

# THE CRISIS

WHAT IT IS

HOW IT AROSE

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By

Ernest Bevin and G.D.H. Cole.

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## BY WAY OF PREFACE

WE are living, we think, on the very eve of one of those great world upheavals which are the turning-points of history. For a long while up to now the civilized world has been ordering its affairs on the basis of a system which is commonly called Capitalism. This system is open to many objections, and has aroused growing criticism, especially from the working classes, on whose exploitation it is mainly based. But it has at least worked hitherto after a fashion, and provided those who live under it with the common necessities of life. Through its centuries of growth, it has become increasingly complicated, with the development of international trade in necessities as well as luxuries, the specialization of this or that area in certain branches of manufacture or production, and the evolution of a complex system of banking and credit for the financing of the huge volume of transactions involved in the exchange of goods and services both within each country and between one country and another.

From time to time, in the history of the capitalist system, things have gone seriously wrong, and there have been great commercial crises which have caused widespread unemployment and distress. But hitherto world capitalism has always recovered from these crises, and been able to advance from them to fresh economic conquests. When the present world crisis began, most people were inclined to say that it was only another of these periodic depressions of world trade, and that before long there would come a revival leading to greater prosperity than the world has yet enjoyed.

There seemed, indeed, to be good warrant for this view. For it was plain enough that, thanks to the progress of science, the world's power to produce all the material necessities of life was advancing faster than ever before. In industry and agriculture alike, productivity was increasing at a wondrous rate; and there seemed to be every reason why the growing ease with which goods could be produced should result for the whole world in a higher standard of life. For the poverty of the many has always been attributed to the toil and trouble of production; and, if men can produce more than before, that seems to assure that there will be more for them to consume.

This should obviously follow as a matter of course; but of late years it has not followed in fact. The result of increased productive power has been instead a great mass of unemployment in the manufacturing countries, and a fall in the prices of foodstuffs and raw materials which has more and more impoverished the producers of these classes of goods. These impoverished producers cannot afford to buy as many manufactures as before, with the consequence that many businesses have gone bankrupt and many millions of industrial workers been thrown out of work.

Still for a long time most people went on saying that the depression, serious as it was, would pass away speedily, and prosperity return. But latterly a great many who were optimists a year ago have become more doubtful of the outcome; for they have to confess that there is no sign at all of the depression passing, and every indication that it is deepening into a crisis which threatens the very structure of the capitalist world. They are coming to see that the causes of the present trouble go far deeper than any temporary loss of equilibrium in the world economic system, and that the system itself is rotten at the core.

The signs of this inward rotting away of capitalism are many. They appear most plainly on the surface in the working of the world financial system, and in the relations between debtor and creditor nations. To these two questions accordingly this booklet is mainly devoted. It is an attempt to explain in simple terms the immediate causes and the essential character of the present crisis, in relation both to Great Britain and to the world as a whole, and to propose *minimum* remedies. It may well prove that these proposals, drastic as they will seem to many readers, are less than the situation requires; for it is hardly possible to exaggerate its gravity. But we have written on the assumption that an attempt should still be made to avert collapse, and that it is still possible, if we use our wits, to make a transition to a better system without an intervening period of sheer chaos and disaster. This view may be too optimistic; for events are rushing forward at an appalling pace. But we have no doubt that the attempt should be made, or that the first step towards making it is to diffuse as widely as possible an understanding of what is wrong and needs putting right in the world's affairs. Hence the booklet—inadequate and sketchy at many points—but at any rate an honest attempt to state simply the essentials of a desperately tangled situation.

## I.—THE CRISIS

THE plain man may be forgiven if he finds himself bewildered by the events of the past few months. Even before the present crisis began, the situation was absurd enough. The whole world was involved in a trade depression, by far the worst in living memory, the cause of which no one seemed to know—or at least no two persons to agree upon. We were all being urged to economize and to consume less; and yet at the same time the world's chief trouble seemed to be over-production. How diminished consumption could possibly be a remedy for over-production no one was able to explain. But in all the industrial countries the cry was going up that wages must come down, and less be spent on "doles" and social services as the one way of restoring prosperity. Manufacturers were turning off hands and reducing output; and there were wild plans for destroying the surplus stocks of wheat and cotton and other agricultural products, in the hope of raising their prices. The world, in the opinion of business men, seemed to be cursed with abundance; and scarcity was being made a god.

All this was mad enough; but there was even worse to come. In the early summer Germany, under the double pressure of the demand for impossible Reparations and for interest on capital borrowed from abroad, threatened to default and came very near to total financial collapse. A German collapse would have involved disastrous consequences for the financiers of New York and London; and both the United States and Great Britain hastened to the rescue. Mr. Hoover put forward his plan for a moratorium on War Debts and Reparations, in order to afford a breathing-space; and the British and other bankers made or extended special loans to the Germans in order to help them to tide over the emergency. By these means, German default and probably German revolution as well were prevented for the moment. But nothing was done to cure the trouble, or to stop its recurrence as soon as the effect of the emergency measures had worn off.

Moreover, the British bankers, in their lending to Germany, had long been making use of money that was not their own. The sums they lent to the Germans were in effect borrowed from French and American financiers, on terms which allowed these financiers to

recall them whenever they chose. On the other hand, Germany was in no position to repay at short notice, or, indeed, at all, without a satisfactory settlement of the entire reparations problem. Our bankers, therefore, had taken the heavy risk of lending for a long period money which they had only borrowed on short period terms. This meant that the French or Americans could at any time, by asking for their money back, put the British financiers into a very difficult situation.

At the same time, in consequence of the world slump, Great Britain had serious troubles of her own. Her exports had fallen heavily in quantity, and were still falling; and increased unemployment and reduced profits were both diminishing the revenue from taxation and increasing the national expenditure. The British budget thus ceased to balance; and money had to be borrowed by the State to meet its current spendings.

The fall in the export trade would have had far more serious immediate consequences had it not been for the very sharp fall in the prices of the goods imported into this country. But, in fact, the prices of wheat and other imported foodstuffs and raw materials fell so much that, although we were importing no less than a year before, we were able to pay for our imports with far less of our own goods, because their prices had fallen a good deal less. What is called the "visible adverse balance of trade"—that is, the difference between what we receive for our exports and what we have to pay for our imports—was no larger in 1931 than it had been in previous years. On the "balance of trade" we were, despite the fall in exports, no worse off than before. Manifestly, then, the fall in our export trade is *not* the cause of the present crisis.

Always, however, Great Britain imports far more goods than she can pay for with the goods she exports. She is able to do this, because she has other resources with which to pay for the extra imports. She has large masses of capital invested overseas, on which the borrowers pay her annual interest or dividends. She is a great carrying nation, and the profits of her shipping go to pay for a further part of her imports. And she does a large part of the world's financial business in trade bills, insurances and the like, and uses the profits made in these transactions to pay for yet more of her imports. Indeed, in normal years, when the total balance is struck, it is found that, despite the excess of imports over exports, Great Britain, after paying for all she imports, has still a large sum due to her from the rest of the world. A small part of this sum she may receive in gold; but most of it she does not receive, but re-invests overseas as capital which will

earn more dividends in the future, and thus swell the total sum due to British capitalists from foreigners all over the world, or from citizens of other Empire countries.

Now, these large annual payments from overseas on which Great Britain so largely relies are broadly of two kinds. Some of them are fixed payments in money—such as interest on Government loans or foreign railway bonds, while others are a variable share in the profits of enterprises carried on overseas, such as dividends on rubber, tea, or oil shares, or on the ordinary stocks of railways or manufacturing concerns. When world trade is bad, obviously the latter will fall off, because the businesses in which the money is invested will only pay lower dividends, or none at all. Thus, in the past year most rubber companies have made heavy losses. There will accordingly be less income available from this source to pay for British imports or to re-invest overseas.

The same applies to the earnings of British shipping, which will obviously tend to fall off in times of trade depression, when many ships are laid up, and freight rates reduced in order to get traffic.

The same does *not* apply to those overseas investments on which interest is payable at a fixed rate. Indeed, to some extent the truth about them is quite the opposite. Our debtors are under contract to pay us the fixed interest on these loans whether they are making profits or not, and whatever happens to prices. In a depression, as prices fall, the fixed money payments mean that they have to pay their debts with a greatly increased quantity of the goods they produce, so that the burden upon the debtors becomes much heavier. So far, nearly all of them (except Chile and to a small extent Brazil) have gone on paying. But they have paid with ever-increasing difficulty, as in the well-known case of Australia; and there is no reason to suppose that most of them will, or can, go on paying much longer. If the present world depression lasts, there is danger of widespread defaults by the debtor countries; and this would mean, from the standpoint of Great Britain, the loss of income on which we rely in order to pay for our imports. The outlook in India, China, Australia and many other countries makes defaults inevitable in the near future unless there is a recovery of trade and prices.

Meanwhile, although defaults have not yet taken place on a large scale, there has been a big reduction in our national income both from shipping and from overseas investments carrying a variable dividend; and the effect of these decreases has been to turn us for the time being into a country with an adverse balance. There is, moreover, every reason to believe that our receipts in dividends from



overseas and our shipping earnings will fall still more in the near future, thus increasing the adverse balance against us, unless we either reduce our imports or increase our exports, or both.

This does not mean in the least that we are a bankrupt country. Foreigners owe us more—many times more—than we owe them; for we have the huge mass of our existing foreign investments to fall back on in case of need. We can, in the last resort, sell some of these investments to overseas buyers to balance the account.

The present time, however, is a very bad one for trying to sell our investments; for, on account of the world slump, the prices of most of them have fallen heavily. We can sell in the last resort, but only at a serious loss.

There is, then, at present a cause in the state of our international balance of payments for some uneasiness. But there is nothing in the amount of our adverse balance that could not, under normal conditions, be met with perfect ease by selling some of our securities abroad, or that, even under the present abnormal conditions, suffices by itself to explain the crisis. Our adverse balance of international payments is a factor in the situation; but it is only a factor of secondary importance. For the real causes of the present crisis it is necessary to look elsewhere.

Where, then, are we to look? In order to explain the real trouble we must go back to what was said earlier about the position of Germany. The Germans, by the terms of the Versailles Treaty, were put in an impossible economic position. They lost a large slice of their territory and population, and of their resources in coal and iron, as well as the whole of their mercantile marine. Their productive system had been thrown right out of gear during the war, and needed complete reconstruction at heavy capital cost. They needed to import foodstuffs to feed their people, and raw materials for their industries. And at the same time they were sentenced to pay huge sums in Reparations to the victorious Allies.

How could they pay? Only by exporting more goods than they imported, for they had no stock of gold and no foreign investments to pay with. But it was not easy for a country which needed to import large quantities of foodstuffs and raw materials to create a surplus of exports over imports, even if other countries had been willing to buy their goods. And, in fact, many other countries built up high tariff walls which helped to exclude German manufactures.

