THE BREAKDOWN OF MONEY

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AN HISTORICAL EXPLANATION

by

CHRISTOPHER HOLLIS

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INTRODUCTION

We are all familiar with accusations of bias against the text-books used for the teaching of history. Such and such a party or person is, we are told, painted unfairly black or unfairly white. If it is so, it is a serious fault and the text-books should be compelled to make the correction. But history, as she is taught, is marred by a much more serious fault than that of occasional bias. That serious fault is the complete neglect of monetary causes. Take the stories of any of the great catastrophes of history as told by a student of money and as told by an ordinary text-book. The two stories are almost without correspondence. The text-book, speaking of the English Civil War or the Revolution of 1688, the American War of Independence or the French Revolution, explains it entirely by political causes. To the monetary conditions of the day no reference is made. The student is perhaps told that there were some controversies about taxation, but he is left to believe that there was in the country a fixed pool of so much money and that the controversy was concerned with the conditions under which the King should be allowed to annex from his subjects a certain proportion of that pool.

Now it is not the theory of a particular school but the agreed admission of economists of every school that this view is a most serious distortion of the truth. It is not, says the Addendum to the MacMillan Report, true 'in any sense,'[1] and it is quite impossible for anyone, who believes it to be true, to form any conception of what happened in the 1640's or in 1688, in 1776 or in 1789, in 1914 or in 1931. Any explanation attempted on the theory of the 'fixed pool' inevitably collapses.

Now there is no dispute about the fact that our economy is built up by bankers, lending money that they do not possess, never have possessed, and never will possess,[2] on the calculation that they will not be asked for that money in notes or coin, nor can there be any sensible dispute about the importance of the fact. In this book I have been careful to explain what bankers do, not in my own words, but, wherever possible, in those

[1] 'The theory that there is in any sense a fixed loan fund available to finance investment which is in all circumstances fully employed, or that the amount of the savings of the public always exactly corresponds to the volume of the new investment, is, we think, mistaken.' p. 203. (Signed by Thomas Allen, Ernest Bevin, J. M. Keynes, R. McKenna, J. Frater Taylor, A. A. G. Tulloch.)

[2] For a discussion of the meaning of this, see later page 57 *et seq.* The evidence of Mr. McKenna's *Post-War Banking Policy* proves that it is admitted by bankers. See, also 'Temporary borrowing has this advantage—or this danger—that the money to be borrowed need not exist. Directly or indirectly the lender is a banker and what he lends is a credit—his own obligation. This obligation he can himself create.' (R. G. Hawtrey. *Currency and Credit.* p. 222.) In *What Everybody Wants to Know About Money*, planned and edited by Mr. G. D. H. Cole, the contributors, while raising many debatable issues, none of them dispute that bankers create money. Perhaps the best known of living defenders of the financial system, Mr. Hartley Withers, writes in *The Meaning of Money*, chapter V., ('The Manufacture of Money') 'Banking deposits come into being . . . chiefly by loans from the banks which also create book credits. . . . It is a beautiful piece of evenly working mechanism. . . . There is nothing quite like it anywhere else.' In the City Notes of the *Times* of December 9, 1925, we find, 'Issuing houses and underwriters must remember that capital available for investment is not, like bank credit, a thing that can be manufactured by a book-keeping entry.'

of Mr. Reginald McKenna—who surely should know. Yet, frankly admitted as is the fact and the importance of it, admitted both by intelligent bankers and their critics, it is extraordinarily difficult to get people to overcome the prejudice of their schooldays, that the politicians are the masters of the state and that the great events of history had purely political causes. Even the schoolboy who becomes a business-man, often imagines that in some strange way he is the owner of a thousand golden sovereigns when the bank has 'accommodated' him with a thousand pounds. Even the schoolboy who becomes a politician, often imagines that in some yet stranger way he is a master of his own policy when he is in reality but reciting the piece that his own masters have dictated for him.

Count Corti, in the foreword to his *Reign of the House of Rothschild*, tells how it used to be said that Metternich or Bismarck did this, how Cavour or Louis Napoleon had such and such a policy. The text-book recorded that a war was fought; it said nothing of how the war was paid for. When he came to read the Rothschild private papers he found there the record of the intimate relations between every statesman in Europe and that great house—that great house whose name was not even mentioned in the text-books.

Count Corti's restrained and authoritative words, and the admirably documented work which follows, are of a value far above that of hysterical generalisations and should be sufficient to satisfy those who are inclined to think that the international financier is a creation of the sensational novelist. If this work should do no more than send some new readers to that of Count Corti it will not have been written in vain. 'Certain special features of the period under consideration,' writes the Count, 'have been for various reasons entirely neglected. An example of such neglect is the ignoring by historians of the rôle played by the Rothschild family. . . . Strangely enough the influence of the Rothschilds is barely mentioned, or at the least casually referred to, in otherwise comprehensive and painstaking historical treatises. . . . I shall also bring out the intimate relationship that existed between the House of Rothschild and the great men of the period, such as Cavour, Napoleon III, Disraeli, Bismarck, the Emperor Francis Joseph and William II, and I shall show how this wealthy family, which had sprung from the Frankfort Ghetto, became international Tories and influenced the whole course of events in Europe. In the course of my researches I found that references to the name of Rothschild in official documents and in books of memoirs were as common as they are rare in contemporary text-books. I made a point of collecting all available data until my drawers were literally crammed with letters, deeds, and documents containing the name of Rothschild and bearing dates of almost every year of the nineteenth century. The general scheme of this work,' Count Corti concludes with justice, 'will be built up on facts alone, in a practical way such as will help us to form our own judgement on individuals and the part they played in world events.'[1]

As a result of this concealment of causes there has grown up the very dangerous habit of talking with

[1] pp. 11–13.

extravagant contempt of those who do not admit some proposition which the speaker could not demonstrate but which he happens to see frequently asserted in his newspaper. The language commonly used by Englishmen about the American refusal to cancel War Debts is a good example of this. The reader who perseveres with this book will have more than his bellyfull of discussion of the nature of debts and the conditions under which they can and should be repaid. It is not necessary to anticipate that discussion here. But at least it is a highly paradoxical proposition that a creditor will be the richer because he refuses to accept many millions of pounds from his debtor. The Americans are often told that they show themselves little better than a nation of half-wits by their inability to grasp this paradox. Yet surely the impoverished Middle Western farmer is not unreasonable in his demand that it shall be demonstrated rather than merely asserted. It does not apparently apply when Englishmen are creditors, for, if it did, Mr. de Valera should be given a place among Britain's saviours, inferior only to that of Lord Nelson, Mr. Jardine or the Duke of Wellington. Why does it apply when Englishmen are debtors? I do not say off hand that there is no answer, but it is certain that a large number of those Englishmen who use this language could give no account of the method by which international debts are either contracted or repaid. A better understanding might perhaps bring greater sympathy; if not, if we are determined to go on being rude, at least it would be better that we should not go on being ignorant.

I do not ask that the schools should teach any private nostrums, whether my own or anybody else's. I only ask that they should teach facts, the truth and the importance of which are alike admitted—the facts of what is our financial system and how it works. I do not think that that is an extravagant demand. The present policy of the text-books is through timidity to omit all mention of the monetary causes of history altogether, the result of that policy that the version of English and European history which they give is of all versions that which bears the least relation to the truth. For, whether the power of money has been beneficent or maleficent, may perhaps be argued; what cannot be argued is that it has been non-existent.

May I in conclusion anticipate one criticism? It will perhaps be said that I have written as if problems which are very complex were all very simple. In answer may I plead that it is not the purpose of this book to prescribe remedies of detail but to induce the reader to understand and to make up his mind on principles? It is useless to discuss the detailed remedy until there is agreement on the principle. It is for the public to insist upon the application of the principle, for the expert to tell it how that principle can be applied and it is to the public that this book is addressed. If it appears at times to ignore very real difficulties of detail that is not because I am blind to those difficulties nor that I have a contempt for the all-important work of the expert. But it is useless to talk about the trees until we have first located the wood. In this, as in other matters, principles must be settled by reason, the best application of them must depend upon the accident of circumstance when the moment for applying them arrives.

Whatever differences of opinion there may be about the remedies which Mr. G. D. H. Cole advocates, no one can dispute his wisdom when he writes,[1] 'The question which the world—and each country—has to decide to-day is whether it has at its command a sufficiency of skill and knowledge to undertake this vital work of monetary control, or whether it must remain at the mercy of a monetary system which, supposed to be automatic and self-adjusting, has in effect again and again thrown the entire productive organisation out of gear and condemned many millions of people to unemployment and unnecessary poverty. I am far from suggesting that the technique of control needed to remedy this situation has yet been fully worked out, or that there is general agreement among skilled persons about the basic principles of monetary management. If we attempt control we shall make many mistakes; but we shall learn from them and it is surely better to learn from our mistakes than to drown because we refuse to attempt to master the difficult art of swimming.'

[1] *What Everybody Wants to Know About Money.* p. 63.

THE BREAKDOWN OF MONEY

I

LAISSEZ-FAIRE

IT may seem at first sight that to criticise the doctrine of laissez-faire is to flog a dead horse. No country other than England ever pretended fully to accept that doctrine. In England, Act after Act of Parliament has been passed in defiance of it to regulate relations between employers and employees. In the General Election of 1931 the electorate gave a verdict as decisive perhaps as any that it has ever given against what is known as Free Trade, and subsequently tariffs upon foreign goods have been imposed with very little opposition.

Yet there has by no means been a defeat of the principle of laissez-faire as complete as there has been an abandonment of its practice. Many people still speak as if, where it has been abandoned, it has been abandoned owing to special circumstances. It is still, they say, the ideal and, when normal times return, we will return to the practice of it. It is still possible to raise a cheer by a general and rounded denunciation of 'government interference in industry,' and of those who support tariffs, a large proportion, explain that they only support them as a practical step in the direction of universal Free Trade. Even leaders of the Conservative party such as Mr. Baldwin and Mr. Neville Chamberlain are careful to explain that their ideal is to obtain as large a volume of foreign trade as possible. The electorate repudiated Free Trade at the election of 1931, but it is not, I think, intellectual arrogance to say that the election campaign gave very little evidence of a wide understanding either of the arguments in favour of Free Trade or of those against it.

The doctrine of laissez-faire is based upon four principles. There are two to which reference has already been made—the principle of Free Trade and that of non-interference between employer and employee. There are two other principles as vital to the doctrine, though less commonly discussed, simply because throughout the nineteenth century they were but little challenged. But, as Huskisson argued in his essay on *Currency Depreciation* at the time of the Napoleonic Wars, Free Trade implied not merely the free import of goods but also the free export of capital. The Englishman must not merely be allowed to buy where he wants; he must be allowed also to invest where he wants. And money must be on an automatic metallic standard—a gold standard, as it was in nineteenth century England—which frees it from the danger of government manipulation.

That was laissez-faire: free import of goods, free export of capital, free contract between employer and employee, a metallic currency. All was to be settled by competition and the business of the State was solely to 'keep the ring' and to enforce contracts.

There never was a time when the life of England was regulated entirely by the principles of laissez-faire. For instance, the first Factory Acts were passed some years before the last Corn Laws were repealed. Yet it is fair to say that such exceptions to the pure principle of laissez-faire as were placed upon the statute book were placed there in spite, not because, of the Benthamites. On the rare occasions when Benthamites supported such exceptions they supported them as exceptions—as *pis allers* for some reason or other regrettably necessary. To-day the government gives doles and Old Age pensions. Yet in spite of them it would be a fair generalisation to say that the principle of modern English society was that people should only receive money in return either for work done or for money lent. In the same way it is fair to say that the principle of English life during the last three-quarters of the last century was that of laissez-faire. It is that principle which it is here the purpose to examine.

Economic principles cannot be divorced from the moral principles from which they are derived. Now the moral principle behind laissez-faire was this. It is good for people to work, for, if everybody works as hard as is healthily possible, there will be the greatest possible production of goods. Privilege is an enemy of progress because privilege, by taking away from the privileged the necessity of working, tempts them to be lazy—to the material detriment of all society and to the moral detriment of themselves.

With such a principle the Benthamites attacked privilege wherever they found it, and without doubt succeeded in abolishing many privileges from which society was the better for being freed. But their logical weakness was that, while they were ruthless in their attack on privileges of rank or tradition, they made no attack at all on the privileges of inherited wealth, and it is curious to note that to-day, while kings have fallen from their thrones and land has passed out of the families that have held it for generations, almost the only place where son still succeeds unquestioned to the sovereignty of his father is in the great acceptance houses of London and New York. Bourbon and Hapsburg and Hohenzollern have passed away, but Morgan still succeeds to Morgan and Schröder to Schröder.

Yet surely it was clear that, if the health of society was benefited by as much free competition between man and man as possible then, while it was perhaps desirable not to allow anyone to start life with special privileges just because he was the son of a duke, it was equally desirable not to allow his neighbour so to start life just because he was the son of a capitalist. The Benthamites argued, it is true, that, if the capitalist were not allowed to transmit his wealth to his son, he would have far less motive to work hard. But clearly, if the freedom to transmit wealth caused some people to work harder, the accident of inheriting it caused many others to work much less hard. It was at the least uncertain whether the system on the whole made for less work or for more. It was absolutely certain that it created an inequality of wealth so great as to destroy all reality in the principle of freedom of contract between employer and employee.

There is sense in talking of freedom of contract between two men neither of whom has any other source of income, for then neither can in the end afford not to come to an agreement. There is sense in talking of freedom of contract between two men both of whom have other sources of income, for then either of them can, if it suits him, choose not to do business at all. There is no sense in talking of freedom of contract between two men, of whom one has another source of income and the other has none, for then the capitalist can say, 'There is my offer. You can take it or leave it.' The labourer must either take it or starve. He can, it is true, take the offer of his labour to another employer, but, if all the employers of his trade offer only the same wages and conditions, that freedom does not amount to much. Capital is almost unlimitedly mobile. The capitalist can put his money in Lancashire or in Japan at will. The Lancashire cotton-operative, thrown out of work in Bolton, cannot take his labour and sell it in Tokyo. Personal and family reasons may very likely make it impossible for him even to transfer his labour from Bolton to Wigan.

The economists of laissez-faire, while ready enough to use the rhetoric of equality against feudal landlords when it suited their purpose to do so, envisaged a society the very opposite of equalitarian. It was of the very essence of their society that it should be divided into what Disraeli not unfairly called the Two Nations, into the few owners of property and surplus capital who lent money and the many who owned nothing and who sold their labour to the capitalist for a subsistence wage. 'The natural price of labour,' wrote Ricardo in his *Principles of Political Economy and Taxation*, the classical statement of the doctrines of laissez-faire, 'is that price which is necessary to enable the labourers, one with another, to subsist and to perpetuate their race without either increase or diminution,' and 'How ever much the market price may deviate from its natural price, it has, like commodities, a tendency to conform to it.' It was in practice, thought Ricardo, more likely to fall below than to rise above the subsistence level, but then, he comforted the working-man, 'after their privations have decreased their number, or the demand for labour has increased . . . the market-price of labour will rise to its natural price.'

Edifying tracts by ladies such as Miss Harriet Martineau did, it is true, adjure the poor to save and hold out to them the prospect of themselves becoming capitalists if they did so. An occasional labourer, possessed of some lucky talent, might even succeed in raising himself from the one station to the other. But, as the essential demand of the system was that the great, and, as Karl Marx quite fairly argued, the increasingly great, majority should be unskilled workers with their hands, it was clear that it was only to the quite exceptional talent that a career was open. And indeed, as it was the very principle of Miss Martineau's political economy that the unskilled labourer could not possibly be given more than a subsistence wage, it was clear that he could not possibly save money except by starving either himself or else his wife and family.

Indeed, if it was found that he was saving money, the discovery was taken as a proof that the true subsistence wage was lower than had hitherto been supposed and that everybody's wages might be fairly reduced in order to reduce what were known as 'costs.'

The laissez-faire economists claimed that the result of their system would be a rapid increase in the total wealth of the country. At the same time it was, they argued, impossible to give to unskilled labour more than a subsistence wage. Stomachs do not vary from generation to generation. Therefore, as the more clear-headed of the supporters of the system such as Macaulay and Austin quite frankly recognised, the inevitable result of progress would be an increasing disparity between the wealth of the rich and that of the poor.[1] So it certainly would have been had laissez-faire been allowed to reign unchecked. The disproportion would have grown and grown until all collapsed in the catastrophe of class war which Karl Marx very reasonably foresaw as its inevitable conclusion. If the catastrophe was avoided, if the poor were not wholly excluded from the fruits of industrialism's increased production, the thanks must be given not to the apostles of laissez-faire but to those who rejected that theory, to some extent to the working-men themselves through

[1] G. B. Shaw. *Intelligent Woman's Guide to Socialism.* pp. 465–466. 'No attempt was made to disguise the fact that the resultant disparity between the poverty of the proletarian masses and the riches of the proprietors would produce popular discontent, or that as wages fell and rents rose with the increase of population, the contrast between laborious poverty and idle luxury would provide sensational topics for Radical agitators. Austin's *Lectures on Jurisprudence* and Macaulay's forecasts of the future of America prove that the more clear-headed converts to the theory of Capitalism had no millennial illusions.'

their Trades Unions which Cobden denounced, to a greater extent to such men as Shaftesbury, Sadler and Disraeli, who shamed society into allowing to labour, by Factory Acts and social legislation, which Bright bitterly and rancorously opposed, at least some increased share in the increased wealth which it had helped to create.[1] Thus, according to a graph given by Professor Fay in his *Great Britain from Adam Smith to the Present Day*, if we call wages 100 in 1790, in 1914 they had advanced to 250, while during the same period prices had fallen slightly from about 100 to about 90. The working-man was rather more than $2\frac{1}{2}$ times as well off materially as a result of the Industrial Revolution. But whereas during those years population had multiplied by about 4, the productive capacity of the country, however estimated, had certainly multiplied by a very great deal more than 10, or $4 \times 2\frac{1}{2}$.

So far few perhaps will find much to quarrel with in what has been written. Their only quarrel will be that it is platitudinous, that everybody to-day is well aware of the horrors of conditions in early industrialism, of the great error made by those who thought it impossible to improve those conditions. It is true that those horrors are to-day fully admitted and it would be waste of time to trouble the reader with statistics and description in proof of them. But why did sincere

[1] In the United States, it is true, high wages were found side by side with weak Trades Unions and little social legislation. But the shortage of labour and the necessity of attracting an immigrant population created a peculiar situation. American employers had to offer conditions substantially better than those of European employers or no one would have crossed the Atlantic to work for them. Besides the United States, in other ways a land of laissez-faire, was of course highly protectionist.

and good men such as Cobden and Bright honestly think that it would be impossible to improve those conditions? The answer to that question it is important to understand.

It was easy enough for Robert Owen to demonstrate that below a certain limit bad wages became bad economics. If you paid a man so little that he could not keep himself in health he clearly became a less efficient workman. You saved half-a-crown on his wages and, as a result, he fell asleep when minding the machine. The machine got broken and the damage cost you £1,000. That was the argument for paying everybody a subsistence wage—a wage sufficient to keep himself and his family in health. But to give the unskilled workman more than the subsistence wage would, it was argued, be a disastrous sentimentality. If you raised the unskilled to the level of the skilled, then the skilled would no longer have any motive to make himself so. Therefore you would have to raise the skilled, too. You would have to raise all wages. What would be the result? If wages are higher, costs of production are higher. Your competitors would be able to undersell you and drive you from the market. You would have to close down your works and the only result of your misguidedly sentimental attempt to increase your wages would be that there would be no wages at all.

The obvious answer was, 'Through Parliamentary action or by some other means raise all wages. Then it will be the same for all.' 'But that,' said the Benthamite, 'would do no good because you cannot raise the wages of foreigners. All that would happen would be that the foreign competitor would capture your market.'[1]

Thus, a few years ago, the Government attempted to enforce a minimum wage for agricultural labourers while allowing the foreign farmer to import his products freely. The result, as the Benthamites would have foretold, was to drive British agriculture into the bankruptcy courts. Nor has modern experience proved much more favourable to attempts to regulate labour conditions by international agreement so long as there is no international authority to enforce those agreements. For instance, the International Labour Conference at Washington, in 1919, passed a unanimous resolution in favour of an Eight-Hour Day, but no power is willing to be the first to give effect to it, no power is willing to give its neighbours powers of inspection to see that it is carrying out its promises nor to trust its neighbours to carry out their promises unless it itself has such powers of inspection. There is no international machinery to put the unanimous resolution into effect, and nothing therefore is done.

If it was but one industry that you were dealing with, you could exclude the foreign competitor by a tariff and sell your goods at the increased price. In this way you could have higher wages in that one industry but only at the expense of the workers in all other industries who would have to pay more for the protected article. The other industries would demand protection too. There would be no reason in justice why they should not receive it, then all prices would rise until the workers, while nominally better off, would in real

[1] See Appendix B.

purchasing power be worse off than they were at the beginning.

Now, granted that every increase in wages means a corresponding increase in price, the familiar argument was quite irrefutable. It is important to recognise it as such, for it is to-day rejected by a hundred people for every one that can refute it. The only answer to it was to object to the proportion in which the wealth of the industry was distributed between capital and labour, to demand that wages be raised and at the same time to be prepared to demonstrate that it was not necessary for prices to be raised, to demonstrate that even with the higher wages capital could still make a very tolerable reward for itself. Suppose that that could be demonstrated, what was the Benthamite answer?

The answer was, 'What is the good of the directors of a business going to the money-market and telling it that a very comfortable living can be made out of lending money at 3%? Do you not understand that money finds its own level? If owing to the interferences of sentimentalists with the laws of political economy it is only possible to get 3% for money in England then money will flow out of England to other countries where it can get more than 3%. The English manufacturer will either have to reduce his wages or else admit himself unable to borrow and close down his business.'

The philosophy of laissez-faire, that is to say, was built up upon four principles. Of these four principles the least discussed but fundamentally the most important was that of the free export of capital. As long as that export remained uncontrolled, the extent to which it was possible to raise wages was very small. To-day, while laissez-faire's three other principles have been overtly abandoned, this fourth principle has as yet been scarcely even challenged in newspapers or literature circulating among the general public.

In every country throughout history the Government had attempted sometimes with greater, sometimes with less success, to control the export of capital. In England it was until 1819 a criminal offence to export the King's coins. The demand that money be allowed to find its own level was first raised by the new international bankers, such as Thelusson and Necker, of Geneva, or the merchants of Amsterdam. These bankers, whose business had grown up in small countries, found that within the areas of Holland or Switzerland there was a scarcity of borrowers. A money-lender whose commodity is money must either find a market for his loans or perish, in exactly the same way as a coal-owner must find a market for his coal or a farmer for his surplus product. Therefore, if the export of money from Holland or Switzerland were prevented or controlled, these bankers would have to lend in a smaller market and therefore take a lower rate of interest. If money were allowed to find its own level, they would have the world to choose from and be able to find somewhere or other where they could put out their money at higher interest. Therefore they demanded that money be allowed to find its own level.

Their demand received its most powerful theoretical statement in the eighteenth century from the pen of

Adam Smith. Quite rightly and logically he insisted that there was a necessary connection between the free import of goods and the free export of capital, and he argued that the result of the removal of all government restrictions would be so great an increase of the world's productivity and of international trade that, though individuals might immediately suffer, in the long run every country must inevitably be much wealthier than it was before. To the objection that there was an apparent absurdity in shipping capital out of England to the ends of the earth, while there were left behind in England good lands lying fallow and people starving for the lack of bread, he replied that, whatever the law permitted, there would be no need to fear that people would in fact export capital until they had first remedied the more obvious needs at home. 'First, every individual,' he wrote, 'endeavours to employ his capital as near home as he can and consequently as much as he can in the support of domestic industry.'[1] 'In the wildness of speculation,' wrote Malthus, a little later, 'it has been suggested (of course more in jest than in earnest) that Europe ought to grow its own corn in America and devote itself solely to manufactures and commerce.'

It is of importance to remember that Adam Smith did give this answer. He did not, that is to say, argue, as some of those who later claimed to be his disciples argued, that all foreign investments were necessarily good. He argued that people would not send money abroad as long as they could use it at home; he admitted

[1] *Wealth of Nations*. ii. 26 (*Ed.* Thorold Rogers).

that the home market had the first rights. Has his prophecy proved true?

Up to a point, yes. Throughout the nineteenth century thousands of employers put money into their own business that they might have put much more profitably elsewhere; thousands of landlords spent money on the maintenance of their own estates instead of lending it out at 7% to the ends of the earth. Yet Adam Smith wrote in a day when the man who managed was also the man who financed a business. He did not foresee the rise of a new class of international money-lenders—the class which was to lend Napoleon £5,000,000 off the London money-market in order to fight the Battle of Waterloo[1]—the class which was to emerge from the Napoleonic Wars the holders of the mortgage over the land of England and the masters of its industrial growth. Nor did he foresee the developments of the technique of money-lending. In his day it was still a business of some difficulty for an Englishman to invest money in France or Germany. If he made the investment, it was difficult, or rather impossible, for him to make sure that his foreign borrower was using the money properly. 'In the home trade his capital is never so long out of his sight as it frequently is in the foreign trade of consumption. He can know better the character and situation of the person whom he trusts and, if he should happen to be deceived, he knows better the laws of the country from which he must seek redress.'[2] To-day the financier can transfer

[1] Gourgaud. *Mémoires*, vol. ii. Quoted by Dr. McNair Wilson in his *Monarchy or Money Power*, p. 83.
[2] *Wealth of Nations*, ii. 26. (*Ed.* Thorold Rogers).

his money from Japan to Brazil, from Brazil to South Africa in a couple of minutes and without moving from his office telephone. Against the money-power the resistance of the landlord and the owner-manufacturer has been small and ineffectual, and under the protection of the great dogma that money must be allowed to find its own level, capital has been drained off from an England, still filled with poverty and starvation, in order to develop industries in every corner of the world. In a speech in the House of Commons, on March 13, 1845, Cobden asserted that more goods were exported to Brazil in a year than were consumed by the whole agricultural peasantry of England and their families! He thought this a good thing.

Mr. H. N. Brailsford writes,[1] in his *Olives of Endless Age*, 'The internal market was starved because the industrial system, in its struggle for profits, limited the purchasing power of the masses, so that the wages which they had to spend could never keep pace with the growing output of the machines. Since by this policy of low wages the industrial system limited its own internal market, it was driven to enlarge it by conquest. Towards the middle of the last century it began to export capital as well as consumable goods. By this expedient it kept capital relatively scarce in spite of its rapid accumulation. The rate of interest was thus preserved against a natural fall and the passive owners kept their rewards high by comparison with those of the active workers. The leisured and privileged class was all the while erecting, in Asia

[1] pp. 282–3.

and Africa, buttresses and bulwarks for the social and political privileges which it retained at home.'

In 1913, according to the calculation of the League of Nations' World Economic Survey, there were some three and three-quarter thousand million English pounds invested outside England[1]—about £100 per inhabitant of the country. But a few years before, Jack London was writing his *People of the Abyss* to show how even in what are euphemistically known as 'normal times' one adult out of every four in London dies as the recipient of public charity. We reduced our foreign investments during the war but by 1925 they stood once more at almost exactly the same figure as that of 1913. What has happened to the foreign industries which London has financed? In 1932 and 1933, Dr. McNair Wilson tells us in his *Monarchy or Money-Power*, 'The Dutch bulb-growers have recently burnt a large part of their output. The railways of Brazil are now using coffee-beans instead of coal as a means of raising steam, while the best advice which the Federal Farm Board was able to give the cotton-growers of America was to "plough up every third row".' While this is going on, Dr. F. J. Bentley, Divisional Medical Officer of the L.C.C., before the Congress of the Royal Institute of Public Health, according to the *Times* of June 3, 1933, 'spoke of the increase of tuberculosis among young women. . . . He was surprised not so much by the increase of tuberculosis among young women as by the fact

[1] There is obviously a certain room for difierence in estimating such a figure, and this figure has been challenged as being too small.

that many escaped it. Most girls of to-day in our cities come from homes where the standard of life was still far from being good enough. . . . He thought that young women of to-day were definitely worse off than their mothers in the conditions for resisting disease.'

The Benthamite argument in favour of free foreign investment was that each industry would yield the greatest profit if carried on in the part of the world best suited for it by nature. Therefore, if money were allowed to find its own level, each country would develop those industries for which it was best suited, each industry thus developed would produce the greatest possible quantity of goods, the products would be exchanged across the world and everybody would be the richer. Now it is clear in the first place that the complete confidence with which 'the best,' and 'immediately the most profitable,' were used as synonymous phrases led sometimes to consequences most ridiculous. In the 1850's Burmese opium was a very profitable investment, particularly if one could make the investment with the assurance that a patriotic Lord Palmerston would lend you the British fleet for nothing in order to compel unwilling Chinamen to give you a market, and money which was allowed to find its own level very logically went out from London in order to supply Chinamen with Burmese opium rather than remaining at home in order to supply the children of Poplar with milk. In our time no money has been more profitably invested than that which has been put into the organising of the Chicago underworld. These extreme instances do not certainly prove that the most profitable investment is necessarily bad. No sane person ever argued that. But they do refute the generalisation of the Benthamites that immediately the most profitable investment is necessarily the best.

Let us, however, consider a more normal example of the way in which money finds its own level. A man with £1,000 to spare, instead of investing it at home, invests it in an Argentine railway. What does that mean? If we state the transaction in terms, not of money, but of goods, it means this. Simple trade is exchange of goods against goods. So long as trade is simple, then whenever £1,000's worth of English railway-sleepers go out to the Argentine, £1,000's worth of, say, Argentine beef comes back to England. If, however, an Englishman has invested £1,000 in the Argentine, then England sends out her £1,000 of sleepers and receives for the moment nothing in return.

The intention, of course, is that the Argentines, instead of immediately sending to England £1,000 of beef—which they are not capable of doing—shall send every year £50's worth of beef, supposing 5% to be the rate of interest, until the Englishman sells his railway shares. Then they have to send him goods of the value of the sum for which he sold the share.

Now the argument of the friends of foreign investment is that that £50 of beef comes every year to England, or, to put the same point in other language, the £50 is spent in England. Supposing that, while 5% was the rate of interest in the Argentine, only 4% was the rate in England. Then, if the English investor had been compelled by an interfering Government or by mistaken patriotism to invest his money in an English factory, he would have had only £40 a year to spend. Both England and he would have been the losers. And, if it were true that he could at any moment re-sell his £1,000's worth of Argentinian shares for £1,000, that argument would clearly be irrefutable. But can he? A glance at the prices of Argentinian securities in this morning's paper will show how far from true that is.

The Benthamites perhaps exaggerated the extent to which the law of supply and demand governed every other activity of production and sale. They underrated the extent to which those laws govern the payment of debts. How is one nation to compel another nation to pay debts to it or to its nationals? History has to record a few not very happy attempts at distraint—the Anglo-Spanish-French expedition to Mexico which led the Emperor Maximilian to his firing party, the French invasion of the Ruhr—but it is doubtful if it can show any example of any such expedition that ever paid its own expenses, let alone did much towards collecting the debt which it was professing to collect. And in broad it may be said that it is not possible to collect debts from a foreign country by force. Mr. Barrett, the financial editor of the *Sunday Times*, in the issue for July 2, 1933, suggests the setting up of a body under the auspices of the League of Nations, which 'should be of an international character and armed with powers to compel the observance of contracts.' But the entire inability of the League of Nations to collect its own debts does not give one any very serious reason to think that it would display any particular competence in the collection of those of other people. Nor is it easy to see why, as a reward for having exported English capital to the ends of the earth, the financiers should then be allowed to export English soldiers to fetch it back again.

Why then do countries ever pay their foreign debts? They pay them, or at the least have paid them in the past, because they foresee that they will want to borrow again in the future, and, unless their credit is good, they will be unable to do so, or only able to do so on very disadvantageous conditions. As Mr. Reginald McKenna very lucidly explained to the American Bankers' Association in New York on October 4, 1922, in his address on *Reparations and International Debts*, 'For over two centuries British capital has been lent to other countries. Year by year England produced more than she either consumed herself or could exchange for the products of other nations, and she could not obtain a market for the surplus unless she gave the purchaser a long credit. Foreign loans and foreign issues of all kinds were taken up in England and the proceeds were spent in paying for the surplus production. British factories and workshops were kept in good employment, but it was a condition of their prosperity that a part of their output should be disposed of in this way. Taking the aggregate of the transactions, British creditors received a good return on their investments, but the ability of the debtors to pay has been dependent, speaking generally, on the development of their country being fostered by the receipt of further loans. If we take the whole field of British foreign investments we shall find that every year

England has returned more in loans than she received in interest, and the balance of the world's indebtedness to her has been steadily growing.' Now, if the payment of past debts depends necessarily upon the receipt of further loans, debts on balance are not paid at all. Though an individual investor may well gain out of foreign investments, it is an arithmetical certainty that a nation must lose out of them in the long run.

It was the hope and the expectation of Cobden that other countries would follow England in the adoption of Free Trade. As is known, rightly or wrongly, they did nothing of the sort. Instead they raised their tariff walls and set before themselves the aim of national self-sufficiency. Of all countries in the world only Holland is in any sense an exception to this generalisation. Now in the nineteenth century England, as is known, had almost a manufacturing monopoly. Other countries therefore needed England's machines and her manufactured goods. In other words, they needed to be able to borrow on the London market; therefore they needed good credit and therefore they treated creditors tolerably well. Yet even in those years, in the sixty years before 1914 when the system was, as was said, 'working,' British investors lost by default of their foreign borrowers about two thousand million pounds. And it was clear to the discerning that, as soon as those borrowers had built their railways and installed their plant, they would come within measurable distance of achieving their aim of national self-sufficiency. In proportion as they came within distance of that aim, in exactly that proportion could they afford to treat the foreign investor with less consideration. And therefore, as we see, the investor who put his £1,000 in Argentine railways, if he comes to sell his shares to-day gets not £1,000 but, according to present quotations, about £250.

Indeed now that we have made up our minds to exclude foreign goods by tariffs and to 'buy British,' there is, as Dr. Schacht, the President of the German Reichsbank, very convincingly argued before Germany's foreign creditors in May, 1933, no possible way in which our debtors can pay us, however prosperous they may be and however anxious to fulfil their obligations. We can say that they have paid us their past debts by our lending them some more money which they then write off against their obligations to us, if it amuses us to do so, but it is hardly to be believed that any sane nation will for long continue to find much amusement in so peculiarly childish a parlour game.

In the last century English money poured out to the ends of the earth in obedience to the maxim that money must find its own level. In the last twenty years a very high proportion—probably the greater part—of that money has been lost. Those who invested in Russia or Central Europe lost everything; those who invested in South America are at this moment desperately intriguing to save a remnant for themselves. 'It was estimated at the beginning of 1932,' writes Mr. Hargreaves,[1] 'that the loans of sixteen countries (excluding Russia) were in default, the arrears of interest amounting to over 1,000 million dollars.' Yet so obsessed is the financial mind with the necessity of

[1] *What Everybody Wants To Know about Money.* Art. Debt p. 473.

foreign investment that, instead of admitting that the day for it is past and using its money where distress is crying out for it at home, it grumblingly puts down the blame for its losses to the Bolshevists or the French peasants or the Australian Labour party, and looks for a new country into which to pour yet more English money. Yet there are in the world to-day only two sorts of countries—those which are already either substantially self-supporting or at the least capable of producing a surplus of goods to exchange against the goods in which they are deficient, and those which soon will be in that position. Of these the former have already in all but name repudiated their debts and the latter soon will do so.

