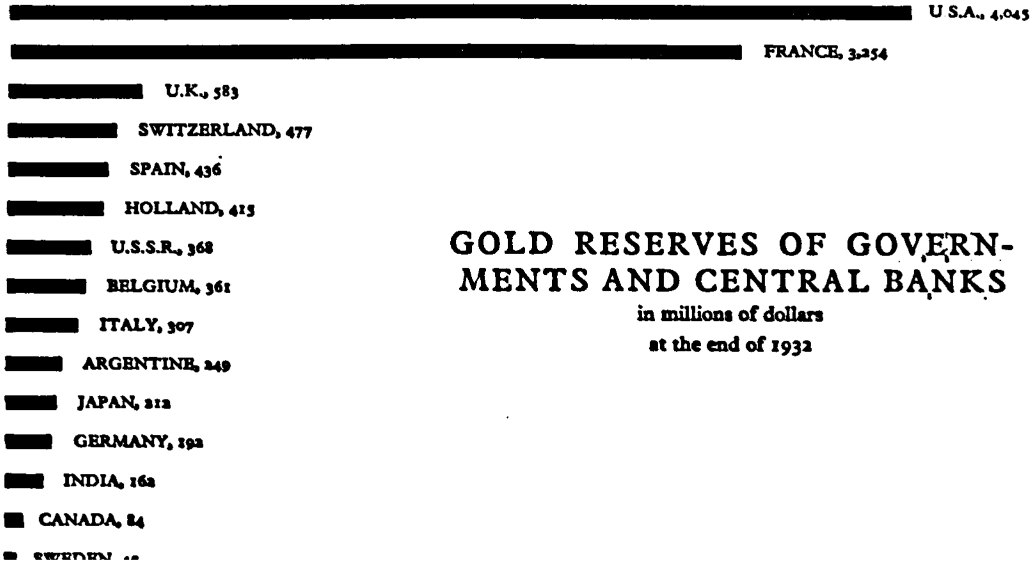
Dhananjayarao Gadgil Library
GIPE-PUNE-010095

WHAT EVERYBODY WANTS TO KNOW ABOUT MONEY



GOLD RESERVES OF GOVERNMENTS AND CENTRAL BANKS

in millions of dollars
at the end of 1932

WHAT EVERYBODY WANTS TO KNOW ABOUT MONEY

A PLANNED OUTLINE OF MONETARY PROBLEMS

By

Nine Economists from Oxford

COLIN CLARK
G. D. H. COLE
E. F. M. DURBIN
H. T. N. GAITSKELL
E. L. HARGREAVES
R. F. HARROD
G. R. MITCHISON
E. A. RADICE
AYLMER VALLANCE

Planned and Edited By

G. D. H. COLE

LONDON
VICTOR GOLLANCZ LTD
14 Henrietta Street Covent Garden
1933

X61
G3
10095

Printed in Great Britain by
The Camelot Press Ltd., London and Southampton

SYNOPSIS AND TABLE OF CONTENTS

LIST OF TABLES AND DIAGRAMS

FOREWORD

THE PLAN of this book differs from that of the ordinary text-book about money, because it is meant primarily, not for the student, but for the general reader. In these days, monetary questions crop up so constantly in the newspapers, form so large a part of the substance of political and economic controversy, and, above all, attract so many cranks that it has become indispensable for intelligent people to know something about them. But the ordinary text-books do not tell the ordinary person what he wants to know, at any rate in such a fashion as will enable him to understand it. I therefore planned this book, to be written by specialists for non-specialists, in such a way as to bring out into relief those aspects of the monetary problem which are most under controversial discussion to-day, and most relevant to the solution of the world's pressing economic problems.