The Germans soon saw that there was only one conceivable way of carrying out the obligations thrust upon them—a complete reconstruction of their industries which would enable them to produce so

cheaply as to be able to force their manufactures into foreign markets even over high tariff walls, coupled with a low standard of life for the German worker in order to reduce imports and keep down the costs of production. But they had no capital resources of their own with which to carry out this gigantic reconstruction of industry.

Nevertheless, they set to work. The long-term capital for rebuilding their industries they borrowed from America, and the short-term credit for financing their trade chiefly from America and Great Britain. With the aid of this borrowed money, and of a low standard of living, they achieved wonders in reorganizing their industries and forcing their goods upon the world market, incidentally keeping down by their intense competition the standard of living of the workers in other countries. But, of course, they had to pay interest—and high interest, too, because of their precarious position—on all the capital they borrowed from abroad; and the burden of this interest was added to the already top-heavy burden of Reparations due to the Allies.

All the same, someone will say, Reparations have been paid. Yes, but they have never been paid out of any real surplus available to pay them. The Germans have borrowed from abroad a great deal more than they have paid in Reparations. In sober truth, the Americans, and to a less extent the British, have lent the Germans the money with which to pay the Reparations which are then paid back to the Americans as interest on Europe's debts to them. The whole affair is a vicious circle—it would be mere farce if it were not tragedy as well.

This absurd state of affairs went on, without absolute breakdown, as long as the Americans went on pouring capital into Germany. But in 1928 came the American speculative boom, and in 1929 the world slump. During the boom, Americans found it more profitable to use their money in speculating at home than to lend it to the Germans, even at high interest; and the volume of American loans to Germany rapidly fell off. This upset the equilibrium of the German economic system; and, when the world slump came, the Americans were not at all disposed to go on lending to a Germany that seemed on the brink of financial collapse, and perhaps revolution.

To a substantial degree, the British financiers stepped into the breach. They were not in a position to lend on anything like the scale on which the Americans had been lending before; but British policy was directed to preventing the collapse of Germany in order to avert European revolution and check the growth of French

supremacy in Europe. There was, accordingly, a strong political motive behind the British loans.

But there was an economic motive as well, especially during the world slump; for our bankers found themselves with large sums left on their hands which on account of the slump in trade capitalists left in the banks in preference to locking them up in long-term investments in Great Britain. The Germans, in their need, were prepared to pay high interest even for short-term loans that would help them to tide over their troubles; and the British financiers plunged heavily, in order to earn this high interest on the money in their hands.

But, despite these loans, the position in Germany grew more and more desperate as the world depression deepened. Indeed, each fresh loan only intensified the difficulties for the future, and in postponing the evil day, made it more evil still. But for the Hoover moratorium and the granting and extension of emergency credits to the Germans by the great Central Banks, total collapse would have been unavoidable some months ago; and even now Germany is barely tiding over, and collapse is still certain unless far more fundamental remedies are applied during the next few months. Germany's whole financial structure is utterly insecure; and, if she falls, she will bring down a good deal more with her, and quite possibly plunge a large part of Europe into revolution.

In order to prevent this, and to safeguard the large sums they had already in Germany, our financiers went on renewing their loans to the Germans. As we saw, they did this to a great extent, not with British money, but with money belonging to French and American financiers which its owners had deposited in London because they found they could earn better interest on it, or keep it safer, there than in Paris or New York. It suited the British financier to have this borrowed money, if he could use it to earn in Berlin higher interest than he paid for it—as long as Berlin went on paying. But he ran two risks—the risk of a German default, and the risk that the French or the Americans might recall their money at short notice, whereas it would be impossible for him to get back quickly what he had lent to the Germans.

Clearly, the more we lent to the Germans, the more our fortunes became involved with theirs. And the more desperate the position of Germany became, the more likely were those who had money on deposit or in short-term holdings in London to doubt its security, and to ask for it back. Our heavy plunge in lending money to the Germans was one, though by no means the only, cause of the loss of confidence in the security of money in London. A no less powerful

cause was the Americans' loss of confidence in themselves, which made them take alarm at Germany's growing troubles, and scramble to recall and realize loans and investments which they had made in Europe.

For the United States were themselves passing through an economic crisis a good deal worse in its immediate effects than our own. In particular, the American banks, which had invested huge sums in American securities during the boom, found their resources disappearing as stock prices fell and fell in consequence of the depression. Many of them became virtually insolvent; and then followed a scramble to realize their liquid resources. This involved a hasty calling in of sums which they had to their credit in British and German banks, or had been using in the London money market. In other words, the British financiers were called upon suddenly to repay their American creditors, at a time when it was out of the question for them to collect the sums owing to them by their German, Australian, South American, and other debtors.

In these circumstances, there were only two ways in which the repayment could be made—by shipping gold to America or by selling British-owned securities to the American capitalists. The second course, in view of the panic stock prices ruling on the American stock exchanges, would have meant heavy losses, even apart from the fact that it could not have been done without compelling the British owners of the securities in question to hand them over to the Government or the Bank of England for sale. This was not done; and large quantities of gold began to flow to the United States, until it became plain that, unless the flow was stopped, before long the entire British gold reserve was likely to disappear.

It was at this point that the political crisis was added to the economic. Faced with the threatened loss of gold, the late British Government, in conjunction with the Bank of England, set out to borrow large sums of money from France and America in order to offset the withdrawals. At first, such borrowings were successfully arranged. But the flood of American withdrawals continued, and the credits secured were soon exhausted, and the outflow of gold resumed. The British Government set out to borrow yet more, this time from America, which was now the chief cause of the trouble, though Holland, which was heavily involved in Germany, was a secondary cause, and was also draining gold from London on a considerable scale.

The renewed request for a loan from America led directly to the political crisis and the fall of the Labour Government. For the

Government was told that it could have the loans it wanted only on certain conditions. One of these was that the Budget should be balanced, so as to remove the need for further Government borrowing to meet current expenditure. The other was that the method of balancing the Budget should include a drastic cut in the amount of unemployment benefit, and a drastic revision of the conditions on which the benefit was granted. The majority of the Labour Cabinet, while they were prepared to agree to balance the Budget in their own way, refused to accept this financial dictation on a political issue, or to agree to a reduction in the amount of benefit. Upon their refusal, the Prime Minister handed in the resignation of the Government, and proceeded himself to organise a Coalition with the Tories and Liberals, into which he carried only a tiny handful of "Labour" supporters. The Labour Party, under Mr. Henderson's leadership, resumed its place as the official Opposition.

It should be observed in passing that, while it is clear the Labour Government fell as a result of financial dictation, it is still far from clear whence this dictation really came. It has been denied by the American bankers that they imposed any condition other than the balancing of the Budget, or insisted that unemployment benefits should be cut down. But it is certain that most of the members of the Labour Cabinet understood from those of their number who met the representatives of the Bank of England—which acted as intermediary in the negotiations—that both conditions had been imposed. Here is a matter that badly needs clearing up. *Did the financial dictation that caused the fall of the Labour Government come from the American, or did it really come from the British, financiers?* Did British finance use the Americans as an instrument to bring down the Labour Government? And what part did the Bank of England play in the affair?

The "National" Government was formed with the clear and explicit object of yielding to the demands of the financiers, by balancing the Budget and economising on the unemployed, and of borrowing enough money from America to save the position of London as a financial centre and keep the gold standard intact. Yet within a week, although it had borrowed £80,000,000 from America on most onerous terms, confidence in London was at a lower ebb than ever. There was a still greater rush to withdraw funds from Great Britain; and it became clear that the new credits would soon be exhausted. Within a few weeks of its formation, the "National" Government, created with the one great object of keeping Great Britain on the gold standard, itself abrogated that standard, by prohibiting the export of gold.

The means proposed by the "National" Government to keep us on the gold standard were, indeed, in the event a factor in causing its suspension. The proposed cuts in the salaries of teachers and the wages of Civil Servants and others produced widespread discontent. The reductions in unemployment benefit and the threat to deprive hundreds of thousands of the workless of the means of life created an ugly temper of resentment throughout the industrial districts. The attacks on the pay of the fighting services aroused such feeling that trouble burst out openly at Invergordon and elsewhere; and the continental press was filled with rumours of impending riot and revolt that caused a further stampede away from the pound. Moreover, the enforcement of certain of these cuts—against the teachers for example—in flat breach of solemn contracts into which the State had entered seemed so clearly the act of a Government reduced to panic and despair that other countries naturally took our situation to be very much worse than it actually was. The newspapers did their level best to swell the panic, and thus undermined confidence still more. Indeed, the loss of confidence in British credit was far more the result of the insane behaviour of our newspapers and politicians than of anything really wrong with Great Britain's economic position. The newspapers and the National Government—those ardent defenders of the gold standard—were the chief agents in compelling its abandonment. But, before we go on to study further this Gilbertian situation, we must say something about what the gold standard is, and what our departure from it involves.

## II.—THE GOLD STANDARD

THE gold standard, though many intelligent people seem to be afraid of trying to understand it, is in essence quite simple. It is above all a device for keeping the national currencies of different countries at a fixed relative value. If a unit of each currency—a pound, or a franc, or a dollar—can be at any time exchanged for a fixed quantity of gold, it is evident that the relative values of these currency units cannot vary much, though of course their purchasing power may vary a great deal, in accordance with changes in the world level of prices. The gold standard is a means of keeping stable, not the price level, but the relative values of the monies of different nations.

This relative stability is obviously, in normal times, a great advantage from the standpoint of international trade. For it means that

traders of different countries can make bargains in terms of one another's currencies with full knowledge of the amounts they will get or pay in their own money. As most trade is done on a credit basis this is highly important; and where the relative values of national currencies are liable to vary a new and dangerous uncertainty is added to the normal risks of trade.

For this reason the countries which were forced off the gold standard during the war made a great effort to return to it when the war was over; and most of them had succeeded in re-establishing it before the present world crisis began. But somehow, in the years since the war, the gold standard has not been working as it used to do. Where it has been in operation, it has kept the relative value of money almost stable; for it is bound to do that by its very nature. But the struggles in which the countries have been involved in order to keep on it at all have brought most inconvenient and even disastrous consequences in their train. High bank rates, restriction of credits to industry, and a rapidly falling price-level—these have been the results of the gold standard in recent years.