No folly could be greater than the notion that the only way of making good the losses in countries which repudiated yesterday, is to send money to other countries which will certainly repudiate or at the least effectively cease to pay to-morrow. In the years after the war, America, transformed from a debtor into a creditor nation, poured out its capital into devastated Europe until the home market had not enough purchasing power to buy its own products. Yet there are responsible American economists, who instead of agreeing that the remedy is to throw more purchasing power into the domestic market, are found to argue that the remedy lies in foreign trade and to try to induce the American investor who has already lost one packet of foreign loans to send another packet of foreign loans after it to be lost in its turn.

Money, the Benthamites said, must be allowed to go where it will earn the greatest reward. They paid perhaps too little attention to the maxim, 'The greater the risk, the greater the reward.' One of the main reasons why the foreign borrower had to offer a higher rate of interest than the home borrower was that it was much more difficult to collect the dividend and to resell the share, when he had invested abroad than it was when he had kept his money at home. 7% is a higher rate of interest than 4%, but which is the better investment—7% for twenty years and then nothing or a safe 4% and no great risk of the share's depreciation? The Benthamites argued that the money would inevitably find its way into the better investment. But in point of fact, as we can see to-day by looking at the fate of British foreign investments, it quite obviously did not do so. Why not? Partly, because financiers by their nature are impetuous, concerned not so much to get rich as to get rich quick. Partly, because, while a country lives for ever, a financier will only live, say, another thirty years and, if the investment will hold good for thirty years, that is all that he cares about. Partly, because he flatters himself—and no doubt justly—that he will hear of the coming break of the investment a little before other people. Therefore he does not at all shrink from a foreign investment that offers a good dividend for ten years and then collapses, for he is confident that, after enjoying the dividend for nine years, he will then be able to unload on the unsuspecting clergyman's widow. Hence it comes about that, while, of British foreign investments which have depreciated, overwhelmingly the greater part were in the first place made by big financiers, the small investor to-day holds a far larger proportion of those shares than he held in their day of prosperity.

The same is true of America. *The Times* of October 14, 1933, tells the tale, unfolded before the Banking and Currency Sub-Committee of the United States Senate, of Messrs. Dillon, Read and Co.'s loan of $12,000,000 to the City of Rio de Janeiro. The loan was taken by Messrs. Dillon and Read at 80%. '"A large part of the proceeds of this bond issue was paid by the municipality of Rio de Janeiro to an engineering firm in which Mr. Clarence Dillon, head of the banking firm, and members of his family, had a 45% interest. Another $300,000," according to the evidence of Mr. Hayward, a member of the firm, "was 'drawn down' by the Mayor of Rio de Janeiro and 'went into general funds.' Mr. Hayward said he 'could not say' what became of the $300,000 after that." The bonds were sold on "to the public through a flotation syndicate at 97$\frac{3}{4}$%. . . . The sinking fund of these bonds has been in default since October, 1931, and the interest since April, 1932."'

Indeed a large part of the profit of the acceptance houses comes from merely underwriting loans, and, once that the acceptance house man has pocketed his commission on a foreign loan and unloaded it on the home investor, it is nothing to him if the foreign borrower immediately repudiates. Let us take an example of the scale of these commissions.

The enquiry of the United States Senate committee on finance, held between December, 1931, and February, 1932, brought to light the following story concerning the floating of the Dawes loan of $110 million to

Germany in October, 1924. J. P. Morgan and Co. subscribed that loan, paying 87 for the shares. They then formed an 'originating group' of themselves and nine other banks, to whom they sold at 87¼ what they had bought at 87. The 'originating group' sold on to an 'underwriting group' of 146 firms at 87¾. A 'selling group' of 1,094 members bought from the 'underwriting group' at 89, and sold to the public at 92. Thus the difference between the original price at which J. P. Morgan bought and the price at which the public bought was 5,[1] or in other words of every $100 which the public subscribed, only $95 ever reached Germany at all. The other $5 went straight into the pockets of a financier. In total $5½ million went thus into such pockets. J. P. Morgan's, who had sold to themselves at every stage of the proceedings until it came to unloading on the public, made a profit of $865,307.

It may be urged in defence of all this that floating a loan is an expert and technical business and that experts must be paid. There is no reason to question this. But must they be paid $5½ million—a sum which they earned by a few days' work and which is about equal to the total of the annual earnings of some 6,000 British working men? Their risk of loss was negligible. Can it be seriously pretended that this ridiculous complication of underwriters and originators and sellers served any functional purpose at all? Is there any doubt that all the technical business which the financiers did could have been done just as well in a few days by a handful of competent and conscientious

[1] The Committee's report shows that a difference of 5 was a difference somewhat below the average for foreign loans.

civil servants, who would have been amply content with an income of some £1,000 or £2,000 a year? Can anyone who has ever seen a financier seriously believe that the members of that class are possessed of any esoteric skill which is denied to ordinary mortals?

There is an even more serious objection to the Benthamites' principle of the free export of capital. The Benthamites assumed that, as a result of that freedom, in each country the industries would grow up to which that country was best suited. Now it is perfectly true that, if a man was so foolish as to wish to grow bananas in Greenland, he would be prevented from doing so because no one would invest in his insane enterprise. But it is obvious that the advantages of nature are not the only factors which dictate the cost of production. On the contrary, other things being equal, costs are lowest where wages are lowest, and, whatever initial advantage the higher paid European workman had over the lower paid non-European in the first days of industrialism before the non-European was used to tools and machinery, he will tend to lose as the non-European becomes more familiar with such things and therefore more efficient. Also, as machines improve and become more nearly fool-proof, the efficiency of the worker becomes of less and less importance. Now the less that is paid in wages, the less has to be assigned to costs, and the less that is assigned to costs the more there is to be divided in dividends. Or, in other words, the inevitable result of a policy of the free export of capital is that capital drains itself into the low wage—that is, the non-European—countries. 'High wages of labour and high profits of stock,' Adam Smith wrote in the *Wealth of Nations*,[1] in the days before the Industrial Revolution was fully begun, 'are things perhaps which scarce ever go together except in the peculiar circumstances of new colonies.' And, 'The great fortunes so suddenly and so easily acquired in Bengal and the other British settlements in the East Indies may satisfy us that, as the wages of labour are very low, so the profits of stock are very high in those ruined countries. The interest of money is proportionably so.'[2]

English capital flowed out to these non-European countries in Adam Smith's day and throughout the nineteenth century. It will flow out with even greater rapidity throughout the twentieth century if no attempt is made to check it, for industrialism has as yet only succeeded in annexing a tiny fraction of the supply of labour in those non-European countries. It is true that it will not be found possible to repatriate the English capital thus exported, but, as has already been argued, though this loss of capital means an inevitable loss to the English nation, there is no reason to think that the financiers will be deterred from exporting by the certainty of eventual loss to the community at large. It will be sufficient for them if the market holds long enough for them to unload on somebody else.

It is not suggested, as an alternative policy, that no English capital should ever be invested in any industry that grows up outside England. There are industries outside England whose growth has been and is greatly to England's benefit. Take, for instance, Soudanese cotton. England needs cotton as a raw material and

[1] i. 97. (*Ed.* Thorold Rogers). [2] i. 99. (*Ed.* Thorold Rogers).

for climatic reasons cannot grow it herself. It is most sensible to encourage with English capital the growing of cotton in a country of whose products we are to some extent master. On the other hand there have been plenty of foreign investments, immediately a great deal more prosperous than Soudanese cotton, the growth of which has been to the direct disadvantage of England. The French lace industry is said to have been built up to a large extent on capital borrowed in London—with the result that in a slump Lille can undersell Nottingham and Nottingham is out of work, and in a boom wages are kept low in Lille with the excuse that otherwise Nottingham will undersell and wages are kept low in Nottingham with the excuse that otherwise Lille will undersell.

In the 1890's English capital built up the cotton factories of Japan. English machines were sent out to stock those factories. English experts went out to teach the Japanese how to use them, English middlemen to find for their goods a foreign market. The Japanese, having learnt their lesson, took the opportunity of the war to buy out the English capitalist. In 1914 they were a debtor nation to the extent of more than one and a half thousand million yen. By 1918 they were on balance a creditor nation. Yet, in spite of that lesson, after the war English capital began to flow back again into Japan. According to the *Daily Express* of November 3, 1933, £38,500,000 of British capital was invested in Japan between 1923 and 1933, and according to official figures, quoted by Mr. Vallance in his article in Mr. Cole's *What Everybody Wants To Know About Money*, on balance Japan imported 62 million dollars of capital more than she exported between 1926 and 1929. To-day the Japanese cotton industry is largely financed by the Yokohama Specie Bank—which sounds an interest eminently Japanese. But in point of fact the Yokohama Specie is itself operating with a loan of £12,500,000 advanced to it in 1930 through the great acceptance houses by the Westminster Bank and the Hong-Kong and Shanghai Bank.[1] In the shops of Accrington—to say nothing of the East—Japanese cotton goods, made by labour that costs a little more than a penny an hour, are offered in competition against Lancashire goods, made by labour that costs a shilling an hour. Do the cotton manufacturers of Accrington who chance to bank with the Westminster Bank understand the use to which its money has been put?

Mr. Denny writes in his *America Conquers Britain*,[2] 'Some British basic industries, relatively speaking are hardly worth owning and the newer British industries such as electric power and public utilities which have an investment future are being bought by Americans.[3] This can happen, of course, only because British capitalists prefer to put their money in the colonies where "slave" labour in the mines and plantations will earn them fat profits. . . . The American Federation of Labour officially expresses its fear that American foreign loans and investments are financing foreign competition which will cause more unemployment and lower wages in this country.[4] . . . This factor has not

[1] *The Old Lady Unveiled.* J. R. Jarvie, p. 119.
[2] Alfred A. Knopf. pp. 151, 152.
[3] He gives a most illuminating analysis of the extent to which this is true.
[4] i.e. the United States.

yet become an important one for the United States. It is a very serious issue however for British labour; for instance, the unemployed textile worker whose job has been taken by the coolie workers in British mills in India and China. The Briton who cannot find work because the home factories and mines are running only part time, does not want to see the rich sending money out of the country for foreign investment [1] —it is like taking bread out of his mouth.'

It is indeed.

Surely the principle that should have regulated the export of capital is clear. People abroad who would have produced goods that Englishmen wanted should have been encouraged to do so with English capital. People who would not have produced such goods should not have been encouraged. The application of that principle would admittedly have raised many difficult problems of detail, but Victorian England was prevented from the attempt at regulation not by the difficulties of the details but by indifference to the principle.

Adam Smith confidently prophesied that the problem of cheap labour would right itself by labour's own demand for an equalisation of wages between various countries. Had the Industrial Revolution been confined to Europe his words might have proved true. He did not foresee the problems of yellow and black labour. If, as is sometimes argued in sweeping generalisation, the low-wage labourer was always the inefficient labourer, things again might perhaps be

[1] The *Daily Express* of December 6, 1933, asserts that British capital is behind the Polish clothing at present being dumped in this country.

left automatically to right themselves. Unfortunately the generalisation is by no means always true. 'A British engineer,' writes Mr. Gleason, in *What Shall I Think of Japan*? 'estimated that 110 Chinese could in a day smelt as much iron as 100 Pittsburg workers. Their wage however was one-fifteenth of the American.'[1]

Some people will say, 'Why not permit foreign lending but keep out cheap foreign goods by a tariff?' That is what the Americans tried to do after the war. But a moment's thought will show that, if you keep out foreign goods, there is no way in which the foreigners can pay their debts. Therefore before long you will be compelled either to lower your tariffs or else to allow the foreigners to keep as gifts the goods which you sent to them as loans. In popular controversy one sees ten references to the Cobdenite principle of the free import of goods for every one to the Huskissonian principle of the free export of capital. But it is clear that it is the Huskissonian principle that is the more fundamental. As long as the movement of capital is uncontrolled a policy of tariffs must fail. As communications become more easy, industrialism more widespread, the world, as the phrase goes, more of a unity, the Huskissonian principle will inevitably[2] come to have its full logical effect. That effect is to compel labour in every country to accept the same rate of wages as that accepted in the lowest paid country in the world.

[1] p. 170.

[2] Wages in the low wage countries may, it is true, be raised by trade-union or Government action, but this does not invalidate the principle that wages in the high-wage countries will, so long as capital movements are uncontrolled, have to come down to the low-wage level, whatever that level may be.

II

GOLD

To some readers it may seem that the argument of the last chapter is now out of date. England, it may be said, was in the last century the great exporter of capital but to-day that rôle has passed to the United States. To that argument it can only be answered that every country of the world is to-day capable of producing vastly more wealth than it does produce, provided only that it can solve its monetary problems. It depends entirely on the intelligence of its citizens which country first solves those problems but that country, whichever it be (and it is as likely to be England as another) will have what will be called a surplus of goods and will be urged by certain people to begin again the old game of foreign lending. In the chaos of our times there is no knowing whether the publication of this book will happen to coincide with a flight from the pound or a flight to the pound.

Now the very fact that every great currency of the world—the dollar, the pound, the franc, the mark—has in the last few years been to-day on the verge of collapse, to-morrow at a premium proves that the standing of those currencies is not dependent on the character of their nationals or the integrity of their governments. Some people perhaps despise the French; some distrust the Americans; but nobody pretends that the French were less industrious when the franc was falling than they are to-day when it is stabilised, or the Americans less disposed by character to honour contracts in 1933 than in 1932. It is obvious that the currencies of the world are the victims of a system, and it is worth while examining that system.

The fourth principle of laissez-faire was, as has been said, that of an automatic metallic standard of currency. In England in the nineteenth century the standard metal was, of course, gold. In earlier periods it was silver. Other European countries changed from silver or from a bimetallic system to gold during the nineteenth century. Silver still remains the standard metal of China.

Now the argument for a metallic standard is that it settles automatically the amount of money in circulation and keeps that amount reasonably constant. A managed currency, it is argued, is at the mercy of the Government which will always be tempted to inflate in order to increase prices and thus defraud its creditors by paying them back with depreciated money. According to the faith of laissez-faire, governments were not to be trusted, their interferences were always for evil and the less power that they had for interference the better. As an example of what governments did when they were allowed to manage their own currency the advocates of what was then coming to call itself 'sound finance' pointed to the assignats of the French Revolution just as their successors of to-day point to the German mark of the years immediately after the war.

Prices are settled by a relationship between goods in circulation and money in circulation. Thus, if at a certain market there are ten lots of goods of equal value in the sellers' hands, ten pounds in the buyers' pockets and everybody is anxious to buy and to sell, the price of each lot will obviously be one pound. If there are only five pounds in the buyers' pockets the price of each lot will be ten shillings. It is, it is true, difficult, if not impossible, to state the proportion in precise mathematical form owing to the impossibility of knowing what exactly the words 'in circulation' mean, whether applied to goods or to money. It is clear that more money is required to keep up the prices when goods pass through three or four hands on their way from producer to ultimate consumer than when they pass from producer to ultimate consumer direct, but exactly how much more it is difficult to say. In the same way it is clear that money that was entirely put out of circulation—that was, say, sunk at the bottom of the sea—would be money that only existed in a purely metaphysical sense. But at a time of falling prices people do not sink their money at the bottom of the sea. They save it for the moment, hoping that the day will come again when they can profitably use it. Again, it is obviously difficult, if not impossible, to say, if one may use the phrase, exactly how much in circulation any particular quantity of money is. The more rapidly goods circulate the more money is needed—the more rapidly money circulates, the less money is needed.

Yet in spite of these difficulties it is clear that in England or in any other European country from the time of the Dark Ages onwards both the amount of goods in existence and the amount of goods in circulation have tended to increase. The increase has not, it is true, been absolutely steady. There have been years of bad harvest; there have been years of catastrophic setback due to a Black Death or the devastation of a Thirty Years' War, but the general tendency has been one of increase. First, there has been an increase of goods in existence, because inventions of their nature do not get uninvented. Each generation has the benefit of all the discoveries of its predecessors (except for a few, strange, rare cases such as the colouring of stained glass) and, though over long periods progress may perhaps have been very slow, retrogression has been hardly possible as, since the fall of the Roman Empire, Europe has known no calamity so complete as actually to obliterate from men's minds the knowledge how to use a tool or a machine. Secondly, there has been an increase in the proportion of goods produced that has been put into circulation, or in other words that has been sent to a market and exchanged for money. In the early Middle Ages clearly only a very small proportion of the goods produced were marketed. For nine things out of ten the estate was self-supporting. To-day almost everything is marketed, and from the twelfth century up till to-day the increase of the proportion of marketed goods to unmarketed must have been fairly constant. Many people contend that the process has gone altogether too far, and there is much to be said for the contention but it is neither here nor there to the present argument. The population—that is, the number of people using money—has increased; the number of middlemen—that is, the number of people through whose hands goods must pass—has increased.

If then with all these changing factors, the amount of money in circulation had remained to-day what it was in the time of William I, what would have been the result? Obviously the price of each particular article on the market would be enormously less than it was in William's time. The school of economists, of which Mr. Cole is the leader, argues that the object of a monetary policy should be to keep incomes stable and to reduce prices as productivity increases. There are three large difficulties in Mr. Cole's policy even if there were the chance of its adoption. Firstly, continuously falling prices would put an unfairly large share of the country's wealth into the pocket of the long-term creditor—the man who was being repaid a loan lent by an ancestor fifty years before—surely not a person to whom we want to do more than justice. It is generally agreed—and surely with truth—that nineteenth century England was only able to bear the heavy burden of the Napoleonic war debt because the vast increase in the country's productivity made that debt, proportionately to the national income, much lighter than it was at the time that it was first incurred. If every increase in productivity had been followed by a fall in prices, the debt, in terms of goods, would surely have proved a burden fantastically and quite impossibly heavy. Secondly, the producer would seem to have but little motive to improve his product if the only reward of cheaper production would be that he would be compelled to reduce his price. Thirdly, the more rapidly that production was improving, the more strongly would the buyer be tempted to hold back from making a purchase in the hope of a still further fall in prices. The manufacturer would in Gilbertian self-defence have to bribe inventors not to apply their talents to the improvement of his processes.

In any event what is certain is that, rightly or wrongly, Mr. Cole's policy has not been the policy that has been pursued by the statesmen of history. Their policy has been to keep not stable incomes but stable prices. Now, if stability of prices be the aim, then so far from it being true that it does not much matter how much money there is in circulation so long as the amount of it is reasonably constant, it is rather true, that, since the amount of goods in circulation increases from generation to generation, each generation has to find some means of increasing the amount of money in circulation.

An automatic metallic standard might give us stable prices by sheer accident—by the accident that new precious metal was coming on to the market at exactly the same rate as that at which the quantity of marketable goods was increasing. But there is nothing in its nature at all making for stability of prices. It is to-day hardly disputed that it will never be possible to return to the gold standard at the old gold content of the pound, but suggestions are sometimes made for a return with a pound of smaller value. Now the new value for the pound might be such as to give us—or at least to give the owners of gold—sufficient purchasing power to purchase the country's produce to-day, but the moment that a new invention increased productivity, the purchasing power would clearly become insufficient and our troubles begin all over again.

The stability that a metallic standard gives is not a stability of prices but of exchange value[1] between the country's currency and that of other countries on the same metallic standard. The stability of the exchange is in itself desirable, but it is not desirable to purchase it at the price of so reducing the country's purchasing power that it cannot purchase its own products.

The object of statesmen has been to keep prices stable. And, if prices had remained merely stable, clearly it would have been necessary very much to increase the amount of money in circulation. But in fact, in spite of the statesmen, prices both in England and in every other country over long periods have very greatly increased. The reason for this is that, though both a rise and a fall in prices inflict injustice, the injustice falls on two different classes. When prices rise, the sufferer is the man with a fixed income—who is usually a non-producer and who has therefore no means of hitting back at society. When prices fall, the sufferer is the producer who has to sell at the low price-level of one year what he produced at the high price-level of another, and who therefore can no longer sell at a profit. He can always hold up society by refusing to go on producing

[1] It gives stability of exchanges so long as there is no thought of the possibility of either of the countries concerned abandoning its metallic standard. But it is important to understand, in forming a judgement on modern problems, that it can no longer give stability when once the possibility of an abandonment of that standard in one or other of the countries is suggested. Thus in the autumn of 1933 the franc fell at the mere suggestion that the French might go off gold, though in fact they had not done so. This is important, for, while an Act of Parliament can put us back on gold, an Act of Parliament cannot blot out from people's minds the memory that we have been off gold in the past or the notion that we might conceivably go off it again in the future.

unless it is made worth his while. Therefore we find throughout history that whenever, through miscalculation or dishonesty, a rise in prices has been allowed to take place, it has been found impossible to return to the old price level. It has been necessary to accept the new price level as a *fait accompli*.

If the economic life of society were not continuous, if we consumed to-day only goods that had been produced to-day, we could without hardship reduce prices every day, but of course, society's life is continuous. We buy at to-day's price level and consume goods which were grown or manufactured at yesterday's price-level. We pay to-day debts that were contracted at yesterday's price-level. Hence the impossibility of reducing prices without inflicting great hardship. In consequence over the course of years every currency in the world has enormously decreased in purchasing power. A pound in Domesday Book was the year's rental of a hundred-acre holding. The French franc is the successor of the livre and both the livre and the Italian lira are Charlemagne's libra, or pound. The German mark, which stood the other day at 120,000,000 to the pound, is the descendant of the mediaeval Cologne mark, worth 13*s*. 4*d*. in English money. Therefore if even with stable prices the country would have required a steadily increasing supply of money, clearly with increased prices it has required a still greater increase of money. It must be then that, so far from having possessed a stable currency throughout their history, both England and the other nations have found some way of increasing the amount of money in circulation. How has that been done?

In the Middle Ages the problem was not at all an easy one. People did not at that date think of any currency other than a metal one. On the other hand, though there were a few silver mines in the Hartz Mountains, in Bohemia and in Spain and a little alluvial silver in Portugal, the new supplies of silver coming on to the market were inconsiderable and can hardly have been, thinks Mr. Delmar, in his *History of the Precious Metals*, sufficient to make good the wastage. Up till the middle of the fourteenth century the increase of the amount of money was due entirely to the clippers. Coins had no milled edges in those days. The clippers therefore cut little bits off the coins and resold what they cut off to the mint to be recoined. The result was a gradual decrease in the *de facto* silver value of the circulating coins and a consequent increase in the number of those coins. As a consequence, in spite of the increase in productivity, prices did not fall.

It was Edward III who first quite openly recognised that the principle must be accepted that the clippers had altered the value of the English coinage and that the policy of going on issuing good coins, to be immediately clipped and turned into bad ones, was a futile policy. It was better to accept the obligation of managing the currency by issuing a smaller penny. Therefore, after two previous attempts to deal with the problem in 1343 and 1345, in 1346 he issued a new penny, which was to contain only 20 grains troy of silver instead of the previous 22. In 1351, after the Black Death, he issued another penny containing only 18 grains.

The result of this policy was of course to increase the amount of money in circulation. Whether the increase was excessive or not, it was not possible to tell, for the Black Death, by its destruction of perhaps a third of the population, drastically reduced the supply of labour and by consequence reduced productivity and raised prices. However, as production recovered, prices began to fall. In 1412, Henry IV reduced the penny still further to 15 grains. So far from the decrease of the value causing a rise, there was, according to Thorold Rogers' *History of Agriculture and Prices*, a slight fall in prices. Edward IV, in 1464, reduced the penny still further to 12 grains and prices remained absolutely stable.

With Henry VIII a new experiment was tried—the experiment not of a mere reduction in weight but of a debasement of the value of the coinage—and the coinage remained debased from 1542 to the accession of Elizabeth. The result was of course to increase the amount of money in circulation. The increase was excessive; it was not answered by a corresponding increase of goods and as a consequence prices rose. If we take, with Thorold Rogers, 100 as the index price for 1541, the year before debasement, then we find that prices rose almost continuously to a highest level of 213.5 in 1556 and stood at 185.5 at the death of Mary in 1558.

Orthodox economists have been lavish with condemnations of the first three Tudor monarchs for what is commonly censured as a mere dishonest trick for the evading of obligations, and Mr. Bernard Shaw, who, like so many Socialists, sides with the classical economists on all questions of money, has written in a similar strain in his *Intelligent Woman's Guide to Socialism.*[1] But, as we have been here arguing, the policy of from time to time increasing the supply of money, had been followed throughout history, and debasement is merely a method of increasing that supply. The debasement might very well have been answered by an increase of goods instead of by an increase of prices had not the whole situation been complicated by the introduction of an entirely new factor—by the appearance on European markets of the precious metals of America, the first considerable new supply that those markets had received since Roman times, and by the discovery of other new sources. The debased coinage, combined with the American imports, produced a double inflation of such proportions that increased productivity could not answer it.

Queen Elizabeth, on her accession, determined by the advice of her very able financier, Sir Thomas Gresham, to check the rise in prices by substituting pure silver for the debased coins then in circulation. For her policy she has received much praise from orthodox economists and she well deserves her praise. But, when she is held up as an exemplar of 'sound finance,' it is important to understand the difference between her and the ordinary deflationists of to-day or of the years after the Napoleonic Wars. While the deflationist wishes to bring prices down and to decrease the amount of money in circulation in order to return to 'sound finance,' Queen Elizabeth only decreased the currency because there was a surplus of silver and a return to pure silver might prevent a

[1] pp. 140, 253, 254.

rise in prices and certainly would not cause a fall in them. Thus Gresham's recoinage took place in the years 1560 and 1561. In 1560, according to Thorold Rogers' index-price, prices stood at 195·2 to 1541's 100. In 1561 they actually rose to 205·0 and in 1562 they only fell to 192·9. Thereafter they rose again and continued to rise throughout the reign as the American silver poured into England.

Silver and gold poured into England throughout the last half of the sixteenth and the first half of the seventeenth century, and, as a result, prices rose. The crown got a small seigniorage on the minting of those precious metals, but substantially they remained the property of their owners. As a result the King's income was but little greater than it had been at the beginning of the sixteenth century, while the purchasing power of that income was vastly less. By consequence the first two Stuart Kings found it no longer possible for the King 'to live of his own,' as the old mediaeval phrase went. Hence their continual requests for money and the determination of Parliament that that money should only be given on certain conditions, out of which dispute arose, as is known, the Civil War.

The neglect of financial factors by past historians has caused some writers to-day to emphasise such factors to the exclusion of everything else. It is important not to be guilty of that fault. The quarrel between Charles I and his Parliament had, of course, many causes other than the financial. It is only because we are not concerned with them that we do not refer to them.

The King could no longer carry on the Government of the country without the financial support of the rich.

And it so happened that a large proportion of the rich men of England—and a very large proportion of those who held their riches in a liquid form—were of the Puritan faith. Their policy was therefore to use this power which chance had put into their hands to compel the King to pursue a policy favourable to that faith and, when he refused, to cut off his head.

Now whether we like or dislike the Puritan faith, we have no reason to question the sincere belief in it of the first Puritans, nor is it for one moment suggested that, granted that they sincerely held it, they were not justified in doing what they could to propagate it. But it is in the nature of such faiths that the second generation does not often hold them with the same fervency as the first. For good or bad, the rule of Oliver Cromwell effectively cured the vast majority of Englishmen of any love of Puritanism. And the Whigs of the last half of the seventeenth century, while as anxious to keep the monarchy weak as had been the Puritans of its first half, were anxious to do so for a very different reason.

Of recent years—and especially since the publication of Mr. Arthur Bryant's very great book[1]—a more serious attempt than was permitted in the last century has been made to understand the reign of Charles II. Those who restored that king had no intention of restoring the monarchy as it existed before the Civil War—still less, of restoring a king able to live of his own. Their intention was to restore a puppet, dependent upon them for his salary and thus unable to prevent their control of policy. Charles' intention was to outwit those who

[1] *King Charles II.*

restored him and thus to re-establish the English monarchy.

The essence of the situation was that the period was one of rapidly developing trade and therefore one which demanded an increased supply of money. From whom was that increased supply to come? In the Middle Ages, as has been said, the currency had been steadily depreciated and the supply of money increased by the clipper. Yet, fortuitously fortunate as the clipper's activities were, it could not be pretended that they were philanthropic nor was his trade defensible. In so far as he increased the supply of money he was a benefactor of society, but, in so far as he put that increase into his own pocket he was a robber of it. If the currency was to be increased it clearly ought to be increased by authority of its own free will. It was intolerable that such increase should be forced upon it illegally by lawless men, acting for their own profit. Only up to that date no method of defeating the discreet clipper had been discovered.

In 1649 there had arrived in England a Frenchman of the name of Blondeau, bringing with him the new invention of the milled-edge coin. It was clear that, if this very simple invention was adopted, the clipper would at last be circumvented and the problem of ages solved. During Cromwell's rule there were forces strong enough to prevent the adoption of Blondeau's plan and its inventor retired to the Continent in disgust. But Charles II soon after his accession called him back, made him Engineer of the Mint and began the issue of milled money. The problem was not wholly solved at one stroke, for the clipped, pre-milled coinage was still legal tender and therefore, naturally enough on Gresham's Law, the old, bad money tended to keep the new, good off the market, so that Sir Dudley North denounced the new coinage as 'a perpetual motion found out whereby to melt and coin without ceasing, and so feed goldsmiths and coiners at the public charge.' Indeed Pepys tells us that one workman at the Mint made a private profit of 50% by issuing under-weight, unmilled coins on the pretence that they were old, and he adds light-heartedly, 'he was neither hanged nor burned, the cheat was thought so ingenious, and being the first time they could ever trap him in it and so little hurt to any man, the money being as good as commonly goes.' Yet it was obvious to shrewd men that Blondeau's simple invention had brought the end of the clipper's career within sight, that sooner or later the old money would be called in. Some new way of increasing the amount of money in circulation had to be discovered.

Practically no new silver was coming into the Mint. Indeed the drain of precious metals out of the country to India and the East was beginning. Parliament was not willing to allow Charles to debase the coinage. There seemed no way of increasing the currency other than that of winking at the goldsmiths' melting down of the new coins and issuing them in large quantities as pseudo-old ones. Charles attempted to solve the difficulty by what was then the new expedient of issuing a fiduciary currency. Unable to pay his bills in coin, he instead issued 'tallies' or notched pieces of wood, which were promises to pay on such and such a future date. When on the appointed date he was still unable to produce the coin, he instead made the tallies negotiable—that is to say, bade all his subjects accept them in lieu of money in exchange for goods. He said, 'I cannot give you a pound of gold or silver in exchange for this tally, but, if you take it to the shopkeeper, he will give you a pound's worth of goods for it—which is after all what you really require.' Tallies were not a convenient currency and therefore paper orders were soon substituted for them.

Though it was a novelty in England, a non-metal currency was by no means an absolute novelty. Athens and Sparta from the tenth to the fifth centuries B.C. had flourished on a mere token coinage, and Mr. Ezra Pound in his *Draft of XXX Cantos* tells us how Marco Polo found a fiduciary currency in the empire of Kubla Khan.

> 'I have told you of that emperor's city in detail
> And will tell you of the coinage in Cambaluc that
> hight the secret of alchemy.
> They take bast of the mulberry tree,
> That is a skin between the wood and the bark,
> And of this they make paper, and mark it,
> Half a tournesel, a tournesel, or half a groat of silver,
> Or two groats, or five groats, or ten groats
> Or, for a great sheet, a gold bezant, three bezants,
> ten bezants.
> And they are written on by officials
> And smeared with the great khan's seal in vermilion;
> And the forgers are punished with death.
> And all this costs the khan nothing.
> And so he is rich in this world.'

The times of Charles II's England were times of rapid trade expansion when there was room for a great increase in money without an increase in prices. The Government's expenses were, by modern standards, small. There was no reason why there should not, at any rate for some years to come, have been a yearly increase of productivity to answer the increase of money caused by the issue of the tallies and thus no rise in prices. Therefore, had people been willing to accept the King's paper at its face value, Charles might have been able to emancipate himself altogether from Parliamentary control. Unfortunately for him the Dutch War of 1672 greatly increased the amount of money that he had to find. The sum was too large; he could not issue it in tallies and answer it with an increase of goods. Parliament by refusing to meet any considerable share of it out of taxation was able to compel him to postpone the payment of his debts and thus to damage the credit of his financial scheme.

Yet Charles by his bold expedient had given a very bad fright to those who were determined to keep the financial control of the country in their hands. It was clear to the foreseeing that the future lay not with further devaluation of the metal coinage but with the issue of an increasing proportion of paper-money or at any rate of paper that would perform the function of money. The great question was, who should have the control of that issue.

The answer came in 1694. The Government of William III was in sore straits for money, as that of Charles II had been before it. It was not strong enough to raise the money by taxation. A company of rich men under the leadership of one William Paterson offered to lend William £1,200,000 at 8 per cent on the condition that 'the Governor and Company of the Bank of England,' as they called themselves, should have the right to issue notes to the full extent of its capital. That is to say, the Bank got the right to collect £1,200,000 in gold and silver and to turn it into £2,400,000, lending £1,200,000, the gold and silver, to the Government, and using the other £1,200,000, the bank-notes, themselves. Paterson was quite frank about it that this privilege which had been given to the Bank was a privilege to make up money. 'If the proprietors of the Bank,' he wrote, 'can circulate their own fundation of twelve hundred thousand pounds without having more than two or three hundred thousand pounds lying dead at one time with another, this Bank will be in effect as nine hundred thousand pounds or a million of fresh money brought into the nation.'[1] In practice they did not keep a cash reserve of nearly two or three hundred thousand pounds. By 1696 we find them circulating £1,750,000 worth of notes against a cash reserve of £36,000.

Intelligent critics saw that the experiment had proved that it was perfectly possible to manufacture money without any metallic backing but that it was dangerous and iniquitous to allow the privilege of that manufacture to be in private hands. For instance Bishop Berkeley, the idealist philosopher, writing in 1735 his *Queries Proposed to the Consideration of the Public*, asked 'Whether it be not a mighty privilege for a private person to create a hundred pounds with a dash of his pen,' and

[1] See *History of the Bank of England*. By Dr. Andreades.

'Whether it be not evident that we may maintain a much greater outward and inward commerce, and be five times richer than we are, and our bills abroad be of far greater credit, though we had not one ounce of gold or silver in the whole island.'

It is necessary to understand so much of history in order to follow exactly what was meant by the establishment of the Gold Standard in 1819. Throughout the eighteenth century the supply of precious metals, depleted as it was by the drain to the East, did not nearly keep pace with the increase of goods in circulation. Therefore transactions came increasingly to be carried on in paper money, of various kinds but predominantly bank-created. It is true that this paper was only accepted on condition that the holder had the legal right of exchanging it against coin if he wanted to do so, but the right to convert bank-notes into gold, when once those notes cease to have a backing of approximately 100 per cent, is really worth very little. In times of tranquillity the holder of the note can doubtless convert his note into gold, but in times of crisis—the only times when there is any real reason for his wishing to effect such a conversion—there is a general demand for gold and therefore either the bank has to go bankrupt or else cash payments have to be suspended. Such a right enables the 'man-in-the-know' to get his money out the day before the clergyman's widow hears of the coming crash of the bank, but I do not know that that is especially a merit. And throughout the eighteenth century, though the feeling that they could convert their bank-notes into gold was useful in reconciling people to the use of them, yet in fact they exercised that right less and less until in 1797 it was, as has been said, found both possible and necessary to suspend cash payments—that is to say, to take from the holder of paper the right to demand coin in exchange for it. The effect on prices was not catastrophic. Indeed the steepest rise in prices was in the years immediately before the suspension of cash payments. According to the chart given by Professor Fay in his *Great Britain from Adam Smith to the Present Day*, from 1797 to 1800, prices rose from about 100 to 115. Between 1800 and 1805 they fell again almost to 100; by 1810 they were up again to about 120. From 1810 to 1815 they fell until at the time of the Battle of Waterloo they were a few points lower than they had been at the time of the suspension in 1797.

