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By the Same Author

A LEVY ON CAPITAL

(George Allen & Unwin)

WHY PRICES RISE AND FALL

UNEMPLOYMENT

(Oxford University Press)

THE NATIONAL DEBT

(Labour Publishing Coy.)

THIS GOLD CRISIS

(Victor Gollancz)

THE MONEY MUDDLE
AND
THE WAY OUT

by

F. W. PETHICK-LAWRENCE

Sometime Fellow of Trinity College, Cambridge
Financial Secretary to the Treasury
(1929-1931)

LONDON
GEORGE ALLEN & UNWIN LTD
MUSEUM STREET

FIRST PUBLISHED IN 1933

X61.3.N3

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PRINTED IN GREAT BRITAIN BY
UNWIN BROTHERS LTD., WOKING

MONETARY POLICY

"THE aim of British monetary policy should be to stabilise wholesale prices at a suitable level in this country and to seek by international agreement the largest practical measure of stability in the rates of foreign exchange."

Extract from Resolution carried unanimously by the Labour Party in its National Conference at Leicester, October 1932.

"That this Conference would deprecate any attempt to return to the gold standard in the near future, and urges that His Majesty's Government should consult with the Dominions with a view to stabilising the purchasing power of money, within the Empire, on the basis of an index-scale of wholesale commodity prices."

Resolution carried unanimously by the Conservative Party in its National Conference at Blackpool, October 1932.

PREFACE

To write a book on currency reform used to be regarded as the sign of a crank. All proper-minded people knew that the high priests of finance acted on inspired tradition and that to question the wisdom of their judgment was heresy. But, to-day, as a result of the world crisis, these lordly ones have fallen from their high estate and heresy has become not only permissible but even fashionable.

Critics are found in every walk of life and include employers and workers, politicians and scientists, economists and even bankers. Recognising that sound finance is essential to world recovery, their criticism is mainly directed to the failure to stabilise the purchasing power of money, or even to prevent violent changes in prices. This view finds expression in the two resolutions carried unanimously by the Labour and Conservative Parties in their respective Conferences in 1932. On the previous page will be found the texts of these resolutions, which both demand that the price level should be stabilised.

In view of this surprising unanimity, supporting opinions I have long held and advocated, I have tried to construct a workable scheme which would achieve the desired object; and this book is the

result. It is not of course wholly new. Others as well as myself have outlined similar proposals elsewhere. But in this book I have endeavoured to give them a new form and to present them with greater definition. If then after examination the scheme be approved there is no reason why it should not be adopted. If, on the other hand, it be found faulty it can be amended or scrapped. But in any case the degree of precision which I have tried to impart into the discussion should help towards the ultimate solution of this vital problem.

The book is written more for the general reader than for the expert; so, though I have not shirked difficulties, I have avoided as far as possible technicalities. I am aware of course that the success of any monetary policy must ultimately depend on the knowledge and skill of the experts who have to work it. This entitles their views to respect, but it does not deprive the public of the right to lay down the general direction of policy, any more than an owner of a motor car in entrusting the driving to his chauffeur forfeits his right to choose his destination. But when an owner buys a new car he is entitled to assurances from the salesman that the car if properly driven will serve his purpose. Such assurances I have tried to justify in this case.

I hope no one will imagine that the scheme here

outlined is a panacea for all human ills. I certainly do not so regard it myself. On the contrary, I believe that our present organisation of society has many glaring defects, all of which require treatment and some of them treatment of a most drastic kind. But it has seemed to me possible and advantageous to isolate one defect of a fundamental character which is blocking all progress and to point the way to a remedy which cuts across present political controversies and is therefore capable of being adopted at once by common consent.

Some of those who share my political faith that a planned economy must be extended to fields other than finance if it is to provide a complete cure for our present economic disorders may dissent from the emphasis that I place on this particular question. Some may even regard my scheme as likely to postpone a wider reform and therefore as definitely unwise. My own view is that on the contrary it is essential to lay the foundation of a sound financial system, and that on that it will then be possible to build whatever superstructure of economic life society may deem best.

In ordinary times men fear change. What was good enough for their fathers they are content to continue for themselves. If therefore these were ordinary times proposals for change in the basis of

finance would be looked at askance even if they were looked at at all. But these are times when the condition of the world is desperate and every day becomes worse. It is almost universally recognised that fundamental changes must be made if human society as we know it is to survive. I have therefore written this book in the confident belief that it will receive careful examination and that if it survives the test it will contribute in some degree to restore prosperity to the world.

F. W. PETHICK-LAWRENCE

11 OLD SQUARE
LONDON, W.C.2
February 1933

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