Countries which are on the gold standard in any full sense have to keep in their banks a supply of actual gold. This gold serves two purposes. In the first place, if their currencies are exchangeable for gold at a fixed rate, they must be prepared to sell gold at that rate to those who ask for it in exchange for currency. As the gold is of no use to the buyer within the country, this usually means that he wants to export it, in order to pay a bill which he owes in some other country, or in order to change it into the money of some other country. If, for example, the same sum of money will buy more goods or earn higher profits in America than in Great Britain, a number of persons will want to change British money into American money in order to get the benefit of the difference. There may thus arise a demand for gold to be exported to America; and Great Britain, as long as she was on the gold standard, had to be prepared to supply gold for this purpose to those who demanded it. Moreover, a country like the United States, which exports more than it imports, has somehow to be paid by other countries for this excess; and, unless Americans are prepared to leave this excess on loan in the debtor countries, the payment can only be made in gold. That, incidentally is why America has sucked up so large a part of the world's total gold supply since the war.

The second purpose for which gold standard countries use gold is to keep a reserve, usually fixed by law, as a backing for their issues of paper money. The precise arrangements vary from country to

country: in Great Britain the Bank of England is allowed to print a fixed amount of paper money without gold backing, but must have a pound for pound backing in gold against all notes issued beyond that amount. A great many people think that this is quite unnecessary; and that all the gold a country needs in order to work the gold standard is enough to meet demands for export. But at present the keeping of a gold reserve against notes is almost everywhere enforced by law; and legislation would be needed to remove the obligation. It has actually at the present time been temporarily modified in Great Britain.

The real object of compelling the banks to keep reserves of gold against their notes is simply to limit the amount of currency they are able to issue, so as to prevent any undue rise in prices. For if the banks went on printing paper money irrespective of any increase in the supply of things to be bought and sold, prices would be bound to rise, as they did in Germany and in other countries during the period of inflation. Inflation is, indeed, simply an increase in the supply of money without a corresponding increase in the quantity of things for sale.

A country that is on the gold standard cannot inflate. For if it did, its price-level would rise. It would therefore pay financiers better to change its currency into gold, and export the gold to a country where prices were lower. The country with the inflated currency would soon find itself losing all its gold. It would be compelled before long to refuse to give gold in exchange for its currency, at all events at the old fixed rate. In other words it would be driven off the gold standard.

In this indirect way, the gold standard does regulate a country's price-level, as well as the relative value of its currency and those of other countries. But it does not keep prices stable. Speaking very broadly, it causes them to fluctuate in accordance with the movements of prices in the world as a whole, or rather in other gold standard countries.

As we have seen, after the war most countries came back to the gold standard. Some, indeed, such as the United States, remained on it throughout the war; but all the belligerent nations in Europe were temporarily driven off gold as a basis for their currencies. When they came back to it, they did not all do this in the same way. There were two alternative courses open to them—deflation and devaluation. Great Britain deflated; France, Italy, Germany and Belgium all in various ways devaluated.

Deflation is the opposite of inflation. It means a reduction in the



quantity of money without a corresponding reduction in the volume of things to be bought and sold. This reduction brings down the price-level, and so makes each unit of the currency worth more in terms of goods, and therefore of gold as well—for gold has a value like other commodities. The effect of deflation is therefore to increase the value of the deflated currency in terms of gold and of currencies based on gold. In the case of Great Britain after the war, deflation was pushed to the point at which it became just possible to restore the gold standard at pre-war parity—that is, to offer to give for a pound sterling the same quantity of gold as before the war. This brought the pound back to pre-war parity with the American dollar, which was also exchangeable for the same quantity of gold as in 1914.

The French and the Germans, equally with ourselves, came back to the gold standard. But their method was not deflation, but devaluation. The French did not attempt to make a franc worth as much gold as it had been in 1914, but only to fix for it a new and greatly reduced gold value (roughly one-fifth of its pre-war value) and then keep it stable at the new value. This was fully as effective and complete a restoration of the gold standard as ours; but it had quite different effects. The Germans went further than the French, by wiping out their old inflated paper currency altogether, and starting a new one, with a fixed value in gold.

Our policy of deflation had apparent advantages to us as a great creditor country. It compelled our debtors, who mostly owed us debts reckoned in our own currency, to pay us more in real things as the value of the pound went up. But it had far more serious disadvantages. In order to carry it through, the bankers kept bank rates of interest high and restricted the amount of credit, thus hampering industry and increasing unemployment. Moreover, as the value of the pound rose, the burden of the National Debt, and of all fixed interest charges, rose with it, putting a tremendous strain on our system of taxation, and burdening productive industry with higher real charges on all sorts of mortgages and debentures as well as in bank interest. A huge addition was made by these means to the unearned incomes of the *rentier* classes, and the seed sown which has sprouted into the unbalanced Budget of to-day.

Moreover, even though deflation compelled the countries which owed us money to pay us more in goods or gold, it is more than doubtful whether we got any advantage from laying this extra burden upon them. The increase in their indebtedness helped in the long run to destroy their power to purchase our exports. This in turn caused severe unemployment in our export trades; and we had

to maintain those who were thrown out of work. This meant that we had to take back in taxes to maintain the unemployed quite as much as we had exacted from the debtor countries. And, in addition, by pressing these countries too hard, we caused them to threaten to default in their payments; so that we ran the risk of losing what they owed us altogether and still being left with the unemployed to maintain. The gain from scaling up the debts due to us from other countries by means of deflation was therefore illusory. So far from gaining by it, we were heavy losers in the long run.

Devaluation, the alternative open to us when we decided to restore the gold standard, would have meant some loss on our foreign investments which bore a fixed rate of interest in pounds sterling. But it would have avoided the necessity of high bank rates and credit restriction, and it would not have made the huge unnecessary present which deflation made to the *rentier* class. It would have kept down the burden of the National Debt, and released the proceeds of taxation for more useful purposes, such as a policy of national development and the extension of the social services. Undoubtedly, devaluation was the right policy, and deflation hopelessly wrong.

Nor is this the whole of the case against deflation. When, in 1925, Mr. Churchill and the Bank of England restored the gold standard on a basis of pre-war parity, deflation had not really been carried far enough to enable the value of the pound to be easily maintained at the new fixed level. British prices and costs of production had not really been forced down far enough to make the pound sterling worth as much as we insisted on valuing it at, in terms of gold and dollars. Consequently, there has been ever since persistent pressure to bring down wages still further, in order to reduce costs, and the policy of restricting the supply of credit has had to be maintained. We have lost export trade because we have been charging more than the world-prices for our exports in terms of gold and of our over-valued currency.

In order to retrieve these losses of trade, we have been driven ever since 1925 to a series of unsound and dangerous expedients. The first was the coal subsidy. Then came the Conservative De-rating Act—a deliberate attempt to lower costs of production by transferring burdens from local rates upon industry—which increase costs—in part to the national taxpayers and in part to the local house-holders. This meant in effect an indirect reduction in wages all round, as well as a bonus to profits in a number of flourishing trades which needed no help. Our point here is that this measure arose directly out of our folly in restoring the gold standard. In doing so,

we unnecessarily varied the prices of our exports; and we were then driven to one bad expedient after another in our attempts to get costs down again to a competitive level.

These expedients have failed. We have been left with a large persistent mass of unemployment; and the maintenance of the unemployed has combined with De-rating and the excessive interest on the National Debt to make our taxation the highest in the world. High taxation in itself need not be bad—that depends on how the proceeds are used. High taxation devoted mainly to keeping people in idleness is certainly very bad indeed. Yet this was the necessary result of deflation. It caused widespread unemployment; and it grossly increased the incomes of the *rentier* class—the latter being of course by far the heavier burden on the Exchequer.

Ever since 1925, Great Britain has been struggling vainly against the disastrous consequences of this colossal blunder. Our troubles arose, and arise, mainly not from the fact that we went back to the gold standard, but from our folly in doing this by deflation instead of devaluation. The mistake lay in forcing the pound back to pre-war parity, and so putting on it a value which exceeded its real worth.

We have now, in the midst of the world slump, been driven off the gold standard, in an attempt to reverse the consequences of our folly. By prohibiting the export of gold, or rather refusing to give gold in exchange for our currency, we have removed the pin which fixed the relative value of sterling and other currencies, and for the moment we are letting the gold value of the pound fluctuate. But we are told by those in authority that this is meant to be a purely temporary measure, and that, as soon as the present emergency is over, we are to go back to the gold standard.

What does this mean? It may mean either of two things—either that we are to aim at bringing the pound back yet again to its old parity with gold and with other gold standard currencies, or that we now mean to devalue, and, as soon as the emergency is over, to fix a new and lower gold value for the pound, as France has done for the franc and Italy for the lira. On this point, those in authority give us no clear information; but the hints which they drop sound as if they were still hankering after a return of the pound to the old parity.

This would be a disastrous policy. It would again force up the real burden of the National Debt, and of all fixed interest payments. It could be brought about only by a drastic reduction of wages and salaries, designed to force down costs of production, and by a con-

tinuance of high bank rates and credit restriction. It could be put into operation only over the prostrate body of the working-class movement. And, above all, it is entirely unnecessary.

The effect of allowing the pound to become worth less in terms of other currencies is, of course, to increase the cost in pounds of our imports, and to cheapen the prices of our exports to foreign purchasers. This is on the assumption that other countries do not follow our example, and devalue their currencies as well. If they do, and devalue to the same extent as ourselves, the position is as you were—we buy their goods, and they buy ours, on the same terms as before. Probably a substantial number of countries, in addition to those which had gone off the gold standard before we did, will, in fact, follow our example—as Denmark and Sweden, for instance, have done already. But at least France and America, with their huge stocks of gold, can hardly embark on a policy of devaluation. The effect of our going off gold is therefore likely to be a stimulus to our export trade at the expense of French and American exports, and of those of any other countries which remain on the gold standard.

A second effect will be some restriction of imports into Great Britain, at least from countries which still keep to gold as a basis. For, as we shall have to pay more in pounds for their goods, we shall tend to buy less from them, and either to make the goods at home, or to buy them from countries which are not on the gold standard. The tendency of our departure from the gold standard will thus be to reduce the British adverse balance of trade, and to hit seriously the export trade of those countries which, for one reason or another, do not follow our example.

To some extent, these effects will be temporary. If costs and prices in Great Britain were to rise to the full extent of the fall in the gold value of the pound, they would disappear altogether; for our manufacturers would then be charging so many more pounds for their exports as to make them no cheaper to foreign buyers than the exports of France and America, and imports from gold standard countries would again be able to compete at the higher prices with our own products or those of other countries with depreciated currencies. There is, however, no reason to suppose that, for some time at least, the internal price-level will rise to the same extent as the external value of the pound falls. The prices of many imported goods will doubtless rise, and this will cause the cost of living to increase to the extent to which we live on goods imported from gold standard countries. But there is no reason why the prices of goods and services produced at home should rise, or at any rate why they should rise to

anything like the same extent. For some time at least the devaluation of sterling is likely to give a considerable stimulus to our export trade—the more powerful the further the depreciation goes.