The experience of the war therefore quite clearly proved that a metallic basis for our currency was not necessary in order to control prices. On the contrary, in order to keep prices stable, it is, as has been argued, generally necessary steadily to increase the supply of money. This is generally necessary and, as could be foreseen even in 1819, it was going to be more obviously necessary in the rapidly developing nineteenth century than it had ever been before in human history. There was no remotest possibility of financing the industrial developments of the nineteenth century solely with gold pounds by keeping the total of money constant and reducing prices. The burden of war debt made it essential to keep prices at least stable. Had it been possible to force prices down as productivity increased, the debt, reckoned in goods, would clearly have been inordinate and quite intolerable. Properly understood the question was not, Should there be a managed or an automatic currency? There had to be a managed currency. The question was, Who should manage it?

By the Act of 1819, which took from the Government the power of increasing the country's supply of money except through the purely fortuitous accident of the discovery of new gold fields, the Government was deprived of the power of managing the currency. Willy-nilly the task was forced upon the only other issuers of money in the country—on the banks, who under the system under which they worked could hardly help making profits for their own pockets from the management of it. The Act of 1694 gave to the Bank of England the privilege of making up money; the Act of 1819 made it impossible for the Government to challenge that privilege. There was not in 1819 and there is not to-day any question of its being made possible to finance the business of the country with only as many pounds as there are gold pounds in circulation or in the vaults of the Bank of England. When you read of a publicist pleading for the necessity of a return to "an honest metal currency," do not imagine that there is any question of so deflating the currency that there shall be a gold pound for every pound in circulation. Even the maddest of deflationists do not suggest that. What they do suggest is that *the Government* shall only be allowed to issue a pound for a gold pound. The rest of the country's money would have to be made up by the banks.

Nothing could be more unfair than to blame the bankers for the solution of 1819, whatever may be said about the solution of 1694. The bankers after the

Napoleonic Wars did not ask for their new privilege; they protested against it. It was forced on them, and the leading advocate a few years later of the sane plan of regulating the country's currency by its productive capacity was Thomas Attwood,[1] a banker. If there are villains of the piece those villains are Sir Robert Peel and the politicians.

It was Sir Robert Peel who was responsible by the Act of 1819 for the definitive establishment of the gold standard. He followed it up by the Bank Charter Act of 1844. By that Act Sir Robert enacted that, whenever a pound of gold was shipped out of England, a pound must be withdrawn from circulation at home. Now the pretence that our internal currency was a gold currency was, as has been argued, little more than bluff. In foreign trade, too, in so far as that trade was an exchange of goods against goods, an exchange of a million pounds' worth of English coal against a million pounds' worth of French wine, no metallic medium was either used or necessary; the payment was a mere matter of book-keeping, nor is there any sense in exporting unless in the long run the export is balanced by a corresponding import. But it might well happen that England was not capable of supplying the coal at the exact moment at which France supplied the wine. How then could the French be immediately paid for their wine? There was no such thing as an international currency; the French might not be willing to accept a mere I.O.U. from the English. Yet it would be greatly to the inconvenience and impoverishment

[1] Attwood's scheme was vitiated by some false statistics and arithmetic.

of both nations that we should have to wait for French wine until our miners had hewn out some more English coal. Therefore a convenient plan was for the English to transfer to the French a sum of gold which they could then buy back from the French at their leisure by supplying them with coal in the future. There could have been no objection to the use of gold for such a purpose—to its use, that is to say, as a pledge or collateral security, having for that purpose the great advantages of durability and of small bulk in relation to its value, and it might be argued that Peel's enactment that a pound of gold leaving the country required a pound of gold less in circulation in the country was a necessity logically required by the principle of the gold standard. For some reason or other there was slightly less coal produced than usual, and it was therefore reasonable enough, in the interests of stability, that there should be slightly less money in circulation than usual.

But unfortunately gold was not used solely for this beneficent purpose. Overwhelmingly the greater part both of this and of other countries' gold was the property either of a very few houses—the big international financiers or acceptance houses or else of Central Banks which were in the control of members of these houses. These houses had their branches in London and Paris and all the other great capitals. If they saw fit to transfer a large proportion of their gold holding from London to Paris, the automatic effect under the Bank Charter Act was that large sums of money had to be withdrawn from circulation in England—and that, though there had been no decrease in productivity. By consequence there would be less money in England to buy the same amount of goods. Prices would have to fall. Then, when they brought the gold back again from Paris to London, prices in England would tend to rise, while those in France would tend to fall. Thus the Bank Charter Act, so far from ensuring to us stability of prices, ensured their instability. It is not too much to say that by the two Acts of 1819 and 1844 the Government was removed two degrees from sovereignty. The Act of 1819 rendered the Government impotent against the banks; the Act of 1844 rendered the banks impotent against the acceptance houses or, to put what is essentially the same point in different language, the joint-stock banks impotent against the Bank of England.[1]

[1] For a detailed examination of the relationship between the Bank of England and international finance, see Mr. Jarvie's *The Old Lady Unveiled.* Mr. Jarvie writes (pp. 11, 12), 'I shall analyse the last list of directors published by the Stock Exchange Year Book at the time of writing, that for 1932. It will be found that out of twenty-six directors, including the Governor, nine are associated with Anglo-foreign merchant banks and six with important foreign or international concerns. Of the remaining eleven one is a permanent official of the Bank without apparent outside connections, two are professional economist organisers and only eight are partners in industrial companies which are British, more or less. The treasury is not represented nor are any of the great English joint-stock banks. And 1932 was not materially different from any other recent year.' Mr. Jarvie then gives his next twenty-eight pages to his detailed analysis.

III

THE INVENTION OF MONEY

Let us explain exactly what is meant, what indeed Paterson meant when he founded the Bank of England, by calling the banks issuers of money. Money is that which is generally accepted in exchange for goods with the intention not of using it but of, in its turn, exchanging it against other goods. It is that which discharges a debt, to borrow Mr. Hawtrey's definition.[1] In this sense bank-deposits are money. If it were true that a hundred golden sovereigns, my property and ticketed with my name, were locked up in a safe in the bank and all that happened when I wrote a cheque for £100 was that my ticket was removed from those sovereigns and that of my creditor was substituted, then deposits would not be money. But of course nothing of the sort is true. There are in the bank neither a hundred sovereigns nor a hundred pound notes nor a hundred anything else. There are perhaps ten Bank of England notes (itself bank-made money of a different sort) and an inkpot.

In other words throughout the nineteenth century with the increase of goods people came to need more and more money. Owing to Sir Robert Peel's Acts, the Government could not supply that demand. Therefore rather than go short they got more and

[1] See his *Gold Standard in Theory and Practice.*

more into the habit of paying their bills by cheque. As this habit developed the banks discovered that their depositors would only demand notes or coin for quite a small proportion of their deposits. Vastly the greater part of their bills they would pay by cheques which the recipient would then deposit in his bank, again not demanding either notes or coin. All that the bank had to do was to deduct the amount from the deposits of one depositor and add it to that of the other.

That being so, as long as they kept the small amount necessary for meeting the demands for cash, there was no reason why the banks should not lend out money that they did not possess on the calculation that the recipient of the loan would ask for only a small proportion of his loan in cash. The greater part would be merely an entry in a book.

So, once that the habit of using and accepting cheques was developed, the banks could, and did, make up money on a very large scale. In 1819, when Great Britain established the Gold Standard the deposits in British banks, according to Mr. Feaveryear's *The Pound Sterling*, were £16,000,000. When war was declared in 1914 they were £1,216,000,000. It is difficult to know how much gold there was in the country in 1819. The Bank of England held four and a half million pounds, and, in spite of the efforts that had been made to call gold in during the Napoleonic Wars, some millions were hoarded throughout the country. The sum total is commonly estimated at about eighteen millions. There were, according to the estimate of the Cunliffe Commission £123,000,000 of gold in circulation in 1914. That is to say, during the period of ninety-four years during which the apostles of laissez-faire were assuring us that we enjoyed the great advantages of a sound, automatic, metallic currency, the amount of gold in the country increased by a little over £100,000,000 but the bank deposits increased by over £1,200,000,000. Where did the £1,000,000,000 odd come from? There is really no dispute about the answer, however surprising it may seem to some who have never studied the question. The £1,000,000,000 was made up by the banks, lending out ten times more money than they possessed on the calculation that their clients would pay for $\frac{9}{10}$ths of their expenses by cheque and only ask for $\frac{1}{10}$th of the loan in cash. The banks were allowed, indeed were almost compelled, to invent out of nothing at least £1,000,000,000, to issue it as loans and to charge real interest on it. Between 1914 and 1920 they invented another £1,000,000,000. It would be unfair to blame them, as it is unfair to blame them for the solution of 1819. The Government more or less compelled them to it. If anyone is to blame it is the Government.

As has been said, the only check on the banks' invention of money is the necessity of keeping in their safes a sufficiency of notes and coin to meet the small demands of that nature which their depositors make on them. This is a great check to prevent one bank from pursuing a more liberal credit policy than the other banks, but as a check on the agreed policy of the banks as a whole or on the policy of a central bank, it soon became more apparent than real, for very soon the part of the banks in the economy of the nation became so vital that they knew that, though an individual bank might be allowed to fail, the Government would not dare to let the system collapse. Therefore if the bankers miscalculated and their depositors demanded from them more than they could pay, they knew that the Government would always step in and grant them a moratorium, or free them from the obligation to pay gold, to save them from the consequences of their miscalculation. This happened in 1847, in 1857, in 1866, in 1914 and in 1931.

It is often said that the banks do not make up money because they only lend out again their depositors' money. Now it is perfectly true that, if you look at the balance-sheet of a bank, you will find that, while the bank has on loan about ten times as much as it holds in cash or balance with the Bank of England, yet its deposits are somewhat larger again than its loans. The Midland Bank, for instance, on December 31, 1932, held in cash, notes and balance with the Bank of England, £43,007,980 12*s*. 2*d*. It had on loan £394,290,324 1*s*. 11*d*. Its deposits were £419,282,965 13*s*. 10*d*. In that sense a bank only lends its deposits, or at least an amount approximately equal to that of its deposits. But what are these deposits?

To the extent of 0.7 per cent, according to the *Financial Times* of January 2, 1923, people pay into banks notes or coins. 99.3 per cent of their deposits are cheques. Therefore, unless bank deposits are money, we are forced to the paradoxical conclusion that there are, for all practical purposes, no such things as bank deposits at all. What people pay into banks are cheques—that is to say, additions to their deposits come from subtractions from other people's. Why then does not the sum total of bank deposits always remain constant? Because the banks themselves increase that sum total by issuing new loans and decrease it by cancelling old loans. If a private person lends his neighbour £100, that does not increase the sum total of money in circulation because, while £100 is added to his neighbour's account, £100 is deducted from that of the lender. But when a bank lends £100, no corresponding £100 is deducted. The £100 is simply invented.[1] If, when the figures show that for a given period the deposits and the loans of a bank are both increasing or are both decreasing, we must not conclude that the increase or decrease of the loans is a result of the increase or decrease of the deposits. The opposite is the truth. It is the deposits that increase because the loans increase, not the loans that increase

[1] Mr. Henry Somerville in *Studies* for September, 1933, (p. 418), writes, 'Ordinary people who do not read economic text-books can hardly be persuaded that the banks create money merely by their own *fiat*, seeing that the banks are so anxious to borrow money from the public that they pay interest to the public on their deposits.' It is not quite clear from the context whether Mr. Somerville himself agrees with the 'man in the street' or not, but in any event the answer, whether the objection be Mr. Somerville's or not, is surely this. The banks at present hold about £200,000,000 in cash on the strength of which they have lent £2,000,000,000. Of that £200,000,000 cash only £14,000,000 came to them through ordinary deposits. Therefore it is clear that they in no sense lend their deposits, and they could go on lending almost as freely as they do to-day if every penny of their deposits were made to current account. 'Banks create credit,' writes Mr. Hawtrey in his article on *Banking and Credit* in the *Encyclopædia Britannica*. 'It is a mistake to suppose that bank credit is created to any important extent by the payment of money into the banks.' The reason why banks pay interest on deposit accounts is that the whole system depends upon the continuance and the growth of the general public habit of doing business in bank-created money and not making large demands for cash.

because the deposits increase. When a bank advances a client £1,000, let us say, to build some extension to his house, it does so in complete certainty that that client will pay out some £900 of that £1,000 in cheques written to those who perform the work for him. The £900 will be paid in again to the banks, and it will be announced that bank deposits have gone up by £900. As Mr. Reginald McKenna explained with perfect lucidity, 'A bank loan creates a deposit and thus it creates money,' and, so long as $\frac{10}{11}$ths of the money in circulation is bank-made money, the granting of additional overdrafts is virtually the only way in which additional deposits can be created. As the addendum to the Macmillan Report decided, 'The theory that there is in any sense a fixed loan fund available to finance investment which is in all circumstances fully employed, or that the amount of the savings of the public always exactly corresponds to the volume of the new investment is, we think, mistaken.'[1] If we take the balance sheets of the English banks for the year ending December 31, 1932, we find that in all of them the proportion of cash, notes in hand and balances with the Bank of England to liabilities is about 1 to 10. The National Provincial Bank, for instance, held £31,317,403 0*s*. 10*d*. notes in hand against liabilities of £307,507,745 9*s*. 5*d*., Barclays Bank £51,680,992 against liabilities of £403,985,297, the Midland Bank, as has been said, £43,007,980 12*s*. 2*d*. against liabilities of £449,998,581 9*s*. 4*d*., and so on. The National Provincial estimated the value of their real properties at £7,210,967 7*s*. 8*d*., Barclays

[1] p. 203.

at £7,296,368, the Midland at £10,705,132 7*s.* 4*d.* With the exception of those few millions the difference between the liabilities and the cash in hand was on loan of one sort or another, in investments, call-loans, bills, overdrafts, etc.

The supporters of what Professor Soddy calls 'the new economics,' are apt sometimes to indulge in general denunciation of 'the banks.' But such language a little confuses the issue. The ordinary English joint-stock banks—the 'Big Five'—do, as has just been shown, lend out £10 for every £1 that they possess and thus, as their shareholders know, are able to make a very handsome profit out of the system. But they are in their turn controlled by the Bank of England and by those who control the traffic in gold—that is to say, the international bankers, the great acceptance houses, who are able to dictate the size of the joint-stock banks' cash reserve on the basis of which they lend, the number of these £1's that they possess, by the amount of gold that they will allow to remain in the country. It is these men who are the masters of the system. Between them and the Bank of England there is no distinction, for it is they who furnish the bulk of the directorial board of the Bank[1], to which no representative of the joint-stock banks has ever been able to obtain admission—and it is they who by sending gold abroad can automatically reduce the amount of money that the joint-stock banks can lend and consequently the purchasing power of the country. The

[1] For proof of this statement and analysis of the Bank's directorate the reader is referred to footnote to page 56, and to Mr. Jarvie's *The Old Lady Unveiled.*

best known and probably the ablest of living English joint-stock bankers, Mr. Reginald McKenna, has been for some years among the most persistent critics of the Bank of England's policy, has continually advocated a policy of increasing purchasing power in opposition to the Bank's policy of deflation and has attempted—so far unfortunately without success—to free his bank, the Midland Bank, from the domination of its policy by international finance acting through the Bank of England.

The Bank of England is not a public institution. It is a private institution operating for profit. It differs from other private institutions only in that it has the privilege of concealing who are its shareholders and what are its profits. Mr. Walter Leaf, who was the Chairman of the Westminster Bank, in his attractive little book on *Banking* in the Home University library, says of the Bank of England, 'What the real profits of the Bank are is a secret which is never revealed.'[1] He tells how during the War he was discussing the Bank Return with the then Governor of the Bank of England and said, 'that there was only one line of it which I thought I understood and that was the line "Gold Coin and Bullion." The Governor with a twinkle in his eye replied, "Mr. Leaf, I do not think you understand even that."'[2] It is hardly denied that the balance-sheets which the Bank issues are made intentionally unintelligible and, the more interesting the year, the more difficult to understand is the balance-sheet. For instance, ever since 1914 they have been entirely unintelligible. Mr. Hartley Withers, who is almost lyrical in his admiration for the financial system,

[1] p. 86. [2] p. 45.

writes[1] in his *Bankers and Credit*, 'Banking statements and balance-sheets were always designed rather to veil discreetly the modesty of our monetary institutions than to let the full light of day upon the beauties of their figures and proportions. Since the War this has been more than ever so. Much of the information that used to be made public has been withheld.' The Bank has then only itself to blame if the public are drawing obvious, if possibly unjust, deductions.

Old-fashioned Liberals sometimes oppose what they call 'state interference' with the argument that the world will only go on if it is run by people who gain in pocket from success and lose in pocket from failure. Now there are circumstances of falling prices under which no manufacturer, however efficient, can make a profit, and circumstances of rising prices under which a manufacturer, however inefficient, can hardly fail to make a profit. Yet it is at least arguable that in industry efficiency does in the long run make money and inefficiency lose it. There could be no greater misconception than to imagine that this is equally true of banking. Whose ever the fault for our present difficulties, yet certainly the reason for them is not a failure of our industrial but of our monetary machinery. Yet the sufferer has been not finance but industry. It is the very complaint of the banks that they cannot to-day do their work properly because they cannot find credit-worthy people to borrow their money. The complaint is just—and yet the failure of business does not prevent bank-shares being among the most attractive on the market.

[1] p. 4.

Let us take an example. Foreign trade has shrunk all over the world, and owing to civil disturbances, the fall of silver, anti-Europeanism, Japanese activities, no part of the world is in a worse state than the Far East. In 1920, Great Britain sold to China £43,577,342's worth of goods; in 1924, £20,353,592; in 1930, £8,658,000. Or in other words Great Britain sold to China 11d. per head of the population in 1924, 5d. in 1930, and 4d. in 1931. To Japan she sold 8s. 4d. per head in 1924, 2s. 4d. in 1930, and 1s. 9d. in 1931. The merchant and manufacturer who is dependent on the Chinese market has been driven into ruin. Now the task of financing this Anglo-Chinese trade falls upon the shoulders of the Hong Kong and Shanghai Bank. Has that Bank shared in the ruin of its clients? It joined with the Westminster Bank and the big acceptance houses in issuing in 1930 a loan of £12,500,000 at 5% to the Japanese who are driving us out of the Chinese market. Whether for that or for other reasons, according to the *Stock Exchange Gazette* of May 19, 1933, in 1930, the Bank made an annual profit of 103·4% on its capital after the deduction of directors' remuneration, in 1931 of 81·9%, in 1932 of 84·1%.

Astonishing as these figures are, one might be inclined to say at first sight that at least they show that profits do slightly decline with a decline of trade, for trade was slightly better in 1930 than in 1931 and 1932. But throughout the three years the Bank's capital remained fixed at $20,000,000. Between 1930 and 1932 prices fell. In purchasing power it was a matter of indifference whether you made a profit of

$20,676,730 at the 1930 price level or of $16,814,051 at the 1932 price level. When trade is bad profits fall a bit but so do prices; when trade is good, prices go up but so do profits. It is 'heads I win; tails you lose.'

. . . . .

There can then be no question that the activities of the banks are activities which can fairly be described as those of making up money. This is freely admitted by bankers themselves and I have only laboured the point at such length because there are many people to whom it is strangely unfamiliar. Now there are two objections to their creation of money. On the one hand the system allows, perhaps compels, them to settle within very wide limits how much money they make up and to whom they lend it. The usual proportion in which they lend is, as has been said, 10 to 1 but it is no Act of Parliament which compels them to that proportion. They can reduce their loans to 5 to 1 or increase them to 20 to 1 at will. The necessity of supplying the demands of their clients for cash is, as has been argued, very little check on them.

The wisdom of generations has pointed to the power of the mint as one of the most essential attributes of sovereignty. There is to-day circulating about in England some £2,000,000,000 of bank-created money, that is to say, of deposits which came into existence through loans by banks of money which, before they lent it, did not in any sense exist. The interest for the use of that money is paid to the banks, but the real credit upon which it is issued is the credit not of the banks but of society. People accept a pound to-day because they believe that, by next Wednesday when they wish to spend it, the country's productive life will still be going normally on. The banks perhaps make their contribution to that productive life but it cannot be pretended that they deserve the whole credit for its continuance. Society should be recognised as the creator of all new money. In so far as that new money is to be spent by the Government for public purposes, the Government should have the use of it interest-free. In so far as it is to be lent to individual citizens, the Government should be the recipient of the interest on the loan. The banker is indeed an expert in the vitally important task of distributing the community's money in such a way that it comes into the hands of those who will use it most profitably. As such he should be recognised and for his most important work generously remunerated—whether by fixed fee or on a percentage basis. But society is in fact the creator of all new money and the Government should be recognised as its creator in law. The Government alone should have the power of deciding how much new money shall be created.[1]

Perhaps people would not have been so unwilling to allow to the Central Bankers this usurped power of sovereignty had they only showed themselves more com-

[1] Such schemes are sometimes met with the curiously superficial objection that, if the banks are not to be allowed to make up money, then we shall have to deny ourselves the conveniences of the cheque-system and carry all our money about with us on our persons. There would not, of course, be the least reason for this. If the Government wished to increase the country's monetary supply by, say, £1,000,000, it would not print 1,000,000 pound notes. It would simply instruct the banks to credit it with £1,000,000 and debit the fund available for loans with about £100,000 in notes and cash with which to meet the public's demand for currency.

petent in their usurpation. The experience of the world to-day, of a world that could produce far more than it is producing and healthily consume far more than it is consuming but is unable to do so for lack of money, proves that the central banks, at any rate, have not only usurped the power of sovereignty but have managed that usurped power very badly. 'The common factor of pre-war and post-war experience,' concludes Mr. Hawtrey, in his lucid *Art of Central Banking*, 'is the intimate association of the state of trade with the enlargements and compressions of the consumers' income and outlay effected by the central banks. If this fundamental causal sequence were understood, the public would hardly acquiesce in the central banks proceeding from their position of complacent detachment to generate depression, unemployment, bankruptcy, budget deficits and defaults, with all the resulting political and social convulsions, while Government after Government is broken because it can neither stem the flood of ruin, nor even provide tolerable palliatives to alleviate the consequences.'

IV

NATIONAL DEBT

As was said in a previous chapter, there was for a moment a dangerous possibility that Charles II by Blondeau's invention of the milled coin and by his own invention of paper-money would escape from the trap from which those who had restored him did not intend that he should escape. They beat him for the moment by destroying confidence and preventing the acceptance of his paper-money in the Dutch War of 1672. But a strong monarchy, as Dr. McNair Wilson has shown from other instances, is the money-power's most dangerous enemy. On the same reasoning money's greatest opportunity is a disputed succession.

Therefore it was not surprising that the City of London threw itself on to the side of Exclusion and the Duke of Monmouth. Sir Francis Child, the leading banker of the day, the first man to set up as a pure banker rather than a goldsmith, was prominent in politics on the Whig side in contrast to Backwell, the great banker of the earlier part of the reign, who had been willing to serve the King. Charles defeated the City, but in its next attack it was successful. William III was substituted for James II in 1688, and in 1689 the National Debt came into being.

Why should there be a National Debt?

Before William III Kings of England, as of other countries, had obtained temporary accommodations when they wished to anticipate revenue or when some tax had not yielded quite what it was expected to yield and it was more convenient to borrow for the moment than to alter the system of taxation. There had never been any notion of the Government being permanently saddled with a debt. Accustomed as we are to that notion to-day, yet it is hard to think of any justification for it in equity. It is clearly absurd for the King to borrow for the normal expenses of Government. It is only less absurd for him to borrow from his own subjects for the abnormal expenses, such as those of a war.

Suppose a country to be engaged in a war and not to possess the materials for carrying on that war. Then clearly she must get them from abroad and get them on what terms she can. The contraction of an external debt may be necessary but Great Britain, as it happened, never found herself compelled to borrow abroad until she borrowed in the United States in the last war. Individual foreigners of course held British War Stock. Adam Smith says that in his day a considerable proportion of it was held by Dutchmen,[1] but substantially Britain's national debt was an internal debt.

Now if a war is not a just war it ought not to be fought at all. If it is fought it must be paid for. If we look at the problem not in terms of money but in terms of things, it is clear that for the duration of the war the people of the belligerent country have to produce not only the normal requirements of life but also the materials of war. In other words they have

[1] *Wealth of Nations*, ii. 528. (*Ed.* Thorold Rogers).

either to live somewhat less well, or to work somewhat harder, or to invent some new labour-saving devices—and this exactly the same whether the war is paid for by loan, by taxation, by inflation or in any other way. If the materials of war cost £1,000,000, then £1,000,000 is withdrawn from normal purchasing power, whether it be raised by loan or by taxation. The raising of a loan makes no difference whatsoever so long as the war is on. The only difference that it makes is that when the war is over the country is saddled with an extra burden of taxation in order to pay the interest and perhaps eventually the principal on its loans. It is sometimes argued that it is but justice to the generation which has to do the fighting of a war that the paying for it should be placed on the shoulders of a future generation. But, though it may be justice, it is not a possibility. If butter is short, then we must all eat less butter, and a manœuvre which tries to persuade us that we can all go on eating butter when there is not enough butter to go round and somehow transfer to our children the duty of eating margarine is mere trickery. And this is equally true, if, as happened with England, we have to send goods out of the country in loans or subsidies to allies.

This being so, there is every reason in equity and in common sense for a King to pay the expenses of a war immediately either, if it is possible, by taxation or else by inflation which is simply another and sometimes a more convenient method of taxation. If the Revolution of 1688 was the glorious revolution that it pretended to be, then William III would clearly have been within his rights in demanding that the people of England whom he had liberated should pay the expenses which he had incurred in freeing them from the tyranny of James II. But the City of London, while willing to support the Revolution, was not at all willing to pay for it; it was only willing to lend William the expenses of it, or rather the expenses of the war that resulted from it, at 8%. And William accepted because he knew very well that, if he did not, it would lend it to somebody else instead in order to make another glorious revolution against him. In fact not only did it lend the King money and receive interest on it, but, in so far as Bank of England notes were in every sense except the technically legal as good as money, the loan cost the Bank not a penny, for it invented another £1,200,000 to take the place of the £1,200,000 that it lent.

It is sometimes argued that an internal national debt is no hardship to a country because the money is kept within the country. It is merely transferred from pocket to pocket. It is forgotten by those who argue thus that in William's day almost all taxation was indirect, or in other words that the poor paid out a far larger proportion of their income than did the rich. Therefore the national debt transferred money from pocket to pocket indeed but from the pocket of the poor to that of the rich—from the pocket of the labourer who spent his money in England to that of the financier who was clamouring to export his capital to whatever corner of the earth might bring him the largest immediate return.

We were often told in the old text-books to admire the system of Parliamentary Government by which Parliament had the power of the purse. By that system, we were told, it was not possible for the King to make a war unless the Parliament was willing to vote the money for it. Thus the King could not commit the country to war against the wishes of his subjects. But if we look through the history of British Parliamentary Government since 1688 we find that in fact Parliament has never once (except in the Chinese War of 1857) opposed a Government's making of a war and never in any important instance consented to vote the money to pay for it. What Parliamentary control of the purse has meant in practice has been that the Government has been able to do anything that it pleases so long as it has been willing to borrow the money to do it with—and the people from whom it borrowed have of course been very much the same, if not quite the same, people as the Members of Parliament.

As long as the succession to the throne was in dispute, no Government perhaps was strong enough to stand up to the money-power and refuse to borrow the money for its wars. But the Jacobite cause was dead after 1745 and Chatham could, had he wished, have taken the opportunity of the Seven Years' War to break with loans. But Chatham, perhaps unknown to himself, was the City of London's man and had no such wish. In the next war—the American War—the opposition of the Whigs prevented George III from pursuing an independent money-policy, and thus the national debt mounted up from war to war until the climax of 1914.

In order to fight the war of 1914, we had to maintain, or as nearly as possible maintain, the supply of the necessaries and comforts of life while at the same time producing or purchasing a quantity of war materials enormously greater than that which had ever been required for any previous war. It was paid for by increasing—roughly, by doubling—the supply of money. That increase had certain effects. Prices doubled and wages rose about in proportion, but those who lived on fixed incomes suffered. But it was thought, rightly or wrongly, that the method of controlled inflation was the least unsatisfactory method of paying for the war. But, if a policy of inflation was adopted, it would surely have been reasonable for the Government to have issued the requisite new money, since the credit upon which it was issued was the general credit of the country. People accepted it only because they had confidence in the general stability of the country—confidence that what they accepted in exchange for goods to-day they would be able in turn to exchange against goods to-morrow. Our banking system perhaps made its contribution to that stability but even its most enthusiastic apologists could not pretend that it was entirely responsible for it. Yet the Government issued only one-tenth part of the new money in the form of Treasury Notes on its own credit. The rest it allowed the banks to make up out of nothing and to lend to it at interest.

For the purposes of the war the Government borrowed about £7,000,000,000. Of that £7,000,000,000, £1,000,000,000 were borrowed outside England—mainly in the United States. Of the other £6,000,000,000 possibly £2,000,000,000 were subscribed out of genuine savings of British citizens. And, whether or not the policy of borrowing was wise, yet the loans were real loans and, once that they had been made, it was right that interest should be paid on them. But the total income of all the inhabitants of Great Britain in 1914 was, according to Mr. G. D. H. Cole's calculation, only about £2,500,000,000.[1] They could not possibly have subscribed £6,000,000,000 in four years out of an income of £2,500,000,000 per annum. The other £4,000,000,000 were invented by the banks. To some extent they subscribed in their own names; to a larger extent they lent to their clients money which they (the banks) did not possess but which they calculated that their clients would soon earn. For instance, the Bank of England issued circulars expressing its willingness to lend at 3% against collateral security money (which it of course invented out of nothing) to those who would subscribe to the 4% War Loan.[2] The clients, when they earned the money, paid off the over-drafts and the stock to-day stands in the bankers' clients' names.

To-day it is admitted that the troubles of this country and of the world come from a shortage of money. The problem of the day is to get more money into circulation. Yet of those who advocate a liberal monetary policy the greater number, such as Mr. Keynes and his followers and even Mr. Hawtrey, advocate that the Government should borrow the money for its new schemes—money which by the very hypothesis of the argument does not exist. Naturally such schemes meet with favour from the banks. They are only too glad of the opportunity of lending to a Government which is much less likely to default than

[1] *The Intelligent Man's Guide Through World Chaos*, pp. 435, 436.
[2] Soddy: *Wealth, Virtual Wealth, and Debt*, p. 193.

a private individual. But why in justice should the Government borrow the money? Why should it not just issue it? The bankers are the expert distributors of money and, where they distribute money to the public, they are performing an expert service and should be remunerated. But where they only lend back to the Government money of which society is the real creator, they are performing no service at all. As Mirabeau said at the time of the issue of the assignats, why should a Government 'lend to itself' and pay interest to someone else for doing so?

It is notorious that to-day the country is producing much less in the way of goods than it could produce. Factories are working half-time; the unemployed tramp the streets; inventions are kept off the market; commodities are being destroyed. At the same time a considerable proportion of the population is actually short of food, a majority of it, in the considered estimate of Dr. Bentley, compelled to live at a definitely unhealthily low standard.

There is wide agreement that the solution is to make money more plentiful, that, while some prefer one scheme and some another, it does not pass the wit of man to devise a sensible method of issuing that new money, and that it can be answered and, if the money is issued sensibly, will be answered not by an increase in prices but by an increase in goods. It is true, of course, that there is to-day a vast amount of idle money and that the first task of returning prosperity will be to make use of that already existing money. But, even if we allow for that, it is not much disputed that there will be plenty of room for the creation of new money. As the system is at present, that new money can only come into existence in the form of loans from banks, and the price of prosperity will be that the rest of society will be plunged still more deeply into the debt of its bankers.

It is essential instead that the Government be recognised as the creator of that new money. In so far as it is used by the Government, whether to pay budgetary expenses or to pay off debt, it should be interest-free. In so far as it is lent to producers, the Government should receive the interest on the loan, the banker merely his agent's commission.

Such a principle could without difficulty be applied in such a way as not in the least to derange the normal life of the country. There would be no necessity to repudiate a penny of debt—not even those debts which in justice should never have been admitted—no necessity to nationalise the banks nor to interfere with the free decision of the banker as to which of his clients he would accommodate and which refuse. The only necessity would be that, where a bank has lent money that does not exist, then the King should be considered as the creator of that money. That is to say, to repeat figures already quoted, the Midland Bank on December 31, 1932, held assets of £43,007,980 12*s*. 2*d*., on which it had lent £390,290,324 1*s*. 11*d*. Therefore there was in circulation some £350,000,000 of Midland Bank-created money, and figures of a similar nature for other banks. If the King is the creator of money, then this £350,000,000 should rightly be considered as a loan from the King to the Midland Bank, the King taking responsibility for the deposits at the Bank.

It will clearly occur even to the friendly critic to say, 'That may be all very well for everybody else but it destroys the possibility of making a profit out of banking.' Firstly, what profit ought to be made out of banking? There are the widest differences of opinion about the profits that banks do make, nor indeed is this surprising, for, if a body of men has within wide limits the right to make and unmake money, it is clear that it can settle for itself what it chooses to call its profits. The controversy, how great are the profits of banks, is very largely a controversy upon the meaning of the word 'profit.' The uninitiated, when studying the balance-sheet of a bank, sees so many millions to reserve, so many millions invested in Government securities, so many millions lent to clients. He may picture to himself bundles of pound-notes, the one carefully locked up in a safe, the second handed over to the Chancellor of the Exchequer, the third put in a till ready to be dispersed in detail for the accommodation of the needy. But such a picture, of course, has no relation to the truth. These sums only exist in a book-entry, and little purpose would therefore be served by embarking upon a purely metaphysical enquiry into the distinction between profits and reserves, between published reserves and hidden reserves,[1]

[1] Some people refuse to believe that the banks have hidden reserves in addition to the reserves to which they confess in their published accounts. Others think that, when they have discovered this truth, they have exposed the bankers as crooks. But the bankers both have such hidden reserves and frankly admit to them. Thus the late Mr. Walter Leaf in his *Banking* (Home Universities Library, pp. 121–122), writes, 'It is, of course known that all the large banks have large hidden reserves in the form of contingency funds and the like, though the amount of them is not revealed.' Mr. Leaf

between money *in esse* and money *in posse.* The practical plan is to ask not what are the profits of the bank, but who are the people who acquire purchasing power as the result of the bank's activities.

The bank distributes purchasing power to two classes of people—to its servants from the Chairman down to the clerk, if you will, down to the charwoman—to its shareholders. So long as the banks are to be used as the Government's agents in the distribution of money, it is clear that the first of these classes must be remunerated, whether by a fixed payment or by being allowed to charge a percentage on the money that they handle.

The case of the shareholders is much more difficult. It is really very hard to see what services under modern conditions the bank shareholder renders. He is not the owner of the bank, as the shareholders of a business are that business' owners; he is rather its guarantor. But his guarantee, quite unnecessary when things go right, is totally inadequate if things go wrong. Thus the Midland Bank, as we have shown, has liabilities in excess of its cash, coin and balance with the Bank of England of about £400,000,000. Its subscribed capital is £14,248,012 and its authorised capital £45,200,000.[1] Suppose that its depositors were suddenly

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was, of course, for many years Chairman of the Westminster Bank. Whether this practice of holding hidden reserves is or is not desirable, it at any rate prevents one from accepting the declared profits of a bank as a measure of the profit that can really be made out of banking.

[1] The position in the banks that specialise in international acceptance business is entirely different. These banks have almost no demands upon them for cash and therefore hold in cash far

to lose confidence in the probity of the Midland Bank; what good would it do to send the £45,000,000 of shareholders' money after the £43,000,000 of the Bank's own cash?

