

## CHAPTER NINE

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## CHAPTER NINE

### HOW WORK IS PAID FOR AND WEALTH ACCUMULATED

#### § 1. *The Counting House Comes into the Picture*

**I**N the preceding chapter one or two fundamental things about money have been stated. It was at first a commodity like any other commodity. And there were various standards of value: cattle, land, for example, by which the relative values of things could be appraised. Metals were only one sort of standard by which things were valued. But in a slow, complex way money has become something more than a commodity. And now it is becoming something which is not a commodity at all. There is now, as we have pointed out, another way of looking at money, that is to say, as a guarantee of "purchasing power."

That was as far as Chapter VIII went with the discussion of money. It passed on to other aspects of human motive, for motive was its essential subject.

In this chapter this matter of money and monetary property is to be studied more closely. We are, as the heading of this section intimates, going to bring the Counting House into the picture.

But first let us step back for a moment and consider the whole plan of this work. The earlier chapters were designed to show the purely material development of the human community. We showed substances being subdued and handled; extraneous power brought into the service of man; food being made, treated and distributed, clothing, housing, roads, and ever-increasing means of transport being provided, and at first there was hardly a human being, except for a few scientific workers and a customer here and there, in the spectacle. It was the mechanism of human life we dealt with and nothing more. Then, having prepared the scene and the stage, we brought in the workers and managers and set them to work.

But the way in which everyone was toiling remained unexplained. Why did they do it? We tried to get inside the heads of these



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workers, to make an analysis of their mental operations. We introduced the idea of the guiding "persona" in the mind. We showed how money came into human life to liquidate what would otherwise be an impossibly complex system of services and exchanges.

The design of those earlier chapters was to suggest a panorama of great productive and distributing plants, wide cultivations, housing, hotels, transport systems, research laboratories, and the like, but in all these presentations, certain oblong areas remained blank and no attention was given them. These blanks were the counting house and the board room. But now, after our study of motives, we are in a position to deal profitably with these necessary organs in the industrial body. We can now take into our purview the going to and from the bank, the question of prices and profits that underlie the more grossly material processes of the workshop and mine. Particulars about pay envelopes, tills, cash registers, estimating costs and determination of prices, are secondary and technical matters upon which we will not enlarge, but the going to and from the bank, the declaration of a dividend, are broad essential things to which we have to give our very best attention.

Why does the factory now increase its output and take on more hands? Why does it now slack off and slow down? Why does it raise or lower the wages it pays? What is happening? It is making profits or it is making a loss. The board room and counting house are getting or losing money. Through all the machinery of production and distribution runs money. Money is the blood of this monstrous economic organism we are studying, and finance is its circulatory system.

In the *Science of Life*, there is a chapter called The Living Body. There is an account first of the blood, then of the way in which it circulates about the body, then of the organs in which it is made, refreshed, cleansed, and finally of its working and control. This is not a bad plan to follow now with the blood of the great economic body of mankind. Only we have to bear in mind that while the blood and circulation of a human body have been perfected by millions of ancestral trials, successes and failures, the economic body of mankind is a new and unprecedented and untried organism that is struggling into being, a body experimental to the extremest degree and begotten not of like parents but by the flowing together

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of a number of smaller economic systems, themselves experimental and not tried out, but suddenly by the development of communications brought into our present larger synthesis of work and effort.

### § 2. *What Currency Has to Do and What It Is\**

Now here our limitless museum of economic activities becomes extremely useful. Let us admit the enormous possibilities of curious and almost useless knowledge about money, and let us put it all in a great wing of that museum, and leave it there. (There is perhaps hardly a reader of this book who has not at some time stood on the threshold of a room devoted to numismatics—and turned away from that awful vista of yards and yards of idealized royal profiles and symbolized pretensions.) And further, in that remote wing we will imagine a most instructive exposition of old and new methods of gold-winning, and that there it is possible to trace every stage from the mine to the mint; learn about the finding of gold, the method of distributing the minted money and the immobilization of large quantities of it in reserves and hoards. That collection would also display the various types of paper and token money. Mints, assaying and the special nature and precautions of paper money printing would have their place. There would have to be a picturesque section devoted to the activities of the forger and the sweater of coin, a footnote section, so to speak, a museum exhibit of false money in the smasher's depot. All that history and detail we may take for granted here and pass on.

Moreover, if that display was to be at all comprehensive, it would have to include all the material for a précis of the varieties of monetary method, some of them still very primitive, operative or recently operative in the different sovereign states of the world. Laborious and tedious it would be, and yet discursively interesting, to trace how the widely dispersed right to mint money in the Middle Ages was gradually concentrated by the development of the modern national State, and how the steadily intensified obsession of the human mind by the idea of independent sovereignty since the Treaty of Westphalia has stood in the way of any international

\* A good and lively book not too long for the general reader is Professor Edwin Cannan's *Modern Currency and the Regulation of Its Value*. 1931.