If we attempted to restore the pound to its pre-war gold parity, we should totally throw away this most necessary advantage, and plunge our export trades back into the difficulties from which the suspension of the gold standard gives them a chance of emerging at last. For this as well as for the other reasons given above, it would be the worst sort of folly to attempt to go back to the old gold parity.

There remains the second policy, of returning to the gold standard at a new and lower gold parity—that is, of permanent devaluation of the pound in terms of gold. After allowing the pound to fluctuate for a time in terms of other currencies, so as to let it find its natural level, we can, if we will, stabilize it at a new gold value, based on its new actual ratio of exchange with the currencies of countries still on the gold standard.

This would be a far better policy than to attempt to restore the pound to its old parity. It would retain, at least for a long time, the advantage to our export trade; and it would reduce permanently the real burden of the War Debt and of other fixed interest obligations. Of course, it would mean some rise in prices, which would have to be met in due course by increasing wages and salaries; but, as we have seen, there is no reason why prices should rise to at all the same extent as the gold value of the pound falls.

This policy of permanent devaluation has therefore much to recommend it. The chief argument used against it is its effect in reducing the sums owing to this country as interest on our investments abroad. But we shall find it far more to our advantage to reduce this interest than to provoke defaults all over the world by pressing for payment on the old terms. Countries like Australia and India, Chile and Brazil, the prices of whose products and the value of whose currencies have already suffered a severe fall, cannot possibly afford much longer to go on paying interest on their borrowings in pounds measured at the old rate. Unless their burdens are made lighter, they will default altogether. Devaluation, which does lighten their burdens, is from this standpoint a positive advantage.

But, although stabilization of the pound at a new and lower gold parity is a possible policy with a good deal to recommend it, can we be at all certain at this stage that we shall wish to go back to the gold standard at all? For that standard, while it has the advantage of being international, has shown itself to possess very serious disad-

vantages. May it not be better to replace it by a new international standard, worked out in common among the countries which the crisis has driven off gold; or even, in default of this, to leave the pound to fluctuate in terms of other currencies, and concentrate on an attempt to stabilize our own internal prices? To the case for and against the gold standard itself—as distinct from the question of pre-war parity of the pound with gold and other currencies—we must next turn our attention.

### III.—THE GOLD STANDARD BREAKS DOWN

THE gold standard demands for its successful working that the available gold supply of the world shall be distributed among the leading nations roughly in proportion to their needs. This does not mean that each country in the world needs to have a supply of gold corresponding to the volume of its currency and the quantity of goods it needs to buy and sell. For many of the smaller countries can manage with a quite tiny amount of gold, by keeping always available large credits in the banks of the leading countries. Thus, as long as London was a free market for gold, i.e. as long as gold for export could be got at a fixed rate in exchange for British currency, a credit on London was practically as good as gold; and many of the smaller nations, under what is known as the gold exchange standard, held claims on London instead of gold as a basis for a large part of their currency and credit operations. But the gold exchange standard has always been held to imply the existence of countries on the gold standard proper; and it is essential, if the gold standard is to work, that the available supply of gold should be distributed among those major financial centres roughly in accordance with their needs.

In the years since the war, this condition has never been fully satisfied; and there has been constant and serious danger of it not being satisfied at all. There has been a steady and persistent drift of the world's gold to the United States, and latterly to France, until these two countries have accumulated gold reserves far in excess of any rational estimate of their needs, while the rest of the world has been forced to go short. If the United States and France had followed the old course of banking orthodoxy by issuing currency and credit to the full extent apparently authorized by their stocks of gold, the inevitable effect would have been to raise their prices well above the level of prices in the rest of the world. This would have destroyed their export trade, and caused an increase of imports into their

markets unless they had raised their tariffs to absolutely prohibitive heights. The result would have been that the gold accumulated by them would have flowed out and been redistributed over the world in payment for these increased imports.

But in fact neither France nor America has increased its issue of currency and credit in proportion to the growth of its stock of gold. Both countries, in order to prevent their prices from rising far beyond the world level, have sterilized a large part of their gold by keeping it in the vaults of their banks without making any use of it at all. Of course, gold so sterilized is a dead loss. It earns no interest, and it performs no manner of service. But to keep it idle has seemed preferable to allowing the rise in prices which would have followed its use as a basis for a larger issue of currency and credit.

Moreover, in the case of the United States at least, the tariff, while it is not prohibitive, has been raised very high against most classes of manufactures, and does have a big effect in excluding imports. The gold stocks of France and the United States have therefore not been automatically redistributed to the rest of the world by that change in relative prices which, according to orthodox economics, is the natural means of correcting a mal-distribution of gold.

There remains, however, another way in which this redistribution can be brought about. If France and the United States, or rather their investing classes, are prepared to make large loans of capital to other countries, these loans can be made out of the surplus gold lying in the French and American banks. In the case of the United States, it is only because such loans have been made in past years on a very large scale that far more even of the world's total gold supply has not been locked up idle in the American banks.

But if at any time this flow of investment abroad ceases, or is seriously diminished, at once the flow of gold to the United States is resumed, and the rest of the world, finding itself short of the basis on which its currencies rely, proceeds to restrict credit at the cost of causing disastrous contraction of trade. Other countries raise their bank rates of interest, in the hope of attracting gold or at least preventing a further outflow. This raises their costs of production, hampers their trade, and adds to the burdens of taxation for the maintenance of the unemployed. As long as the present tendency of the world's gold to drift to France and the United States remains in being the prosperity of other countries depends on the willingness of French and American investors to keep up a large and constant stream of foreign loans of capital.

But why, it will be asked, does this tendency for the world's gold

to drift to France and America exist at all? The answer, though it is not quite the same in the two cases, is as easy as the tendency is hard to remove. Take the case of America first.

Before the war the United States was a debtor country. Its capitalists had borrowed large sums of money from the investors of Great Britain and other European countries for the purpose of developing the vast natural resources of the American continent. On these borrowings they owed and paid interest, chiefly in the form of exported foodstuffs and raw materials. The United States was moreover, still borrowing capital from abroad, though at a diminishing rate.

During the war, all this was altered. The Americans bought back a large part of the stocks and bonds of American enterprises held by foreign investors; and they also lent huge sums to Europe, in order to enable the European nations to pay them for the foodstuffs and munitions which they supplied, at a time when the European export trades had been thrown out of gear by the war, and Europe had no means of paying with her exports for her inflated imports.

The United States therefore emerged from the war, no longer a debtor, but a great creditor country, to which European nations, and especially Great Britain, owed large sums in annual interest. How were these sums to be paid? The natural means of payment would have been for Europe to export to the United States far more goods than she imported from them. But this was impossible, both because Europe imperatively needed a huge volume of American goods, and because the United States maintained a high protective tariff in order to exclude just those manufactures in which alone Europe had the means to pay. Europe therefore owed America each year not only the interest on her debts, but also a further balance on account of the excess of European imports from America.

This unbalanced situation sufficiently accounts for the persistent tendency of gold to drift to the United States. Between 1920 and 1924 the gold holdings of the U.S.A. rose by over 1,600 million dollars; and in 1924 the U.S.A. had nearly as much gold as all the rest of the world put together, excluding only France. Thereafter, a further increase of the American gold stock was prevented, and even a small diminution secured, by heavy lending of American capital overseas. But when, in the American boom of 1929, the American investor saw more chance of making high profits by using his capital at home than by lending it abroad, the flow of gold to the United States was at once resumed; and a crisis at once arose in the financial affairs of other countries, which had to raise their bank-rates and



restrict credit on account of the loss of the gold. Not that America wanted the gold, far from it. She had far too much already, and could make no use of it at all. But that did not check the flow; for Europe had to pay its debts, and in face of the high American tariff there was no other means of payment.

Nor was the situation bettered when the American boom ended in the crisis which ushered in the world slump. For the American investor was now unwilling to lend because the world-wide slump made him distrustful of the profitableness, and even of the security, of foreign investment. American gold holdings grew rapidly in 1930; for, slump or no slump, the rest of the world was due to pay its debts, and these debts were mostly fixed in terms of gold dollars.

We have, then, in the case of the United States a supremely ludicrous situation. The Americans, on account of their great natural resources, have a tendency to export more goods than they import. They exaggerate this tendency by maintaining a high protective tariff against manufactured imports. They have large sums invested abroad, and large claims on foreign Governments, on which annual interest and dividends are due to be paid. Not all the world's gold would suffice for long to balance this account. It can be balanced only if American investors regularly lend enough abroad to balance it—in other words, if America foregoes present payment with the result of adding the annual interest for ever to the sum due. In plain terms, America can never be paid. The logical end to her attempts to exact payment would be that she should gradually buy up the whole world on condition of receiving nothing from it.

The French situation is somewhat different, though France has, during the past few years, been drawing in gold quite as sensationally as the United States. France, too, is a creditor country, though not on the same colossal scale as the United States. The French situation, indeed, arises largely out of the history of the French financial system since the war.

France, as we have seen, returned to the gold standard on a basis, not of pre-war parity, but of drastic devaluation of the franc, roughly to one-fifth of its pre-war gold value. Stabilization at this lower figure was preceded by a period of inflation, during which the value of the franc fell sharply over a long period. While the fall was in progress, there was a "flight from the franc"—in other words, French capitalists changed their money into other more stable currencies in order to avoid the consequences of a further fall. Above all, they changed francs into pounds sterling, and kept large balances in London. London, in turn, used these balances to re-lend at interest to

borrowers at home and abroad, and found them very useful as a protection for the British gold reserve against the drain of gold to America.

But in due course the franc was stabilized at its new value; and gradually the French capitalists began to take their money home again, thus causing a drain of gold from London to Paris. Between 1926 and 1929 French gold holdings much more than doubled; and again and again a serious strain was put on the British financial system. For it was impossible for British finance at once to recall the loans which it had made on the strength of the French balances, as any attempt to do this would have at once provoked a world financial crisis, and above all, a collapse of German credit.

Now, France is to a considerable extent a self-contained country, depending less on imports and exports than either Great Britain or Germany, or even the United States. Her imports and exports are nearly balanced; and there is certainly no tendency for gold to flow out from Paris in payment for imports. Accordingly, the only way in which the surplus gold uselessly accumulating in France could be redistributed would be for the French capitalists to make foreign loans on a sufficient scale to cause an outflow of gold.

The French investor, however, especially since he has been badly bitten in the past, is very fearful of foreign investments; and the French have been in fact lending abroad less than the amount of their annual balance, thus accentuating the flow of gold to Paris. Moreover, what they have lent they have often preferred merely to deposit in foreign banks or to lend at short term, rather than invest in long-term securities. They are therefore in a position at any moment to upset the financial equilibrium of the rest of the world by a sudden recall of their loans; and such a recall may always be prompted by political as well as by economic motives. The large mass of French short-term credits still outstanding in London thus gives the French financiers a strong economic pull; and this is the more dangerous because Great Britain, holding French money on short-term conditions, has lent largely to Germany, against which French political animosity is especially directed.