Yet, though the shareholders really perform no service, they are ordinary members of the public who have put their savings into a perfectly legal investment. Justice clearly demands that, under any scheme of rearrangement, they should receive an income substantially the same as they receive to-day. Yet it only complicates an already sufficiently complex situation that that income should be derived from the profits of banking. It would be less confusing for the business of money-issuing and the payment of bank shareholders' dividends to be kept quite distinct—for the Government to make what it could out of the money-issuing and at the same time to pay their dividends, at a fair valuation, to the shareholders until, if and when increasing prosperity makes necessary the issue of new money, a part of that new money could be used in gradually paying them off.

The sums involved would not be as large as is sometimes supposed. The amount paid out in dividends by the 'Big Five' banks is about £8,000,000 a year. Their subscribed capital is about £60,000,000, its present market value, at which of course justice would

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less even that $\frac{1}{10}$th of their liabilities. On the other hand the shareholders' guarantee covers a very much larger proportion of their liabilities than it does with the joint-stock banks. Thus the British Overseas Bank on October 31, 1933, held only £216,638 2*s*. 5*d*. cash against liabilities of £7,652,568 17*s*. 9*d*. On the other hand it had a subscribed capital of £2 million and an authorised capital of £5 million.

require the shareholders to be paid off when it came to paying off, is about £200,000,000.

Whatever disputes there may be about the exact figures, there is little doubt that the Government, even at the present low level of productivity, could make a substantial profit out of the issuing of money even after bank employees and shareholders had been adequately compensated—a profit which could be used either for the remission of taxation or the payment of debt. If and when productivity increased and new money was called for, that profit would increase enormously. For the expenses of issuing money hardly vary at all whether there is much of it or little of it to issue. The profit of issuing therefore varies greatly between good times and bad.

It is sometimes objected that, if the banks are not allowed to pocket the profits of the issuing of new money, they will have no motive for issuing it wisely. But under the present system, what proportion of a bank's employees are affected in their own pockets by the profits of the bank, except in the indirect sense that the rapidity of their promotion depends upon their efficiency? (There is no reason why that should not still be so under any system.) There is a hoary tradition that you cannot get energetic service out of people unless you make them the direct gainers in pocket from the doing of their work well. But can it really be pretended that society is more loyally and energetically served by its bankers and company-directors than it is by its soldiers, its schoolmasters, its clergymen or its magistrates? It is much more nearly true that people are, within limits, what you assume them to be. If you assume that the desire for gain can be for them the only motive of action, then they never will do anything except for gain, but, if you pay them a fair salary and then ask them to do congenial and valuable work because it is valuable, experience proves that it is not requiring too much of human nature to expect that work to be conscientiously done. There is no reason why bankers should not be as public-spirited as schoolmasters.

We are told that it is a sort of law of nature that money-lenders should pocket the whole profit of their lending, that, if they are not allowed to do this, they will not lend. So far from it being a law of nature, the very condition of their behaving like this is that other people should behave differently. What an outcry there was just after the war when it was suggested that bricklayers were not laying all the bricks that they could! Suppose that before an important examination the schoolmaster locked up the financier's son and only let him out if the financier promised to pay double fees! Suppose that the doctor, when the financier's wife was in extremity, took advantage of that extremity to bargain about his fee before performing an operation! Suppose that the soldier in war were to say, 'Arms, my commodity, are now valuable. A million down or I will let the enemy destroy your property!' It is, of course, mere foolery even to suggest that professional men should behave thus. But why should it be all but equal foolery to suggest that financiers should behave in any other way? Both are of the same flesh and blood and imperfect human nature.[1]

[1] For an able plea for the necessity of transforming an acquisitive into a functional society, see Mr. R. H. Tawney's *Acquisitive Society.*

There is no reason at all why such a scheme of reconstruction should lead the Government into any quarrel with the joint-stock banks. It is a different story when we come to the Bank of England. At present there is a fundamental conflict between the joint-stock banks and the Bank of England. It is to the interest of the joint-stock banks, as of the community, that there should be a sufficiency of purchasing power in England, for overwhelmingly the greater part of their business is with English loans. But they are prevented from providing such a sufficiency because their power to lend is limited by the number of Bank of England notes in circulation which is in its turn limited by the amount of gold in the country.[1] Now it is to the interest of the owners of gold—and the acceptance houses which control the Bank of England—to keep the country short of gold even at the expense of a consequent deficiency of purchasing power, because it is to their interest to lend their gold in low-wage countries, where dividends are by consequence high, rather than in a high-wage country such as England. It would certainly be the purpose of a scheme of reconstruction to destroy the power which the present system allows to the Bank of England of creating a situation under which the people of England are unable to buy the goods which they produce.

[1] This is still true even though the country is 'off gold', because even now the Bank of England (except with the special permission of the Treasury) is only empowered to issue notes to the value of its gold holding plus £260 million. Therefore the amount of money in the country is still related to the amount of gold in the country.

V

LIBERALISM, PEACE AND DEMOCRACY

THE claims of Liberalism were that it stood for democracy and for peace. By a selection of convenient facts it would not be difficult to make a debater's case either for or against those claims, but little purpose would be served by doing so. It is more important to examine impartially how far they are justified.

During the last war we were all made familiar with the assertion that democracy necessarily meant peace, that 'the people' were always against war, that it was only necessary to give everybody a vote and the reign of universal peace would automatically usher itself in. Subsequent sad experience has taught us that the problems of ages cannot be settled quite so simply, and the student of history cannot but note with a certain ironic amusement that, whereas after 1815 everyone was just as determined as they were after 1918 that the last European War had been fought, then it was not autocracy but democracy which was the villain. Democracy, in the shape of the French Revolution, had, it was said, made the war. Only if it were utterly banished, could the world hope for peace.

Up till 1791 Great Britain had been a corn-exporting country. It was only with the coming of the nineteenth century that her foreign trade became of absolutely vital importance to her. Napoleon, unable to destroy her by direct invasion, attempted to bring her to her knees by shutting her out from foreign markets for her goods and capital. As a result it was vitally necessary for Great Britain to find out new markets beyond the range of Napoleon's interference.

Now the policy of the Spanish crown had been to keep as nearly as possible for itself the monopoly of the trade between its American colonies and Europe. It had indeed been compelled by the Treaty of Utrecht to allow the British to send one ship a year to Panama, and disputes about this concession led to the War of Jenkins' Ear in 1739. Yet on the whole the monopoly had been maintained. When Napoleon deposed the Spanish King and put his own brother, Joseph, on the throne of that country, the Spanish colonies refused to accept the Bonaparte and declared for Ferdinand VII. As long as Spain was in French hands it was not possible for the colonists to obtain the goods which they required from their mother-country. On the other hand Napoleon could not prevent them from trading with Great Britain. Such a trade was to the advantage of both countries and it flourished throughout the war.

On the conclusion of peace the colonies were returned to Spain, and neither colonists nor the British objected to the return. However neither had any intention of allowing Ferdinand to reimpose the old commercial monopoly of the Spanish crown and, when he stupidly attempted to do so, the merchant classes in Spanish America, declared against the Empire, the British Government supported them and eventually Canning recognised the independence of the Spanish American Republics, calling a new world in, in the famous phrase, to redress the balance of the old. The story is not one at all to the discredit of British statesmanship and it is at least arguable that the Spanish Empire had outlived its usefulness and that its break-up did no great harm. Yet it is an example how the necessities of foreign trade led Great Britain to an interference with which otherwise she would not have concerned herself.

In the same way it was by no means a pure Byronic admiration for 'the glory that was Greece,' which led Admiral Codrington's fleet to play the part which it did play in the liberation of Greece at the Battle of Navarino. The first step which led to Navarino was taken when Canning recognised the Greek flag, not through admiration of the Greeks but through the desire of English merchants to trade in Ægean waters.

Yet the thirty years after Waterloo were for Great Britain years of peace. They were also the years, it may be noted, when British agriculture was still protected and by consequence British foreign trade was not yet of the overwhelming importance which it was afterwards to assume. On the other hand British capital was pouring out to foreign countries. In 1846 the Corn Laws were repealed. Cobden and Bright believed with unquestionable sincerity in the wickedness of war. Not many people to-day will question the justice, and no one will question the sincerity, of Bright's later opposition to the Crimean War. This chapter is not concerned with an estimate of the sincerity of Cobden and Bright, about which there is no dispute, but of the results of their policy.

Now, when the Corn Laws were repealed in England, Cobden imagined and hoped that in a few years the Continental countries would follow England into Free Trade. Europe would then form a single economic unit, Great Britain living on the food of the Continent and the Continent living on the manufactured articles of Great Britain. As is known, this did not happen. With the exception of one half-hearted gesture by Napoleon III which came to nothing every country of the Continent, and also the United States of America, decided that, since they could not hope to build up manufactures in face of British competition under Free Trade conditions, it was necessary to protect themselves against those goods by tariffs. As a result, Great Britain, though still, it is true, able to sell a considerable quantity of manufactured goods on the Continent, was not able to sell as many as she had expected. She was not able to sell as many as she produced. Consequently new markets must be found. She could not sell more at home because the doctrine of the subsistence wage forbade her from giving her own working-classes the money to buy more. She could not sell more in Europe because the tariffs prevented her. Consequently she must sell outside Europe. Thus very early in the second half of the century the non-European world came to assume an importance far larger than either Cobden or anybody else had but a few years before foreseen for it.

Now the difficulty about doing business with non-Europeans was that they were regrettably ill-instructed in the principles of progress or of political economy. Rightly or wrongly, they did not in the least want

British goods nor the advantages of Western civilisation. They had but the haziest notions of the importance of keeping contracts. Consequently it was only possible for Englishmen to do business with them, if supported in Downing Street by a Government that did not shrink from using the 'big stick' in order to keep 'insolent barbarians' in order. The result, that is to say, of the Repeal of the Corn Laws was not to put Cobden or Bright into power; its result was to make Palmerston Prime Minister of England.

The British had gone to India in the first place merely as traders. Almost by accident they had found themselves saddled there with an Empire. They were at first very careful to interfere as little as possible with the customs of their subjects. In 1848 Lord Dalhousie went out to India as viceroy, the first viceroy to be appointed after the Repeal of the Corn Laws. He broke violently with the tradition of non-interference and set out instead on the policy of giving India 'the blessings of civilization'—that is to say, English goods. He built railways. He built a great trunk road from Calcutta to Peshawar. He introduced 6,000 miles of electric telegraph. He organised a postal system. He started works of irrigation, of agricultural improvement, of forest preservation. English capital and English goods poured into the country.

He was somewhat unnecessarily tactless perhaps in the disregard of Indian religious susceptibilities which he showed in the method by which he introduced some of his reforms. But the reforms themselves were perfectly sincere and genuine reforms, *if material progress be desirable.* What he could not understand, what no

Cobdenite could understand, what no Cobdenite could afford to understand so long as England needed a foreign market for her goods was that, rightly or wrongly, the Indians were not persuaded that material progress was desirable. All that they saw in Dalhousie's schemes was a subtle attack on their religion. The result was in 1857, the year after Dalhousie's retirement, the Indian Mutiny. It might be said that, if Dalhousie's improvement of communications caused the Mutiny, it also made the suppression of it very much easier. That, I think, is true. The argument merely is that it brought not peace but war.

The necessities of foreign markets caused us in these years to play a less noble part further east. The Chinese did not want any foreign trade. Therefore in 1840 Palmerston, then Foreign Secretary under Lord Melbourne, picked a quarrel with them, compelled them to cede Hong Kong, to grant trading facilities in five other seaports and to allow British merchants to sell opium. In 1857, when Prime Minister, he picked another quarrel with them and destroyed Canton. Cobden, it is true, denounced him, but a General Election returned Palmerston as once more Prime Minister and leader of the Liberal party.

After the death of Palmerston, followed, as it soon was, by that of John Russell, there followed the era of Disraeli and Gladstone. For good or bad Cobdenism certainly cannot be held responsible for the policy of Disraeli, while, whatever may be said of Gladstone, it would be as ridiculous to accuse him of love of war as it would be to accuse Cobden himself. Yet we are concerned not with a judgement upon persons but with what happened. Gladstone's policy delayed the absorption of the Soudan or the Transvaal into the British Empire; it could not prevent them.

During the third quarter of the nineteenth century the British, excluded from the full use of the European markets by European countries' tariffs, were forcing open new markets for themselves outside Europe. By the fourth quarter the European countries, having developed their own home markets to the limited extent which their low wages permitted wanted foreign markets themselves. Nationalist feeling on the Continent was sufficiently strong to reject the Cobdenite principle of the free import of goods; it was not sufficiently strong to reject, or perhaps sufficiently intelligent to recognise the menace of, the much more dangerous Huskissonian principle of the free export of capital. Therefore instead of using their capital to enlarge their miserably poor home markets, the Continental countries let themselves be persuaded by their financiers that it was necessary to allow a free export for that capital to the yet lower-wage non-European countries where it could compete against the capital of Britain. Within an astonishingly few years the whole African continent, except only the Kingdom of Abyssinia, was divided up between the European powers. Yet the changes on the map were the smaller part of the changes. For at this period of history, at any rate, it was not trade that followed the flag but the flag that followed trade—and if it did not follow it pretty quickly, there was often some very dirty work before it got there. There could not be much trade without loans because the native, left to himself, did not produce a sufficiency of goods to exchange on a large scale against the goods of Europe. Therefore, where the trader went, it was certain that the financier was coming. And, if the financier was coming anyway, it was best that the Government should come too in order in some measure to control his activities.

Apart from Africa, French and German capital poured into Russia, German capital into Turkey. The Japanese quarrelled with the Chinese, and the European powers, under the pretence of guarding the integrity of China, stepped in to seize the ports of entry for themselves and to ensure for their financiers a freedom, first, to sell Chinamen goods raised by the starvation-wages of Burmese, and afterwards to invest the profits in the starvation-wages of Chinamen. Without question they intended to divide up the markets of the Far East as they had divided up those of Africa. The sudden and totally unexpected rise of Japan, her defeat of Russia, warned them to go more carefully in that part of the world than they had ever intended.

The difficulty of making an equitable division among robbers is that, where none have any right to the loot at all, it is hard to find a principle of equity which shall decide what exact proportion shall go to which. So now, when the one motive was greed, the financiers who used the names of their various countries were at first content with parcelling out among themselves fresh portions of the world. But with the twentieth century, with Africa already divided up, with Japan warning them off from the Far East and the Monroe Doctrine from the American continents, there was hardly any more of the world left to divide. So soon these Cæsars and Antonies of the 10 per cent began to grumble each one at his rivals' shares. A Cecil Rhodes or a German Junker, filled with a sincere, if unbalanced and barbaric, vision of his own race as the chosen of Heaven, destined to inherit the world, did little more than complicate the problem and encourage greed. The Boer War, the Russo-Japanese War,[1] the troubles in Egypt, on the further African coast, in the Balkans[2]—

[1] (*a*) The Russo-Chinese—afterwards the Russo-Asiatic—Bank, the capital of which was French, Belgian and to some extent British, had loaned £39,000,000 for the building of the Chinese Eastern and the South Manchurian Railways. These railways had been built as the result of an agreement between the Russian and Chinese Governments, the validity of which the Japanese contested. The bankers therefore knew that if Japan should succeed in wresting from Russia her privileged position in Manchuria, they stood to lose all, or most of, their money—as indeed happened. 'It has been our traditional policy to exclude from Manchuria and Mongolia investments of any third power.' (Memorial of the Civil and Military Authorities of Japan presented to the Mikado, June, 1927.)

(*b*) The main terminus of the Trans-Siberian railway, Vladivostok, was an ice-bound port in winter. The Manchurian branch however ran down to the ports of Port Arthur and Darien on the Liao-Tung Peninsula, which were ice-free all the year round. The Liao-Tung Peninsula had been ceded to Japan by China by the Treaty of Shimonoseki in 1895 but subsequently stolen by Russia. The French capitalists whose money was behind the Trans-Siberian Railway were in favour of the retention of the Liao-Tung Peninsula by the same Government as that under whose auspices they had built the railway.

(*c*) The capital, largely British, which was behind the new industrialism of Japan was in favour of Japan obtaining a footing on the mainland as this would throw open a large market for the products of growing Japanese industry. Without such a market it would be necessary to sell that product in Japan itself, and that would only be possible if wages were raised and profits by consequence diminished.

For an excellent account on the situation in Manchuria both at the time of the Russo-Japanese War and subsequently see *Manchuria, The Cockpit of Asia* by Etherton and Tiltman (Jarrolds).

[2] The Balkan nations would doubtless have quarrelled with one another anyhow but the reason why Europe became involved

all were terrible warnings of the inevitable nemesis of a world of exporting capitalists, each convinced that his money had a right to find its own level. 1914 was the conclusion of the story.

It is not pretended that the catastrophe of 1914 can be simply explained by one single cause. There were many causes, of which some had nothing to do with economics. But no one can surely deny that the principle that money had a right to find its level was among the chief of the causes.

Again it is not quite crudely true to say that finance caused the European War. Finance cares nothing for patriotism and is willing to work indifferently with any government that will agree not to hamper its purposes. If the full vision of Cobden had been realised, we should have had Chinese Wars and Zulu Wars and punitive expeditions into the Soudan, but we should not have had a clash between countries civilized enough to have absorbed the full gospel of Cobden. But what it is fair to say is that finance, acting in a world in which nationalism was strong, inevitably led to world war. We could have had the gospel of Cobden and no war; we could have had the gospel of Garibaldi and no war. But we could not have had the gospels of Cobden and Garibaldi, preached, as they were preached, and fervently held, as they were held, side by side, and no war.

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in their quarrels was that German capital was interested in the Berlin-Bagdad railway, while Russia had ambitions on Constantinople for several reasons among which the financial was certainly one, France interests in Syria, the British in the Persian Gulf, etc. See *Turkey, the Great Powers and the Bagdad Railway*, by E. M. Earle. We shall be lucky if the international competition for Albanian oil does not bring us trouble in our own day.

Liberal philosophy told man to devote his life to competing against his neighbours for the acquisition of material wealth. Then, very arbitrarily, it told him that in this competition he might use all means save those of physical force. But why should he stop at physical force? The only answer was that 'War does not pay.' But unfortunately this is by no means always true. A lot of wealth, it is true, is wasted in war, but on the other hand in war many people can be induced to work and to invent who would never do any such thing in peace. A lot of people lose money in war, but a lot of other people make it. It may be true that more lose than gain, but it is not possible to persuade an individual that he will not be clever enough to be one of the gainers rather than one of the losers. It is no more possible to banish war by an appeal merely to avarice than it is to banish betting by a demonstration that 'the bookie always wins in the end.'

After 1918 the nations of the world very sensibly realised that nationalism was, for good or bad, one of the irremoveable facts of the world situation, that there was no practical possibility of establishing a world Emperor nor a uniform rate of wages throughout the world, that finance could only be controlled if either the political unit was expanded to make it coterminous with the economic unit or the economic unit was contracted to make it coterminous with the political unit.[1] Since the first alternative was impossible, they

[1] Anyone who questions the impossibility of national Governments controlling these international forces should read Mr. Denny's *America Conquers Britain*. In this terrifying book the mad chess-game that is going on in every country of the world between the great interests that are competing for the world's supply of tin,

very sensibly followed after the second. Every country made for itself the aim of national self-sufficiency. It is true that people have been curiously slow to understand that, if you are not willing to buy from abroad, then it is absurd to seek to sell or to lend abroad, but, interpreted rightly, the steady dwindling of foreign trade, the progress of every nation towards self-sufficiency is one of the most hopeful factors in the world situation. If only the nations have the wisdom to learn from that to put their own houses in order rather than wait impotently for the restoration of a world situation that can never be restored, history may well come to mark the happy fiasco of the World Economic Conference in the summer of 1933 as the mark of the death of the old evil and the beginning of a new and a happier era in the chequered history of mankind.

It is indeed pretended by the defenders of the old system that the present crisis has proved the impracticability of economic nationalism, but nothing could be more false. The crisis is a world-wide crisis, and it is sometimes said that, owing to the collapse in the prices of primary products, self-supporting countries have suffered even more severely than others. But this argument is based on the confused identification of self-supporting countries with agricultural countries. Such countries as Denmark, Bulgaria or New Zealand are no more self-supporting countries than England. The very reason why they have suffered is that they

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rubber, oil, etc., is laid bare. Mr. Denny quotes his authorities for every statement and the greater number of his facts are derived from official sources. See also *The World Struggle For Oil*, by M. Pierre L'Espagnol de la Tramerye, and *Oil Imperialism*, by Mr. Louis Fischer.

are not self-supporting—that they live by selling their produce in an export-market whose price fluctuations they cannot control. If Great Britain should ever become self-supporting she would not be a country of 40,000,000 people working on the land. She would be a country of some 5,000,000 working on the land, supported by an industry that was capable of supplying that 5,000,000 with the requisite machinery. Of all the countries of Europe the most nearly self-supporting is France, and she has suffered by far the least from the present economic crisis. But economic nationalism, while it spells prosperity for the nations, spells death for the great business of international lending. The time is now at least within sight when in peace-time most of the nations of the world will not be dependent upon foreign loans. The only circumstances under which they will be so dependent will be the circumstances of war.

Now it is not intended for one moment to suggest that the very few people who traffic in the world's international investments are gentlemen without moral principles. There are among them people of high honour. Yet from time to time some accident or tragedy reveals to the public the methods by which this business is carried on. The revelations are not, to put it mildly, such as convince us that in this so largely secret business the men of honour are strong enough to impose their standards upon the profession or to justify us in entrusting to the members of that profession the unquestioned responsibility for the very fabric of our civilisation, a power greater than any autocracy has ever claimed for its Imperial Cæsar. And it would be foolish not to understand that these persons no longer have the active interest in preserving peace which they had in the days when international trade was booming or when there was still a probability of its normal revival. They can no longer be relied on to take many active steps to preserve it. It was clear, for instance, in the recent Chino-Japanese dispute that they were no longer willing to support the policies of the League of Nations. Their motive may have been a merely disinterested love of peace—but their investments in Japanese industry are, as has been shown, considerable.

As one reads such a book as Count Corti's admirably documented *Reign of the House of Rothschild*, one comes to learn how those who, the old text-books told us, were the masters of Europe—the Metternichs, the Bismarcks, the Cavours, the Louis Napoleons—were really to a large extent dominated by this greater power behind them. But at least, we feel, it was a power which, for good or ill, knew what it wanted. To-day international finance is as powerful as ever but it is bewildered. It knows that it wants to get international lending going again. But, when Dr. Schacht asks it how debtors can pay their debts when creditors are determined to use tariffs in order to maintain a favourable balance of trade, it looks plaintively about for a Liberal party and, finding none, has no answer. In the days of the Rothschilds finance was strong enough to rule; to-day it is only strong enough to wreck—perhaps to prevent anybody else from ruling.

Thus, while there is no reason at all to question the sincerity of the beliefs of Peel or Cobden or

Gladstone that freer trade would lead to peace, while it is an error to think that the economic explanation of international relations is the full explanation, yet it is fair to say that the effect of Free Trade has been to make much harder the task of keeping the world's peace, and, what is perhaps more important, is likely to make that task even harder again in the future.[1]

. . . . .

Liberalism is commonly spoken of as the party not only of peace but also of democracy. Of the three Reform Bills by which the franchise was extended during the nineteenth century the first and the third were passed by the Whigs, or Liberals. The second was indeed passed by the Conservative Government of Derby and Disraeli. But it was confessedly only passed in order, in Disraeli's phrase, 'to dish the Whigs,' —in order that the Conservatives might have the credit of an extension of the franchise that was clearly bound to come even if they opposed it. It is not then unfair to say that the party of laissez-faire was also the party of universal suffrage.

Their argument for democracy was that every interference with laissez-faire was an interference on behalf of some privileged class. Such interferences were against the interests of the people at large and, if the people were made the masters of political power, they could be trusted to see to it that such interferences were not permitted. Now the history of the eighteenth century certainly does prove that the aristocracy, when

[1] The reader is again referred to Mr. Denny's *America Conquers Britain*, in substantiation of this.

they were masters of the state, did very often use their mastery simply to annex privileges to themselves, nor can the most ardent of monarchists deny that it would be very easy to produce instances from the history both of the English and of other monarchies when monarchs similarly abused their power. History gave some justification to the Benthamite view of state interference, nor can it be denied that there are certain types of bad laws which might be passed under other constitutions but which could not be passed under universal suffrage—such, for instance, as savage game laws.

Yet without deciding whether the advantages of universal suffrage on the whole outweigh its disadvantages or not, there is no doubt that the result of it is to leave that most important side of policy—the monetary side—quite completely uncontrolled by anybody. The political issues up to the war—Irish Home Rule, Welsh Disestablishment, Plural Voting—were issues on which every ordinary voter could have an opinion. The despiser of democracy may think that the opinion was a foolish one, but at least the voter was not ignorant what the terms meant. The monetary issues—the issues of inflation or deflation or of the Gold Standard—are issues on which it is not pretended that the ordinary voter can possibly have an opinion. One of the most promising of the present Liberal Members of Parliament, Mr. Robert Bernays, in his fascinatingly interesting book, *Naked Fakir*, tells as a funny story the tale of a Devonshire Member of Parliament addressing his constituents on the Gold Standard. That is to say, to a modern Liberal the notion of a Member of

Parliament consulting his constituents on the most momentous issue of the day is merely a funny story and no more.

Now it is the boast of our constitution that we have 'no taxation without representation,' but it is very clear that both inflation and deflation are in different ways methods of taxation—inflation because it decreases the value of money in our pockets, deflation because it increases the Government's debts which we have to pay. If there is no popular control of inflation or deflation, it is clear that there is no popular government. Is there any such control? Lord Snowden, when Chancellor of the Exchequer, to take an example, pursued, or, if the phrase be preferred, permitted a policy of drastic deflation. But when he was still a commoner and when he offered himself to his constituents, did he explain to them that, if elected, he would co-operate in a policy of drastically reducing their purchasing power?

Now some people argue that monetary matters are of their nature so complicated that the ordinary voter cannot possibly form an opinion on them. What is done is so much more important than who does it that, if this is true, the best thing would undoubtedly be to abolish the present constitution. And indeed all the signs seem to be pointing to a restoration of the monarchy to a more reasonable position in the state. For the moment however we have universal suffrage and there is no reason why we should not make a more serious attempt to work it than has hitherto been made. The problems of money have their technical side, which none but experts can be expected to understand.

But the general theory of money is not nearly as difficult as it has been the fashion to make out. The reason why ordinary voters have no opinions on it is not that it is difficult but that it is unfamiliar. Our schools neglect it. Ordinary voters are dependent for their political information upon the daily press, and the daily press does not discuss these matters. If universal suffrage is to survive, then our future is dependent upon the goodwill of the popular press and the British Broadcasting Company.

Yet most fundamentally our problem is one not for bankers nor for politicians nor for journalists but for schoolmasters. Our troubles and absurdities come not from the wickedness of bankers but from the public's utter lack of understanding of the way in which the world's financial machinery works. Now, if people when they first learn history, learn a version of it in which the problems of purchasing power and the movements of capital are not mentioned, there is little hope of a remedy. When later in life they come to hear the truth, they dismiss it as a paradox or—what is only less bad—accept it as a paradox, as an esoteric piece of knowledge which they are proud to know and of which they are a little proud to have others ignorant. If on the other hand from the student's first contact with history, the monetary factor is insisted on—not to the exclusion of other factors (that would be a remedy as bad as the disease)—but firmly insisted on, then there is a chance that a public opinion will be produced which will refuse any longer to consider fluctuations of prices and a chronic deficiency of purchasing power as calamities as inevitable as the weather and to tolerate, except as a temporary phenomenon, the monstrous coincidence of poverty and unemployment. To-day it is possible for a student to earn the highest honours in history at school and university and at the end to have no notion how paper money first came into circulation nor what is the proportion between a bank's cash holdings and its liabilities. It is a serious scandal that any educated person should be allowed to remain in ignorance of such things.

If only the schoolmaster does his job properly there need be little fear that the banker will not in turn do his. He will have no alternative.

VI

THE FACT OF ABUNDANCE

The primary business of a country's economic system is to provide the necessities and luxuries of life for the people of that country. This ought to be a platitude so banal as not to be worth stating. Unfortunately it is so common to-day for statesmen and journalists and economists to tell us that our great problem is the problem of unemployment that the platitude must be repeated. Some people think that it is very bad for men not to have to work; others are less afraid of the demoralizing effects of leisure. There is something to be said for both points of view. But no one can sanely deny that the provision of work for all, even if highly desirable, is yet only a secondary business of an economic system. It may be best that everybody should have both work and food. But, if you can give them food but cannot give them work, it is obviously absurd not to give them at any rate the food.

Now is it possible for the world to produce a sufficiency of goods to give abundance to all of its inhabitants? The answer to the abstract question surely admits of no dispute at all. The world's productive resources have as yet hardly been so much as scratched. Its inventions are as yet almost certainly only in their infancy. There has never in history been a time when the world was more clearly capable of supplying the necessities and luxuries of life to its inhabitants than it is to-day. Population has increased since the Industrial Revolution but its increase has been nothing like as rapid as that of productive capacity.

What then is the matter?

'World causes,' say the politicians. Or, to be more precise, the world's production has hitherto been financed by international loans, and the world is suffering to-day from a general inability or unwillingness of debtors to pay their debts. Great Britain's invisible exports are tumbling by £100,000,000 a year. In 1929 they brought us in £504 millions, in 1930 £414 millions, in 1931 £301 millions. It has been argued in previous chapters that it is not at all probable that the system of international lending will ever revive—that indeed it is not easy to see how it can possibly revive. Without international lending is it possible to provide the people of Great Britain with as high a standard of living as that which they at present enjoy? Or must we resign ourselves to it that the future, while it will bring an increase of productivity to the world at large, can promise no such increase to the already over-exploited resources of Great Britain?

The pessimistic answer surely only comes from a misunderstanding of the nature of this country's economic life. As was indicated by the quotation from Mr. McKenna on a previous page,[1] on mere sum total of goods the people of Great Britain have lost from international lending. They have, it is true, received every year dividends from abroad—that is to say, received foreign goods for nothing—but the

[1] pp. 20–21

price of those dividends has been the granting of new loans—that is to say, the giving of British goods to foreigners for nothing. On balance we have given away a great deal more than we have received back.

Therefore the collapse of international lending leaves Great Britain the possessor of more goods, or at the least of a potentiality of more goods, than she had before. But this, it will be said, is of little benefit to her. What is the advantage of having a million tons of coal or a hundred railway-engines if you have no bread? The real problems then are, What prospect is there of transforming those who now produce for the foreign market into producers for the home market? If this transformation were effected, how nearly could Great Britain come to being self-supporting?

It is very certain that we can come a great deal nearer to it than is commonly imagined.

At present we import into Great Britain foodstuffs, raw materials and manufactured articles. As for manufactured articles, the laws of dynamics know no frontiers, and what can be manufactured in one place can, with negligible exceptions, be manufactured in another. In the few instances where a special temperature or humidity of the air is required, it is no difficulty to modern science to create the required conditions. It used to be the boast of Lancashire that its climate was the only one in the world suitable for the manufacture of cotton, but the boast has not been proved justified. Nor is there any deficiency in the supply of labour. On the other hand there are certain raw materials without which our life and our manufacturing would be impossible. You cannot grow cotton in the climate of England. We have no rubber. We have not enough iron. We have no oil, though some people claim that we can make oil out of coal at a reasonable price; if so, there will be no need to import it from Persia.

Yet between a third and a half of our imports are imports of articles of food and drink. Of these articles some—tea, coffee, sugar, certain fruits—we clearly cannot produce for ourselves. Other things we produce ourselves but do not at present produce in sufficient quantity for our own needs. To-day we produce ourselves about 40% of our own food. To what figure is there sane reason to think that we can raise that percentage?

Prince Kropotkin in his *Fields, Factories and Workshops* gave it as his opinion that Great Britain, if she set herself out to do so, could produce sufficient food for 90,000,000 people. Sir Charles Fielding, a less exuberant and probably a safer guide, estimates that we could at any rate produce enough food to feed ourselves and, whatever the exact truth, nobody who looks at our unused fields can doubt that we could at any rate produce vastly more than we do at present.

People sometimes speak of the life of the agriculturalist as conservative and unchanging and contrast it, whether to its advantage or to its disadvantage, with the progressive, changing life of industry. Such language betrays a great misunderstanding of the situation. Scientific research and invention have increased and are increasing the productive capacity of agriculture at the same time that they are increasing that of industry. In 1898 Sir William Crookes in his presidential address before the British Association estimated that Canada could never produce more than 228,600,000 bushels of wheat; she produces to-day more than 500,000,000. He said that no extension of the world's cultivable area was to be looked for. But figures, published by the Board of Agriculture, show that the wheat area of the main wheat producing countries was, between 1901 and 1911, increased from 200,930,000 acres to 247,000,000 acres, and it is only the lack of will which has prevented a proportionate increase in the area in Great Britain. Sir William Beveridge, when he addressed the British Association in 1921, a quarter of a century after Sir William Crookes, said, 'Any suggestion that these (the European) races have reached or are within sight of the territorial limits to their growth hardly deserves serious consideration.' The Macmillan Report tells us that the world's production of foodstuffs increased by 16% between 1913 and 1928.

Anyone who doubts the possibility of increasing the productivity of British agriculture should study the very interesting facts and figures given by Sir John Russell in his *Land and the Nation.*[1] Owing to Stapledon's work on grass strains and other discoveries, grassland can now be made productive in its first year. The total acreage of apple orchards in the west of England has decreased since before the war, but the yield of apples has increased. Twenty-five years ago a hen laid on an average 72 eggs; now it lays over 100. Sir John Russell reports that at Rothamsted in 1932 they obtained 340 lambs from 223 ewes where in the old days they only got 250. A cow, in the lactation

[1] Sir John is Director of the Rothamsted Experimental Farming Station.

period, used to give from 200 to 300 gallons of milk; now the average yield is 416 and many cows give as much as 1,500 or even more. Modern machinery can plough ten acres in a day where the horse-drawn plough was proud if it did one; it can harrow 130 to the horse's eight or ten. There can hardly be a doubt that artificial manure, which is but in its infancy, is destined to increase the yield per acre of almost every sort of crop. 'The air of an ordinary-sized sitting-room,' writes Sir John Russell, 'contains enough nitrogen to grow food for a man for a whole year.'

It is clear then that science has already increased enormously the quantity of every sort of food that can be produced from a given area. It has reduced enormously the dangers of natural calamities. It has made barren lands fertile; it has made fertile lands more fertile and more easily workable, and there is no reason at all to think that it will not still further increase the productivity of the earth in the future.[1]

Now there is little doubt that foreign trade in the nineteenth century sense will never revive. The decline is inevitable because the expectation of a continuance of it was based upon a contradiction. The notion of Huskisson was that we could live for ever by lending to foreign countries the money to build their own factories. The notion of Cobden was that we could live for ever by exporting to foreign countries the

[1] The ambition to produce more food in Great Britain is often confused with the quite different ambition to employ as many people as possible in agriculture. If you have the second ambition, you obviously use no agricultural machinery at all; if you have the first, you make use of all the machinery that has proved itself capable of increasing productivity.

products of our own factories. The notion of the orthodox economists was that we could do both these things at the same time. Yet it is evident that this was quite impossible, other than for a short period. But the comforting lesson of such a work as Sir John Russell's is that there is no reason at all why we should merely repeat in idiotic impotence that there is no hope for us of prosperity until foreign trade returns. Nor is there reason to think that the change over from the production of one article to another will take an enormous time. The war showed how rapidly such transformations could be effected, once people were convinced of the necessity of effecting them. It is the psychological problem of creating the desire to abolish poverty which is more difficult than the economic problem of discovering how poverty can be abolished.