There is accordingly more description of actual financial institutions and of their working—including not only banks but also more specialised institutions dealing with international trade, new capital issues, and other aspects of the "money market"—than most general books on money contain. There are also a discussion of some of the monetary aspects of the present world crisis, and special chapters devoted to the vital question of the "price level," and to certain of the outstanding exponents of monetary doctrines regarded as dangerously heretical in orthodox circles. I have also included a chapter on the socialisation of banking, which is already a very live political issue in Great Britain, and may perhaps very soon become one in the United States, where partial socialisation is already in being.

We shall begin with a preliminary attempt to define and delimit money, for the sake less of the definition than of getting clear the varying senses in which the word can be used, and so getting on guard against that unconscious transition from one sense to another which so often makes nonsense of the process of economic argument. For the terms of monetary theory, as of all economics, are of necessity words in everyday use among business men and private persons as well as among economists; and much misunderstanding arises between the two groups from a failure to realise when they are using the same word to mean different things. In discussing whether cheques, bills and bank deposits, as well as coins and notes, are money we shall make a first nodding acquaintance with a number of leading points of monetary theory, including the well-known, and much abused, Quantity Theory of Money and its younger brother, the Purchasing Power Parity Theory of the foreign exchanges. We shall also begin, even at this stage, to raise some pertinent questions affecting the policy of "reflation" which has been attempted in 1933 in the United States.

From that beginning we shall proceed to a general discussion of the monetary aspects of the world crisis, considered in relation both to its causes and to the possible ways of escape, as far as these can be sought in the monetary field. But any conclusions reached at this stage will have to be purely tentative; for the main part of our task is still before us

This is, next, to describe as plainly and objectively as possible the present working of the monetary system, with special reference to Great Britain and the United States, though not without a good many incidental remarks on conditions in other countries. We shall begin with Central Banks; for upon these the entire financial structure is now pivoted in the leading capitalist countries, and it is mainly through them, if at all, that the task of monetary "management" must be attempted, and a revised monetary policy put into force.

From Central Banks we shall pass on to the deposit, or joint stock, banks which are the chief holders of the short-term monetary resources both of business men and of private persons above a low income level, and also the chief dispensers of "credit" to industry and commerce. At this point it will be of special importance to observe the wide differences between the banking institutions of the leading countries, and the influence exerted by these differences on their economic systems.

Next will come a treatment of two special aspects of the financial working of Capitalism which are largely in the hands of more specialised institutions, though the joint stock banks play a direct part in them, and the Central Banks also profoundly affect their fortunes. These are, first, the financing of foreign trade, with which is involved the entire question of the rates of exchange between different currencies. This is obviously a vital matter; for the demand for a return by the world to the Gold Standard is based largely on the view that stable exchange rates are indispensable as a basis for the rebuilding of international trade upon sound lines. Moreover, in this chapter we shall have to examine the difficult questions of the "balance of trade" and the "balance of international payments," which are always cropping up when countries propose to raise their tariffs, or in other ways restrict the quantity of their imports, and also in connection with such problems as the payment of war debts and the investment of capital abroad.

This latter question—foreign investment—as well as investment at home will be discussed in the following chapter, which deals with the Capital Market and describes how new capital investments are made, and how vital are the problems raised by the present unplanned arrangements for attracting money into business enterprise, both at home and abroad. In this chapter something will be said of the stock markets as well; for we cannot be concerned only with new capital, in a world in which dealings in "second-hand" capital, *i.e.* stocks and shares, are apt to play so significant a part in upsetting the equilibrium of the entire financial system.

At this point we shall have completed our broad survey of the existing system ; and questions of policy and of the future will begin to loom larger, and difficult theoretical issues to be more frequently raised. The next chapter, on "Money and Prices," plunges us into the thick of the monetary controversy which most sharply divides the economists of to-day. For against the advocates of stable exchange rates are ranged the advocates of a stable internal "level of prices" ; and we shall have to master the principal arguments on both sides, and to decide which we prefer—if, indeed, we do not end by deciding that both sides are wrong, and that there is some third policy preferable to either of the familiar antagonists.