The fundamental trouble, however, in relation to both the United States and France, lies in their being creditor countries which are at present unwilling to invest enough capital abroad to offset the tendency of gold to drift into their banks in payment of the world's debts to them. This drift of gold accordingly results in locking up uselessly a large part of the world's gold supply, and in keeping the rest of the world short of gold. This shortage, in its turn, tends to force down

the world price-level, by restricting the amounts of currency and credit which the world is able to create, in accordance with its existing laws and conceptions of financial rectitude. Thus restriction of currency and credit is added to the other factors, such as the collapse of the American market, making for a fall in world prices; and the fall in prices, thus accentuated, results everywhere in trade depression and in frantic efforts to restrict production in order to prevent prices from falling yet more.

The gold standard, under post-war conditions, thus produces highly unfortunate results for most of the world. It has indeed been evident for some time past that, failing a removal of existing tendencies, it could not possibly long continue in operation. For the debtor countries of the world had been, even before the recent crisis drove Great Britain off the gold standard, losing gold at such a rate as to make the total exhaustion of their supplies only a matter of two or three years at most. Several of these countries had been driven off the gold standard before Great Britain; and others are already following Great Britain's example.

In these circumstances, a return to the gold standard by Great Britain and the other countries which have abandoned it for the time would be likely to lead only to a resumption of the drain of gold to France and the United States, unless it were accompanied by far-reaching measures for the revision of existing international obligations and probably by a lowering of the United States tariff wall. For, as long as Europe owes huge sums to America, she can pay only in goods or in gold; and, even if the American tariff were greatly reduced, she could not hope to pay in goods and gold together nearly all she owes, even if all her gold were drained away. But the resumption of American lending, even on a scale sufficient temporarily to reduce the balance, can afford no lasting remedy; for its result is to swell each year the sum of European indebtedness, and the amount payable in interest upon it. There can be no remedy without a thoroughgoing revision of existing international debts, including reparations payments. Given such a revision, the form and extent of which we must next proceed to consider, a return to the gold standard, at a new and lower gold parity of the pound, *may* prove to be desirable. Without such revision, emphatically it is not.

#### IV.—DEBTORS AND CREDITORS

**T**HE basis of world trade is mutual exchange of products. Some countries are best suited to produce certain types of goods, and other

countries to produce other goods. In general, the prosperity of each country, as well as the total wealth of the world, will be greatest if each economic area specializes in producing the goods which it is best fitted to produce, and exchanges its surplus for the different surpluses of other areas. The basis of international trade is international barter, based on the different productive qualities, national and acquired, of the various countries and their inhabitants.

To this simple exchange of commodities, however, the modern world has added a new and growingly important kind of international trade based, not on the exchange of goods for goods, but on the lending by the richer and more developed countries of capital resources for the development of the less advanced. This form of trade involves, in the first instance, exports from the former countries to the latter without any equivalent return in goods; but it also creates on the part of the borrowers an obligation to pay interest, that is, to export in future years to the creditor countries goods for which no equivalent in their goods will be due. In the beginning, then, the lending countries have a surplus of exports over imports; but, when the lending has gone on for some time, the interest due on the capital already exported comes to exceed the amount of new capital annually lent abroad, and these countries accordingly show an excess of imports—commonly called an adverse balance of trade. This has long been the position of Great Britain, which has been for generations past the leading creditor country in the world.

This extensive lending of capital to the less developed countries is justified economically, and made attractive to investors in the older countries, by the fact that the exploitation of the unused resources of the less advanced areas often affords prospects of higher profits than can easily be made at home. In other words, the capital is more productive when used in this way than it would be if it were applied to the further development of home resources.

So far, so good. If the capital lent to the less advanced countries is so applied as rapidly to increase their riches and productive power, they can, out of their increased wealth, afford to pay interest on it to the creditor nations, and still retain a margin of profit for themselves. But if the loans so made are wasted in unproductive expenditure, or squandered on wars and armaments, the burden of interest on the debtor country may easily become unbearable; and there have been in the past many defaults due to this cause. Moreover, even if the loans are put to the best productive use, but the value of money changes, or there is a heavy fall in the prices of the goods chiefly produced by the debtor countries, or a serious and prolonged world

depression of trade, it may become impossible for the debtors, through no fault of their own, to pay the interest due. For they can pay this only in goods; and if their exports fall off seriously in either quantity or price, they have no other resources out of which to pay, unless indeed they are able to resort to further borrowing—and that will only exaggerate the problem in future years.

In face of the catastrophic fall of prices in recent years, the position of the countries which have borrowed large masses of foreign capital has become increasingly difficult, especially when their borrowings have been in terms of a gold standard currency. For the interest, in view of the lower prices, has come to represent a greatly increased debt in terms of commodities. Hence the recent defaults of Chile and Brazil, the threatened default of Australia, the extreme hardships involved for India and China in the meeting of their international obligations. In the case of India and China, the situation is further aggravated by the fall in the price of silver, which has depressed the purchasing power of the Far East even more than the fall in commodity prices.

It is not too much to say that, failing considerable modifications in the claims of creditor countries, widespread default is inevitable in the near future. As far as Great Britain is concerned, the position of debtors has been greatly eased by her departure from the gold standard; for the debtor countries will now be called upon to pay their interest only in sterling at a lower gold and commodity value. But the United States is still claiming to be paid in gold dollars, and so are other countries which remain on the gold standard. The danger of defaults has therefore not been averted, though in the case of Australia, which owes most of its debts to Great Britain, the position has been materially improved by our departure from gold.

In Europe, the great debtor nation is Germany. The Germans owe large sums in interest on the capital which they have borrowed for economic reconstruction since the war; and the greater part of this debt is owing to American creditors in gold dollars. The falling price-level has therefore added greatly to the dead weight of Germany's annual interest obligations.

But Germany is under obligation to pay not only interest on her commercial borrowings, but also large sums in Reparations and other Government debts. Under the Young Plan, the sums due for Reparations are fixed in gold, without any allowance for changes in the price-level. Accordingly, as prices have fallen, the real burden on Germany has proportionately increased, until it has become at

the present time altogether impossible for her to meet the changes involved. As we saw, she has made of late years a tremendous effort to build up an export surplus, both by increasing the volume of her exports and by decreasing imports. By these means she succeeded in turning a large adverse trade balance in 1928 into a substantial favourable balance in 1930, at the expense of a very low standard of life for her own people. But, even so, the balance available is wholly inadequate to enable her to meet her international debts and to pay Reparations on anything like the scale laid down in the Young Plan. The moratorium declared this year on the initiative of the Americans was the only possible alternative to a German default, followed by the collapse of the entire Young Plan and probably by most serious political complications as well.

By means of various moratoria, a respite until next February has been barely secured. But no sensible person supposes that Germany will be in a position to resume payment next year. Indeed, despite the Hoover moratorium, it has been touch and go with German finance all through the present summer. The precarious condition of Germany has throughout added greatly to the difficulties of London; for it has been out of the question for London financiers to attempt to withdraw from Berlin the large loans which they have made. If they did attempt to do so, Germany would at once collapse, and her creditors would lose their money. London therefore has been called upon to meet the claims of American creditors at a time when she has been unable to draw in the sums due to her from her German debtors. This is partly the fault of the London financiers, for locking up in loans which cannot be quickly recalled money borrowed on short term from America and France. But unless someone had lent Germany the money there would have been a complete German collapse long ere now.

The immediately critical time ahead is early next year, when the existing temporary loans to Germany through the Bank for International Settlements are due to expire. But it is abundantly evident that no mere moratorium can be of avail in dealing with the situation. It is futile merely to extend another short-term credit to Germany, or merely to extend for a further short period the moratorium on war debt payments and reparations. For it is plain to any rational person that Germany and other debtor countries are burdened with international obligations which they can never possibly meet, and that as long as these inflated claims are maintained in being they are bound to plunge the world into recurrent financial crises, unless indeed a point is swiftly reached at which crisis passes into revolu-

tion, and the entire structure of world finance, and perhaps capitalism itself, goes up in smoke.

The only sound basis for world trade is mutual exchange of goods and services. This need not exclude capital loans from the more developed to the less developed countries, provided that these loans are kept within reasonable limits, that the proceeds are put to good productive use, and that the door is kept always open for revision of interest claims in the event of a serious change in the level of prices. But when interest claims are fixed in gold money in face of falling prices, when borrowing is allowed to pass the limits of sound productive expansion in the debtor country, where the proceeds of international loans are applied to non-productive uses, and, above all, where huge non-commercial claims to interest on war debts or to reparations payments are added to the burdens of ordinary borrowing, the entire equilibrium of the world financial system is bound to be upset, and a condition of economic crisis is bound to ensue.

The situation will be worst of all if to these other madneses is added the raising of tariff walls to a height which seriously obstructs the buying and selling of goods across national frontiers, especially when such tariff walls are erected by creditor countries, which thus refuse to allow their debtors to pay in goods, attract to themselves an undue share of the world's gold, and make the maintenance of equilibrium dependent on their will to make continuously huge investments of capital abroad, on a scale which can only add to the magnitude of the problem, by increasing constantly the payments due from the debtor nations.

Surely we have gone on long enough with this farce of war debts and reparations. What is needed here and now is a complete cancellation of all such claims. Great Britain would neither lose nor gain much directly if this were done; for she is on balance, in these respects, neither a large creditor nor a debtor. The United States would give up a great deal—on paper; for she is a huge creditor. But what is the use of being a creditor if the condition of continuing to be one is that you go on lending the debtor the money to pay you with? Even the United States would lose nothing in reality by complete cancellation. Germany would obviously gain; for she is the worst sufferer by the present situation. But does even France really wish to keep the whole world in permanent and disastrous crisis in order to get her own back on the Germans? And, if she does, will a suffering world allow her?

France, indeed, stands to lose, for the simple reason that she has been receiving payments from Germany, while she has successfully

evaded the payment of most of her debts to others. France, like Belgium, had doubtless special claims immediately after the war for the restoration of her devastated areas; and, if she can substantiate even now reasonably small claims to special consideration they can be considered by way of exception—a payment towards her high cost of war pensions, for example. But, if any such exception is to be made in France's favour, it must be only in return for a really large measure of disarmament. France cannot be allowed to wreck a world settlement by standing out for her pound of flesh, or to plead poverty as a reason for exceptional treatment while she continues to spend heavily on arming for the next war. But perhaps before long even the French will realize that it is not to their interest to pull the whole world economic system down in ruins for the sake of accumulating more and more useless gold in the cellars of the Banque de France.