At the same time there is no reason to think that we can be entirely self-supporting, but is there any cause to fear that we shall have any difficulty at all in inducing foreign countries to give us the goods and raw materials that we need to maintain our standard of living? Surely none at all. Foreign countries no longer need our loans but they badly need our goods, and, the more firmly that we refuse to give them loans, the more badly do they need our goods. If an Australian wishes to build a factory in Sydney and he can borrow the money for building it on the London market, then English manufactured goods are sent out to Australia and, for the moment at any rate, no corresponding Australian goods are sent back to England. But, if Australians and Argentinians can no longer borrow in London, then they will have to offer goods in exchange for the English manufactured goods which they require.[1] The countries that have borrowed from us in the past are all food-producing countries. They are countries which are well capable of vastly increasing their productivity. Great Britain is the only large food-importing country in the world and at present the food-exporting countries are destroying their crops because London will not give them an economic price. So there will be no reason at all to fear that we shall have difficulty in getting enough from them to free us from all fear of want. At a future date they may, it is true, cease specialist farming and come to need less of our manufactured goods or of our minerals, but that will not be for many years and, before that future day arrives, we shall have had ample time to develop our own agricultural resources.

[1] It may be argued that they will borrow elsewhere. But where? Of the four great countries that have in the past indulged in large foreign lending Germany is now a debtor country, France and the United States, having been once bitten, are twice shy and will no longer lend extensively abroad. So, if a borrower cannot borrow in London, he cannot borrow at all.

VII

THE PROVISION OF PURCHASING POWER

If one were writing at a time when international trade was booming it would seem a paradox to deny that a decline in world trade would cause, at the least, a temporary reduction of the standards of life. But to-day we have already experienced that decline; we have already suffered that reduction. The question is not, Shall we keep Humpty Dumpty upon the wall? but, Shall we expend our energies on trying to put him together again? There is no reason to think that a refusal to countenance international lending would cause a further, even temporary, decline.

This will seem an extravagance because it will be said that, even in its diminished state, international trade is considerable and we are dependent upon it. As for the trade of goods against goods, let us admit it. Obsessed with the superstition that prosperity can be measured entirely by the statistics of foreign trade, the nations have sometimes moved their commodities about the world in a somewhat pointless general post. For instance, it is hardly an example of the prosperity of Denmark that she should be the world's largest consumer of margarine per head nor of her sanity that she should complain that she cannot to-day get a market for her butter and therefore cannot get the money to buy margarine. Yet in general the exchange of goods against goods is sensible and to be encouraged.

A different story is that of loan foreign-trade. It will be argued that even in their diminished state our invisible exports bring us in some £300,000,000 a year and are not therefore lightly to be abandoned. But the increase that they bring to our national wealth is much less than would appear from that statistic. For our debtors can only pay us in goods and to a large extent, where they pay us in goods, they pay us in goods which we could just as well produce ourselves. The Japanese sell their cotton goods in Lancashire not simply to annoy, but because that is the only way in which they can pay their dividends to their London creditors. The Argentinians send us beef; the Persians send oil. If the population of Great Britain were fully employed then Argentinian beef and Persian oil would be sheer gain to us. But when the price of admitting Argentinian beef is that a British farmer must be kept unemployed, consuming but producing nothing, the price of Persian oil that the Scotch shale-oil industry can employ no hands, then the receiver of the dividend indeed gains from its reception but the nation gains nothing at all. We get our beef perhaps a bit cheaper but have to pay more in taxes in order to supply the unemployed man with his dole. There is no reason why we should not go on receiving dividends on our foreign investments where we can get them without loss to ourselves, but it would be folly to expect very many of them in the future and a misunderstanding to think that the loss of them would be any great blow to our national prosperity.

Let us then call the goods that come into this country in exchange for goods that we send out, and the goods which are sent in in payment of dividends and which we could not produce ourselves, wanted imports, those that only come in at the expense of our not producing similar goods ourselves, unwanted imports. There is no reason to think that there will be any further decline in wanted imports. On the other hand there is certainly the possibility of a very large increase in the production of goods at home for domestic consumption. Of every £5's worth of goods which we produce £4 find their market in Great Britain and, much higher though Great Britain's proportion of foreign trade is than that of any other country, yet even to Great Britain the domestic market is much more important than the foreign market. For the supply of that domestic market we have the men, we have the plant, we have the raw materials. If only we can solve the monetary problem, a very considerable expansion in productivity is clearly possible.

What, then, is really requisite for prosperity to-day is not the revival of foreign trade but the increase of the consuming power of the home market—in other words, to give people more money, or at least to give the right people more money. Mr. Reginald McKenna, in his essay on *Currency, Credit and Trade*, has clearly laid down the principles that should govern all monetary policy, 'When national output is below productive capacity, the policy should be to let money out; when production is at a maximum the outflow of money should be checked, and, if inflationary symptoms have appeared, money should be withdrawn.' To-day, therefore, quite obviously the policy should be to 'let money out.' How can that be done?

Railway-tickets are usually printed on cardboard. Nobody objects to that. But what should we think of a station-master who should say, 'There is the train, ready to start, and it is only half-full, but I fear that we cannot let you on to it because we have run out of cardboard and so we cannot sell you a ticket. You must wait until somebody finds some new cardboard and meanwhile the trains must run empty.' So if our currency remains tied to gold, the problem is insoluble, because there is not enough gold to finance the increase of productivity of which we are capable. But, if the amount of money is settled, not by the accident of how much gold there is in the country, but by the sane consideration of what is the country's productive capacity and what amount of money, at the ruling level of prices, is required to buy that product, it can be done.

There is a deficiency of purchasing power. Now, according to the supporters of the Douglas scheme that deficiency arises out of a mathematical necessity. The present writer is not able to accept that argument in any form in which he has come across it, other than that of Lord Tavistock, who, in his pamphlet, *Poverty and Overtaxation*, says, that there is such a deficiency, 'unless the banks are granting new loans as fast as they are receiving repayment of old loans.'[1] In this statement of it the theory is clearly true but is it very important? Obviously there is a deficiency of purchasing power if there is deflation. But is there such a deficiency when there is not deflation? To the present writer it seems that, if there is not deflation

[1] pp. 13, 14.

the world is capable of buying all its products. On the other hand a country that is exporting capital clearly will not be capable of buying all its products. It is the export of capital which in my opinion has been responsible for the deficiency of purchasing power in Great Britain.

Therefore, though the present writer differs from Major Douglas in his analysis of the cause of the deficiency of purchasing power, he entirely agrees with him that there is such a deficiency to-day—that what is wanted is more money.

No one, I fancy, questions the possibility of an increase in the country's productivity. How could they? But of the probable size of that increase estimates vary very widely. I will not commit myself to any figure; partly because I do not pretend to the competence to estimate the value of the many inventions, made, but as yet unexploited; partly because there can be no doubt that a solution of the problem of purchasing power would encourage people to make yet further inventions which they do not now make when there is little encouragement for them, because there is little chance of getting them exploited; partly because the increase in productivity is very largely dependent upon the quite unpredictable psychological factor of the degree of enthusiasm with which people can be induced to take up the fight against poverty. The expert, however competent, cannot possibly fix an *a priori* figure of potential productivity, nor, even if he could demonstrate that our productivity could be multiplied by some exact figure—say, by 2—would the demonstration be of much practical value. It would by no means follow that it would be sufficient merely to double the supply of money, for the changed circumstances would quite certainly bring with them a changed velocity in the circulation of money. All that can be done is to observe at each particular moment whether the country is producing at its maximum or not and whether additional supplies of money are being answered by an increase of goods or an increase of prices.

It is certain that at the moment there is room for a very considerably increased supply of money. 'Simply taking things as we find them,' writes Mr. Colin Clark,[1] 'and assuming that the present conditions of production, marketing and profit-making continue, we can still aim at an increase of production of some 25% above the present level.' This is perhaps the most conservative of all published estimates.

Now how can new money be supplied to the public? At present it is issued in the form of loans to producers. The producer, it is hoped, will on the one hand produce his article, while at the same time he distributes through wages and salaries a sufficiency of purchasing power to enable the public to buy it. But the trouble is that the individuals who have assisted in the production of a particular article will not want to spend their wages merely in buying back that article. Therefore in a period of deep depression it is clearly no good lending money merely to one manufacturer. His workmen will not want to purchase more than a fraction of his goods, while the rest of the community will not have the money to purchase the remainder of them.

Therefore, under the present system, the only way to cure a slump would seem to be to arrange a

[1] *What Everybody Wants To Know About Money*, p. 430.

programme of large co-ordinated lending—to lend simultaneously to every sort of producer, so that every sort of new commodity will be thrown on the market, while at the same time there will be increased purchasing power in the pockets of a large number of consumers.

Unfortunately, experience seems to have proved that the planning of such a scheme of co-ordinated lending is beyond the capacity of our bankers. It is true that under the system advocated in the previous chapters of this book, the interest on loans of new money should go not, as now, to the bankers, but to the Government. This would in itself, it is clear, automatically increase purchasing power, for, the less that is paid in taxation, the more remains in the pocket of the consumer for him to spend on goods. Yet it will not solve the particular problem of curing a slump because the producer will only be able to pay his interest when he has first sold his goods—and our problem for the moment is how to enable him to sell his goods in the first place.

The best plan is the simplest. Increase purchasing power by giving people money. It would, it is true, be folly to give all your new money to the consumer because then, clearly enough, there would be a vast increase of purchasing power with, for the moment, no increase of goods and the result would be a rise in prices. You cannot have an increase in consumable goods unless you spend a proportion of your income on the production of capital goods. But, on the other hand, there is no reason why a proportion of the new money—sufficient to ensure that the producer of new goods would get a market for them—should not be issued direct to the consumer.

To whom shall we give it? The supporters of the Douglas scheme would simply distribute round to everybody so much money as what is known as a consumer's dividend. It is possible that we shall come to that, or something like that—come to accept it that to-day, owing to the developments of machinery, there is a possibility of abundance for all, but no longer a possibility of employment for all. But the notion of national dividends is still so unfamiliar that, as Professor Soddy argues with force, it might fail and discredit the whole programme of reform. Nor is it yet necessary, nor is it by any means proved that we can as yet produce all that we want without employing all our labour. The present suggestion is a far more modest one, for it is not desired to issue more than a small proportion of the new money direct to consumers—sufficient, as it were, to set the wheels going. It is not the intention to challenge the maxim that people are as a general rule the better if they work for their living, but there are already exceptions where we recognise the principle that money should be given without having been earned. We already give Old Age pensions, widows' pensions, pensions to the blind and the disabled. We do not expect these people to work for their money even as it is, and they are, on the other hand, people with especial claims on our pity. Why should not their pensions be greatly increased? It could not be argued that to increase such incomes would be to encourage idleness and nobody could grudge them an increased affluence. An increase of the Old Age pension would bring an increase of happiness, not merely to the old, but to everybody, for everybody expects to be old one day and is haunted his whole life through by the anxiety how he will support himself and his dependents when he is past work.[1]

Hopes for the recovery of the country can never be realised so long as politicians are obsessed with the fetish of balancing the budget. When a country is producing up to its full capacity, then to balance the budget is statesmanship. But, when it is under-producing and its most crying need is for new money, then clearly it is of no importance at all to balance the budget. It may even be criminal folly to do so. Thus to-day no more proper purpose could be found for new money than to use it for the restoration of the insane wage-cuts introduced by the National Government in 1931. Above all is it necessary to restore the cut in the dole—indeed, to raise the dole to such a figure that the unemployed man gets as much, or almost as much, as the man in employment.

This is advocated not merely out of pity for the unemployed, though indeed one cannot have too great a pity for the patience and unhappiness of those men, but it is radical to the whole solution of the problem. Our present method of dealing with the unemployed lands us in a vicious circle. A group of men lose their employment. Not only do they suffer but their pur-

[1] It is sometimes objected that confidence is now so shattered that, if people were given new money, they would not spend it but just put it back in the Bank. If it were found necessary, it would not be difficult to compel them to spend it by enacting that it would be cancelled if it had not been used for a *bona fide* purchase of goods within a certain time, or that the notes in which it was issued should, in accordance with the plan of Sylvio Gesell, automatically depreciate in value with the passage of every month. For an account of the practical working of Gesell's theory in Worgl see Appendix A.

chasing power falls drastically. As a result, demand for goods is contracted and a further group of men becomes unemployed. They in their turn throw others out of employment and so on and so on, until the evil spreads to all society.

The old-fashioned economists speculated upon the causes of trade-cycles, ascribed them to sun-spots, ascribed them to everything except their obvious causes. Yet, even without delving into the question of the banks' responsibility for them, the course of trade-cycles was clear enough. In the period of boom the manufacturer manufactured as fast as he could. He sent his goods along to the shopkeeper who thus accumulated stocks faster than he could sell them. After a time the shopkeeper had therefore sufficient goods to stock his shop, and told the manufacturer that he could not take any more. The manufacturer had therefore to stop manufacturing and to turn off all his hands *who thus lost almost all their purchasing power.* They therefore were unable to buy from the shopkeeper his accumulated stocks and a slump commenced.

Now surely, while perhaps fluctuations in trade cannot be altogether eliminated since it is human to make miscalculations, yet, the less that purchasing power is dependent upon the accident of employment, the less violent will those fluctuations be. Indeed, according to Mr. Hobson's theory of trade-cycles, the whole cause of slumps is that during booms wages inevitably rise less rapidly than profits and therefore too large a proportion of the new money goes into capital goods and there is not sufficient demand for goods of ultimate consumption. If it were not that the employees of the manufacturer, to return to our example, were dependent for their purchasing power upon their employment, it is clear that their dismissal would not have affected their purchases from the shopkeeper.

It is common for the defenders of the present financial system to admit that it is an unattractive and unpoetical thing but to plead that without its machinery industrial development would have been impossible; we would, they say, have been still living the simple, impoverished life of the mediaeval peasant. To some extent perhaps some of the opponents of the financial system may be responsible for that misconception, but it certainly is a misconception. Indeed the defence of the system to-day, as put forward by such writers as Mr. Hartley Withers, is much more a poet's than an economist's defence. They hardly pretend that the system works, but they find a certain aesthetic satisfaction in the contemplation of its mechanism. Readers of the history of the early days of the railway or the steamship, as, for instance, in Count Corti's *Reign of the House of Rothschild*, will find that, so far from bravely taking risks in order to help the new inventions, the big financial houses, such as the Rothschilds or Baring and Ricardo, were even in those early days among the last to be converted to them. The risks were all taken by private investors and by small local banks; the financiers only came in when it had been proved that there was no risk at all.

So to-day it is impossible to pretend that the financial system is the ally of industrial development. On the contrary there are the inventors, there are the inventions, some actually made and unexploited, others which quite certainly could be made if there was the least encouragement to make them. There is the money, with which the inventions could be exploited, as the increased amounts lying idle in the deposit accounts of the banks proves. Why is it lying idle? Because, if there is no money in the consumers' pockets with which to buy the products of the invention, no guarantee of a sufficiency of purchasing power, there in no sense in exploiting it. Indeed the exploitation of inventions is under the present system positive folly, for the worker is also the consumer and, as long as purchasing power is conferred merely as a reward for work done—as long, that is to say, as money is only given out in wages, salaries and dividends—then the result of the exploitation of a labour-saving device is at the same time to increase the productive power of the country and to decrease its effective consuming power.

It may be true that, after the introduction of a labour-saving device, a firm's wages-bill is smaller but its profits are larger—that in that sense there is as much purchasing power as before. But what good is that? It is no good having a sufficiency of purchasing power in mere quantity if it is ill-distributed. If there are ten dinners and ten men, each possessed of the price of a dinner, then everybody buys a dinner. But if there are ten dinners, one man possessed of the price of ten dinners and nine men possessed of nothing, what happens? If he is a greedy fellow, the moneyed man perhaps eats the equivalent of two dinners but he cannot eat ten. The other eight are wasted, the nine men starve and the price of the other eight dinners is wasted, too. The rich man either puts it in the bank or speculates with it or invests it abroad.

In the past, when the country's great problem was to produce a sufficiency of goods, when such a sufficiency could only be produced if all the people were compelled to work more or less as hard as they could, there was something to be said for a system which, by making purchasing power dependent upon work done, made life very unpleasant for the idler (though, to do them justice, the governing classes, who made the laws and who allowed inherited wealth, always had the sense to see to it that they and their children were allowed to escape from the system). To-day it is a mere hindrance to industrial progress.

To-day the only way to cure unemployment is not to be afraid of it. The eventual result of the introduction of new labour-saving devices would be to increase production and not to increase unemployment but the immediate result is often to cause unemployment. As long as unemployment means a decrease in purchasing power, both labour and all capitalists, other than the possessor of the patent, have an interest in preventing the device from being introduced. If unemployment meant no such decrease they would have no such interest.

There is perhaps sufficient latent Benthamism in the community to start the cry that, if the man out of work is paid even approximately as much as the man in work, there will be no motive to seek for employment. There is no doubt that there would be malingerers but nothing is more false than that most people love idleness. It is only to the fully and uncongenially employed that unlimited leisure seems desirable. Those who have known unemployment know that the boredom of it is only less horrible than its poverty.

'The best definition of hell,' Mr. Bernard Shaw has written with wit and truth, 'is a perpetual holiday,' and there is no reason at all to think that, even if unemployment were adequately endowed, there is any important proportion of the community which would not prefer to work. In any event, since the present system cannot give the poor work even when it gives the unemployed poverty, there is less than nothing to be said for retaining it.

It is often said that it is not very difficult to create a boom but that it is impossible to control it and to prevent its being followed by its subsequent slump. If Mr. Hobson's theory that slumps are caused by the rise in wages not keeping pace with the increase in productivity is correct, then what is necessary is to see to it that there is a sufficiency of money in the consumers' pockets either by enforcing a rise in wages or, if it be preferred, by restricting loans to producers and issuing a proportion of the new money instead to consumers as a bonus on wages.

Prices, too, must be controlled so as to make sure that an increased supply of money is not answered by an increase of prices before there is time to answer it with an increase of goods. The complete success with which the Central Banks to-day control prices and make them unstable shows that it should not be very difficult for the Government to control prices and make them stable. Indeed once the country has become protectionist the Government has complete control of the prices on the domestic market. The problem of controlling the prices on the world market of the goods which we export is clearly a different one.

But it is not necessary that the price which the producer receives should be the same as that which the sale of the article fetches. There is no reason why we should not in our export industries do what the Argentine and French Governments are doing to-day. In each of such industries establish a fund. Establish and keep stable a domestic price for the article that it produces. Whenever that article fetches more than the domestic price on the foreign market, then the difference shall be paid into this fund. Whenever the world price falls below the domestic price, then the difference shall be made up to the producer out of the fund. 'If the problem of stabilization'—that is, of keeping prices stable—'be treated in a practical spirit' decides Mr. Hawtrey in his *Gold Standard*[1] 'it should encounter no serious difficulties.' That problem solved, one of the deep, underlying causes of slumps is removed.

To prove this let us return to our parable of the manufacturer and the shopkeeper. It is clear that in that analysis the fool of the piece was the manufacturer who produced more quickly than the market could consume. Why did he do this? Economists sometimes ascribed his folly to 'the incurable optimism of human nature,' but surely the real reason why he acted as he did was that in the nineteenth century prices were controlled by the Central Banks who had a professed interest in making them unstable. The manufacturer knew that, when prices had risen, they would soon fall again; therefore he could not afford to do otherwise than throw on the market all the goods which he could during the period of high prices without stopping to

[1] pp. 230, 231.

consider whether there was a real demand for them or not. All that he could afford to do was to unload for all that he was worth on the shopkeeper and leave him to hold the baby. If only prices could be controlled—that is to say, if only the Central Banks could be prevented from altering prices by their monetary policy as they do at present—then the manufacturer would have no motive to do other than at least attempt to equate his supply to real demand.

Once then that the investor is assured that there is and will continue to be money in the consumers' pocket, he will be willing to invest once more; not only will it be possible to make a profitable use of new money but also the money will come out of the deposit accounts and inventions will be exploited. The German and American banks have always followed the policy of financing new and speculative investments themselves. The English banks have always left such tasks to the general investing public. There is ample idle money in England to-day to justify the preservation of that wise policy. The country's productive capacity will increase and thus the next year it will be possible to issue still more new money in the assurance that it will be possible to answer that new money with a still further increase of goods.

Some of those who favour the very excellent notion of restoring small property throughout the country, object to proposals such as these on the ground that they will confer vast powers upon fallible, and potentially corrupt, officials. As if with what is ironically known as 'an honest metal currency' the masters of the money-power were not completely able to control the price-level over a period of years and made their decision not on an estimate of the country's productive capacity but in accordance with their own interests! As if that power did not enable them to smash a movement for the restoration of small property or any other movement which they cared to smash! As if the Gold Standard whose great virtue it is, according to Mr. Harold Cox, that it prevents politicians from playing tricks with prices, had prevented financiers from controlling the prices and from plunging nations into catastrophic ruin! With the experience of recent years in our minds, how can anyone pretend that a metallic standard automatically ensures a stable price level?

In 1929 the index of wholesale prices in the United States, with a gold dollar, stood at 136·5, in 1930 at 123·8, in 1931 at 104.6, in 1932 at 91·5. During the same years Spain had an inconvertible currency. She had, as is known, her political troubles which might have been expected to make for instability. The peseta was steadily falling owing to the Government's wise and patriotic refusal to deflate. Yet her price index reads 1929, 171; 1930, 172; 1931, 174; 1932, 174. As Mr. Hawtrey writes in his *Gold Standard* after giving these figures, 'Every paper currency in the world that has not been tied to gold has over the last three years (1930-3) changed less in purchasing power than gold.'[1] It seems an odd plan, to starve to death because if you had any food in the house there would be an off-chance that the servants would steal some of it.

It is argued, too, that if some slight miscalculation

[1] p. 212.

be made in the issuing of new money, all society would collapse in irretrievable chaos. Why should it? On the contrary, 'in credit regulation,' as Mr. Hawtrey tells us, 'so long as actual crises are avoided, a mistake does little harm in a period of a few months. The evils of the pre-war trade-cycle arose from measures of credit expansion, or contraction, as the case might be, being pursued for years after they ought to have been modified.'[1] If a little too much money were issued to consumers, prices would rise slightly—that is all—and, when it was observed that they were rising, the readjustment could be made. If a little too much to producers, the first signs of speculation would appear which could be checked by restricting loans and increasing the issue to consumers.

Yet, great as is the deficiency of purchasing power at the moment, great as are the possibilities of new inventions, there will be bound to come—whether after a few years or after many, whether because the country's productive capacity is being exploited to the full or simply because people are satiated and do not want any more goods—a time when an increased supply of money can no longer be answered with an increase of goods. What must be done then?

Obviously, if no increase in productivity is to be looked for, the Government must refrain from increasing the supply of money. Production will then be 'at a maximum' and, according to Mr. McKenna's second principle 'the outflow of money should be checked.' As to the Government's money paid immediately to consumers, that would now have to be raised strictly

[1] *Gold Standard in Theory and Practice.* p. 230.

from taxation. This there would be no difficulty in doing as this saturation point of production would not be reached until the purchasing power of every member of the community was greater by a very considerable multiple than it is to-day. The continued issue of money would prevent the occurrence of those circumstances which according to Mr. Hobson turn booms into slumps. So long as it was continued there could be no failure of the demand for goods of ultimate consumption.

Inventions do not become uninvented. One of the main debts that we owe to modern science is that it has greatly decreased the risk of sudden failures of crops. Therefore there is no reason to think that there would ever again be any considerable decline in the country's productivity. Such declines in modern times are almost entirely the product of monetary causes. But, if such a decline did take place, the Government would of course have to meet it by decreasing the amount of money that the banks might loan to producers and, if necessary, by decreasing the gifts to consumers. Such decrease would doubtless be a hardship, nor, if the country's productivity had declined, would there, it is obvious, be any alternative but that the community's standard of living should also decline. But this reduction of money being effected against a reduction of goods, would not at any rate have the disintegrating effect of a present-day deflation, when purchasing power is reduced although goods have not diminished and where by consequence large quantities of unsold and unsellable goods are left upon the retailer's hands.

VIII

FOREIGN COUNTRIES

It may occur to the objector to say, 'Perhaps England might have gained out of keeping her capital to herself, but would it not have been gross selfishness to have done so? Has it not been a nobler work to help other countries to develop themselves?'

Now if by nationalism is meant a refusal by the inhabitants of one country to broaden their minds by the contact through literature and travel with the minds of men of other nations, the absurd belief in their own as a chosen race and others as 'lesser breeds without the law,' every sane man must be opposed to it, but it is a confusion to think that this question of cultural interpenetration has any great connection with economic interpenetration. There is nothing particularly broadening to the mind in shaving with a foreign razor-blade or in travelling about Lancashire in an American char-à-banc propelled by Russian petrol. The economic question must be decided on its own merits.

In deciding it, we must first ask whether we are speaking of charity or of economics. If we look, for instance, on the great irrigation schemes which have freed India from the fear of famine simply as works of charity, it is clearly impossible to raise any objection to them. True, one might plead that charity ought to begin at home, that it would have been better to have spent the money in the slums of London rather than on the plains of India. Yet it is of the very essence of charity that it should be free to bestow its gifts where it wishes, and I, for one, would not say one word against money spent out of their own country by Englishmen or Americans, simply with the hope of lessening suffering and not with any desire for profit.

Yet the industrial development of foreign countries was clearly not built up on gifts of charity. Mr. Hore Belisha, the Financial Secretary to the Treasury, speaking in Parliament on February 7, 1933, of the somewhat notorious loan which the Bank of England made to Austria in 1931, said, 'The Bank of England advanced the money out of humanitarian motives.' Perhaps so; no man can be the judge of another's motives. All that the historian can do is to record facts. The facts are that the Bank of England, in its private capacity, perhaps with the private consent of the Chancellor of the Exchequer but certainly without authority from Parliament, made a loan to the Austrian Government and, when the Austrians did not pay the interest due, the Government asked the House of Commons to lend, out of the pockets of the British taxpayer, some money to the Austrians with which they could reimburse the Bank for its losses. The humanitarianism of the Bank of England seems to have been a trifle vicarious, and in considering the policy of foreign money lending in general, perhaps it will, on the whole, be more convenient to consider it primarily as a business rather than as a charity.

What would the rest of the world be like to-day if during the nineteenth century the British Government had attempted to control Britain's foreign investments in the national interest?

Take first the old, civilized, developed countries of Western Europe. Such a control clearly would not have impeded their industrial development. The Governments of such countries do, it is true, borrow from the acceptance houses for purely financial reasons when they are unable to balance their budgets and have not the courage to issue new money on the security of the country. Thus the French peasants have to-day rightly and sensibly made up their minds that there is no reason why France should balance her budget. The politicians at Paris vote taxes which are not paid and then, as in the £30,000,000 loan of Lazard's and other houses of April, 1933, borrow gold from the London acceptance houses to give to the budget an appearance of balance. The peasants, with no intention either of paying the taxes or the interest on the loans, treat the whole proceeding with contempt, and both politicians and financiers know that, if any attempt were made to collect the money from them, the Third Republic would vanish in a night.[1] The farce is only kept up to preserve the waning prestige of gold.

But a developed country does not require to borrow extensively abroad in order to build up its industries or railways. It either possesses the requisite raw material itself or, if it does not, produces a surplus of

[1] Lazard's loan was repaid in August and October, 1933, but only because the turn of the floating balance to Paris enabled the Government to borrow more gold there in order to pay its debt to London.

some article or other which it can exchange against that raw material with other countries. Long before the European War, such countries as France, Germany, Switzerland, Holland, had established themselves as creditor countries—had lent abroad much more than they borrowed from abroad. Of the £4,000,000,000's worth of British foreign investments in 1913, estimates Sir George Paish, less than £200,000,000 were on the Continent of Europe and of that £200,000,000, the greater part was in the less developed and less civilized countries of that Continent.[1] On the other hand the French had some £2,000,000,000's worth of foreign investments of their own, the Germans some £1,000,000,000 to £1,250,000,000.[2] It was clear then that these countries, while they owed much to British discoveries for their industrial development, owed little to British capital. On the contrary, had they only controlled their own foreign investments, had they only had the courage to shake themselves free from the shackles of a restrictive, metallic monetary system and create the amount of money that they really required, they might have had a much more rapid industrial development. For, if it is true that, while British capital was being drained off to the ends of the earth, people at home were left starving for want of money, the same thing was, of course, also happening where French and German capital was being exported.

It remains to consider the countries that were old but undeveloped through the incompetence or barbarism

[1] *Statist*, Feb. 14, 1914.
[2] See C. K. Hobson's *Export of Capital.*

of their inhabitants, and the new countries. First, as to the old, barbaric countries—such countries as Turkey and Russia. In the abstract there is no reason why they should not have developed themselves without the aid of large supplies of foreign capital. They possessed the raw materials. There was nothing to prevent them from exploiting their raw materials in a reasonable sequence and using a surplus in one commodity in order to purchase the machinery to manufacture another. In practice, it is unlikely, it is true that they would have done so because Turks and Russians are not made like that. The two conditions of industrial development are either a government that is willing to allow its country to be developed by foreign capital or else a nation that is willing and competent to develop the country itself.

But would the world have been the loser if Russia and Turkey had not been developed? If they had been compelled to wait until they could produce a body of men capable of taking into their own hands the management of their countries' destinies? Before the war, for reasons partly political, partly economic, the French and the Germans in rivalry poured capital into Russia. Would it not have been better both for France and Germany and for the world in general if they had made a gentleman's agreement to leave Russia alone and spent that capital at home? Whether looked at from the business or from the political point of view, no investments of history surely ever turned out so disastrously.

Would it not have been well in the same way, both for England and for the world, if English capital had never gone out to build up the industrialism of Japan? 'A land with a perfectly paternal Government, a perfectly filial people,' wrote Lord Elgin of the Japanese of 1858, 'a community entirely self-supporting; peace within and without; no want; no ill-will between classes. That is what I find in Japan in the year 1858 after two hundred years of exclusion of foreign trade and foreigners. Twenty years hence, what will be the contrast?'[1] What is the contrast to-day?

A properly established country should produce as much as it consumes. There is no reason why it should consume precisely the same goods as it produces—no objection at all to a reasonable exchange of goods against goods with its neighbours, but it should not live on loans. The only circumstances under which there is a *prima facie* case for the acceptance of loans are circumstances of sudden calamity, of defeat in war, of anarchy or of the disruption of an empire—circumstances such as those which existed in Central Europe in 1919 and 1920, when a whole economic system has been destroyed and has to be rebuilt and when for the moment it is not possible to produce a sufficiency. Under such quite abnormal circumstances it is both better Christianity and in the long run better business that the more fortunate countries should give their unfortunate neighbours the goods necessary to preserve them from starvation and chaos. If such goods are only delivered on loan, the loans are in fact never repaid. The pretence that they are going to be repaid causes statesmen for the next few years to waste energies that might be better spent in silly and exasperating

[1] Quoted by J. H. Longford, *Nineteenth Century*, July, 1919.

financial bickering. In the end nothing—or nothing worth talking about—is paid, and the only result of the bickering is to kill all feelings of gratitude which the sufferer might otherwise entertain for his rescuer.

There remain the new countries. By new countries are meant the countries outside Europe inhabited by Europeans. When the Industrial Revolution commenced all these countries were very sparsely populated. A few settlers lived along their coasts; their hinterlands were undeveloped and uninhabited, or inhabited only by the aboriginal inhabitants, by Australian aborigines, by Maoris, by South African negroes, by Red Indians, as the case might be. It would perhaps have been possible for these countries to have developed the industrial resources of the small proportion of their territories that was inhabited without seeking the assistance of foreign capital. The hinterland would have had to remain undeveloped, and, if that had happened, the European population would to-day have been occupying a much smaller proportion of the world's surface. For, though it might have been possible for the people of Italy to build their railways by bartering goods against iron which they required, the Canadian Pacific or the great trans-American railways clearly could not have been built thus. For there were no people living on those central plains nor goods produced there before the railways were built.

It is a very large and interesting question whether it would have been a good thing for the world had these hinterlands not been developed so rapidly during the nineteenth century. The most common excuse for their development is that England and the other

European countries needed that development in order to build up countries that would be able to absorb Europe's own surplus population. But the argument is largely circular. Had England, and *a fortiori* the other countries of Europe, really got a surplus population? Obviously, if you export capital, that is to say, export purchasing power and goods, to the middle of America, then there is not enough purchasing power and there are not enough goods to support the population at home in England. You must export men to the middle of America, too, to consume those goods. But, if only you had kept the goods and the purchasing power at home, would it not have been possible to have kept the men at home also?

Yet it must be admitted that the export of capital to an uninhabited land, which was subsequently to be colonised by Europeans, was an entirely different thing from the export of capital to a country already inhabited by low-wage non-Europeans. The former is merely a method of spreading out over a larger area the European population of the world and the question is the question whether that is desirable or not.

Now clearly, a good number of articles could, and would, still have been produced in Europe if the developing new world had not captured the market from Europe. English corn is a good example. English corn-growing did not, as is often said by enthusiastic protectionists, collapse immediately after the Repeal of the Corn Laws. On the contrary it continued to flourish for another twenty-five years and only collapsed with the coming of the Canadian and Middle Western corn in the 1870's. Yet in general there can be no doubt at all that the world's productivity has been vastly increased by the development of the new lands. The result of emigration has been to spread out the European population of the world over a larger proportion of the world's surface. And it is an obvious general truth that, the larger the area that a given population occupies, the greater its productivity will tend to be. On the other hand, happiness is not solely a question of economic prosperity. The emigrant's life is a very sad one, and it is very hard to say whether the world would be a happier place if the new lands had been left undeveloped or left slowly to develop by the gradual expansion of their own population.

But, if that was not to be, if European capital was to go overseas for the development of new lands for European settlers beyond the seas, then Great Britain, as the world's largest owner of capital and possessor of the world's largest Empire, was in an immensely strong position. To a very great extent she could control the whole course of that development. It was surely to her interest that capital should flow into territory under the British flag rather than elsewhere, as, where capital went, there emigrants would follow. And the British emigrant who went to a British colony, as it was then called, would still remain a British subject; he who went elsewhere would be lost. Yet under the Huskissonian dogma, money had to be allowed to find its own level. The result was that British money went indifferently into the railways of the Argentine or the United States, those of Canada or Australia. The whole new world was empty. The

British Government had only to put an extra income-tax on dividends earned outside the Empire, and we could have diverted the flow of British capital, and consequently of British emigration, from the United States to Canada or Australia. It would surely have been worth while doing so.

The new, undeveloped, uninhabited country was then in the nineteenth century in an entirely abnormal position. There was a case to be made for the permission of loans from the old, developed countries for its development and population. The error of the Cobdenites was to imagine that there would, throughout the rest of history, always be some vast, rich, uninhabited territories, greedy for British capital. It was obvious, on the contrary, that it would take but a very few years to parcel up the whole world, as indeed it has, that the new countries, whether within or outside the Empire, once that they could produce goods of their own, would not be content to remain dependent for ever on the loans of London. They, like other countries, have preferred to make themselves financially self-supporting as soon as they can. The abnormal loan-period is passing, or has passed; the normal self-supporting period is coming, or has come. The new countries are indeed still far from full, but by a variety of regulations they have all shown themselves definitely anxious to discourage immigration. Once immigration is checked, the whole nature of loans to new countries is changed. Such loans can no longer be described as methods of spreading out the European population of the world.