But before we can finally settle this problem, if indeed we can, there is more ground to be traversed. For at this point —enter the heretics, headed by Major Douglas, each with his own diagnosis of the monetary evil, and his own suggested remedy, guaranteed to set the world to rights. The author of this chapter has had the hardest task of all ; for he has been set to sift the grain from the chaff in a number of theories in which the two are very confusingly mingled. The object of this chapter is not simply to explore fallacies —for there is much of sound substance in what the heretics have to say—but, far harder, to appraise and disentangle where the matter is difficult and the exposition often harder still.

Chapter IX brings us back from general monetary theories to a more limited issue, raising the question of the part which States play, or should play, in the regularisation of monetary demand, both as taxing authorities and as great spenders, whose policy in the execution of public works and in the social services deeply affects the balance of the whole economic system. Here arises in a new form the problem of marrying idle money to idle resources of real capital and labour, of securing a right balance between spending, saving and investment, and of the general distribution of the national income as well as of its amount.

This consideration of public finance leads on naturally to a survey of debts, though private as well as public debts have of course to be taken into account. We shall see here how disproportionate present debt burdens throughout the world are to the existing levels of incomes and prices, and how debts consequently stand in the way of the recovery of balance in the economic sphere and of the resumption of normal trading relations between countries. With debts will have to be considered interest-rates, for both long- and short-term loans, and their influence on the activity of business enterprise.

Last of all, we shall proceed to discuss the question of socialisation. Central Banks, we shall see, are in many countries already public or semi-public institutions ; but deposit banks and other financial agencies are, in all capitalist countries, left in private hands. We shall have to review the arguments for and against the socialisation of these various types of institution, especially in relation to the projects of " Planned Economy " which are now being so widely discussed in capitalist countries, as well as in Russia, and even put partly into practice, as in the United States.

Finally, there will have to be, not a summing up of the entire argument of the book, but at any rate an attempt to draw some of the threads together, and to estimate, in the light of what has been written, the relation between the monetary and the non-monetary factors in the world economic problem. For what the ordinary man wants to know most of all is how far the world's troubles are capable of cure by purely monetary remedies, or how far the other economic factors need to be radically handled as well.

As this book is the work of nine authors, it seems desirable to say something of how it has been written. For its arrangement and planning as a whole I am solely responsible. I drew up a general plan for each chapter ; and on this plan each of the contributors consented to work. I also sent out to them all, before making any definite arrangement, a letter setting out broadly the point of view from which the book was intended to be written, and the basic content of common doctrine which it was meant to embody.

Thereafter, each contributor was absolutely free to develop his part of the subject in his own way. I went carefully through each chapter when it was written, and made many suggestions to the writers—who accepted practically all of them. But I made no attempt to secure full agreement on secondary points, or to influence a contributor when his view upon a matter did not coincide with my own.

Each writer is therefore responsible for his own contribution, and for that alone ; and, as a contributor, I am in the same position as the rest. In addition I am responsible for presenting to the readers the entire book, as an exposition of the subject, but not for agreeing with everything that every contributor has set down. I think, however, I can reasonably claim that the book, despite the number of the authors, does work out as a reasonably rounded treatment of its subject, and does reveal a reasonable community of theory and outlook.

The contributors have this in common—they were all educated at Oxford. That now three of them teach Economics at Oxford, two in London University, and one in Cambridge, while one is Associate Editor of the most widely read of economic journals, one a barrister engaged in largely commercial practice, and one a Research Fellow in the United States who has been in a leading London financial house and subsequently my colleague in the New Fabian Research Department, speaks well for the growing diffusion of Oxford's influence in the theory and practice of Economics. If an editor and arranger may be permitted to dedicate other men's work as well as his own, I should wish this book to go out as dedicated to the growing band of Oxford Economists, Past, Present, and Future.

G. D. H. Cole.

Oxford, July 1933.

INDEX