Complete cancellation of war debts and reparations is the first obvious step towards the recovery of world equilibrium. But with this must go either monetary measures which will ensure a very considerable and lasting rise in the level of world wholesale prices, or a drastic scaling-down of all debts, international as well as internal, that are fixed in terms of gold. We have done this for our own debtors by going off the gold standard, and for as long as we remain off it, or at any rate allow the gold value of sterling to be greatly below the old parity. But corresponding concessions will have to be made by countries which remain on the gold standard to their debtors if a great sequence of national defaults is to be avoided.

For these and other purposes there ought to be, in the near future, a World Economic and Financial Conference, fully representative of the Governments of the nations involved—debtors as well as creditors. This Conference ought to have terms of reference wide enough to allow it to consider all the causes of the financial and economic crisis, and to accept remedies of the most far-reaching character and extent. It ought to deal at least with the following matters :—

- (1) Complete cancellation of War Debts and Reparations.
- (2) Scaling down of the interest obligations of debtor countries.
- (3) The permanent raising and stabilization of the world level of wholesale prices.
- (4) The reduction of tariffs.
- (5) The regulation of the volume and direction of overseas lending.

These five points are not put forward as at all a complete summary of what the Conference would have to do, but merely in order to focus attention upon the immediate and outstanding issues.



This Conference, we hope, would be a real World Conference, representing all nations. But, if any nation refuses to attend, the Conference will have to be held without it; and it would be better to have a nation or two absent than to allow the agenda to be emasculated in order to secure their presence. For it is evident by now that only fundamental remedies are of any use in dealing with a world in imminent danger of total economic collapse. For years past, we have been patching up an impossible situation. Now at last the time has come to end it once and for all.

Great Britain's part in the proposed Conference is clear enough. Her abandonment of the gold standard has given her back the initiative in the world's financial affairs; for she is no longer harried and helpless with the fear of losing her gold, and all the world is watching attentively to find out what her new policy will be. Moreover, as she stands neither to lose nor to gain much directly by cancellation of war debts and reparations, she is admirably placed for putting forward sane and far-reaching proposals. Given a strong and imaginative Government, concerned above all to get the economic life of the nations once more on a firm basis, Great Britain to-day could lead the world. Instead, she is hovering between her desire to get back to pre-war parity and her fears of losing her position as a creditor country, and letting her great opportunity go by. It will not long remain hers. For within a few months either some other country will have wrested the initiative from her, or the world financial system will have dissolved into chaos and, maybe, revolution. The time to act is now; and the action needed is plain enough for even politicians to see it.

## V.—WHAT SHOULD WE DO?

WHAT should British policy be, both at such a Conference and in our other national and international measures to deal with the present crisis? We have seen that it would be disastrous for Great Britain to attempt, now or later, to bring the pound back to its old gold value; for this would involve a drastic downward revision of British incomes, an intolerable retrenchment in the social services, and an industrial struggle in which the British economic system would be inevitably torn to pieces. Such a policy would be sheer madness, even from the standpoint of the financiers themselves; and we cannot believe that it will be seriously pursued.

There remains, as we saw, the possibility of stabilizing the pound at a new and lower gold value, perhaps a quarter, perhaps a third,

lower than the pre-war value. Is this to be our policy? The answer, we think, depends on what is done in the rest of the world.

As long as the level of world prices continues to fluctuate, it is not possible for us to have both a stable internal price-level and a fixed relative value of our currency to the currencies of other nations. The gold standard fixes the relative value of our currency; but it does this at the cost of compelling us to let our internal price-level fluctuate with movements in world prices. For, if we returned to the gold standard and at the same time attempted to stabilize internal prices, our internal price-level might be at any time either higher or lower than the world level. If it were higher, we should lose our export trade, and be subject to an outflow of gold, as we have been in recent years. If it were lower, we should attract to ourselves a large stock of useless gold, and throw the world economic system out of gear. We could, moreover, only keep our price-level below that of other countries at the expense of our standard of living; and, if such a situation arose and we had a large stock of gold, the pressure for an increased issue of currency and credit, which would raise prices, would speedily become irresistible.

Under the gold standard, then, stable foreign exchanges are secured at the cost of unstable prices at home. But, in view of the very large number of persons whose incomes are either fixed, or difficult to adjust to changes in the price-level, there is a very strong demand nowadays for stability of prices at home. If the great mass of people were asked whether they preferred stable foreign exchanges or a stable price-level at home, they would undoubtedly choose the latter.

We can get a fairly stable level of home prices if we choose, by so "managing" our currency and credit as to keep their volume at a fairly constant ratio to the volume of things needing to be bought and sold. This is a clear and intelligible policy, which has many powerful advocates. But we can do this under present conditions only if we remain off the gold standard, and allow the value of our currency in terms of other currencies to fluctuate with changes in the level of world-prices.

The reason for reluctance to do this is that it is most desirable to promote world economic co-operation and exchange, and to thwart the powerful influences at present making all over the world for economic nationalism and hostility between nations. Unstable exchanges mean unstable trading relationships; and a currency so managed as to stabilize internal prices removes the possibility of working towards a single world currency, valid equally in every country. It is therefore a serious matter to throw over an inter-

national standard permanently, in favour of the policy of stabilizing internal prices.

But the fixing of the relative values of different currencies involves the instability of internal prices only because world prices are allowed to fluctuate. If the world as a whole would agree upon a common effort to stabilize the world price-level, and could do this successfully, we could have both stable exchange rates and stable internal prices without any inconsistency at all.

Could this be secured under the gold standard? It could, and it could not. It could not, under the gold standard as it has been worked hitherto; but it would be possible to work out a modified gold standard compatible with price-stability.

Under the gold standard as it has been worked hitherto, the level of world prices has fluctuated broadly with changes in the supply of gold. When the gold supply has been increasing more slowly than the supply of goods and services, prices have gone down; whereas successive gold discoveries, in California, Australia and South Africa, have been followed by large rises in the world price-level. At present, the world's stock of gold bullion is certainly growing much less fast than the world's power to produce goods; and in addition a large part of the stock is laid up unproductively in America and France. This is one most potent cause of the fall of world prices in recent years. Moreover, there is every reason to believe that the production of new gold in the world is likely to fall off heavily in the future, as many of the South African mines become exhausted. Unless the world changes its monetary policy, this means that the world tendency for prices to fall is likely to be intensified, especially as the drift of gold to the creditor countries will also continue unchecked unless drastic measures are taken to correct it.

In these circumstances, it is natural to suggest that the whole world ought to go off the gold standard, and take to a "managed" monetary system instead. Many such systems have been proposed; but the essence of them all is that the world should agree to make its issues of currency and credit depend, not on the supply of gold available as a basis, but on the needs of the world productive system. This would be no doubt a difficult matter to arrange from the technical standpoint; but there is no reason at all to deem it beyond the wit of man, if the nations are really prepared to co-operate in working out a common financial system, and to set up a really strong International Bank, based perhaps on the Bank of International Settlements, to act as a world clearing-house for their monetary dealings.

Nor is such a system really incompatible with the retention, in part, of the gold standard. For there is nothing at all sacrosanct, or even logical, about the magnitude of the reserves which bankers at present think it vital, or are even compelled by law, to keep against their issues of currency and credit. There is no reason why the ratio should not be half as much, or twice as much, or anything else—provided that the change is made by concerted action among the gold standard countries. If, in recent years, the world's gold had been better distributed, and if the world's banks had agreed to issue more currency and credit on the basis of a given amount of gold, the tendency for the level of world prices to fall could have been prevented. And world prices could, and should, be raised now, by the adoption of precisely these measures.

This amounts, indeed, to a "managed" currency system—the management consisting in the variation from time to time of the amount of gold kept as a reserve against issues of currency and credit. It would enable currency and credit to be issued in accordance with the expansion of world productive power, and so as to keep world prices stable. And balances owing from one financial centre to another could continue, as now, to be settled in gold, if the world thought fit, or by the device known as "earmarking" of a single centralized gold reserve kept under the custody of the League of Nations or the World Bank. By and by, perhaps, the world would wake up to the realization that even this central reserve of gold was not necessary, and pass over to a completely "managed" world currency. But gold has been a fetish so long that the easiest course may well be to pass away from the gold standard by stages, and even to keep the shadow of it when the substance is gone.

It is thus desirable for us at present to continue to work for an international standard of currency, based on a world policy of price-stabilization. But, if the world as a whole will not adopt the necessary measures for the successful working of such a standard, or if no adequate steps are taken to write off impossible international obligations and to put world trade once more on a reasonable basis of mutual exchange, there will be nothing for it but for Great Britain to resort to the alternative policy of stabilizing her internal price-level, at the cost of allowing the exchange value of her currency to fluctuate in accordance with changes in world prices. In other words, Great Britain will have to remain off the gold standard at least as long as the working of that standard in the world as a whole continues to force world-prices downwards, and to cause a persistent flow of the world's gold towards France and the United States. This is a second-

best policy; but the advantages of internal stability of prices are considerable, and far to be preferred to stable exchange rates secured at the cost of persistently falling internal prices.

There is another factor that has to be taken into consideration. Not once but many times have the United States shown a tendency to upset the equilibrium of the world economic system by huge speculative loans which have been followed by disastrous panics. Now, the effect of a speculative boom in America is to send gold flying there in quest of the excessive profits that are being made, and to set up a condition of restricted currency and credit over the rest of the world. And, when speculation ends in panic, there ensues in America a business slump which drives down prices and spreads trade depression over the whole world, as it has done in the past two years.

Great Britain, because of London's importance as a world financial centre, is peculiarly exposed to the effects of America's outbursts of speculation; for it is above all London that has its gold and its resources drained away to take part in the Wall Street orgy. It must be a condition of any successful attempt to stabilize world wholesale prices and monetary conditions that the United States shall set their banking system in order, and find means of curbing speculative excesses which bring disaster on the rest of the world as well as on themselves.

Unless means can be found and adopted to stabilize world prices and monetary conditions, and to keep American speculation in check, it seems clear that Great Britain will be best advised to be in no hurry to go back to the gold standard. Nor does it follow, even if we refuse to go back to it, that we need act alone. The currencies of a number of other countries, both within the British Empire and outside it, are already pegged to sterling, and fluctuate in terms of sterling rather than of gold. Failing world agreement to establish a better international method of managing monetary problems, Great Britain will be well advised to rally round her those countries with which she has the closest trading and financial relations, and endeavour to make herself the centre of a new system which will challenge the predominance of gold as a basis for currency and credit, and provide at least the nucleus of a new world order in finance. If she does this, the countries which stand out of such a system will be threatened with the disappearance of a large part of their export trade; and gold and gold-hoarding will be robbed of their power to upset the balance of the world's economic affairs.