Now, when the new countries no longer wish to borrow, it would be folly to expect them to behave with their old consideration to creditors. Our days as a lender to the new world are numbered, and, what foreign investments individuals still hold, it would be wise for them to realise before it is too late to get a price—unless indeed it is already too late.

Another question must be answered. What would be, indeed, what is, the political effect of financial nationalism? Is it not war?

From the merely economic point of view the application of the doctrines of financial nationalism is particularly difficult for Great Britain, as her dependence on foreign trade is far greater, her tradition of foreign lending far stronger, than that of any other country. From the political point of view, on the other hand, she has one very great advantage. She has no disputed frontiers. Notoriously some of the most dangerous problems of our day are the problems of disputed frontiers, and it might be plausibly argued that those problems, as political problems, are difficult enough but, if you make them economic problems as well, you make them doubly difficult. It is clearly impossible to draw a frontier that shall be satisfactory to, say, both Poles and Germans. The populations are hopelessly intermixed and, wherever you draw the line, there are bound to be either plenty of Poles under German rule, or plenty of Germans under Polish rule, or, more probably still, both Germans under Poland and Poles under Germany. The only hope of a peaceful solution is somehow to weaken the strength of nationalism, to create a mentality which does not care so passionately exactly where the frontier runs or which the capital from which it is governed. As long as political frontiers are also fiscal frontiers, there is no hope of doing this.

This is, it must be frankly admitted, the strongest argument against financial nationalism. Yet, for good or for bad, nationalism is a strong force in the lives of men. The cosmopolitan generalisations of Cobdenite rhetoric are remote from reality. If you have world trade, you do not have 'economic men,' unpossessed of any emotions save the greed for gain, bloodlessly buying in cheapest markets and selling in dearest. For my part I am glad that you do not. But, good thing or bad thing, it is certain that you do not. What you do get is nations scrambling for markets—what we will call financial chauvinism. By financial chauvinism I mean the state of mind of a nation which is anxious to force its goods on to a foreign market. By financial nationalism I mean the state of mind of a nation which is anxious to make itself financially self-supporting. And on this terminology the wars of the world since Cobden's time, in so far as they have had economic causes, have been the products not of financial nationalism but of financial chauvinism.

Nobody could pretend that the Transvaal was a part of England. Nobody could pretend that the Liao-Tung peninsula was a part either of Russia or of Japan. Whatever may be true to-day, yet certainly in 1914 there was no German territory, unless it be that of Austria, which was not a part of Germany—and yet Austria was almost the only country in the world that Germany was not greedy to conquer.

The mentality of those who think that their own race is a chosen race and hold all others in contempt is not an attractive mentality. Such stupidity narrows the minds of those who indulge in it. It is dangerous, too, because it is easy to exploit this contempt, if for other reasons it is desired to make a war popular. But mere contempt by itself is not a strong enough motive to make people go to war. Indolence and cowardice, if nothing better, step in to redress the balance of stupidity. Many Englishmen do not think highly of the Portuguese but they do not go to war with them.

It is a platitude that, whatever our economic system, if greed is unrestrained, then war is inevitable. But is it too optimistic to hope that the reason why national feelings run so high on the Continent of Europe to-day is that conditions are so bad? For the nations in their folly are pursuing a policy of half-nationalism—trying to make themselves self-supporting while remaining dependent for their supply of money upon an international finance which is hostile to national self-sufficiency—trying, as the somewhat extraordinary phrase has it, to obtain a favourable balance of trade—that is to say, to give away more than they receive. If only they could gain for themselves the prosperity which their productive power warrants, might not one result be more moderate governments and more moderate foreign policies?

Where nobody has enough everybody, naturally, is anxious to increase his share. Danzig to-day complains that Gdynia is responsible for the decline of its trade, and Gdynia makes the same complaint against Danzig. But what are the facts? The facts are that, so long as purchasing power in both Poland and Germany was comparatively abundant, both Danzig and Gdynia prospered. In 1928 Danzig handled 8,063,000 tons of goods, and Gdynia 3,275,000. In 1930 Danzig 8,101,000 and Gdynia 5,080,000. When purchasing power was contracted both together suffered. In 1932 Danzig handled only 5,467,000 tons and Gdynia 4,896,000. It is not the greed of the Poles which is responsible for the sufferings of Danzig nor the greed of the Germans for the sufferings of Gdynia. It is not the one which has stolen trade from the other. It is the deflationary policy which has destroyed the trade of both of them. With a reasonable supply of purchasing power in the two countries both ports can prosper.

And in general if there were, as there could be, plenty for everybody, might not people bother less whether their frontier ran this side or that side of such and such a coal-mine? We have had drummed into us from our earliest infancy the formulæ of the economics of scarcity—the lesson that there is a desperate and ruthless struggle between men for an insufficient supply of food and other goods. Our one hope is to convince men that, whatever may have been true in the past, there is to-day no world scarcity. There is abundance of food and of raw materials for everybody. Reference has already been made to Mr. Denny's *America Conquers Britain.* In that book we read the desperate tale of the conflict between British, American and other capitalists for control of the world's supplies of rubber, of oil, of tin, etc. The whole story is one of lunacy but what utterly divorces it from any contact with sanity is that in all these commodities there is more than enough to satisfy the wants of all the world.[1] The conditions under which a conflict is possible are only created by a deliberate restriction of the supply so as to cause a scarcity.

If unreason and pride are so strong in men that it is hopeless to expect them not to quarrel even about prizes that they do not really want, at least, the less financial chauvinism, the easier it would be to confine the conflict to the two countries whose quarrel it really was. A shot at Sarajevo might still start a war between Austria-Hungary and Serbia. It could no longer start a war in which countries of every continent of the world would be engaged.

[1] Thus according to Dr. Eugene Stebinger (*Annals of the American Academy of Political Science*, May, 1920, p. 123), the world has reserves of oil of approximately 70,000 million barrels, sufficient to keep us supplied for the next century at the present rate of consumption, even supposing that no new discoveries are made. Between 1920 and 1930 new discoveries increased the known reserve from 43,000 million to 70,000 million barrels. The world production of rubber in 1908 was 70 thousand tons. In 1928 it was 700 thousand tons (*America Conquers Britain*, p. 205). Since that date the concern of producers has been not to satisfy demand but to devise a method of restricting production so that a condition of quite artificially created scarcity may enable them to put up prices.

IX

INDIA

AMONG non-European countries a distinction must be drawn between those within and those outside the British Empire. It is clear also that the relations between Great Britain and a country in which a European can settle, such as Canada or Australia, are wholly different from those of Great Britain and a country of the Empire, already inhabited by its own natives and to which the European goes for the period of his service but not as a settler. It is therefore worth while examining by itself the relations between Great Britain and the most important of such countries, India. Almost insoluble as the Indian problem appears to be, there are at least some factors of it which are not always understood but which nevertheless it is not difficult to get clear.

First from the Indian point of view.

Zealous patriotic orators sometimes denounce the British as robbers and, looking at the salaries that are earned in India by Europeans, assert that the British have impoverished and are impoverishing the country. If that charge means that the Indian is to-day poorer than he was when the English first came, it is clearly false. Mr. Moreland in his *India at the Death of Akbar*, and his *From Akbar to Aurangzeb*, clearly and convincingly paints the picture of the appalling havoc wrought by drought before European science had come in to fight it. Famine, cannibalism, devastation, cholera, rivers 'black with putrescent corpses,' were the common order of the day. The native governments accepted such famines as the inevitable scourge of God and made no attempt at all to alleviate them. That the history under British rule has been one of steady improvement owing to irrigation and other works, until the Indian peasant is for the first time free from the fear of starvation, is so certainly true as to be quite beyond argument. What degree of the credit for the introduction of these improvements should be given to the British is perhaps a matter for debate. The Indian nationalist might perhaps say that these improvements were introduced not because the British were the rulers of India but because it was the nineteenth century and the nineteenth century was an age of progress. It was the misfortune of the Indian dynasties that they held sway in a day before the inventions were made. Yet it can hardly be disputed with any sincerity that the British have spent more freely on public works than the native princes would have done had there never been a British occupation or than they have done where they have been left in power. But, if an irrigation scheme is financed by English capital and carried through under English management by Indian labour, there is clearly no means of saying exactly what proportion of the resultant wealth has been created by Englishmen and what proportion by Indians.

It is a clear and common error to think that the British have made money out of India. It is true that the result of the British occupation has been a considerable amount of trade between Great Britain and India, that a considerable sum of money, drawn from India, is every year spent in Great Britain in the form of pensions to the retired or remittances to families left at home, that interest on capital invested in India comes home every year, that Anglo-Indian trade is almost entirely carried in British ships. On the other hand the British position in India has only been maintained by the constant pouring-out from Great Britain to India of fresh capital for the development of the country. The result is that throughout our occupation we have always given to India more than we received from her. If we study the trade-figures of India in any year of the past, we find that, whereas in general she exports more than she imports, she always imports more from Great Britain than she exports to her. Thus in 1913, to take a year before the war, Great Britain exported to India goods worth £71,670,231, excluding stores shipped for the Indian Government; India only exported to Great Britain £48,420,490, though in general India's exports were not far short of double her imports. In 1920 Great Britain exported to India £183,951,715 and India exported to Great Britain £95,721,420. In the last years there has been a catastrophic fall in British exports to India, until in 1931 the India exports were £37,000,000 and the British exports £33,000,000. In other words in times of prosperity the flow of new British capital to India enormously outweighs the profits on the old capital invested there and the payment which India makes for the services which we render her. Even in times of stringency we export to India sufficient capital to deprive ourselves of any profit out of the possession of the country.[1]

It may be argued that it is always open to us to cease further investment and to make a vast profit out of the interest on past investments. On paper no doubt this is perfectly possible, but few people can seriously imagine that the British rule in India would continue or that interest on Indian loans would still be sent back to London, if London ceased to export capital to India.

It is true of course that a little more than 100,000 European British subjects are resident in India, consuming the products of the country. But there can be little serious doubt that, were that 100,000 to sail away to-morrow, the police services, the military defence, the economic development of the country would, to put it mildly, suffer not only by a temporary dislocation but in permanent efficiency. There can be little serious doubt that, were the European population to be withdrawn, the total productivity of the country would sink by a great deal more than the amount that that population at present spends.

It is then as clear as anything can be that Great Britain does not make money out of India and that India is enriched and not impoverished by the British occupation. If the advocate of Swaraj argues that the spiritual culture of his country demands freedom from the British, he is obviously carrying the argument

[1] It, of course, sometimes happens that India exports goods to a third country, which in its turn exports other goods to us, thus paying for our exports to India. Yet in spite of that there has been a steady flow of British capital to India.

up to a plane on which a merely economic demonstration becomes irrelevant. It is an argument with which the present writer has considerable sympathy. It is as nearly true to-day as it was in Adam Smith's time that 'it is a very singular government in which every member of the administration wishes to get out of the country and consequently to have done with the country as soon as he can, and to whose interest, the day after he has left it and carried his whole fortune with him, it is perfectly indifferent though the whole country was swallowed up by an earthquake.'[1] There are many Indian nationalists who hold with utter sincerity that no price is too high for the getting rid of this 'very singular government.' And, though they would find it easier to convince other people of their sincerity if their campaign against industrialism was not financed by the Indian mill-owners whose workers live under conditions of which the like has not been seen in England since the early days of the Industrial Revolution, yet it is not possible to dismiss Indian nationalism with a single gibe.

So much for the Indian point of view. Now let us take the British.

Here again there are other considerations than the purely economic. In the first place much the most important of European contacts with India is that of the missionaries, and it is impossible not to regret that the European penetration of India did not come in a different way, in an age which recognised the Christian religion as the one supremely valuable gift which Europe has to offer to India and insisted that all other

[1] *Wealth of Nations* (*Ed.* Thorold Rogers) ii. 225.

activities should be subordinate to that supreme missionary purpose. In the second place a patriot might well argue that, having for good or for bad, by accident or by misfortune, established our dominion over India, we were forbidden by honour from doing nothing to relieve the people of India from the appalling menace of famine. We had to introduce irrigation works whether they were to the advantage or the disadvantage of our own pocket. That, too, is an argument which the present writer, at any rate, would not dispute, nor would he deny that it would be the grossest betrayal of a trust if we were to abandon India, except under compulsion, before there was at least a probability that our abandonment would not merely result in a collapse into chaos. In the third place it is an evil in the life of the European in India that he is compelled to separate himself from his children—an evil so large as to make those who value family life ready, on that account at any rate, to welcome the downfall of our Indian Empire.

But, whatever may be the proper force of these arguments, we are here concerned merely with economics, and the conclusion of the economic inquiry is that so far as the mere statistical balance goes we never have made money out of India and we never will make it. India owes to England some £344,000,000 and, if you reckon that debt at its face value, no doubt it would cover Great Britain's loss on her Indian Empire. But £344,000,000 would by no means realise £344,000,000 if the British shareholders attempted to sell and get the money out of the country.

But, it will of course be objected, what value is there in such a conclusion? If two men exchange £1's worth of goods with one another the monetary value of their respective stocks remains unchanged by the transaction, but in real wealth each is the better off. For each has presumably[1] parted with something that he did not want and received in return something that he did want. We receive from India certain goods and give her goods from our surplus in return. And, if we wish to estimate the value to us of Indian trade, the sane plan is to look at the goods which India sends to us and see how far they are essential to our national life. We find that she sends us jute, which it would be difficult to get elsewhere, and a number of other commodities, tea, flax, seeds, etc., which we could get elsewhere but which we now buy from her because the Indian product is presumably either cheaper or the more to our taste. We reach the conclusion that, if we were to lose our Indian trade it would be an inconvenience but not an irreparable disaster.

But that is not at all the way in which the Indian situation is discussed in the newspapers. There we hear little about Indian imports into Great Britain but loud cries of complaint because Great Britain has lost her export market in India. Now it is clear from the figures already quoted that Indian imports into Great Britain have not declined enormously. The catastrophic fall has been that of British exports to India, until to-day the two figures almost balance.

[1] Presumably, but with the Victorian delusion that the mere sum-total of trade was the index of a nation's prosperity you could not be sure even of that.

In other words the present trade between Great Britain and India is a goods trade. But the trade that has been lost was for the most part not a goods trade but a loan trade. The real purchaser of the British exports to India which we can no longer sell was not the Indian consumer but the capitalist in London who lent money to the Indian. The cause of the decline of our export trade is the refusal—doubtless a wise refusal—of the London capitalist to invest any further money in India.

Now it is clear that, in so far as the surplus of British exports to, over British imports from, India was made up of, say, Lancashire cotton goods, in that proportion the Lancashire cotton operatives made no contribution to the sum total of consumable goods in England. They might just as well have been unemployed. Yet the country could then afford to allow them to have purchasing power. It can afford it just as well now when they are actually unemployed. If, too, the Indian market is irrevocably lost, it is not irreparably lost. If the English capital that previously went to India can be invested instead in England, and if the cotton operatives who previously supplied goods for the Indian market can supply instead goods, whether the same or other goods, for the home market, the standard of living in England will gain from the stoppage of the flow of English investments to India.

X

THE GERMAN MARK

It is common to answer all demands for an increased supply of money by pointing to the awful warning of the German mark. The terror of an inflation which gets out of control is powerful in England and perhaps in America; it is all-powerful on the Continent where nation after nation has condemned itself to the miseries of gold and of deflation through fear of treading the road which Germany trod in the years after the war.

It is then important to understand what did happen in Germany and the other countries of Central Europe in those years—those other countries whose experience, *mutatis mutandis*, was the same as that of Germany. We may well ask with Mr. Hawtrey whether the misery caused in recent years by deflation and sound finance has not been greater than that ever caused by inflation. But, whatever the answer to that question, the misery caused by the inflation is not to be denied, and any scheme for the reform of currency which cannot give us anything better than uncontrolled inflation stands transparently self-condemned.

Now it has been argued in previous chapters that a nation should increase its money-supply in order to keep pace with an increased productive capacity. If it does so, it can enjoy the benefits of increased production without any increase of prices. If on the other hand it increases money-supply when there is no increased production or increases it so rapidly that increased production cannot keep pace, there is clearly no alternative to a rise in prices. And, if the money increases so rapidly that prices change from day to day, people become no longer willing to accept the money at all. The country becomes for all practical purposes a country without a currency and suffers from all the attendant disadvantages of the lack of that convenience.

This is so obvious that there must clearly have been some special reason why the Germans in the years after the war did, or permitted, something apparently so enormously to their disadvantage. What was that special reason? It is sometimes loosely said that they bankrupted themselves in order to get out of paying reparations. But, of course, their obligations to the Allies were obligations to pay not in their own paper but in gold. Therefore it is clear that any tricks that they may have played with their own currency did not decrease one penny their nominal obligations to the Allies. It is, of course, notorious that they have not in fact paid any sums even approximating to the enormous sums which were suggested in the first years after the war, and it is arguable (though it would be difficult to prove it) that, had the mark not collapsed, it would have been possible to have collected more money out of the Germans and the Allies would have benefited from that extraction. But, even granting these two contentions for the sake of argument, it cannot be disputed that the suffering caused in the Allied countries as a result of the collapse of the mark has been but a hundredth part of the suffering caused in Germany. It is therefore hardly reasonable to imagine that the Germans deliberately imposed this great suffering on themselves in order to impose a little suffering on the Allies. Even Samson would hardly have pulled down the temple on his own head in order to give the Philistines a cold in the nose.

Alternatively we are told that the mark collapsed because the German Government lacked either the courage or the power to raise the necessary taxation for balancing its budget and therefore turned on the printing presses in order to pay its bills. There is more truth in this than in the other explanation. Indeed in a sense it is true. But clearly some more elucidation is required before it can be accepted as an explantion. The trick of simply calling ten shillings a pound is such a very simple and childish one that it is hardly to be believed that a nation with the record of financial integrity and intelligence of the Germans would not have seen through it, long before it had got under way, or, having seen through it, would have been willing to tolerate it.

What then did happen?

Before the war Germany was a country of high productivity and low wages, requiring therefore, under the system under which she lived, large and ever expanding foreign markets. She imported goods in 1913 to the value of 11,206,100,000 marks and exported 10,198,600,000 marks. Or, to put it in round numbers and English pounds, she imported about £560,000,000 and exported about £500,000,000. That is to say, she imported slightly more than she exported, but, if we reckon in the invisible exports of her large ownership of shipping, she really exported more than she imported. She gave away in goods and services more than she received in goods and services. That is to say, her balance of trade was what economists would call favourable and what anybody else would call unfavourable.

At the same time she held, it is estimated, between £1,000,000,000 and £1,250,000,000 of foreign investments.[1] From foreign investments individuals, of course, derived considerable incomes, but the nation, on balance, lost. She was investing fresh capital much more rapidly than the dividends were coming in from the old investments. In 1910 the German national debt was 5,013,500,000 marks, or in other words about £250,000,000.

The war threw into disarrangement the commercial and financial life of every country, but, owing to the blockade and the final defeat, that of the Central Powers was much more drastically disorganised than that of the Allied countries. Investments in Russia and in the old Austro-Hungarian and Turkish Empires were entirely lost. German property in Allied countries was confiscated. The Germans during the war called in their foreign investments in neutral countries to the extent of three thousand million marks. Therefore, what with one thing and another, her foreign investments were practically wiped out by the war. As for trade, during the war she imported of course what she could from neighbouring neutral countries, but the Allied blockade brought her foreign trade as nearly as possible to an end. In circumstances of great difficulty she was forced to try and make herself entirely self-supporting. It was the failure to do this that in the end caused her collapse.

Soldiers, unable to do productive work, had to be

[1] cf. Hobson: *Export of Capital.*

fed. The materials of war had to be provided and those who manufactured them had also to be fed. Therefore, whatever the financial language in which the transaction was cloaked, somehow or other the producers of the necessities of life had to be induced to surrender a large proportion of their products to the non-producers. The necessary money to fight the war might have been raised by taxation. Alternatively the Government might have raised it by inflating on its own security—by simply paying for what it wanted in money of its own creation—the result of which of course is to raise prices without raising wages and which is therefore merely a roundabout method of taxation. It did neither of these things. Whereas Great Britain raised 20% of her war expenses through taxation, the Germans only raised 6% of theirs. The Germans paid for their war almost entirely with loans. It was their professed purpose, as Herr Helferich, the Imperial Secretary of State, confessed in the Reichstag on August 28, 1915, when victory had been gained to transfer to their defeated enemies the task of repaying these loans. Whether the Germans would have been any more successful in collecting this money from the defeated Allies than the Allies have been in collecting money from the defeated Germans may well be doubted. Be that as it may. It is more important to understand exactly what were these so-called loans. In 1910, as has been said, the German national debt was 5,013,500,000 marks. In 1920 it was 183,183,195,300 marks. That is to say, in those ten years the German Government incurred a debt of about 178 thousand million marks. Where did that 178 thousand million marks come from?

Dr. Schacht says that 'they were placed through the machinery of the Reichsbank and subscribed by the German public.' Now in 1914, as Dr. Schacht himself admits, the total sum of all Government-created money in every medium of circulation in Germany was 6 thousand million, and even in November, 1918, was only 28·4 thousand million marks. The total income of the German people in 1914 was according to Mr. G. D. H. Cole about 40 thousand million marks, or some £75 per head of the population. Is it to be believed that the German public, with an income of 40 thousand million marks, subscribed in four years 178 thousand million marks? Of course in Germany, as in England, the war loans, or at least overwhelmingly the greater part of them, were invented out of nothing by the banks who then lent their invention at real interest to the Government, and in Germany, as in England, the fact that new money was bank-created did not in any way prevent it from having its natural effect of raising prices. Prices, which stood at 100 in 1913, had, according to Dr. Schacht, risen by November, 1918, to 234.

Anyway the result of German defeat was that the German Government was left with this very large debt on its hands. Almost immediately after the Armistice the bankers declared their support of the Republic, and the Republic announced that it would honour the debts of the Imperial Government. In Germany, as in England, the debt was to a large extent nominally owed to patriotic citizens, but their subscriptions had been made in bank-created money and they were themselves in debt to the banks. In reality the Government's debt was a debt to the banks. On top of this debt the Treaty of Versailles piled upon the Government the obligation to pay an enormous sum in reparations—some 225 thousand million gold marks, according to the 'Paris decisions' of the Allies. Or, in other words, had the German Government kept the mark stable and prices at the level at which they stood at the conclusion of the war and fulfilled its full internal and external obligations, it would have had to find every year, over and above the money necessary for the normal business of government, some ten thousand million marks, or £500,000,000—not very far short of the entire total of the British budget. Germany would have had to pay this sum at a time when she had a weak and insecure government, though even in the days of strong and secure government her every tradition was against high taxation, at a time when she had just been deprived of her colonies and some of her richest provinces, when other territory was in enemy occupation, when the world had not yet overcome its reluctance to trade with her, while of her two debts, both that owed to the banks and that owed to the Allies were widely thought among German taxpayers to be morally unjust.

Whatever differences of opinion there may be about the integrity or the courage of the post-war German Governments, it can hardly be argued that there was any possibility of their proper performance of these obligations. Yet they could not openly repudiate either obligation. The Allies would not allow them to repudiate reparations. The result of a repudiation of the internal debt would have been a run on the banks. The German banks, like all banks, had lent much more money than they possessed and would have broken, as a bank always does, before such a run. The result, it was thought, would have been a collapse of the country into Bolshevism, or, at any rate, such was the propaganda that the bankers put about.

'The true cause of the inflation after the war,' says Dr. Schacht, 'was the perpetual pressure exercised by the Reparations Commission on Germany in the attempt to extort payment to foreign countries, which in the nature of things could not be made.' It is a half-truth. The inflation was caused by the two attempts of the Reparations Commission and the German banks, to extort payments from the German Government. The Reparations were owed in gold, therefore inflation could not decrease Germany's nominal indebtedness in respect of them. But, once that they were paid, it was not possible to find further money to pay the interest to the banks. The banks could therefore only be paid by further borrowings from the banks. They made up more money which they paid to themselves as interest on the past debt and added it to the sum of the Government's debt to them. Indeed, so far from paying its past debts, the Government, after the occupation of the Ruhr, only paid its normal day to day expenses by the borrowing of created money. The result was, of course, an increase in the amount of money in circulation, an inflation, a consequent rise in prices and fall in the exchange value of the mark. The national debt, which in 1920 stood at 183,183,195,300 marks, had risen by 1923 to 661,075,607,800 marks.

This might have been well enough as a temporary expedient for a year or two but, as it became increasingly obvious that the Government never would be in a position to pay its debts to the banks other than in this nominal fashion, it became also obvious to every private German citizen that, the longer that he held on to his savings, the smaller would be their purchasing power.

Once it becomes clear that there is going to be a steep rise in prices, then every possessor of money becomes anxious to exchange his money, which will soon be worthless, into goods which will, he hopes, keep their value. On the other hand the possessor of goods has no motive for exchanging goods into money and only consents to do so at greatly enhanced prices. Thus the lack of confidence, which was at the first the effect of a comparatively gentle rise in prices, becomes in its turn the cause of a catastrophically rapid rise. And at the same time, of course, as a currency loses internal purchasing power, it obviously also loses foreign exchange value. The exchange value of the mark to the pound is determined by the number of possessors of marks who want pounds and the number of possessors of pounds who want marks. If nobody possessed of pounds wants marks, then since something divided by nothing is infinity, the rate of exchange becomes infinity marks to the pound—which is what, for all practical purposes, it did become.

Now it is quite true, as Dr. Schacht claimed, that the Reparations Commission, had it been possessed of good will towards Germany, could by a more lenient policy have prevented the complete collapse of the mark and it might have been pegged, as the franc and lira were pegged, at some fixed proportion of its pre-war value. But the Commission had no good will towards Germany. It had no wish to save the mark. The reason why it was not anxious to save the mark was that the German Government owed, as has been said, two debts—the Reparations debt, payable to the Allied Governments in gold, and the bank debt, payable to the German banks in paper marks. It had come to be recognised that she would never be able to pay both debts. But, if the mark was allowed to become utterly worthless, the bank debt was automatically cancelled. Allied statesmen such as M. Poincaré thought that, with that debt out of the way, the Allies would have a better chance of collecting their Reparations. Therefore they occupied the Ruhr and destroyed the mark's last chance of preserving any value whatsoever.

As is known, the old mark did collapse, and in its place the new gold mark was introduced. On November 20, 1923, it was announced that one gold mark would be given for every million million of the old paper marks. The effect of that announcement was virtually to cancel the German Government's debt to its own banks. On that computation Germany's national debt was 2,894,900,000 marks, or about half what it had been before the war, and of course enormously less than the national debt of any of the Allied countries.

With the national debt wiped out, there was, it is true, no reason why, if normal conditions were restored and the will to pay present in the German people, they should not have produced a considerable amount more than they consumed and thus have had a large balance with which to pay the Allies. And in the early years after the war, only too many people talked as if the only problem was that of creating in Germany a surplus of production over consumption. A few thinkers such as Mr. Keynes and Mr. McKenna[1] asked how the Allies were to receive, even supposing that Germany was able to pay. The French indemnity to Germany after 1870 was paid very largely by the handing over to Germany of French foreign securities. But Germany emerged from the war of 1914, as has been said, almost denuded of foreign securities. Certainly she did not possess anywhere near sufficient to pay the enormous sums demanded of her. Clearly she could not pay in gold for the simple reason that the sum demanded of her was 225 thousand million gold marks, while there exist in the world only £2,000,000,000, or in other words, 40 thousand million gold marks. Let us suppose, for the sake of argument, that she was able to pay a particular instalment in gold. It is quite clear from the very nature of things that she could only possibly pay the next instalment in gold if in the interval she had bought back the gold with goods. Therefore we may say that there was no alternative but that she should pay reparations in goods.

Now the trouble about paying in goods was, not so much that Germany had not got the goods, as that her creditors were not willing to take them. As the Dawes Report very truly said, 'There has been a tendency in the past to confuse two distinct, though related, questions, i.e., first, the amount of revenue which Germany can raise available for reparation payment,

[1] Mr. Keynes' *Economic Consequences of the Peace* is of course well-known. Mr. McKenna's *Post-War Banking* did not enjoy so wide a circulation, and it is one of the marks of the low level of public understanding of financial matters that it should be out of print.

and, second, the amount which can be transferred to foreign countries.' Of Germany's creditors all except Great Britain were protectionist. Their policy was to make themselves self-sufficient, and their manufacturers were by no means willing to have the home market usurped by German goods, sold by the Government. It is true, of course, that the various countries were willing to accept from Germany commodities that they did not themselves happen to produce, and in that way a certain amount of the reparations could be paid off. But it became rapidly clear that such were really the only reparations that could be paid and that there was not a sufficiency of such commodities to enable the Germans to pay anything like the sums that had been spoken of immediately after the war.

There was another way in which the Germans could pay their debts, if indeed it be called a method of payment. That was for foreign financiers to advance them the money to pay with. The financiers could put at the disposal of the German Government credits in the Allied countries with which the German Government could buy goods from the producers in those countries which it would then hand over to the Allied Governments. An obligation to the Allied Government would thus be discharged and an obligation to a financier created in its place. Thus one result of the Dawes Report was the advance to the German Government of the Dawes loan of 800 million gold marks. Subsequently, in the usual way, a proportion of this loan has been unloaded by the acceptance houses upon the general public but fundamentally it was a loan from the acceptance houses. As Dr. Schacht quaintly puts it, 'Without the dominant intellectual and moral leadership of the Bank of England, which in close co-operation with the New York house of J. P. Morgan and Co.,[1] lent me the most emphatic support, it would hardly have been possible to bring this difficult operation so quickly to a close.'

The result of the Dawes Commission was thus very prettily to transfer the Allied Governments from the frying pan into the fire. They had just got rid of the German Government's debt to the German banks and were beginning to congratulate themselves that they were Germany's only creditors. As the result of the Dawes loan and subsequent loans, they found themselves faced with a very much more formidable rival, international finance. Following the precedent of the Dawes loan, foreign money began to pour into Germany at a very considerable rate. Germany, it is true, began apparently to pay large sums in reparations. Between September, 1924, and October, 1926, for instance, she paid in kind and in cash some 1,900 million marks of reparations. But she received in foreign loans about 7,400 million marks. At the time of the Hoover moratorium in 1931, Germany had paid in reparations 12½ thousand million marks. The conclusion of a Government census held in the next year was that she had borrowed from foreign lenders between 25½ and 26½ thousand million marks, while she had only lent abroad some 8 thousand million on long-term and short-term together. That is to say, she had been lent by foreign countries substantially more than she had returned to them in loans and reparations combined.

[1] For an explanation of this phrase see above, pp. 25–26.

After the Dawes plan she balanced her budgets and met her obligations under both sorts of debts for a couple of years. Then in 1927 she failed to balance it. From that date it has been amusing to note the sudden conversion of international finance to the principle of the cancellation of war debts. The demand for cancellation has often been made upon the highest of Christian grounds, but the truth has been, of course, that, with the limited possibilities of German exports, the financiers have no chance of being repaid their money if the Allied Governments are allowed to appear alongside of them as fellow claimants and to swell the bill. The financiers played on the Allied Governments exactly the same trick as the Governments played on the German bankers—and with equal success. By the Hoover moratorium all reparations payments were suspended. By the Lausanne Agreement they were finally abolished.

At the moment of writing the third act of the comedy has not yet been played quite to a finish. In February, 1932, Germany's creditors were compelled to agree to a 'standstill agreement,' by which they promised not to demand the repayment of the loans which they had made to her. Under Bruning's Government the Germans began to complain of the burden of paying even the interest on those loans and in May, 1933, Dr. Schacht, the President of the Reichsbank under Hitler's Chancellorship, declared a complete moratorium on all foreign payments. He summoned his country's creditors to Berlin and there delivered to them a speech which was adorned indeed with all the customary diplomatic palaver about Germany's anxiety to honour her bond, about her horror of repudiation, but the powerful argument of which, stripped of that palaver, was, 'Germany is not prosperous, but the question whether she is prosperous or not is irrelevant. You, our creditors, are all citizens of protectionist countries. Even Great Britain has now gone protectionist. You are citizens of countries which are determined to exclude foreign goods and to have a favourable balance of trade. Debts can only be paid in goods. Therefore it matters nothing whether we are prosperous or not. If you will not have our goods we cannot pay our debts. If America cares to go Free Trade we shall be delighted to flood her with cheap goods; if she does not, we cannot and will not pay. You can take it or leave it.'

Prophecy is proverbially rash, but it seems a safe prophecy that either none or else only a negligible fraction of the 25½ thousand million marks of foreign loans to Germany will ever be repaid. It is unlikely that even the interest on them will ever be paid again. If that should prove to be so, then we may say that since the establishment of the Dawes Commission, since the experts on international finance stepped in to give us their expert advice on how Germany could pay her debts, Germany has indeed suffered cruelly along with all the world from finance's policy of deflation, but out of paying for the war she has made a clear and substantial profit. However that may be, it is at least mere misunderstanding to think that there is any parallel between Germany's wholly peculiar post-war position and that of a country to-day, which issues a moderately increased supply of money that it is capable of answering with an increase of goods.

XI

THE AMERICAN SLUMP

There is no reason, other than a monetary reason, why there should have been an American slump.

That is to say, there is no invention which was known to men in 1928 and which has since been forgotten. There has been no failure of a harvest nor natural calamity. The United States are only dependent for their standard of living to the extent of 2% on foreign goods. The only raw material of importance in which she is not self-supporting is rubber. There has been no failure of the world's rubber crop; rather has its production been artificially restricted. Therefore it is clear that America is in a position to offer to the rubber-growers of the East their choice of almost any other commodity that they wish to exchange against their rubber and the rubber-growers are only too anxious to sell for any price at all that they can get. So, too, are the producers of tin, jute and manganese, her next most important imports. Her calamities cannot then be ascribed to a failure of foreign supplies. We are told that the depression has taught the Americans that they cannot hope to sell abroad unless they are willing to buy from abroad. But why should they wish to sell abroad if they can produce for themselves almost everything that they either need or want?

How then can the calamities of America be explained? It is common to hear people speak of the 'fictitious prosperity' of the Americans in 1928. But such language is more commonly used than explained. Goods can only be consumed when they have first been produced. In what sense then can a country be said to have a fictitious standard of wealth? The phrase might have meaning if applied to a country that was recklessly using up its natural resources in such a way that they would be soon exhausted; America in her prosperity certainly was not doing that. Again, it might have meaning if applied to a country which was rioting away in idleness on the proceeds of some foreign tribute which it could only hope to receive for a limited number of years. America, so far from doing this, was throughout all the years of her prosperity, through her financiers' policy of foreign lending, exporting more than she imported. In 1929, for instance, she exported \$5,373,456,000's worth of goods and only imported \$4,291,880,000, and every other year since the war there has been a similar balance in her trade. So far from her prosperity during the boom having been fictitious, it would be much easier to argue that she was artificially compelled, even at the height of her prosperity, to live on some \$1,000,000,000 a year less than she produced. She had at the same time 2,000,000 unemployed who were producing nothing and consuming little.

Her collapse is sometimes vaguely attributed to the hire-purchase system or to the mania of her citizens for speculating on the stock exchange. But it is clear on consideration that these explanations, at any rate in the sense in which they are usually meant, explain nothing. The hire-purchase system is a method, good or bad, by which an individual obtains the use of an article for which he cannot immediately pay but for which he contracts to pay in the future. It is possible that, by not insisting on immediate payment, the astute salesman induces the foolish customer to buy a motor-car that he cannot truly afford and that, in six months' time, the customer and his wife and family will have to eat less meat in order to pay off the instalment on the motor-car. If so, so much more purchasing power will go into the pocket of the motor-manufacturer and so much less into that of the butcher, but clearly the result of the folly of the improvident buyer cannot possibly be to reduce the sum total of the purchasing power in the pockets of the nation's inhabitants.