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issues. The money of every country has been subjected to the advertisement of national symbols. Almost always, when a monarchy existed, one side of the current coin, at least, has been given over to the advertisement of the reigning prince. It was more than a little absurd that the pound which was at last used by the British only for foreign trade should carry such advertisement matter, but the association dates from the remotest use of money, and few people seem to realize its present irrelevance. It was the visible reminder that a matter of world-wide importance is still controlled by a patchwork of authorities all working for their own self-preservation, and none realizing fully or admitting frankly the functions money has to perform in a world-wide economic community. It is a picturesque survival from the quaint romantic past through which our ancestors worked their way darkly to our present use of money.

"It is surprising," said Sir Robert Hadfield in a recent address, "to realize how comparatively small in weight is the total quantity of this metal which holds such sway over our affairs. The production and stocks of gold are measured in ounces, whereas the metallurgist working in iron and steel reckons in tons.

"Recently I came across a most interesting and ably written pamphlet, 'Summarized Data of Gold Production,' by Mr. Robert H. Ridgway and the Staff of the Common Metals Division of the United States Department of Commerce, which throws much light on the part which gold has played in the history of the world during the past six hundred years. From a careful study of available records, it is concluded that the world's production of gold since the discovery of America, from the year 1493 to 1927 inclusive, amounted to 1,004 million fine ounces, including one per cent for unrecorded or under-estimated output.

"Expressed in ounces, this sounds to be an immense quantity, yet in dead solid weight it amounts to about 30,720 tons, occupying a volume of slightly more than 56,000 cubic feet, or if we consider the whole of the gold produced in the world since the time of the discovery of America, this would go into a 38-foot cube. Not a very impressive block as regards size or weight to have ruled men's passions and destinies for more than half a thousand years! I wonder if its magic power is destined to continue. . . .

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"The value of the actual and latest annual output, that is, for the year 1927, amounted to £83,000,000. From the weight point of view of a ferrous metallurgist this represents the miserable figure of only about 600 tons, or a ten-foot cube!" . . .

But we must turn away from that obscure and glittering miscellany of curious facts about gold. Our business with money is its functional value in the world organism; we are concerned not with what it has been (except in so far as this throws light upon its working now) but with what it is and what is now required of it.

We have dealt already (in Chapter VIII) with the psychological rôle of the money complex and shown how the bulk of the ordinary man's activities is based, however insecurely, on a belief in the practical trustworthiness of money. The money complex keeps the wheels of the modern economic world turning. That is the point of maximum importance about money, that *it works the worker*. Its relation to the worker is closely parallel to that of the blood in our bodies to the individual cell. It brings him alimentation and stimulus; it carries off his products.

Money guarantees, or to put it more truthfully, if the social machine is to work it should guarantee, to every worker who receives it as wages or salary, a certain definite purchasing power, and to every producer of a desired commodity, a reward in general purchasing power commensurate with the general need for his product. Then the worker or producer "knows what he is about." Work is done, services are rendered and goods produced under the most harmonious conditions. Money, then, from the point of view of the living, co-operating individual, has to be a trustworthy counter on which everyone can rely without further scrutiny. It must stand, steadily, for so much goods. On that basis everyone can deal. If a worker—in a world of steadfast money—is not content with what he gets he demands a rise in wages; similarly the producer raises or lowers the price of his commodity, and things adjust themselves by haggling and bargaining; the money throughout remaining a trustworthy and unchallenged counter of what is going on.

That is the ideal. That is money as it should be, seen from both the point of view of the general healthy activity of the community and from the point of view of the ordinary working individual.

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That is what almost everyone tries to believe money is—a sure thing—and something that will keep good. A worker who earns money wants to feel and should feel that to-morrow, or next month, or if he wants to save up for something, next year, the purchasing power of that money will be practically the same. Or, putting the phrase “purchasing power” into an equivalent expression, he wants to live in a world of stable prices. “Stabilized prices” is only another expression for trustworthy money.

But now, where are we to find the guarantees that the money we receive and pay is such a stable, trustworthy counter? Where and what is the guarantee that goods will be forthcoming and that prices are to “stay put”? The issuing authority, which is, under existing conditions, the State, the sovereign government (in the United States the federal government to which the states in that contract of federation, the Constitution, delegated the right of issue), or a controlled central bank working in more or less close co-operation with the State, makes, or rather seems and tries to make, this guarantee. But it does so under rather difficult conditions. It is not itself in the position to supply the goods its money should guarantee and which the normal worker believes it will guarantee. Except in Soviet Russia the responsible State is not the prime producer of goods nor the distributor of goods. It is not in very close or effective control of the production and distribution of goods. It has no direct and exact means of preventing shortages or gluts. Its guarantee therefore is at most the expression of its faith and belief that, through channels outside its immediate jurisdiction, the necessary goods will be forthcoming. It implies that it will do its utmost to keep the money it issues in a stable relation to the supply of goods, and the confidence and security of the general working community rest in the prevalent belief in its ability and good faith.