We are not suggesting that the policy here outlined will be simple to carry into effect, or that the world is yet fully prepared for its

adoption. But we believe that during the next few months events will move very swiftly indeed, and exert a powerful influence on public opinion in all countries, and not least in those which adhere to the gold standard and are likely to be the chief sufferers by the developments of this autumn. The population of the world is learning economics by experience at a great rate; and within a few months at the most the countries which are now unready to consider any drastic reforms are likely to change their tune. The question is whether this process of conversion will be swift enough to anticipate the logic of events; for, unless it is swift indeed, the collapse of the credit system may render the steps here proposed obsolete, and necessitate the putting forward of still more drastic projects for the restoration of the world to financial sanity and economic progress. But for the moment the right course is to make a last appeal to the world's common sense—an appeal for immediate and drastic action in relation, not merely to gold and currency, but to the whole absurd tangle in which the world's economic system has become involved. In this appeal Great Britain ought to take the lead; and, if all the world will not respond, she ought to act promptly and courageously in partnership with those who will, leaving the recalcitrant countries to bear the consequences of their folly, until they are reduced by events to a more amenable frame of mind.

## VI.—BANKERS AND PEOPLES

**B**UT can we trust our bankers and financiers to carry into effect such a policy as the foregoing sections have outlined? Emphatically we cannot; for our bankers are primarily responsible for the troubles into which we have fallen. It was on their advice that we went back to the gold standard in 1925, on a basis of pre-war parity which heavily over-valued the pound, and thus put a severe strain on our exchanges and disastrously hampered our export trade. It was their action in locking up in long-term loans sums borrowed from abroad which we were liable to repay at short notice that contributed largely to landing us in the financial crisis of 1931. They have been convinced deflationists almost to a man; and, though they have for the time acquiesced perforce in the suspension of the gold standard, they are deflationists still—witness the high bank rate imposed on the morrow of the suspension, when the danger of a further loss of gold had been removed. They are hankering still, not merely after the gold standard, but after a return to it at pre-war parity, and after

the drastic cuts in wages and social services which such a return would involve. They have let us down again and again since the war; and now they are eagerly waiting their chance to let us down once more.

It is out of the question to leave the banks free to dictate to governments in the future as they have dictated hitherto. If we are to pursue a courageous policy of leading the world back to financial sanity, or even to safeguard the interests of our own industries and our standard of living, we must convert the banks from the agents of a narrow financial group into responsible instruments of public policy. This involves socialization, in some form, not only of the Bank of England, but also of the Joint Stock Banks which, with it, occupy the key positions of the financial system. We must socialize the Bank of England, as most other countries have socialized their Central Banks, in order to be free to pursue an expansionist monetary policy on the basis of a managed currency, and in order to be free to negotiate with other countries under conditions which will enable our Government to implement, through its control of the Central Bank, whatever policy may be agreed upon with other nations. Nor can we, if that proves to be the best course to pursue, possibly stabilize our own price-level without full control of the operations of our Central Bank.

So far there will be a wide measure of agreement. But many people who favour socialization of the Bank of England still boggle at the socialization of the Joint Stock Banks. This is, nevertheless, equally indispensable. Broadly, in our present financial system, while the Bank of England chiefly controls the total volume of currency and credit available, the Joint Stock Banks control its distribution among the various classes of potential borrowers. The Bank of England can, in the main, limit their total lendings; but it has far less power to cause expansion than contraction, and very little power indeed of regulating the flow of credit in this or that direction.

This power is, however, indispensable for the effective control of prices as well as for a co-ordinated policy of national economic planning and development. Largely for want of it the policy of price stabilization pursued by the Federal Reserve System in the United States broke down; for no means were devised of preventing the flow of the available credits, through the member banks, into stock-speculation, instead of the financing of increased production and employment. Moreover, if the Bank of England, under public control, were pursuing one policy, while the directors of the Joint Stock

Banks believed in another, we should have a situation of pull devil, pull baker, in which each would be able to thwart the other, and the result would be a deadlock worse for industry than almost any positive policy.

It is, moreover, very necessary, if we are to inaugurate a new financial policy, to have effective control over the doings of the numerous private financial institutions of the City of London—discount houses, acceptance houses, issue houses, investment agencies, and, last but not least, the stock and produce exchanges. Now, many of these—and especially the discount houses and the Stock Exchange—are at present related closely to the Joint Stock Banks, from which they draw the loan money with which they carry on their operations. We are not suggesting that we ought to socialize these private institutions—that would be at this stage far too complex a business. What we suggest is that the requisite control over them can be ensured if, and only if, the State has in its hands both the Bank of England and the great Joint Stock Banks.

Socialization, of course, does not mean nationalization in the old-fashioned sense of taking the banks over, and running them on Civil Service lines under a responsible minister and a Government department. Almost no one, we take it, wants that. Socialization means rather the re-constitution of the Bank of England and of each of the Joint Stock Banks as a publicly owned corporation, with directing bodies appointed and removable by the Government, and subject in matter of high policy to Government control, but free from day-to-day political interference in their ordinary business. The precise implications of this form of socialization need working out; but we are already in process of working them out in the case of such institutions as the Central Electricity Board and the B.B.C.—both public bodies whose employees are not Civil Servants and which are not tied down to Civil Service methods or subject to detailed Treasury control or interference by Parliament. There are already the models to be followed in the impending socialization of the banking system.

The aims of a socialized banking service should be threefold. The first should be to secure a management of the issue of currency and credit that will promote industrial expansion and increase employment, without allowing inflation to occur—for emphatically an increase of currency and credit accompanied by a corresponding increase in production is not inflation, but only legitimate and necessary expansion. The second object should be to use the credits thus made available so as to secure the maximum increase in production and employment, and to check speculative activities, by their right distri-



bution among the various industries and services asking for loans. And the third object should be to regulate overseas investment of capital, and to direct home investment into the right channels, both by controlling the operations of private concerns in the capital market, and by setting up new public institutions—and especially a National Investment Board—and so to avoid the colossal waste which has been characteristic of the new capital issues of recent years. The Macmillan Committee on Industry and Finance has recently pointed out that investors in the last investment boom in Great Britain lost practically half the sums they invested within less than two years. This is insane waste of capital which is badly needed for the reorganization of our basic industries and the employment of our workers.

Any full discussion of these three objects would, however, go far beyond the scope of this booklet, which is concerned only with the causes of the present crisis and a general indication of the appropriate remedies. We have put forward two things as the indispensable conditions of averting a complete world collapse in the very near future. These two things are, first, a drastic revision of all international claims, including a complete cancellation of war debts and reparations, and a determined attempt to stabilize prices at a satisfactory level by world action, and to ensure for the future an adequate supply and a right distribution of currency and credit to meet the world's needs.

These objects, we have further suggested, cannot possibly be secured without the thorough socialization of the banking system; for if States are to agree on a new financial policy they must have in their own hands the means of carrying that policy into effect. We would add that the country must have as well a strong Government, thoroughly aware of what it is attempting to do, and prepared to stand up courageously to the opposition of financial and *rentier* interests, and to put up with no nonsense from obstructionists either at home or abroad. What is wrong with the present Government is not that it has demanded emergency powers, but that it is putting these powers to the wrong use.

## VII.—THE ALTERNATIVES BEFORE US

FOR what does the policy of the present Government amount to? It came into office with the declared intention of maintaining the gold standard at the old parity. It knew that this policy involved

not only drastic retrenchments on the social services and a total stoppage of all large schemes of national economic development, but also the cutting down of insurance benefits to the unemployed, and the handing over of a million or more of them to the mercies of the poor law authorities, and also a great capitalist offensive to bring down wages in every trade, until British costs had been reduced to the level dictated by the starvation wages of foreign workers. This was the policy to which the members of the present Government stood committed when they assumed office; and the object of it all was to preserve the gold standard intact. Yet they have persisted in carrying it out, although the conditions have been entirely changed by the suspension of the gold standard.

To what do they stand committed now? They are still busy cutting down the salaries of teachers and civil servants, combing out the unemployed, and cancelling plans for housing, road-making, and every other form of national development. But the gold standard, which these violent measures were designed to defend, has gone already; and with it has disappeared any case there ever was for the policy which they are still attempting blindly to follow. The unemployed are still to be condemned to a winter of cold and hunger; the teachers, the police, the soldiers and sailors, are still to have their wages reduced; progress in housing, in education, in the health services, and in every form of social and economic development is still to be put back. And all—for what?

In order to balance the Budget, and to restore confidence in Great Britain's financial position, we are being told. But have the countries whose confidence we are courting balanced their own Budgets? America has a far bigger budget deficit than we are faced with. The way to get both balanced Budgets and world confidence is by stimulating trade, and not by a panic cancellation of productive expenditure that is certain to make unemployment and depression worse. And the world is most unlikely to have confidence in us if we run round and round like terrified sheep, bleating at bogies of our own imagining. Moreover, we could have balanced our Budget without these false "economies." We could have suspended the Sinking Fund, paid for the maintenance of the unemployed by an emergency levy on all classes of incomes, and readjusted taxation so as to put a larger burden on the *rentiers*, who have profited by the fall in prices.

There is no case, in a world teeming with productive power, for cutting down the standard of life. There is, on the contrary, a strong case for advancing it as fast as our power to produce increases. But

the gods of capitalism are scarcity of goods and cheapness of labour. They want wage-reductions, not in order to preserve the gold standard, but because they believe in cheap labour as the means to higher profits. They want to take away the incomes of the unemployed, because they believe that is the surest way of forcing wages down. Never has there been a clearer class issue that there is to-day in Great Britain, never a clearer call to the workers to rally to the defence of their standard of life.

But, if they are to defend that standard with success, it is not enough to take up a merely negative attitude—to object to, and fight against, the cuts which the “National” Government has already imposed, and intends still further to impose if it remains in office. For a falling standard of life is inevitable unless drastic measures are taken here and now both for the complete reorganization of the financial system and for a rapid advance towards Socialism over the whole field of economic policy. This booklet has been confined to the question of financial policy, both because that is the immediate matter raised by the political crisis, and because the reorganization of the banks is a necessary condition of any effective measures for putting industry on its feet.

But banking reform is not enough. It is only an indispensable first step towards the reorganization of industry on Socialist lines. We are by no means to be numbered among those who believe that a few adjustments of the financial machine, or even the most far-reaching changes in financial policy, will rid us of all our troubles; for the causes of the present world depression lie deep down in the capitalist system itself—in its determination to create artificial scarcity in place of the plenty that ought to exist. We need, as the alternative to the present Government, with its demand for a free hand to do it knows not what, nor with what object, a Government of determined Socialists who, having made the cleaning up of the financial mess their first task, will then advance promptly to constructive Socialist measures in the industrial field.