What of the other explanation—that of foolish speculation? What is foolish speculation? It is buying shares for more than they turn out to be worth and having to sell them at a loss. No doubt the person so foolish or so unfortunate as to do this has less purchasing power in his pocket at the end of his misfortunes. But he has bought from somebody; he has sold to somebody. Those people have more purchasing power. We read how on the eve of the Wall Street crash 100 dollars' worth of shares changed hands for 1,000 dollars and then in a few days they had fallen down to zero. We hear much of the sufferings of those who bought at 1,000 and lost everything. It is not unnatural that those who bought at 100 and sold at 1,000 should have the wisdom to call less attention to themselves. But they must exist.

A mania for speculation no doubt may impoverish a nation in the negative sense, in the sense that the hope of sudden and easy wealth causes people to refrain from productive work. In effect, too, it causes, while it lasts, a reduction of purchasing power, because people spend their money on speculations rather than on goods. But in both cases punishment must obviously follow the crime almost immediately. If America of 1928 and 1929 was so absorbed in Wall Street gambling that it did not do any work, clearly there would have been poverty in 1928 and 1929—not great prosperity in 1928 and 1929, and poverty afterwards when they ceased to gamble on the Stock Exchange. In the same way, if it is true that during 1928 and 1929 American labour and capital were employed to a ridiculous extent on foolish and unproductive works—on digging for minerals where no minerals were to be found, in sinking wells where there was no oil—the withdrawal of labour from productive works to such tasks might have accounted for a shortage of commodities in 1928 and 1929, had there been such a shortage, and it might account for a failure to produce increased wealth in subsequent years. But it is pure muddle-headedness to think that the building of too many town halls in 1928 can be the explanation of an insufficiency of money to purchase the cotton and corn that have been produced in 1932.

It is quite clear that the abnormality—that which requires explanation—it not the boom of 1928 and 1929 but the subsequent slump. Whether the sudden access of wealth was morally beneficial to the American people might perhaps be debated. No doubt there were some foolish Americans who spent their money foolishly. But economically, it is very clear, what was unhealthy in the life of America in 1928 was not that the standard of life was so high but that it was so low and so uneven. This seems to many a paradox because they compare the wages of the American working-man with those of working-men of other ages or countries, but clearly enough what ought to settle the standard of living is not the productive capacity of another age or another country but the productive capacity of the country in question at the date in question. By that test American wages during the boom were too low.

Now the American boom had about it none of the features of those inflationary booms when there is no increase in the productive capacity of the country but when, by raising prices, it is possible to give a temporary prosperity to the owner of goods at the expense of the *rentier*. Between 1923 and 1929 there was no rise in prices. If anything they fell slightly. In cotton and corn they fell heavily. All that happened was that the productive capacity of the country was increased by new inventions and exploitations. According to the biennial census of manufactures, in 1923 there were 8,778,000 wage-earners employed whose net output was $25,850,000,000. In 1929 there were 8,836,000 wage-earners producing $31,900,000,000. The number of wage-earners had increased by less than 1%, the output by almost 25%. There was therefore more for everybody.

On the other hand, while output rose, as has been said, from $25,850,000,000 to $31,900,000,000, wages only rose from \$11,009,000,000 to \$11,684,000,000. Or allowing for the increased number of wage-earners, wages increased by about 5% per head while output increased by about 25%. Therefore, in accordance with what Mr. Hobson considers to be the inevitable law of trade-cycles, too much of the new money that was being issued was going into the pockets of those who wished to invest it, too little into the pockets of those who would spend it on consumable goods. Mr. Hawtrey shows in his *Speculation and Collapse in Wall Street* that the new issues were on the whole sane. But nevertheless, even when all the money that was required had been absorbed in sane new issues, there was still an immense amount left clamouring for investment. The result was that Wall Street was all buyers and no sellers. The prices of shares rose. There was speculation. On the other hand, great as was the demand for consumable goods if we judge by the standards of other times and countries, it was below the country's productive capacity.

Now it might perhaps be argued that the American standard of living was so high that all reasonable demands were satisfied and that effective demand, even at the lower figure, had reached the level of real demand. If this were so, if there was in the true sense of the word over-production, then the clear remedy was for everybody in America to work less hard, or perhaps—if their charity ran so far—for them to make a free gift of their surplus to less favoured people. But in truth, the standard of living in the country was clearly not so high as all that. There were two million unemployed who received no dole at all and who were dependent upon charity. The two great industries that live by the export trade—cotton and corn—had suffered from the fall in world prices and there was plenty of poverty among farmers and cotton-growers. Many aliens and negroes were grossly underpaid. There would have been no difficulty in finding consumers who would have spent the money if only it had been put into their pockets.

That being so, the clear remedy was to see to it that a larger proportion of the new money issued found its way into consumers' pockets and a smaller proportion into that of investors. In America, as elsewhere, new money is issued by banks as loans to producers. The task of the masters of policy should clearly have been either to see to it that the producer passed on a larger proportion of those loans as wages to the consumers or, if it was not possible to enforce a policy of higher wages, then to restrict loans to producers and to issue a portion of the new money instead direct to consumers as doles, bonuses on wages, etc., or, if you will, to attempt a combination of the two policies.

Some people feel—subconsciously no doubt—that any state of society in which the working-classes enjoy a standard of living much above that of subsistence is unhealthy, its prosperity fictitious and incapable of endurance. In that sense, and that sense alone, was the American prosperity fictitious. But, had the supply of money in the consumers' pockets been kept adequate, there is no reason at all why its new prosperity should not have been permanent.

Mr. McKenna, speaking in 1927, at a time when that prosperity was still vigorous, said, 'The creation of additional money was indeed an essential condition of that trade expansion and, if the Federal Reserve Board had allowed themselves to discover an inflationary taint in the growth of bank deposits, as the deflationists in England would certainly have done, the trade prosperity which has grown up and flourished in the United States would have been strangled at its birth.' Two years later what Mr. McKenna prophesied exactly happened. So exact is the correspondence between what the money power did and the course of action that Mr. McKenna prophesied beforehand would infallibly bring ruin to the country that one could almost believe that it was using Mr. McKenna's essay as a text-book.

Why was there a slump in America? Clearly not because she lacked the labour, the raw materials or the technical skill to produce abundance nor because she lacked the will to consume that abundance when she had produced it, nor even because the poor bought motor-cars (for the trouble was not that there was not a sufficient supply of motor-cars but that there was not a sufficient effective demand for those that had been supplied) nor even because wicked men speculated (because even the wicked were not flourishing like a green bay tree). There was a slump because there was a deficiency of purchasing power and for no other reason. What killed the prosperity was that the authorities, wishing to stop speculation, quite sensibly restricted the issue of money to producers but, instead of issuing that money to consumers instead, they took it out of circulation altogether.

Even allowing for the increased velocity of circulation, it is clear, as Mr. McKenna pointed out at the time, that such an increase in production as that of the United States between 1923 and 1929 demanded an increased supply of money if it was to be purchased. Without following through the history of those six years in detail, it is fair to say that until 1928 the American banks under the direction of Benjamin Strong, Governor of the Federal Reserve Bank of New York, followed a policy of credit expansion. They were steadily buying up Government securities in private hands and paying for them by cheques drawn on themselves, thus putting new money into circulation. There is a chestnut-story of an old lady who on receiving an intimation from her bank that her account was overdrawn posted to the bank a cheque for the amount of the deficit. As Professor Soddy once wittily said, the old lady's only fault was that she was not herself a bank. Had she been so, it would have been the ordinary way in which she would have paid her debts. It was the way in which the Federal Reserve Bank put more money into circulation in America in these years.

In 1928, Strong died and the policy at once changed. Up till that time the banks had made no attempt to check speculation. Indeed they had themselves been arch-speculators. The prime business of a bank is to lend money to credit-worthy clients. It should not invest deeply itself, and, what investments it makes, should be always in safe and easily realisable securities and only made at a time when there are insufficient funds for investment in the pockets of the public. There never was a time when it was less justifiable to pursue a policy of heavy investment than the period of boom in the United States. Yet according to the report of the President's Research Committee on Recent Social Trends in the United States the investments of banks rose from $6,002,000,000 on June 30, 1921, to $10,758,000,000 on June 30, 1928. When Wall Street crashed, we read many tales in the newspapers about poor city-typists who had rushed wildly into speculation. We heard less about the $5,000,000,000 which the banks had themselves contributed to that insanity.

After Strong's death the Federal Reserve Board suddenly fell into a panic and determined to bring to an end that speculative madness which its own members had so largely created. On the 3rd of February the New York discount rate was raised from 3½% to 4%, on the 18th of May to 4½%, on the 13th of July to 5%. It stood at 5% until August, 1929, when it went to 6%. The rates for time loans and call loans were also raised. Thus it became in every way more expensive to borrow money and as a consequence as overdrafts were paid into the bank, there was no demand to lend them out again and money went out of circulation. At the same time the Federal Reserve Bank reduced its holding of Government securities from $600,000,000 to $219,000,000 in 1928 and in 1929 to $137,000,000. In other words by compelling the purchasers of those securities to pay into the Bank $381,000,000 and subsequently another $82,000,000 which the Bank then simply cancelled from circulation, it lessened the purchasing power of the American people by that amount. That is to say, by the various devices that central banks generally use, the central bank reduced the amount of purchasing power available to purchase the product of American industry.

At the same time the most important commodity, in which American production exceeds not merely effective but real domestic demand, is corn. The price that the American farmer gets for his corn is therefore the world price, which means, since England is the greatest corn-importing country, the price on the London market. Owing to the restrictive money policy of the Bank of England, English prices were rapidly falling during these years. That meant again less purchasing power in the pockets of the American farmers. All these manœuvres, it is hardly necessary to remind the reader, were carried through with perfect ease at a time when both Great Britain and the United States were on that Gold Standard so highly praised by Mr. Harold Cox as the guarantor of stable prices.

It is the invariable lesson that the effects of a deflationary policy upon industry only make themselves felt gradually. Up till June, 1929, the production of the United States continued to increase. Then the decline began. Obviously, as money becomes tighter, people tend to withdraw it from investment in order to spend it on consumption since the natural tendency is to reduce savings before reducing standard of living. Obviously then at a time of deflation there will be a general wish to sell shares and, if everybody is selling and nobody buying, shares will fall in prices. Hence the collapse of Wall Street on October 24, 1929, and again, after a short and deceptive recovery, in the following year. Though the situation was handled by the banks with quite extraordinary clumsiness, though the disease which they set out to remedy was very largely a disease of their own creation, though the violence of the remedy brought most unnecessary suffering, yet it was right to bring speculation to an end. Only, as money was withdrawn from investors, it should have been given to consumers. Had that been done there would still have been a sufficiency of purchasing power and no reason why the fall of stock-prices should have been followed by a fall of commodity prices. But it was not done. Nothing of the sort was done. Therefore the collapse of stock-prices was, as was inevitable with a decreased total supply of money, followed by a collapse of commodity prices, bringing with it, as such a collapse always does, ruin, misery and starvation for every class in the nation—or rather for every class except the money-lending class who had engineered it but who, with falling prices, saw the value of their commodity—debts—increase.

What then, the reader will naturally ask, can have been the motive of the bankers for behaving in this way? Was it mere stupidity? In the first place it is necessary to insist, just as we insisted in discussing the English joint-stock banks, that the ordinary American banker was in no kind of way responsible for the policy, whether he gained from it or lost from it, whether he favoured it or opposed it. The small banker, who had speculated on the continuance of prosperity, clearly did not want it to come to an end. But what was the motive of the masters of the policy? Their plea is that deflation was necessary in order to put a stop to speculation. If that was their purpose, certainly they succeeded in it—in much the same way as the executioner who cut off the head of King Charles I prevented His Majesty from ever suffering again from a cold in the nose. One way of preventing a few people from spending some of their money foolishly is certainly to take away all their money from everybody. As Mr. Hawtrey very fairly puts it in his *Art of Central Banking*, their policy was one 'of stopping speculation by stopping prosperity.'

But such a policy is clearly so mad that there is more to be explained after the defendant has defended himself than there was at the beginning. What is the explanation? My own opinion is that in truth the best explanation is the psychological. Those whose business lies with international money-lending seem to fall under a sort of hypnosis. They become loan-minded. They get into a state in which they feel that the world is 'normal' when there is a lot of international lending going on, and 'abnormal' when there is none. And it is my own experience that their conduct is influenced more by this psychological obsession than by any calculation of gain for themselves out of the loans whether in money or in power.

However that may be, the facts are not obscure. Up till the war the United States had been a debtor country. She emerged from the war a creditor country, a country so prosperous that each year she had a large surplus for investment. That surplus was so large that even after the home market had been so grossly overcapitalised as to cause a riot of speculation, there remained a substantial surplus of the surplus for further investment. The owners of that surplus of the surplus were not willing to invest it within the United States because the high wages reigning there limited the rewards for capital. They wished to invest it in low-wage countries and therefore, in obedience to the maxim of money finding its own level, capital from the United States poured out into the low-wage countries of Europe, of South America and of the Far East.

To invest was easy nor was it very difficult to get the borrower to promise glittering dividends. But getting paid was another matter. For the debts could only be paid in one of two ways—in gold or in goods. If they were paid in gold, the inevitable result would be that all the gold of the world would soon be stored up in the vaults of the Federal Reserve Bank of New York, those who had lent not a penny the better off in real wealth and the rest of the world inevitably driven off the Gold Standard—the one thing which the international financiers, were anxious to prevent. Therefore the debts must be paid in goods. But how could they be paid in goods so long as the United States maintained a prohibitive tariff to exclude foreign goods?

A money-lending country must be a Free Trade country, and the purpose of the money-lending power has been to impose Free Trade upon the United States. It has not been a purpose easy of achievement. For in the days when labour in the United States was scanty and valuable the American working-man succeeded in obtaining for himself a very much higher wage than the working-man of Europe. It has been generally, and rightly, recognised in the United States that under conditions of Free Trade American manufacturers would only be able to compete against

European manufacturers if the American wage was reduced to something like the European level—to say nothing, of the menace of the still cheaper labour of Japan. Though American Free Trade is just as necessary to the money-lenders to-day as was English Free Trade to the money-lender of the last century, yet the problem is a very different one, and to solve that different problem merely academic discourses upon the beauties of low tariffs were of little effect. The Democratic party, in a timid, compromising, half-hearted way tried these tactics and were humiliatingly defeated at the elections of 1920, 1924 and 1928.

In opposition to the sermonisings of the old-fashioned Democrats had been the financiers' policy. Their belief is that the only chance of getting the tariff down has been so to reduce the purchasing power of the American people that they can no longer even approximately consume their own products. As long as that purchasing power was adequate, the American manufacturer was indifferent to foreign markets. But with domestic purchasing power reduced, foreign markets became essential to him. And, the more that he can be persuaded to look abroad for his markets, the easier it will be to change his whole attitude towards wages. At present he is in favour of high tariffs and high wages, for he looks on the working-man as his customer. But, if he can be induced to look abroad for his markets, then wages become merely an item in costs and it is to the manufacturer's interest to reduce them as low as possible. If they are reduced—and the odium for reducing them of course allowed to fall on the manufacturer—then American industry becomes at once a much more profitable investment for the financier, while the foreign goods can flow into Free Trade America to pay the interest on the foreign loans.

In America however the possibility of an age of plenty has been proved in practice. It is not dependent on a theoretical demonstration by demonstrators who can be laughed away as cranks when their arguments cannot be answered. Prosperity fundamentally depends upon the production of goods, and it will be hard to convince the American people that they cannot again produce and consume an abundance of goods at least as great as that of 1928 and 1929. In truth there is no reason why the prosperity of 1928 and 1929 should not be but a pale shadow of their future prosperity.

By understanding so much the reader will, I think, find it easier to understand the policy of President Roosevelt. Of the results of that policy it is as yet too early to speak.

XII

SPAIN

In the last chapter the example of the United States was taken in order to demonstrate first that the issuing of increased purchasing power in order to keep pace with an increased productivity is not a problem beyond the capacity of ordinary, honest men and secondly, that there are strong financial forces whose policy it is to sabotage any prosperity resulting from the solution of this problem. Further examples of these two great truths could be taken from the history of almost any country of the world. Lest I weary the reader, it will be sufficient to set side by side with the example of the United States that of a country whose economic life is in every way the direct antithesis of the American—Spain.

In September, 1923, General Primo de Rivera seized power in Spain. A great deal has been written about the circumstances which led to that *coup d'état*. It is less common to find a detailed account of the very interesting financial and economic condition of the country at that time.

Spain is a country rich in mineral resources which up till that date had been only inadequately exploited. Such exploitation as there had been had been largely by foreign capital. As a result the figures of Spain's foreign trade were always complicated, for in addition to the exported goods which balanced the imported goods there was in each year a large quantity of goods which had to go out in payment of the dividends on foreign capital. On the other hand there was in most years a large quantity of imports coming in as the result of new foreign investments in Spain. Thus in years when there were few new foreign investments Spain exported more than she imported; in years when there was a moderate amount, exports and imports approximately balanced; in years when there was a great deal the imports exceeded the exports.

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As we might expect, during the war when none of the belligerent countries had capital to spare for investment in a neutral country, either exports and imports balanced or else there was a surplus of exports over imports. There was such a surplus also in 1919. 1920 showed the first signs that the ex-belligerents had now recovered themselves and the policy of industrial foreign lending had begun again. The figures between the two years almost exactly reversed themselves. Whereas in 1919 Spain had imported £43 million and exported £52 million, in 1920 she imported £58 million and exported £41 million. This was a sufficiently striking change but it was but a symptom of what was coming. In 1921 she imported £113 million and exported £63 million.[1] The widening of the gap between imports and exports was caused by the very rapid increase of foreign lending.

[1] Figures from *Statesman's Year Book*.

If we take the table of the distribution of Spain's trade for 1920 and 1921, we find that by far her most important commercial relations were with four countries —Great Britain, Germany, France and the United States. Trade with Great Britain approximately balanced in both years, 213 million pesetas imported against 218 million exported in 1920, 367 million imported against 398 million exported in 1921. German imports into Spain jumped from 86 million pesetas to 276 million. The exports to Germany were only 16 million and 43 million, but these were the years when every German was buying everything that he possibly could outside his country in order to escape the ruin of the mark. No great lesson therefore can be drawn from the German figures. More instructive are the figures for France and the United States. France imported into Spain 219 million pesetas in 1920 and 362 million in 1921. She bought from Spain 280 million in 1920 and 286 million in 1921. In other words whereas a surplus of some 60 million pesetas' worth of goods crossed from Spain to France in 1920, a surplus of roughly the same amount crossed from France to Spain in 1921.

The United States sold to Spain 331 million pesetas' worth of goods in 1920 and bought from her 78 million. In 1921 she sold 767 million and bought 135 million.

The figures of 1921 were subsequently reproduced in the two subsequent years, prior to General Primo de Rivera's seizure of power. In 1922 imports were £121 million against exports of £58 million, in 1923 imports £123 million against exports of £64 million. That is to say, General Primo de Rivera on his accession to power found that foreign capital was pouring into his country at a very rapid and, as he thought, at a dangerously rapid rate. It was coming to some extent from France and to a greater extent from the United States.

At the same time owing to Spain's neutrality during the war the national debt was by modern standards small. It was just short of 12 thousand million pesetas, or in English money half a thousand million pounds. But of that 12 thousand million only 900 million were foreign debt. Nor was the internal debt so great a burden as it sounds at first sight, for such loans, as has often been argued, in whosesoever name they stand, are in fact necessarily invented by the banks. Now the position of the Bank of Spain is by no means the same as that of the Bank of England, for the Spanish Treasury takes a percentage of its profits varying from 10% to 50% according to the dividend. It is therefore clear that if the Spanish Government pays a debt that is directly or indirectly due to the Bank of Spain it really puts back into its left pocket about half of what it takes out of its right, and, similarly, if it borrows from the Bank of Spain, it is, in so far as it is a participator in the Bank's profit, a participator with the Bank in the issue of money.

For these reasons General Primo de Rivera decided that it was neither wise nor necessary for Spain to borrow extensively from abroad.[1] What goods she

[1] Why, it may be asked, if an international creditor cannot distrain on an international debtor, did not General de Rivera get all the goods which he required on loan and then, when he had got sufficient, refuse to repay? This is a not unfair description of what the Germans and Italians have done and of what doubtless

wanted from abroad she could pay for by the exchange for them of her own products. If with increased productivity she found herself in need of an increased supply of money she could meet that need out of her own resources. No sooner was General Primo de Rivera installed in power than the representatives of the big acceptance houses called on him offering him their loans. He declined their offers, saying that he had no need for their services. Instead he embarked upon a policy of vigorous economic nationalism. Foreign goods were excluded by a high tariff. The import of foreign capital was checked. The export of Spanish capital was controlled by the Banco del Comercio Exterior. A vigorous policy for the encouragement of an increased production both in industry and agriculture was pursued. As a result Spain's productivity steadily increased. Thus, for instance, the production of coal rose from 5,672,377 tons in 1923 to 6,546,824 tons in 1930. The agricultural productivity of the country, which before the war averaged about £125 million was raised to about £300 million—a considerable increase even allowing for the altered value of money. Communications of every sort—roads,

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the Russians will do when it suits them to. The answer is that, though the creditor cannot get his money back, he has plenty of ways of making life very unpleasant for the debtor, provided that there are not too many defaulting debtors at the same time. The Germans had hardly a choice in what they did. Signor Mussolini calculates that he is the master of a military machine of a strength sufficient to compel his creditors to treat him with respect. General de Rivera had not behind him an army strong enough to upset the world's balance of power. Had he foreseen that almost every country of the world was going to go into a virtual default he might possibly have pursued a different policy, but, to tell the truth, I think that General de Rivera was a man who objected to giving promises which he had no intention of performing.

railways, telegraphs—were improved. The Government established a petrol monopoly to the great disgust of the international petrol interests, but to the great benefit of communications and advantage of the country. Foreign trade was reduced once more to an exchange of goods against goods. In 1930 imports of 2,447,533,000 pesetas balanced exports of 2,456,754,000 pesetas. Even an opponent of the dictatorship such as Professor de Madariaga bears witness in his book on Spain to the increased material prosperity of the country under the General's rule.

Friends of General Primo de Rivera ascribe this increased productivity to his policy; his critics maintain that Spain was in any event increasing in prosperity and that he merely reaped what others had sown. It is not necessary to enter into that controversy, for we are not here concerned with passing judgement on General Primo de Rivera's statesmanship. It is probable that there is a good deal of truth in both views and people are curiously slow to learn that increasing prosperity should be the normal condition of any modern country with a tolerable government. What is certain is that Spain's prosperity never increased so rapidly as during these years when so little foreign capital was coming into the country; the bluff that foreign capital was essential for the country's development was effectually called.

There was an increased quantity of goods in Spain. Therefore an increased supply of money was required if prices were to be maintained. In order to meet this requirement General Primo de Rivera refused to balance his budget, raising only a proportion of his expenses by taxation, the rest by loans essentially subscribed by the Bank of Spain and invented out of nothing. As has already been explained, owing to the charter of the Bank of Spain a substantial proportion of the interest which the Government paid on those loans found its way back into the Government's pocket. Yet I am not concerned to defend the raising of the money by loans. What I am concerned to do is to show that the amount of new money raised was not excessive, that it was no more than sufficient to keep pace with the country's increased productivity. The proof of that is the stability of Spain's internal price level. To quote again figures already quoted from Mr. Hawtrey's *Gold Standard*,[1] the Spanish wholesale price index in 1926 was 181, in 1927 was 172, in 1928 was 167, in 1929 was 171. During these years there was no great fluctuation in the exchange value of the peseta to the dollar; which was 129.5% of par in 1926, in 1927 113.1% of par, in 1928 116% of par and in 1929 131.4% of par. It was only after 1929 that the peseta began to fall sharply. That fall was widely attributed by his enemies to General Primo de Rivera's unsound financial policy. But the interesting thing to note is that from that day to this, in spite of the country's political troubles, the Spanish price index has remained absolutely stable—171, 172, 174, 174, for the years 1929, 1930, 1931, 1932. The peseta has tumbled in exchange value and American and British prices have tumbled too. But it is clear that the peseta has fallen not because Spain inflated but because England and America deflated. If there has been financial jugglery,

[1] p. 212.

it has been in New York and London rather than in Madrid.

Now who gained and who lost out of the fall of the peseta? It is common for loose thought to assume that a falling currency necessarily means internal ruin. An unstable internal price level does mean internal ruin, and one effect of rapidly rising prices at home is doubtless a collapse of the currency's exchange value. But, in this case, as we have seen, there was no internal instability. A peseta in Spain bought just as much one day as the last, and Spaniards have every reason to be grateful to General Primo de Rivera for sparing them the miseries of deflation and falling prices from which all the rest of the world suffered.

At first sight it appears that the foreign investor with holdings in Spain suffered, since he received his dividend in pesetas which brought him fewer dollars or pounds than they used to bring him. But it must be remembered that prices in England and the United States had also fallen. Therefore the smaller number of dollars and pounds bought, if not as much, yet almost as much as the larger number had bought in the old days.

In truth nobody lost by General Primo de Rivera's refusal to deflate. On the other hand the result of the deflation was to increase the value and the burden of debts all over the world. In every other country of the world there was such an increase. Had General Primo de Rivera not pursued a policy of financial nationalism, had Spain been on the gold standard and dependent upon foreign loans and foreign goods, he would have had no alternative but to fall into line with all other Governments. Now the effect of the deflation was that every debtor was put under obligation to pay back to his creditor, quite apart from any question of interest, about half as much again in real value as he had borrowed. General Primo de Rivera repudiated no debts; he admitted that where a ton of coal had been borrowed a ton of coal should be paid back, but he refused to admit that a ton and a half should be paid back. It was that refusal which earned him the hostility of international finance.

There were other grievances against the General than those of financial policy. Some of them perhaps were just grievances. But one need not surely be very cynical if one can hardly believe that it was mere coincidence that a great deal more publicity was given to these other grievances after the General refused to sacrifice his country to the demand for deflation than ever had been given to them before.

He did at the last, losing courage, raise some loans from English and American bankers, and General Berenguer, his successor, negotiated another loan with J. P. Morgan. But it was too late. General de Rivera would not pay the price which the financiers wanted —which was deflation. The General fell and after him the monarchy. When the Republicans came in, the Bank of Spain negotiated a loan of about one thousand million francs from French financiers. The loan is covered by a gold guarantee which is deposited with the Bank of France at Mont de Marsan. The conditions of that loan have never been made public.

XIII

POPULATION

It will occur to some readers to ask what will be the effect of an increase of productive capacity upon the growth of the population. Shall we not be cheated of this greater prosperity, as Malthus warned our great-grandparents that they would be cheated in their day by an increase in the population?

There is certainly a degree of truth in the proposition that, when a country's productive capacity increases, its population also increases. Either the birth-rate goes up, or, if the birth-rate was already so high that it cannot conveniently rise, then the greater abundance of food causes the death-rate to fall. Or, if the country is not capable of producing by its own natural increase a population sufficient to consume its own abundance, then immigrants come in from fuller lands. If they are not admitted freely, sooner or later they force their way in by war or the threat of war. But it is also certain that population does not necessarily increase in the same proportion as a country's productive capacity. If for instance the productive capacity of all countries is on the increase, then there is no motive for migration from one country to another. If again the increase in a country's capacity is very rapid, the increase of population cannot keep pace with it. Physical reasons forbid an increase at more than a certain rate even if there were no such things as selfishness or the desire for a higher standard of living.

Now it is our happy fortune to live in an age in which productive capacity is increasing with unexampled rapidity. According to Michelot's estimate, which Professor Carr Saunders and Sir George Knibbs are willing to accept, the population of the world in 1845 was about 1,009 million.[1] To-day it is about 1,900 millions. Now, considerable as that increase is, it is as nothing in comparison with the increase in the world's productivity, even hampered as we have been by a defective financial system. Great Britain's population in the nineteenth century increased about as rapidly as it is possible for any country's population to increase. That is to say, it doubled itself in each of the half centuries, jumping from 10 million in 1811 to 20 million in 1861, and from 20 million in 1861 to 40 million in 1931. But the country's productive capacity multiplied by a great deal more than four while the population was multiplying by four. We have already quoted the conclusion of the Macmillan Report that between 1913 and 1928 the world's productivity in manufactured goods increased by 25% and in foodstuffs by 16%. Its population over the same period only increased by 6%.

The arguments then set out at the beginning of this chapter—arguments with which the general reader is familiar through the popularity of Dean Inge's *Outspoken Essays*—though true, are of little more than academic importance. For Dean Inge, when he wrote those interesting essays, paid an insufficient attention

[1] See *Encyclopædia Britannica.* Art. *Population.*

to the increase in the productivity of industry and agriculture which science has made possible for us. We live in an age of plenty—in an age capable of producing food, if such food were required, for a population fantastically greater than that which does actually exist. Malthus said that a population could double itself in twenty-five years but there is no known example of a population through mere natural increase doubling itself in less than fifty years, and, even supposing that the population of every country in the world were to double itself in the next fifty years and then to double itself again in the fifty years after that, there is no reason at all to think that within this century there would be any serious difficulty in supplying the world with food.

Those who have the taste for such exercises can, it is true, if they wish to, assume that all improvement in agricultural technique will suddenly and inexplicably cease, that medicine will have an unparalleled access of efficiency and the death-rate plunge down to zero, that we shall all breed like rabbits, and by dint of such assumptions can argue that the world will be filled to capacity in 250 years and ask us what we will do then. But such exercises, though perhaps diverting, can hardly pretend to any importance. Persons with the taste for thus speculating about the distant future would be better occupied in meditating on the Day of Judgement, which will certainly come, rather than on such a day as this which there is no serious reason to imagine that the world will ever see.

We live in an age of plenty, and arguments about the struggle for existence, drawn from an age of scarcity, are no longer of importance. It remains an academic truth that, if there were not enough food, the death-rate would rise, but fortunately there is enough food. In a previous chapter we have already quoted from Sir William Beveridge's address before the British Association in 1923. Let us here give a fuller quotation. 'It is certain that enormous areas of the earth which are fit for cultivation are not yet cultivated at all and that of other areas only the surface has been scratched. . . . In most European countries from 70% to 90% or more of the total area is now classed as "productive;" it is being turned to some use—as arable, pasture, forest and the like. In nine provinces of Canada (excluding the desolate Yukon and North-West Territories), the percentage of all the land that now produces anything is 8, in Siberia 18, in Australia 6, in South Africa 3. Even for the United States it is only 46, and for European Russia 55. . . . Any suggestion that these (the European) races have reached or are within sight of territorial limits to their growth hardly deserves serious consideration.'

So, too, with the argument of those who advocate the use of contraceptives as a remedy for the problem of unemployment. Their argument is based on the assumptions that we live in a world all of whose resources are being exploited by only a fraction of its population and in which the workers have to go short because out of their limited stock they have to find food to fill the mouths of the idle. These assumptions are obviously so entirely apart from the truth that the pursuit of the argument is not worth while.

Once that it has been demonstrated that the increase of the population cannot possibly spoil the prospects of an age of plenty, it is not perhaps strictly the business of this book to pursue the inquiry further nor to ask what are likely to be the future developments of the population. Yet the question is a fascinating one. There no more are inevitable laws of population than there are inevitable laws of economics, and the problems are for people to solve freely for themselves. No certain prophecy is therefore possible.

It is, of course, well known that the birth-rate both in this and in other European countries has been steadily falling for the last fifty years. In Great Britain it has fallen steadily from 34.3 per 1,000 of the population in 1880 to 16.3 in 1930. During the same period the death-rate has also fallen from 20.5 per 1,000 in 1880 to 11.4 per 1,000 in 1930. Up to the present, that is to say, the population has continued to increase every year but the increase in proportion to the population is very much less than it used to be in the past. It only increases at all because the number of old persons in the population is dependent upon the birth-rate of sixty or seventy years ago—when the rate was still high. In a few years our old persons will be persons born in years when the birth-rate was beginning to fall and therefore, even though there is no rise in the death-rate, there will every year be fewer and fewer old persons in the country. According to the calculations of Professor Bowley if the number of births and the death-rate both remain the same, the population will stabilise itself in the 48 millions about the year 1951. As it happens the actual number of births (not merely the birth-rate) is on the whole decreasing, so we may on that argument expect stability on an earlier date.

The question is of course whether the birth and death-rates will continue to follow their present curves or not. As to the death-rate there is no mystery about its decline. That decline is clearly due to medical and sanitary progress and we, though one cannot be certain, may hope and expect that it is a decline which will continue.

What is the reason for the decline of the birth-rate?

Some writers such as Herbert Spencer have argued that Nature is her own birth-controller and that, whatever Man may do, she herself regulates the population by lessening the reproductive power of a people when an increase in its numbers is no longer desirable. But, though no one is willing to pronounce with dogmatic certainty on a subject that is so imperfectly understood, Professor Carr Saunders has shown that there is no real evidence of this and no sound reason to believe it. If we cannot put the responsibility on Nature then it follows that the birth-rate must have declined because people's will to reproduce themselves is less than it used to be. Why is that?

The common economic explanation is clearly insufficient. One could understand a couple refraining from adding to their family in such years as those of the present slump but the birth-rate has been steadily falling for the last fifty years—years in which the standard of living, inadequate as it has been, has on the whole yet been higher than in any previous period of history.

It is very clear that the fall of the birth-rate has coincided with the growing knowledge of the technique of contraception, and there can be no doubt at all that the coincidence is a large part of the explanation of the fall. It is sometimes thought that it is the whole explanation. I do not think that it is. For another interesting, and at first sight surprising, discovery concerning the history of recent years is that, while, as has been said, the death-rate in general has been steadily falling, while almost every other medical statistic, as, for instance, that of infant mortality, has been improving, there has been virtually no decline in maternal mortality. For instance, in Great Britain 5 per 1,000 women died in childbirth in the years 1906–10, in 1927, 4.11. In the United States the rate was 6.8 per 1,000 in 1921 to 6.6 per 1,000 in 1926. The Minister of Health had to confess in the House of Commons in June, 1933, that in more recent years the rate had been actually on the increase. When we consider the enormous improvements in medicine in recent years, the large number of people in every circumstance whose lives can now be saved and whom a previous age would have allowed to perish, it is clear that an almost stationary maternal mortality rate implies an enormous increase in the proportion of births where delivery is difficult. And I do not think that it would be possible to find any doctor who has been in practice for the last twenty years or so who would not agree that there had been such an increase.

The fact is certain, the explanation of it uncertain, and it would obviously be absurd for a layman to pronounce pontifically on a matter on which medical opinion it still undecided. But it seems to be agreed that the responsibility for the increased difficulties must be divided in uncertain proportions between three causes. First, a high standard of living increases the difficulties of delivery. Women among the Australian aborigines are said to bear children with hardly any difficulty at all and even in our own country there seems no doubt that the bearing of a child is as a rule a much greater difficulty to a rich than to a poor woman. Secondly, other things being equal, the more ardently desired a child is, the easier the bearing of it is likely to be. Thirdly, it is more difficult to bear children if the first child is born at a late age when the mother's bones are hard and formed. Therefore late marriages mean difficult deliveries.

