hundreds or thousands of other business men would propose at this very moment.

In the first place I would adopt a monetary policy designed, frankly and openly, to bring about a rise in the general price level of commodities, to a point where this will cover existing debts and reasonable costs of production, and thereafter to keeping it stable. It is quite possible that this is, tacitly, the official policy today, but until it is made clear to the business world, new enterprise cannot be based upon it, and without new enterprise on a large scale, comparable to the abnormal expenditure of the War and post-War periods, there can be no return to real prosperity. A

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passive policy should therefore be replaced by an active one, and this implies a programme of economic planning in which private enterprise will be encouraged and supported by every means in our power, and supplemented only where necessary by Government credits and public works.

To avoid being led into a maze of official red tape and political interference, and thus strangling the enterprise which it is our object to revive, the economic planning should be entrusted from the beginning to some independent body working in close co-operation with the Bank of England, and their powers restricted to those which the Bank already possesses through its control of new investment. Such a body would be chosen and proceed with the single purpose of reviving the general prosperity of the country to the level demanded by the increasing productivity of the world. Since this cannot be achieved without a well-balanced distribution of purchasing power, and immensely increased standard of living for the masses, if our economic planners do their work efficiently there should be no call for political interference, whether from parties to the Right or to the Left.

Together with our new monetary policy,

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we should adopt a more liberal interpretation of what is, and what is not, sound finance, both in connection with our internal and external business affairs. In particular, colonial and foreign loans for development purposes, the proceeds of which would be spent in this country, should be encouraged in every possible way, even to the extent of supporting them with Government guarantees, if investors will not otherwise incur the risk. Our new basis for money will make such liberality far less liable to abuse than it was when prices could fluctuate to an unlimited extent, and indeed if we paid as strict attention to the purposes of our loans and investments as we do to our accountancy, and thought out more carefully how they would be eventually repaid in goods and services, our risks would be practically reduced to the risk of fraud or political breakdown.

Having settled the outlines of our plan, we should place it before our Dominions and Colonies, and invite them to adopt a similar one. With such co-operation we could, if necessary, go ahead without reference to the rest of the world; but since in the long run our prosperity must depend on world prosperity, we should be prepared to open our

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system to any foreign countries which would bring into it at least as much advantage as they obtained from it. In the company, then, of all those with whom we have common interests and common ideas for the future, our progress would be assured, and we would soon regain the leadership which seemed at one time to have slipped into other hands.

With such a plan and prospect in view, obtainable by means of nothing more revolutionary than the freeing of our business problems from the stranglehold of politics and economic theory, private enterprise would wake from its sleep, and the spectre of Poverty in the midst of Plenty, of Chaos and Communism, would disappear from the picture, at least, in our generation.

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