This, let us repeat, is the ideal money seen from the point of view of the active individual and the point of view of the commonweal. We are not writing here of the actual money in our pockets, nor of the current state of affairs. We shall come to that later. We are discussing the money that ought to be in our pockets. And clearly this ideal money of which we are writing, can only serve its end of giving a fixed and definite purchasing power, if it is issued in strict relation to the volume of goods available. In other words, a

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satisfactory money must be a "regulated" money. The circulation must be, as Keynes terms it, a "managed" circulation. It must be barometric. If prices tend to rise, the issue of money should in some manner be restricted; if they tend to fall, the issue of money should be increased. For in no other way can the worker be sure of his due reward in satisfactions and consumable goods.

We are writing here of money from the point of view of its function of working the worker—of providing an incentive to toil. But that is a modern criterion. The idea of money representing *commodities in general* and controlled to that end is entirely modern. In the ruder past, money represented or actually consisted of one single commodity which experience had found convenient and reasonably stable for trading purposes, and the worker was much more frequently satisfied by payments in kind in lieu of or in addition to monetary wages. He did not live so entirely on his wages as the modern worker does—and he did not save to the same extent. His interest in commodity prices was less vital.

Nowadays statisticians give us "index numbers" to show the fluctuations in the prices of commodities. They will give an index number for any particular year to show the general state of prices for all the staple goods consumed by the community in that year. The determination of such an index number is a highly technical matter.\* It is an approximation which can never become precise. But then every quantitative matter in life is approximate. The nature of the indications of the index number will vary with the importance attached to this, that and the other particular commodity. And manifestly our ideas of what is desirable in life, our ideas of what the normal citizen's life should be, will play an important part in the value given to this or that commodity. Social politics cannot be kept out of the index number. But under criticism and acute examination, index numbers can be worked out which will be more and more precisely indicative of the value of money in terms of material welfare—as it is judged by contemporary standards. A managed circulation of money would maintain such an index number at a constant level. The issuing authorities would watch the principal factors in general price movements, such as bank credit, money rates and the prices of raw materials; they

\* A good book for the general reader is Irving Fisher's *The Making of Index Numbers*.

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would check their deductions by any increases or decreases in the production of goods and the figures of unemployment, and would then make up their minds whether the all-important price index was likely to move. If they anticipated too great a rise in prices they would make money dear and restrict bank credit. If prices seemed about to fall they would counteract this by making money cheap and credit plentiful.

All this so far is fairly simple—until we come to working it out in practical detail. The principles are simple. They follow naturally upon our previous consideration of the rôle of money in human motivation. And if we were offering this explanation to one of Mr. Shaw's young men just hatched out of the egg, to whom we referred in § 1 of our Introduction, it would be quite natural for him to say: "Then what is all this bother about money? All this is quite straightforward. Your statistical department tells you—with ever-increasing exactitude—how much money you need to have in circulation for the type and standard of life you desire, and you issue it and increase or restrict it accordingly." And if we told him that that was not at all what we were doing at the present time, he would be very much astonished.

When we told him that the issue of money in most of our communities was directly related to the amount of gold stored in certain national banks and treasuries, he would ask us why we chose to introduce this complication into a relatively simple matter. Why drag in the gold at all? What has gold to do with it? Why take this particular commodity of all commodities and pin your monetary issue to that? Why pin money to any single commodity when it has to deal with all commodities?

We should have to answer this, and the first thing we should have to explain to him would be that this complication with gold has not been introduced into a simple business, but that the complication has always been there and that it is only now we are attempting to simplify it away. We should have to tell him that this institution of currency has grown age by age; that it has not been invented suddenly to serve its present ends; and that he must carry his mind back to a past when there was no such thing as currency at all. In fact, we should have to take him to those museum galleries we have already glanced down in the earlier part of this section and tell him the old, old story, how first all trade was barter, how the precious

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metals were found to be a most convenient intermediary in bartering—you bartered goods for them and afterwards bartered them for other goods—and so how it has come about that to this day the idea of barter, bartering gold, hampers our minds at every turn when we try to work the money invention. We want—to put the thing compactly—to give our ordinary working citizen a certain definite amount of purchasing power; that is the modern idea; but what we do in reality is to give him a bit of gold (or a bill or cheque representing—or purporting to represent—gold) which he then has to trade for what he wants. Our money is not yet actual functional money at all. It is a privileged commodity in disguise. We have built up our modern economic life on the wages system very rapidly and uncritically, and it is only now that we are beginning to see clearly and feel the consequences of the difference in nature between the functional money, the worker's cheque, we now require, and the metallic commodity that has hitherto met our requirements.