Of these three causes the first and second, if they can be removed at all, yet certainly cannot be removed instantaneously and by any simple remedy. The third on the other hand can easily be removed in an age of plenty. People do not for the most part postpone their marriages to the unnatural age of 30 or so out of preference for a late marriage. They do it under protest and with results often disastrous alike to their health, their happiness and their morals, because under the present system only the exceptionally lucky, at any rate among the educated classes, can afford to marry at any earlier age. The reason for that is that the habit has grown up in modern English business of distributing the wages and salaries of the business in such a way that the old get almost everything and the young almost nothing, if indeed they do not have to pay for the privilege of working. This habit has grown up in an age that is very frankly sceptical of the possibilities of sexual continence. It means therefore that our modern economic system is organised on the presumption, sometimes tacit, sometimes quite openly admitted, that young men in the twenties will live by picking up prostitutes. Now it is reasonable that a person's salary or wages should increase somewhat with increasing experience, but it is impossible to deny that the present proportions of distribution, considering what are their results, are both wicked and unreasonable. If we can solve our financial difficulties, if an age of plenty is before us, then it is but common sense to demand that a large share in every business' increased wealth should find its way into the pockets of young men in the twenties. If this is done, marriages in the early twenties will again become the rule and a young man will no longer have to live through that horrid gap in his life when Nature demands matrimony and finance forbids it. He will marry younger and therefore will marry a younger wife, who will thus bear her first child at a more natural age. It would be difficult to think of any other single change in our social machinery which would make so greatly for increased happiness. The decline in the birth-rate to-day is particularly notable in the professional class. It is this class which is more especially compelled to late marriage by present economic conventions.

Another cause of a small birth-rate is certainly the employment of women in factories. The birth-rate for instance, in mining districts, where it is not the custom for the women to work, is more than double that of textile towns such as Bradford where the women go to the factory. If wages are higher or if wages cease to be the only method of obtaining purchasing power, if it comes to be recognised that the country can produce abundance without employing all its available labour, then the unnatural employment of women in factories will clearly cease. One result of its abolition should be a rise in the birth-rate.

How much emigration there will be in the coming century, what part that will play in the problems of population, it is impossible to say. Just at the moment, owing to the depression, there is actually a flow back from overseas countries into England. In 1931 255,768 people immigrated from overseas into England, while only 213,057 emigrated from Great Britain to overseas. This is a state of affairs so wholly unnatural that it cannot continue. But, whether there will ever again be a considerable volume of migration, it is hard to say. It is almost certain that there will never again be anything like the volume that there was in the nineteenth century. There are indeed vast tracts of unoccupied or under-occupied lands in the Dominions. But what proportion of those lands are, or can be made, inhabitable for white men, what proportion the Dominions will wish to keep for their own citizens, what proportion they will be able so to keep, no one can say.

It is then reasonable to prophecy that the future will see a still further fall in the death-rate and that the solution of our financial problems will bring with it a certain rise in the birth-rate but by no means a rise to any figure such as that at which it stood in the middle of the last century, unless, side by side with the age of abundance, there should come a great psychological change, a strengthening of the will to reproduce.

Such a change is possible. But it is also quite possible that, far from such a strengthening of the will, there will come a weakening of it, a weakening sufficient to counterbalance the effect of earlier marriages, perhaps sufficient to throw into jeopardy the whole of our civilisation. For, though it is true—and indeed a platitude—that an insufficiency of food must inevitably produce either a higher death-rate or else a lower birth-rate, yet I do not think that there is an instance in history of either a nation or a class perishing through insufficiency of food. And it is notable in modern England that the classes among which the birth-rate has fallen most rapidly and which use contraceptives most freely are the classes, whose children, if they produced them, would be in no serious danger of undernourishment. The Glasgow slum-dweller, who might be most easily excused for using contraceptives, does not use them much and has a high birth-rate. Some say that he would use them if he could get them. It may be so or it may not be so, but at any rate in fact he does not do so. The upper classes and the professional classes use them widely.

In other words, boredom is a much more potent cause of race-extinction than starvation. The races that have died out or are dying out are almost always aboriginal races who, after the seizure of their country by a foreign conqueror, no longer have the heart to propagate children to live as slaves or subjects in the land in which they themselves or their ancestors lived as freemen. The diseases which the conquerors bring with them often help the process of extinction, but I do not think that it is denied that discouragement is a large part of the explanation of the dwindling of such races as the Australian aborigines or the American Indians, the Hawaiian or the Fiji Islanders.

Inside a single race the class that dies out is not, as one might expect from the thesis of subsistence eugenics, the poorest but always the aristocracy. Thus, for instance, the ancient Greek stock seems almost to have come to an end in the early days of the Roman occupation of Greece; the lower, mixed races survived. 'It is a law which hardly admits of exception,' truly writes Dean Inge in his essay on the *Future of the English Race*, 'that aristocracies do not maintain their numbers. The ruling race rules itself out; nothing fails like success. Gibbon has called attention to the extreme respect paid to long descent in the Roman Empire and to the strange fact that, in the fourth century, no ingenuity of pedigree-makers could deny that all the great families of the Republic were extinct, so that the second-rate plebeian family of the Anicii, whose name did not appear in the Fasti, enjoyed a prestige far greater than that of the Howards and Stanleys in this country. Our own peerage consists chiefly of parvenus. Only six of our noble families, it is said, can trace their descent in the male line without a break to the fifteenth century. The peerage of Sweden tells the same tale,' as also does, it is said, the pedigree of the original settlers in the United States.

Of this decline of the Roman world the Dean writes in another essay, on the *Birth-Rate*, 'If a nation has no hopes for the future, if it is even doubtful whether life is worth living, if it is disposed to withdraw from the struggle for existence and to meet the problems of life in a temper of passive resignation, it will not regard children as a heritage and gift that cometh from the Lord but rather as an encumbrance. That such was the temper of the late Roman Empire may be gathered not only from the literature, which is singularly devoid of hopefulness and enterprise, but from the rapid spread of monasticism and eremitism in this period. The prevalence of this world-weariness of course needs explanation and the cause is rather obscure. It does not seem to be connected with unfavourable external conditions, but rather with a racial exhaustion akin to senile decay.'

If the nation at large is freed from the fear of want, what are the probabilities that it will thus collapse before this *taedium vitae*, as aristocracies have collapsed in the past? It is not given to man to foresee the future, but for myself I must confess that the more that I meditate on this question, the more does it seem to me to depend upon the extent to which the next generations accept or reject the Christian revelation. The craving of man is for an assurance of the survival of death. If he can accept the Christian revelation he has that assurance, and the assurance brings with it happiness and the belief that life is worth living and by consequence worth propagating. Whether it be because of their rational and evidential weaknesses or merely because he is a creature of his environment, it does not seem to be really possible for a European to accept, save as a pose, any revealed religion other than the Christian. If then he cannot accept the Christian revelation, he is haunted with the fear that he can never cheat Time and that the last victory will be with Death. Why should he bother to bring other creatures into the world to fight out again that sad and losing and inevitable fight which he himself has fought? What is the point of it all? The bearing of children is most uncomfortable for the mother and the rearing of them most expensive for the father. If we are born to co-operate with a Divine purpose and if, as Dante taught, happiness is the peace which comes to us as a result of such a co-operation, then men and women will laugh at the discomfort and the expense and be the happier for their laughter. But if there be no such thing as a state of happiness and the most that we can hope for is to snatch as many moments of passing pleasure as possible before the inevitable end, if life is in any event irretrievably hopeless, but life with a motor-car slightly less unpleasant than life without one, then a family becomes merely a folly.

It is common in discussing comparative birth-statistics to note that the birth-rate is higher in Catholic countries or districts than in non-Catholic. For instance, Sir William Beveridge, in a very interesting study, has shown that this holds true not only between nations but also within a nation as, say, between the Catholic and non-Catholic provinces of Holland. It is usual to account for this disparity by saying that Catholics are forbidden to use methods of contraception, and the explanation is, of course, true as far as it goes, but it is surely legitimate to probe a little deeper. It is true that Catholics believe that, if they use contraceptives they commit a sin, but it is not at all true to say that the good Catholic refrains from the use of contraceptives merely because it is a sin. He refrains from the use of contraceptives because he wants to have children. So, too, it is true that the technique of contraception was not developed until the middle of the last century, but it is hardly to be believed that that not very difficult technique would not have been developed earlier if there had been any very large demand for its development. People have not stopped having children because contraceptives have been invented; contraceptives have been invented because people wished to stop having children.

In the past, when the acceptance of the central doctrines of the Christian faith was general, there was no great variation between the birth-rates of Catholic and Protestant countries. Let us take the figures of 1876. We find that France, where sceptical doctrines were widely held, had a lower birth-rate, but, with that exception the figures, ranging from 30·8 in Sweden to 40·9 in Germany, show but little variation between the different western European countries. Since then a decline has set in. Of that decline the *Encyclopædia Britannica*[1] writes, 'It began in the North among the Scandinavian countries where the birth-rate was, if anything, lower than in other countries, extended then to Middle Europe and thence to countries further south.' It is not, I think, disputed that of all nominally Christian countries the Scandinavian are those where the Christian faith is most widely disbelieved or disregarded, while England and Germany, the countries which followed next after the Scandinavian countries

[1] Art. on *Birth-rate* by S. de Jastrzebski.

in the decline, were, together with France, which already had a low birth-rate, the countries where the modernist movement flourished most strongly. Indeed the decline of the birth-rate, both in so-called Protestant and in so-called Catholic countries, has been in direct and exact proportion to the rejection by the inhabitants of those countries of the Christian revelation.

That decline has also been most rapid wherever finance has been most strong, for the argument of finance is, 'The fewer children, the lower the subsistence wage; the lower the subsistence wage, the smaller are "costs."' Thus the era of the falling birth-rate has also been the era of fierce competition between the industrial countries of Europe for markets for the export of their surplus capital, and the European countries with the highest birth-rates, Spain, Austria, Italy, Hungary, the Balkan countries and Russia, have also been the countries with the smallest foreign investments. While this is true in European countries, at the same time the birth-rate of Japan has been steadily rising.

Side by side with the power of finance, the decline of Christian faith, the falling birth-rate, has gone a steady increase in the suicide-rate. It was, as far as I am aware, Mr. C. E. M. Joad, an anti-Christian agnostic, who first called attention to this. 'For the first time in history,' he wrote, 'there is coming to maturity a generation of men and women who have no religion and who feel no need for one. They are content to ignore it. Also they are very unhappy and the suicide-rate is abnormally high.'[1] Indeed the figures of that rate are striking. In Great Britain in 1871–5, 66 people

[1] Quoted by Mr. Arnold Lunn in *Public School Religion.*

per million committed suicide; in 1881–5, 75; in 1891–5, 88; in 1901–5, 100; in 1911–4, 99; in 1926, 114; in 1930, 127. The figures for other countries tell a similar tale. In the last fifty years Australia's rate has risen from 99 to 118, Italy's from 50 to 92, Holland's from 31 to 62, Sweden's from 80 to 140, Switzerland's from 190 to 230. Only Spain, under General Primo de Rivera, who defied finance, had, whether by coincidence or as a reward, a rate of but 37 suicides per million. It is no part of the business of the sociologist to argue whether the Christian faith is true; it is his business to record the evidence that, without the possession of it, the European man and woman cannot apparently be happy.

Whether, when finance is controlled, a consequence of that control will be a reversal of the whole process, a revival of the Christian faith and a consequent fall in the suicide-rate and rise in the birth-rate, is what it will be interesting to see. But for eugenic, as for many other reasons, the present writer, at any rate, has little doubt that the future happiness both of England and of Europe is directly dependent upon the acceptance of the arguments for the Christian faith.

XIV

THE DANGER AND THE HOPE

WHATEVER the precise plan that may be adopted, whatever mistakes may be made, whatever calamities may be suffered before the problem of purchasing power is at last solved, there can surely be little doubt that it will be solved at last. It is inconceivable that the world will be content for long 'like a blind horse, to starve knee-deep in corn,' to tolerate want with abundance all around, the destruction of food while men and women and children are perishing for the lack of it. And, if sound finance continues to put forward such a demand, then at the last it will be so much the worse for sound finance. Truth has its rights simply because it is truth, and the present system depends for its continuance on pretending that things are otherwise than they are. The gold standard means something quite different from that which it is pretended to mean. The word 'loan', in the phrase 'bank-loan,' has a different meaning from that word in a private transaction. People are shown a bank's balance-sheet and not told that the bank has hidden reserves which do not appear on that sheet.

Indeed the historian has to record that in almost every age there was some superstition or other of utter unreason which strangely occupied the minds of men, otherwise of activity and vigour. He has to confess that he cannot explain how it was that men once believed in the mystical significance of numbers or in the claims of astrology. We are sometimes ready to congratulate ourselves that our age has outgrown all superstitions. But the historian of the future will, I fancy, reckon in the same class as number-worship and astrology and the study of the gizzards of birds the strange superstition that, whenever money is invented, a percentage must be paid for ever afterwards as a propitiation to a banker. It is on that superstition that the whole empire of Mammon is built.

There is no basis for it in reason, and in our day, when it has for the first time been overtly recognised and challenged, the defenders of it have utterly failed to justify their superstition. Lord Snowden, in a panegyric of Mr. Montague Norman, described[1] Mr. Norman's critics as 'ignorant demagogues who know as much about monetary and financial matters as a boat-horse.' No doubt a careful search of the newspaper cuttings would show that many foolish things had been said in criticism of Mr. Norman, as of every other public man, but nothing could be further from the truth than to imagine that the policy of Mr. Norman and Lord Snowden has been criticised only by people who did not know what they were talking about. The policy of the Bank of England and, up till now, of the Treasury, has been one of restricting the money supply in the name of sound finance and of leaving the problem of the equating of purchasing power with goods to be purchased to look after itself. Nothing could be more false than the notion that this policy has the unanimous support

[1] *Spectator*, October, 1932.

of expert opinion and is attacked only by cranks—or by enthusiastic artists who know nothing of business, such as Mr. Eric Gill and Mr. Compton Mackenzie. It would be well for this country if most of its business men had as clear an understanding of the nature of money as have Mr. Gill and Mr. Mackenzie, but it is absurd to pretend that their voices, and voices such as theirs, are the only ones raised in criticism of the present order. The opposite is much more nearly true. The Banks' policy has been attacked by the ablest of living English bankers, Mr. McKenna. It has been attacked by the most eminent living student of the theory of prices, Mr. Hawtrey. Despair at its futility has driven Mr. Keynes into economic nationalism. The ablest economist in the Bank of England's own directorate, Sir Basil Blackett, has in effect attacked it in his book, *Planned Money*. Even from the very houses of international finance, voices, such as those of Mr. Robert Brand, have begun to be raised in question whether a policy of international finance is any longer wholly justified. The United States enjoyed abounding prosperity by pursuing a directly opposite policy to that of the Bank under the rule over the Federal Reserve Bank of Benjamin Strong, turned to the policy of Mr. Norman and collapsed into chaos and to-day is being rescued from that chaos owing to President Roosevelt's abandonment of Mr. Norman's policy. The experts differ widely from one another on almost every subject; it would be hardly an exaggeration to say that the one point on which they are agreed is in their criticism of the policy of the Bank of England.

Even less justified than the notion that sane, expert opinion is in favour of the present financial policy, is the notion that defence of our financial system is necessary for the general defence of our society against the menace of Bolshevism. The moral appeal of Communism comes from its insistence on the fact that the poor have been exploited. No answer to Communism which seeks merely to deny this patent truth will have much prospect of success. The objection to Communism is not that it exposes this exploitation but that it gives very little guarantee that even under its rule such exploitation will cease.[1] Nothing is sadder than to meet country-gentlemen or army-officers—people of the class to whom, above all, the country ought to be able to look for support in a fight for the preservation of its traditions—who growl that criticism of international finance is 'socialism.' Finance from the first threw itself on to the liberal side. It made it its business to undermine those traditions of service upon which our life was built up—the monarchical tradition, the landed tradition, the military tradition. It appealed to the principle of equality to dethrone a monarch

[1] It is notable that the first concern of the Soviet whenever it has made any of its trade-pacts with other governments has been to arrange for credits. Financiers have not been unwilling to give it these credits because, if there is to be foreign lending, they prefer to lend to a government rather than to a private firm, for it is more difficult for a government to default. 'Foreign capitalists who come into the U.S.S.R. with serious intention to develop our natural resources and to invest their capital in the country's industries meet with the good will of the Soviet Government and obtain opportunities for working at a profit which gives them an interest in making additional investments beyond those provided for in the concession agreement'—Economic Survey of the State Bank of the Union of Soviet Socialist Republics, Moscow, January, 1929.

or to abolish a Corn Law, but it admitted no such appeal when the question was that of distributing more widely the world's supply of gold. The consequence was that by the third quarter of the last century, a liberal society was produced, in which reverence for and recognition of order as a thing divinely constituted were perilously weakened, in which all privileges save those of wealth had been either whittled down or abolished, while the privileges of wealth were enormous, increasing and carried with them no corresponding duties.

In the middle of the last century two able and far-seeing thinkers, approaching the problem from diametrically opposite points of view, came by curiously similar arguments to a curiously similar conclusion. They were Pius IX and Karl Marx. They both pointed out that a society, built upon financial liberalism, was of its very nature unstable and must inevitably collapse into Communism, a conclusion which Marx, of course, welcomed and Pius abhorred. For such a society admitted and refused the appeal to equality on no ground of principle at all but merely as that appeal happened or did not happen to suit the interest of the masters of the state. It was inevitable that sooner or later the poor would invoke against the rich those principles which the rich had to their own convenience invoked against priest and king. The Pope in 1864 in his encyclical, *Quanta Cura*, wrote, 'Is there any one who does not see and plainly perceive that a society of men which has broken from all the bonds of religion and true justice, can have no other object before it save that of planning for and amassing wealth and in its actions can follow no other law save the unbridled greed of a mind which is the slave to its pleasures and desires?' In such a society why should the poor pay respect to the rights of the rich? Three years later Karl Marx in the first volume of his *Das Kapital* wrote that, owing to liberalism, 'the notion of human equality has already acquired the fixity of a popular prejudice.'[1] Liberalism itself taught that the main business of man was the acquisition of material wealth and yet denied him most flagrantly this equality on the very field on which, according to its own teachings, he would most desire it.

It is only in its hour of panic, in the hour of the collapse of liberalism, that finance has begun to make overtures for alliance with the upholders of tradition, but tradition will make a fatal blunder if it accepts an alliance so false to itself. The power of finance depends upon its ability to persuade people that they live in an age of scarcity—in an age in which men and women are lucky if they can get enough to keep body and soul together. That is not true. We live in an age of plenty. It is not to be expected, nor indeed to be wished, that the poor will tolerate for ever the abominable paradox of starvation in the midst of plenty and the destruction of food. The poor have been wonderfully patient but there is a limit to their patience. If the leaders of traditional society confess that it is beyond their wits to find a way of enabling the world to consume the goods which it produces, people will inevitably turn to the enemies of tradition. If this problem is not soon solved the Tory way, an attempt will be made to solve it the communist way instead.

[1] p. 29.

There stand these two truths—that Man cannot live by bread alone and that there is to-day plenty of bread for everybody. These two truths are in no way contradictory of one another. On the one hand we can to-day abolish poverty and the fear of poverty from the country and, if we do so, we abolish a cause of human unhappiness so enormous that we have no right through timid fear of the consequences to refuse to take this tremendous step. As Major Douglas very truly says in his *Social Credit*, it is conceivable—since the future is all unknown—that mankind will still be as unhappy as it was before after the fear of want has been removed, but we cannot expect mankind to accept that 'on hearsay.' Having arrived at a position where we are able to make the great experiment, we have no alternative but to make it.

On the other hand such a book as Mr. Aldous Huxley's *Brave New World* is an important book, a timely reminder that the problems of happiness will not automatically solve themselves. There is no wisdom beyond the wisdom of the immortal paradoxes that to serve is to reign and that he who would gain life must lose it. There never has been nor will there ever be any society that has achieved any lasting happiness other than a society which honours and widely practises asceticism. Ascetic poverty, voluntarily accepted by individuals who deny themselves material goods for the sake of greater good, has nothing in common with enforced poverty, a scarcity of food, imposed by a system on millions without their consent and by people who at the same time preach that material goods are the only goods. Indeed it is hardly possible to embrace poverty voluntarily if it is already imposed upon you by necessity.

There are some people, such as Dr. Schacht, who seek to solve the problem by merely insisting that there will still be work for all because human desires are illimitable. 'Unless the last coloured man in the African Continent has a wireless apparatus installed in his hut, let me not be told that there is a lack of markets,' writes Dr. Schacht. While we must agree with him that talk of the world suffering from over-production is blind nonsense, surely the example which he has chosen is not a very happy one. A world, in which all the white men work hard at jobs that they do not like in order to shovel out to black men a lot of rubbish that they do not want is rather a madhouse than a Utopia. On the contrary the excessive demand of the present generation for mechanical amusements is but an evidence of its boredom and aimlessness and unhappiness, and it would be a much truer sign of progress if there were a decrease in the demand for wireless sets in England than if there were an increase in that demand in Africa—if, for instance, it should once more become possible to have dinner with a friend in a quiet English country inn and to enjoy his conversation rather than be compelled to submit to the belching cacophonies of a loud speaker.

On the other hand there are the writers at the end of the *New English Weekly* who call themselves 'intellectual hedonists,' and who seem to think that the occupation of unlimited leisure presents no problem at all, provided only that one is filled with a sufficient measure of contempt for 'the preposterous claims of the life of action.' A slight acquaintance with the Fiji Islanders or with the inhabitants of Mayfair should surely be sufficient to refute this easy faith. This world is not a lotus-eaters' world nor is man a creature so made that he could enjoy it if it were. Boredom is an enemy to happiness only less powerful than hunger. The old economists of laissez-faire made the mistake of considering man solely as a producer; in reaction from that some of the new economists are in danger of making the opposite mistake of considering him solely as a consumer. But man, if he would have a satisfied and happy life, requires indeed to consume, but he also requires, if not to produce in order to satisfy a need of others, at least to make in order to satisfy a need in himself. Mr. Eric Gill is justified in his uneasy doubts concerning the place that artists will find in the brave, new world.[1]

Mr. Gill is rightly contemptuous of those who tell him that the new citizen in his ample and well-endowed leisure will doubtless play about with such hobbies of painting and carving as happen to appeal to him. Dilettante pastimes are not enough. It may be that all our activities are very futile and that it matters nothing whether we do well or ill, but at least the mercy of God allows us to keep the illusion, if illusion it be, that it makes a little bit of difference and without that illusion happiness is not possible for us. In order to satisfy the soul the instinct to make must be taken seriously and, man being as he is, he can only take seriously what he does under the spur of some external necessity. Until now it has been the fear of starvation

[1] In *Beauty Looks After Herself*, *Unemployment*, etc.

which has saved the artist from dilettantism. What will there be to save him in the future? All the virtue goes out of work when it is known to be unnecessary. For Miranda's sake Ferdinand was glad to be 'a patient log-man,' thinking, as he did, that someone's labour was necessary to move the logs, but he would not have been glad to move the logs, had he discovered that Prospero could move them just as well by waving his wand, and without anyone's labour at all. And to-day the cat is out of the bag. Prospero's wand is in our hands and, for better or for worse, people know that it is in our hands. How are we to spend our lives?

The answer is surely clear, though whether it is an answer of which the human race will be found capable none can say. Our quarrel with the orthodox liberal economists is not that there was this or that fallacy in their reasoning, this or that factor that they overlooked; it is that their whole economic theory was fundamentally atheist. They allowed God to have no say over all the economic activities of man. They attempted to organise human society apart from God, to build up a system on the postulate that man neither does nor can desire anything save his own gain. Mr. Gladstone said of the Turkish Empire that it was 'the negation of God erected into a system of government.' He need not have cast his eyes as far abroad as Constantinople to have found such an empire. That system did not collapse at once only because it was worked by men whose practice was greatly superior to their principles —by judges who refused to sell justice, by soldiers, who refused to sell their swords in the dearest market, by country-gentlemen with a decent tradition of kindliness and public-service, who refused to allow their money to find its own level and to leave their tenantry to starvation, by honest workmen who did honest work for their pride in it and not merely for the lining of their pockets. To-day it has collapsed.

Our chance of happiness is that we should substitute for it in its collapse not a system of intellectual hedonism but the old Christian vocational system. The catechism of the Church of England bids its disciples to 'do their duty in that state of life unto which it shall please God to call' them. From time to time a correspondence, denouncing this command as reactionary, bursts out in the newspapers, but in truth what ambition could be saner, more dignified, more worthy of a man? How can anyone believe that the Benthamite ideal of a lot of cads on the make is either a nobler ideal or one more likely to lead to human happiness?

There is no lack of things to be done in the future, even though the problems of providing the daily bread do not press so hardly upon us as in the past. The gospel of competition has performed so thoroughly its Satanic work of dividing class against class and nation against nation that our days and our children's days will be quite adequately occupied in undoing its evil. The great problem of the more equal distribution of property, which is quite insoluble as long as our currency is controlled by finance, will come up for solution. The beneficent force of electricity will enable us to spread out our population more evenly over the country. Men travel more easily than coal, so, as long as machines were worked by coal, the workers had to congregate together in large towns and large factories. But electricity travels more easily than men and therefore with electrical development there is no reason why we should not combine the advantages of machine production with the freedom of the old domestic industry. When the problem of quantity is solved, when there is no longer the fear of scarcity, we can pay more attention than we have been able to pay in the past to the conditions under which people are compelled to produce and to live, to the problems of quality.

The penetration of Europe into the non-European world is now inevitable and irreversible. Yet up till now it is a general truth that all that European culture has shown to the non-Europeans has been its most disgraceful and most unlovely side. The European has appeared among them as a trader, at his worse as a dishonest trader, at his best as one who, even though honest, was yet indifferent to everything save material gains and comforts. Missionaries of every denomination have heroically done what they could to correct the impression but there is no denying the horrible truth that the general lesson which non-Europe has learnt from Europe as the result of fifty years of contact is that, the higher a people rises in civilization, the more indifferent it becomes to religion. There is a task to undo that lesson—if people would know how they can occupy their time in this new world. Whatever the risks we must go forward. The cry of the poor does not permit us to tolerate any longer the monstrous empire of money-lending which has risen step by step with the decline of Christian faith, the evil insolence of rich men enjoying power just because they are rich.

Shakespeare once chronicled for us the gigantic catastrophe of the collapse of mediaeval England and he put into the mouth of old, dying John of Gaunt that old and dying society's indictment of those that killed it. With a poet's sureness of touch he told that England was perishing, because she was

> 'now leas'd out . . .
> Like to a tenement or pelting farm.'

She was

> 'bound in with shame,
> With inky blots and rotten parchment bonds.

So the whole history of mankind, the record of the literature of every age bear witness that there is no slavery more galling and more dreaded by man than slavery to the money-lender. It is now some two centuries and a half in this land since that evil and insensate day when a Dutch usurper bartered the majesty of kingship for a crown, and the price that we pay for that barter is that for us the acceptance of the slavery to the money-lender is not as it was in the time of Richard II, as it was in the time of Shylock, the exceptional penalty of folly or extravagance or great misfortune. It is the condition without which we cannot produce a single one of the necessities of life. The very newborn babe is born a debtor into the world. This is not rhetoric. Would that it were rhetoric. It is the literal truth, and Governments in England, of whatever party label, while they interfere as they have never interfered before with the little social habits of the people, are at one only in their fear to reclaim for sovereignty its most essential attribute and to say that Shylock shall have justice but he shall not any longer have more than justice.

There was a braver man in Spain but he was not as strong as he was gallant, and the mighty forces, that were in his time enough to bring Napoleon to his knees, were too great for a poor Spanish general. But there has come in our own day a new voice out of the West, the voice of a man who, elected by an accident of politics but by the grace of God to the leadership of a great people, can speak as a king and who, in the midst of confusion and clamour and uncertainty, has thrown down the challenge to the gathering empire of Mammon. The fight is gigantic and the whole future of mankind at stake. Of President Roosevelt it is too early yet to say much except that he is a brave man and that the prayers of millions are with him in his battle. He can claim, as the first of his predecessors claimed when fighting on a lesser issue and in a more doubtful cause, 'I have erected a banner to which the wise and the brave can repair. The event is in the hand of God.'

APPENDIX A

ON WORGL

FROM *The Week*, May 17th, 1933.

'Unprecedented and widely significant is a case—just coming before the Austrian courts—arising out of the alarm of the Austrian National Bank[1] over the financial revolution which has brought prosperity to the little Austrian town of Worgl, and which the Bank fears is going to compete with its own monopoly powers. Worgl had been moving rapidly to bankruptcy since the beginning of the crisis. Its factories closed down one after another and unemployment rose daily. Nobody did any business and scarcely anybody paid any taxes. Then Unterguggenberger, Burgomaster of Worgl, proposed the following plan, which was adopted. The town authorities issued to the value of thirty thousand Austrian schilling notes in denominations of one, five and ten schillings, which were called tickets for services rendered. The special feature of these notes was the fact that they decreased in value by one per cent every month. Anyone holding one of these notes at the end of the month had to buy from the local authorities a stamp of sufficient value to bring the note up to face value. This he affixed to the back of the note, and the proceeds of the stamp

[1] The so-called Austrian National Bank is at present completely under foreign control, the finances of the country being in the hands of a Commissioner of the League of Nations.

went to the poor relief fund. The result was that the notes circulated with unheard of rapidity. They were first used for the payment of wages for the building of streets, drainage and other public works by men who would otherwise have been unemployed. On the first day when the new notes were used eighteen hundred schillings worth were paid out. The recipients immediately hurried with them to the shops, and the shopkeepers and merchants hastened to use them for the payment of their tax to the municipality. The municipality immediately used them to pay the bills. Within twenty-four hours of being issued the greater part of this money had already been passed on its way again. During the first month, the money had made the complete circuit no less than twenty times. There was no possibility of anyone avoiding the one per cent stamp tax on any note he happened to hold at the end of the month, since without a stamp to bring it up to face value, the note lost its entire value. Within the first four months after the issue of the new money, the town had accomplished public works to the value of one hundred thousand schillings. A large proportion of tax arrears had already been paid off and there were even cases of people paying taxes in advance. Receipts of back taxes were eight times greater than in the past before the introduction of new money. Unemployment is now reduced enormously, the shopkeepers are prosperous. The fame of the Worgl miracle spread. Irving Fisher, American economist, sent a commission of enquiry to Worgl, and the system has been introduced in a score or more of American townships. The Austrian National Bank however was highly disturbed by the whole proceeding. Now Unterguggenberger is being brought before the courts to explain himself and his plan.'

At the time of writing (December, 1933) the case is still *sub judice*.

APPENDIX B

EXTRACT FROM THE DEBATE IN THE HOUSE OF COMMONS ON LORD ASHLEY'S MOTION TO REGULATE HOURS OF LABOUR IN FACTORIES, MARCH 15, 1844.

RT. HON. SIR J. R. G. GRAHAM (CONSERVATIVE. HOME SECRETARY IN SIR ROBERT PEEL'S ADMINISTRATION): "My noble friend stated that he would not enter into the commercial part of the question; but if I can show that the inevitable result of the abridgement of time will be diminution of wages to the employed, then I say, with reference to the interest of the working classes themselves, there never was a more doubtful question before Parliament than this. The House will remember that the branches of manufacture affected by this bill are dependent upon machinery. Such is the rapidity with which improvements are made that no machinery can last more than twelve or thirteen years without alterations; and master manufacturers have been obliged to pull down machinery that was perfectly sound and good to make the necessary alterations which competition forces upon them. Well then, it is necessary to replace machinery in the course of twelve or thirteen years. You are now discussing whether you shall abridge by one-sixth the period of time in which capital is to be replaced, all interest upon it paid, and the original outlay restored. Such an abridgement would render it impossible that capital with interest should be restored. Then in the close race of competition which our manufacturers are now running with foreign competitors, it must be considered what effect this reduction of one-sixth of the hours of labour would have upon them. The question in its bearing upon competition must be carefully considered; and I have been informed that in that respect such a step would be fatal to many of our manufacturers—a feather would turn the scale; an extra pound weight would lose the race. But that would not be the first effect. The first effect would fall upon the operative. It is notorious that a great part of the power of the mill-owners, a power which alone justifies such legislation as this, arises from the redundant supply of labour. It follows that, when a master is pressed upon by your legislation, he will compensate himself by forcing upon those in his employ a decrease of wages. I believe the large majority of intelligent operatives comprehend that proposition thoroughly. I have seen many and conversed with them and they have admitted that the proposal involves a necessary decrease of wages. In the report presented in 1841 by my excellent friend, Mr. Horner, who has discharged with the most honourable fidelity the duty of inspector of factories, there is information upon this point, and with the permission of the House I will read a passage—a single passage only—but one which goes to the root of the whole subject. Mr. Horner said,

"'I have made an estimate of the loss a mill would sustain from working eleven hours a day only instead of twelve, and I find it would amount to £850 per annum. If it were reduced to ten hours, it would be about £1,530 per annum. Unless therefore the mill-owner can obtain a proportionately higher price for the commodity, he must reduce wages or abandon his trade. I have made some calculations as to the probable reduction of wages and of the whole loss that would be thrown on the operatives. I make the amount in the case of eleven hours a day to be 13% and in the case of ten hours a day 25% at the present average rate of wages.'

"Now I believe this to be perfectly accurate. The question then arises, whether you shall create in the manufacturing districts one sudden general fall of wages to the amount of 25%? I believe that the adoption of the motion of my noble friend would produce that effect. Though I am most anxious to take every precaution with regard to infant labour—though I am as firmly resolved as my noble friend to urge upon the House to put a limit to female labour, still, upon the whole, I cannot recommend the House to adopt an enactment which limits the labour of young persons to a shorter period than twelve hours."

MR. T. MILNER GIBSON (LIBERAL AND ANTI-CORN LAW. MANCHESTER). "As the Rt. Hon. Baronet had alluded to the argument of not destroying the profits upon manufactures, he (Mr. Gibson) would read some remarks upon that point by Mr. Senior, a gentleman whose name would be of great weight with honourable members. In 1836 or 1837 Mr. Senior, with some other gentlemen, went into the manufacturing districts with the view of ascertaining the effect of factory legislation, and making observations on the factory population. Mr. Senior wrote a letter dated the 28th March, 1837, to Mr. Poulett Thomson to the following effect,

"'Under the present law no mill in which persons under eighteen years of age are employed (and therefore scarcely any mill at all) can be worked more than eleven and a half hours a day, that is twelve hours for five days in the week and nine on Saturday. The following analysis will show that in a mill so worked the whole net profit is derived from the last hour. I will suppose a manufacturer of £100,000—£80,000 in his mill and machinery and £20,000 in raw material and wages. The annual return of that mill, supposing the capital to be turned once a year and gross profits to be 15%, ought to be goods worth £115,000, produced by the constant conversion and reconversion of the £20,000 circulating capital from money into goods and from goods into money in periods of rather more than two months. On this £115,000 each of the 23 half-hours of work produces 5/115ths, or 1/23rd. Of these 23/23rds (constituting the whole £115,000) 20, that is to say £100,000 out of the £115,000, simply replace the capital, 1/23rd (or £5,000 out of the £115,000) makes up for the deterioration of the mill and machinery. The remaining 2/23rds, the last two of the twenty-three half-hours of every day, produce the net profit of 10%. If therefore (prices remaining the same) the factory could be kept at work thirteen hours instead of eleven and a half, by an addition of about £2,600 to the circulating capital, the net profit would be more than doubled. On the other hand if the hours of working were reduced by one hour per day (prices remaining the same) net profit would be destroyed; if they were reduced by an hour and a half even gross profit would be destroyed. The circulating capital would be replaced but there would be no fund to compensate the progressive deterioration of the fixed capital.'

"It was clear that this principle of Mr. Senior's was sound; if hon. gentlemen would consider it carefully they would find it indisputable. The House would consider whether they would not, as the Rt. Hon. Baronet had expressed it, be affecting the safety and stability of the great staple manufactures under the impression that they were legislating humanely for the working-classes, while, in point of fact the result would be that by the depreciation of manufactures, the greatest possible injury would be inflicted upon the operatives."