The only possible source of such a Government is the working-class movement. Labour has decisively rejected the policy of wage-cutting, unemployed-baiting, and putting back economic and social progress that is advocated by the self-styled “National” Government and the financial interests behind it. But it cannot successfully defeat that policy unless it is prepared to advance at once to the determined enforcement of a constructive Socialist policy of its own. The first step towards that policy is the thorough reorganization of the financial system on a basis of full public control. The next is the

re-building of the essential industries as great public corporations working directly for the service of the people.

But our advance towards these objects must be international as well as national; for the cause of the workers is one everywhere, and no country can hope to prosper in a world diseased. The causes of the present world depression lie deep down in the capitalist system, of which the banks and the financial agencies of the world are the central machine. An indispensable step towards world Socialism is the social control of world finance.

It may indeed be too late, even now, for the measures outlined in this booklet to save the world from an economic collapse beside which the troubles we have been through will seem as nothing. For everywhere the very survival of the structure of world credit is precarious. Not only in Germany, but even in the United States, for all their wealth, the banking system is in imminent danger of insolvency and ruin. No one knows what the next few months, or even weeks or days, will bring forth. But the measures outlined in this booklet are at least a workmanlike attempt to promote an orderly transition from capitalism to Socialism instead of a plunge into chaos. The programme we have set forth is a *minimum* programme; and every day that action upon it is delayed creates a need for yet more drastic measures. For it is certain that any policy will be built upon sand unless it begins a thorough-going reorganization of world finance, based on a far-reaching socialization of the banking system.

## APPENDIX

## SOME FACTS AND FIGURES

WE have kept figures out of the text of our pamphlet in order to make it more readable. But it seems desirable to add, in an appendix, certain of the more important figures on which our arguments and conclusions are based.

## I—THE NATIONAL DEBT

On the average of recent years, the service of the National Debt has been costing Great Britain over £360,000,000 a year. We have spent, on the average, well over £50,000,000 a year in repaying the debt; and yet our total indebtedness has only fallen from £7,829,000,000 in 1920 to £7,413,000,000 in 1931. In interest alone, we have been paying at a rate of over £300,000,000 a year; and even in this year of low interest rates the estimated interest charge alone amounts to £289,500,000.

Meanwhile, there has been a huge fall in the price-level between 1920 and 1931.

Measured in terms of the change in retail prices since 1920, every £100 paid in interest on the debt has gone up in the past ten years by over two-thirds in purchasing power, and in terms of wholesale prices has much more than doubled. The real income paid to the *rentier* class as interest on the Debt is at least two-thirds greater in 1931 than in 1920.

We are spending at present more than three times as much on the service of the National Debt as on benefits to the unemployed.

## II—THE WORLD'S GOLD

At the end of 1930, before the last phase of the world crisis had begun, France and the United States between them already held 57 per cent. of the total gold supply of the world, whereas in 1920 they held only 43½ per cent. Thus, the world's gold is silting up uselessly in France and the United States. Great Britain has less than one-fifth as much gold as the U.S.A., and less than one-third as much as France. Here are the actual holdings, in 1920, and at the end of 1930 (\$ millions).

	1920	Percentage of Total	1930	Percentage of Total
U.K. . . . .	763	10·5	718	6·6
U.S.A. . . . .	2,451	34·6	4,225	38·8
France . . . . .	686	9·4	2,100	19·0
World Total . . .	7,206	—	10,872	—

Great Britain is the next largest holder of gold after France and the U.S.A.; and her losses of gold are nothing beside those of the debtor countries, which are having their entire gold supply steadily drained away. Thus, Australia's gold stock dwindled from £49,000,000 to £18,000,000 between 1928 and 1930; and the gold reserves of such countries as Brazil and Chile were almost wiped out. Between the beginning of 1929 and the end of 1930, the share of creditor countries in the total stock of gold rose from two-thirds to three-quarters, and that of the debtor countries fell from one-third to one-quarter. At the rate at which gold has recently been flowing out of the debtor countries, it would only take a few years to deprive them of all their gold. (See the Report of the Macmillan Committee on Finance and Industry, p. 134.)

### III—CREDITORS AND DEBTORS

Great Britain is a creditor country. As we have seen in the text, she imports more goods than she exports; but in normal times she is able not only to pay for the excess by means of her "invisible exports"—interest on overseas investments, receipts from shipping and financial sources, etc.—but also to have a large surplus available for fresh investment overseas. This surplus British investors do actually invest—indeed, the tendency is for them to invest overseas more than the surplus available rather than less. We set out below the Board of Trade estimates for recent years of the British balance of payments, together with the figures for new capital issues made in the London market. These last do not fully correspond to the volume of new investment overseas, but they suffice to give a general indication.

#### GREAT BRITAIN'S BALANCE OF PAYMENTS (£ million)

	1924	1928	1930
Excess of imports of Merchandise and Bullion .. .. .	324	358	392
Government receipts from Overseas (net) .. .. .	-25	15	21
Net National shipping income ..	140	130	105
Net income from Overseas Investment .. .. .	220	270	235
Net receipt from Short-term Interests and Commissions ..	60	65	55
Net receipts from other sources ..	15	15	15
Total .. .. .	410	495	431
Estimated total credit balance on above .. .. .	86	137	39

OVERSEAS CAPITAL ISSUES, 1924-1931  
(£ million)

	1924	1928	1930	1931 (to June 30)
British Empire .. .. .	73	86	70	
Foreign .. .. .	61	57	39	
Total .. .. .	134	143	109	43

It will be seen that the balance available for investment overseas shrank greatly in 1930; and it is estimated that it has disappeared altogether this year, and been turned into a debit balance. Nevertheless, considerable new overseas capital issues have been made in London not only in 1930, but also in 1931; and this is one source of the exceptional strain on British credit.

The United States are also a great creditor country. Unlike Great Britain they export more goods than they import; and they have also large masses of capital invested abroad, and claims on Europe for interest on War Debts.

Here is an estimate, from the Report of the Macmillan Committee, of the U.S.A. balance of payments up to 1929.

	1924	1928	1929
Excess of Exports .. .. .	882	850	734
Excess of Invisible Imports .. .. .	80	200	250
Net Surplus available for Investment .. .. .	802	650	484
Net Long-term Lending Overseas .. .. .	733	708	386
Net Short-term Lending Overseas .. .. .	-216	226	-13
Net Investment Abroad .. .. .	517	934	373
Net Import or Export of Bullion—			
Import .. .. .	236	—	120
Export .. .. .	—	272	—

It will be seen that America has each year a huge surplus available for overseas investments. Unless she invests the whole of this surplus, or lends it on short-term overseas, gold is bound to flow to the U.S.A. from other countries. But if she does lend it the effect is to increase the amount payable in interest in future years, and thus to swell still further the American balance. This process can only end in default by the debtor countries, unless steps are taken to cancel international debts which have become an impossible burden in face of the fall in prices.

France is also a creditor country, though, like Great Britain, she imports more goods than she exports. She receives a considerable sum in interest on her foreign investments, and also gets large receipts from the tourist traffic. Here is a rough estimate of the French balance of payments for 1930.

## FRANCE'S BALANCE OF PAYMENTS IN 1930

(Millions of francs)

Excess of Imports .. ..	12,973	Increase from Shipping ..	2,700
Debt Service (including re- payments) .. ..	5,398	Tourist Receipts .. ..	8,500
Other Loan Payments ..	919	Interest on Foreign Invest- ments, Insurances, etc...	5,500
Sums repatriated by Immi- grants .. ..	2,500	Reparations and Young Loan .. ..	7,034
	<hr/>		<hr/>
	21,790		23,734
	<hr/>		<hr/>
Foreign Capital Issues ..	1,400	Sales of Foreign Exchange	4,140
Imports of Bullion ..	11,530	Sales of Short-term Foreign Bills, etc. .. ..	6,800
	<hr/>		<hr/>
	34,720		34,674

It will be seen that France had a balance on the right side, and that she actually received in gold and precious metals more than the amount of this balance. This was partly because the French did not lend abroad nearly as much as their current surplus, and partly because they actually called in during 1930 a considerable part of the sums which they had lent abroad on short-term in previous years. These are the reasons why gold has been silting up even faster in France than in the United States.

Germany is a great debtor country. It has been officially estimated that she owed abroad in July, 1931 about 14.5 milliards of Reichsmarks net (over £700,000,000 at gold parity). By far the largest amount was owing to the United States, with Great Britain next, and France a long way behind. Here are the estimated figures (million RM.).

	Long Term.	Per- centage.	Short Term.	Per- centage.
German Debt to U.S.A. ..	5,626	55.2	1,629†	37.1
German Debt to Great Britain	1,100	11.5	1,051†	23.9
German Debt to Holland ..	1,174	12.3	336†	7.6
German Debt to France ..	475	5.0	297†	6.8

But in addition to these debts Germany is being called upon to meet heavy payments for reparations. These amounted to over £88,000,000 in 1931, or would have done so if there had been no moratorium.

Clearly, the only means of payment available to Germany is an excess of exports over imports; for she has had little gold (and had lost a good deal even of that little in recent months until she prevented its export). But Germany

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† These figures refer to a specimen inquiry covering only 85% of the total short-term investment.



has to import both raw materials and foodstuffs in considerable quantities. It is hard for her to build up an export surplus at all, and utterly impossible for her, especially in face of falling prices and the world slump, to pay anything like the sums demanded of her. Here is an estimate of the actual German balance of payments in recent years.

GERMANY'S BALANCE OF TRADE  
(Milliards of Reichsmarks)

	1924	1928	1930
Excess of Imports over Exports .. ..	1.8	1.3	—
Excess of Exports over Imports .. ..	—	—	1.5
Gold and Foreign Exchange—			
Imports .. .. .	1.3	0.9	—
Exports .. .. .	—	—	0.1
Reparation Payments .. .. .	0.3	2.0	1.7
Revenue from Shipping and Services .. ..	0.3	0.5	0.2
Interest on Investment .. .. .	0.2	0.6	0.8
Deficit on above .. .. .	2.9	4.3	0.7
Capital Movements—			
Long-term invested in Germany .. ..	1.0	1.7	1.6
Short-term invested in Germany .. ..	1.5	1.4	—
Other movements .. .. .	0.4	1.2	—0.9
Total .. .. .	2.9	4.3	0.7

It will be seen that Germany had, by tremendous efforts, built up an export surplus in 1930, but still on nothing like an adequate scale. The attempt to meet her obligations in 1931 confronted her with bankruptcy, and compelled the granting of a moratorium. Clearly, she will be unable to resume payment next year—or ever, until her obligations are drastically scaled down.