

# CREDIT CONTROL



The Path of  
Industrial Revival

BY

FREDERICK THORESBY

(*Barrister-at-Law*)

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JOHN BALE, SONS & DANIELSSON,  
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## Credit Control

### The Path of Industrial Revival

In 1920, a few private gentlemen, by the exercise of a power, mightier than parliaments yet scarcely appreciated and little understood, were able to bring financial distress to tens of thousands of manufacturers and traders, and to convert a million and a half of productive workers into an army of merely burdensome consumers. What this power is and how it is wielded are examined and explained, and a suggestion is made for its control and use in the national interests by the exercise of existing constitutional means. The information in this book is of vital importance to every manufacturer and trade union official, and above all to every citizen.

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## PREFACE.

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### EXTRACTS FROM THE CHAIRMAN'S (THE RIGHT HON. REGINALD McKENNA) ADDRESS TO THE MIDLAND BANK LTD., ON JANUARY 28, 1927.

"THE similarity of trade conditions in England and America in the first three years after the Armistice, contrasted with the subsequent dissimilarity, points to the occurrence of some vital change in 1921 capable of producing or at any rate markedly contributing to these different results. Monetary conditions exercise such an all-pervading influence that in investigating a matter of this kind we are forced to turn our attention to them; and as we find that from 1921 onwards there was a wide divergence between English and American monetary policy, we have in this fact at least a partial explanation of the phenomenon."

\* \* \* \* \*

"When now we compare English and American conditions we find that it is precisely in the movements of credit that the basic dissimilarity shows itself. Since the autumn of 1921 there has been a

great expansion in bank deposits in the United States. Using the latest available figures for purposes of comparison, it will be found that the average total deposits of the reporting member banks of the Federal Reserve system rose from £2,860 millions for the twelve months ending November, 1922, to £3,751 millions for 1926, an addition of no less than £891 millions. Taking similar average figures for this country, we find that over the same period the total deposits of the ten London clearing banks fell from £1,783 millions to £1,661 millions, a decline of £122 millions. Thus while there was an increase of £891 millions in the United States, there was a decrease of £122 millions in this country."

\* \* \* \*

"It is clear that a growing population and expanding production call for a larger volume of bank credit; and it must be equally clear that if the expansion of credit is not haphazard, but is capable of definite control and properly within the domain of policy, it is wise to ensure that the additional accommodation will be forthcoming. Those who think that any increase in the volume of money must be stigmatized as inflation will doubtless be alarmed by this growth of credit in the United States; but if the supply of new money does no more than keep pace with the increase in production, there is in fact no inflation whatever. An enlargement of credit, which in one set of conditions may be inflation, in another is an indispensable accompaniment of trade expansions."

"It appears then that fluctuations in the quantity of money cannot under present conditions be accounted for by anything done independently either by the public or the Government. We must therefore look to action by the banks, and particularly the Bank of England as the central institution, for the cause of these movements."

\* \* \* \*

"We have now reached two vital conclusions : first, that variations in the quantity of money are due to variations in the total of bank cash ; and second, that the total of bank cash is determined, except to an immaterial extent, solely by the action of the Bank of England. Indirectly, therefore, the Bank of England is in practice the controller of the volume of money."

\* \* \* \*

"It is not surprising, therefore, in view of the conditions of our trade in recent years, that Bank of England policy has for some time been a matter of controversy."

\* \* \* \*

"For close upon seven years we have had an army of unemployed in this country, never less than 1,000,000, at one time over 2,000,000, and at present nearly 1,500,000. Every year the normal growth of population adds roughly 200,000 to the number of our people capable of productive labour of one kind or another. In order fully to occupy our people an immediate increase of banking credit, that is of money, is indispensable for carrying the larger volume of commodities which the unemployed and

the new recruits to labour will produce. To check the growth of credit when the population is steadily increasing and vast numbers of men and women are out of employment is obviously to cut off all hope of trade expansion unless prices are continuously lowered. But we all know what falling prices mean to trade in these conditions. They spell stagnation, from which the sole means of recovery is a reduction in wages. It may be true that with falling prices the reduction would be in nominal more than in real wages, but I think our experience has taught us sufficiently the difficulty of effecting any reduction at all, and that what actually ensues when the volume of money decreases is long-continued trade depression. Stationary, or even insufficiently expanding money supplies, with a growing population struggling to find employment, represent in truth a condition of deflation.

\* \* \* \* \*

"We have been working on the gold standard for nearly two years, and except for the rigidity of the Bank of England system, there is now nothing to prevent the same response being given to growing trade demands in this country as has been given in America."

## BISEXUALITY.

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