

## **GOLD, UNEMPLOYMENT AND CAPITALISM**



# GOLD, UNEMPLOYMENT AND CAPITALISM

By

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TO  
T. D. BARLOW  
AND  
MY OTHER FRIENDS  
IN MANCHESTER



## INTRODUCTION

### I.

A WELL established tradition dictates, I think, an apologetic attitude on the part of a writer who ventures to confine within the covers of a single book some of those scattered products of his pen which are presumed to owe their existence to his own passing intellectual interest or to the pressing importunities of the flying moment. I recognize, indeed, the difficulty of distinguishing, particularly in the case of one's own past writing, between the merely ephemeral and the presentation, though it may be in summary form, of a point of principle or an analysis of fact, which may still validly claim attention after a lapse of time, either because it is still relevant in the light of after events or because it throws light upon the general evolution of an author's thought. The following eighteen essays and papers, which have been selected out of a mass of material some two or three times as large, have at least this claim upon the reader's attention, (that they deal with subjects which were not only important at the time at which they were written, but which have continued to be important, intellectually and politically, ever since) To some of the issues discussed the passage of time has added a significance and urgency which they did not originally possess. With one exception only, none of these papers is more than eight years old: the solitary exception—the first fruits of an interest in the problems of seventeenth century economic thought which the force of circumstances has prevented me from pursuing—deals with phases of thought more familiar than appears at first sight. For the wheel of thought has come full circle and the Mercantilist theories of employment which are examined in the earliest of these essays are but little removed intellectually from those which are the staple of political and economic debate to-day.

## II

It is my friend and former teacher, Prof. Edwin Cannan, who has most strongly insisted on the influence exerted by the external course of events upon the development of English Economic Science and upon the turn given to the intellectual interests of particular writers. I am afraid that I cannot claim to be one of those strong minded and ardent students who devote themselves even from their undergraduate days to the mastery of a particular field of study and who allow neither the changing incidents of their own professional careers nor the pressure of objective circumstance to divert their attention from their chosen task. (My own training was primarily that of an economic historian, though the admirable wisdom of those who framed the regulations of the London degree in Economics has always prevented London historians from being ignorant of economics and London economists from being uncontaminated by contact with the actual facts of economic development. If the late Prof. Lilian Knowles tried to turn me into an historian, I was privileged to acquire, under the inspiration of Prof. Cannan, my first insight into the significance of the economic point of view, although I have never had the privilege of teaching economic history, and have only intermittently had the opportunity of teaching "pure economics". If to my contact with these two great teachers I can attribute my first interest in the problems of economic organization and the history of economic doctrine my first acquaintance with the fascinating problems of currency history and doctrine I owe to Prof. H. S. Foxwell, whose vast stores of knowledge have been so freely put at the disposal of generation after generation of students in London and in Cambridge. I must, however, confess that, much as I owe to the inspiration of my teachers, the bulk of the papers contained in this volume owe their appearance to the chances of my professional career and to the shifting circumstances of the last ten years. In 1923 I first began



to lecture at the London School of Economics upon the subject of banking: that led to my interest in the Federal Reserve System and the first of many happy visits to the United States. In 1926 I was honoured by being appointed Prof. Foxwell's successor and banking and currency problems have ever since that time been in the forefront of my mind. Membership of the Macmillan Committee and an official visit to Australasia were of course intimately connected with the same part of my University appointment. In 1930 the University of Manchester appointed me its Professor of Social Economics: it was at the time when the world depression was beginning to be intense, and when the relationship of the depression to the process of technological change and to tariff policy was becoming widely canvassed. The last two groups of essays in this volume owe their main inspiration to the course which public discussion and national policies have assumed in the last few years.

### III

I do not feel that the later sections of this book call for any emendation or comment, though they deal, at any rate in part, with highly controversial matters upon which differences of opinion are not only possible but almost inevitable. Whatever the value of the views and opinions expressed in these sections, I am not conscious of any change of outlook on my part sufficiently profound to make it necessary to refer to it here. The situation is rather different in regard to the first section of this book, which deals with Monetary Policy. Here I am sensible of a change of outlook of some significance; and I venture to summarize my present attitude to the complex of issues involved.

Monetary polemics since the end of the war have gone through three stages: in the first period the main task on the practical side was to protest against the anarchic conditions of the time and to mobilize opinion in favour of a more orderly arrangement of the monetary affairs

of the world, i.e. in the first instance to secure a return to the international gold standard. The main pre-occupation of theory was to frame categories which would permit the phenomena of inflation to be treated as special cases of general principles; hence the contemporary stress on the theory of purchasing power parity and on the twin concepts of income flows and income velocity, i.e. upon the work of Cassel and of Hawtrey. Out of the discussions of this first period there arose a programme of reform of wider scope than the mere restoration of the gold standard, a programme which indeed made it doubtful whether the gold standard might not have to be abandoned. The three main points of the programme can be stated summarily. The object of monetary policy was to stabilize prices; the appropriate instrument of monetary policy was the Central Bank: the minor premise of the programme was that if the retention of the gold standard imperilled stability of prices, it was better to abandon gold and to purchase price stability at the expense of exchange stability. The third stage of monetary polemics is represented by a twofold movement; an attempt to provide a practical programme to meet the situation created by the world depression: on the theoretical side to take account more of the hidden than of the surface factors in the working of the monetary machine. Income flows and income velocity (i.e. the aggregate volume of purchasing power and the rate of turnover of that aggregate) began to be regarded as derivatives of a complicated situation involving the relations between the money rate of interest charged by bankers, the activities of the capital market, the habits of savers and non-savers and the volume of purchasing power made available at each successive phase of interaction between all these forces. Behind all these concrete phenomena of the monetary situation there stalks a ghost—the so-called Natural Rate of Interest, the existence of which is assumed: the *a posteriori* proof of the reality of the Natural Rate being furnished, if furnished at all, by the misbehaviour of the monetary

machine at certain times, this misbehaviour being explained as due to a divergence between Natural and Money Rates of Interest at given moments of time. From theories involving concepts such as these, two utterly divergent practical policies are being deduced at the present time and form the staple of debate between two powerful schools of thought.

This brief summary necessarily does injustice, of which I am acutely conscious, to the march of theory and to the brilliant writers who are engaged in the shaping of thought. It was imperative to say at least as much as the preceding in order that I may make clear how my own mind has reacted to the successive phases of opinion in the last ten years. From the beginning of my interest in these questions, I have been much more sceptical than many of my colleagues as to the practical possibilities inherent in Central Banking (first voiced in the essay reprinted here and written in 1924, *infra*, pp. 161-9 and repeated on many occasions since). But all instrumentalities are defective to a greater or lesser degree: and it has been only gradually that I have abandoned the view that the aim of monetary policy should be the stabilization of prices. What completed the process of conversion in my case was the failure of the Federal Reserve System to hold in check the boom of 1928-9, in spite of the fact that general prices showed a high degree of stability throughout the whole of that extraordinary period. The aims of monetary policy must be stated in more refined terms than those fashionable in the period 1925-9. It does not follow from what has been said that short-run violent fluctuations are not a great evil—they most certainly are, and the object of monetary policy should be to prevent the emergence of those conditions which entail such violent fluctuations as a consequence. The American experience has revealed the fact that approximate stabilization of prices is not inconsistent with the emergence of such conditions.

The conflicts of the moment are not concerned, however, except inferentially, with such long-run questions

as these, but with the issue whether prices should be made to rise by means of a certain type of monetary policy in the *immediate future*. This simple issue apparently leads, even in academic circles, to the most astonishing confusions of thought and even to accusations amounting to a charge of bad faith. Thus it appears to be supposed that anyone who denies that the universal abandonment of the gold standard and the inauguration of a régime of competitive exchange reductions, accompanied by public works expenditure, are the best means of overcoming the difficulties of the moment *necessarily* also believes that prices ought not to rise. It appears to be the case that denial of these propositions is held to be tantamount to adhering to one type of monetary theory, viz. that propounded in recent years by the Viennese School. It appears to be thought, in other words, that there is a real inconsistency between affirming the desirability of a rise of prices and affirming the undesirability of certain suggested means by which this rise of prices can be brought about. It is as if a physician were held guilty of desiring to prevent the cure of his patient merely because he differs from a brother doctor as to the best means by which to effect the cure.

For my own part, I have no hesitation in affirming that recovery from the depression will be accompanied by a rise of prices and that such a rise of prices is desirable. It is perfectly possible, in my judgment, to hold this view coincidentally with the further opinions (1) that the above mentioned devices for attaining a rising price-level are undesirable; (2) that a policy of "cheap money" in the sense of low bank rates of interest on new loans to industry and finance is perfectly consistent with their rejection, and (3) that the trade cycle is nevertheless mainly a monetary phenomenon, in the sense that relatively low rates maintained for too long a time during the upward phase of the cycle encourage investment which no longer pays when interest rates are finally forced upwards, so that, part of the previous investment having become unprofitable, the *de facto* situation

resulting is one of capital maldistribution. It is no part of the case against inflationary methods of reviving trade that they cannot achieve their objects, in the sense that they do not raise prices: of course inflation will raise prices in the long run. But it appears to me to be necessary to distinguish between those rises of prices which take place because business men believe that the wreckage associated with the turn of the tide from expansion to depression has been cleared away and price rises which take place merely because it is expected that the value of money will be driven down, irrespective of whether or not the mistakes committed in the previous boom have been corrected or not. Cheap money in the sense of new loans at low rates between willing borrowers and willing lenders, asked for and granted on a rational calculation of future profits, seems to me to be fundamentally different from the "cheap money" of the inflationists. It is only on the assumption that what maintains the depression is an *absolute lack of purchasing power* that pure inflation is justified; and I do not hold that this particular view is justified. Whilst I am by no means an adherent of the terminology or even of some of the tenets of the Viennese School, I do believe that they are right in thinking that in the course of upward movement of the trade cycle profound modifications in the structure of production take place and that monetary policy or theory cannot be negligent of this aspect in putting forward remedial measures. To carry the argument further, however, would be to contribute another essay to a book which some of my readers may find unnecessarily long. It only remains for me to express some personal obligations. To Mrs. A. Henderson B.Sc. (Econ.), I owe a debt of gratitude for unfailing assistance and advice which I find it difficult to express in words: without her aid many of these papers would never have been written. For permission to reprint the contents of this book I have to thank the Controller of H.M. Stationery Office, the Rt. Hon. S. M. Bruce, Resident Minister in London of the Commonwealth of

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