“But it would be perfectly easy now to cut the gold out of the story, would it not?”, our young man out of the egg would ask.

We should have to embark upon further explanations to show why that is not so easy. To these explanations we shall now proceed. And first it may be advisable to show our egg-born enquirer some of the things that may happen to money when it is liberated from its dependence on gold, and not, as yet, securely tethered to a statistically satisfactory index number. Then he would realize why the world puts its trust not indeed in a golden calf but in a cube of gold measuring rather less than forty feet each way, and why it clings to that block in spite of the greatest strain and hardship, for fear lest worse betide if its grip relax.

### § 3. *The Inflation, Deflation and Devalorization of Currencies*

Let us tell that story as simply as we can and with as little use of technicalities as possible.

From the middle of the nineteenth century until the bills came in for that orgy of waste and slaughter, the World War of 1914-18, the progress of the world in wealth and prosperity had been unexampled and continuous. Indeed, for three hundred years after the break-up of Christendom that progress had gone on. Much of that advance was due no doubt to invention and geographical



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discovery, but the realization of the possibilities opened up by science and invention, was greatly facilitated by the stimulation brought about by an increasing supply of the precious metals, and—in particular since 1849—of gold. Before 1849 the stimulant was silver rather than gold—silver from the discovery of America onward with gold in the second place. And then gold.

Just how much that enhanced supply of metal for currency was necessary to the modernization of the world; whether the world could have been modernized without an abundance of money is a speculation into which we will not enter. The stimulation is undeniable. Upon successive floods first of silver and then of gold the world was carried from the toil civilization of the past to the power civilization of to-day.

In 1849, gold in great quantities was found in California; in 1851, Australian gold poured in abundantly, and then Canada joined the producers and, richest source of all, South Africa (from the eighties on). Eighty-five per cent of the gold raised in the world has been added to our monetary resources during the past eighty years, and well over half in the present century. This influx of gold provided the world for a time with a world currency, an informal world currency. No one foresaw, no one planned the sudden liquidation of world trade which resulted from this gold flood. It came. And reinforcing it was a steady development of banking and a use of cheques that were, in effect, an addition to currency. But of that reinforcement we will speak later. This increase in the amount and speed of currency, by a happy coincidence, did to all intents and purposes what an intelligent economic world control would have done deliberately. It met the increased productivity of the new railway, steamship, metallurgical era, with just the thing that was needed to prevent a great fall in prices, an arrest of production and unemployment; that is to say, it *increased the volume of available means of payment*. Money was more abundant, credit had increased, and it was easy to repay debts and launch out upon new enterprises. There were fluctuations and crises, but no break-down; there were sixty years of advance and prosperity. For that period of maximum progress which ended in the war, all the chief countries of the world had currencies based on gold, currencies that underwent no very great fluctuations in regard to one another, and which increased in volume so as to keep pace generally with the ever-increasing

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production and trade of the age. There were undulations in the process, and more particularly between 1873 and 1896, but no catastrophic fall. Mankind paid off the past and faced the future with confidence.

If our young enquirer, just out of the egg, had hatched out in 1910, let us say, we should have told him of the unparalleled merits of this great gift of Providence, the gold standard; we should have expressed no doubts of its permanence; we should have explained how it combined cosmopolitan economics with national integrity, and unless he had the shrewdness to ask certain penetrating questions we should have left it at that.

The war arrested and ultimately broke up this unpremeditated monetary cosmopolitanism. Following upon the outbreak of the war the belligerent governments withdrew gold from internal circulation and resorted to the printing press to replace it. Each in its own measure overprinted. At the close of the war the practical monetary solidarity of the world had disappeared, and the overprinting of paper money continued, without any concerted action. The exchanges between the various national currencies were fluctuating in a manner that would have been incredible in the tranquil decades before 1914. Each sovereign power was struggling with its own monetary problems, and there was no world-wide realization of the need for an economic conference and board of control to deal with the world's economic situation as a whole. No one saw it as a whole. Providence had kept money working very well for sixty years—and people felt that the benevolent work would surely go on again as soon as things settled down. The Conference of Versailles, a gathering of politicians obsessed by the romantic nationalism of their school books, concentrated chiefly upon the elaboration of good ranking boundary disputes for posterity and upon punitive reparation arrangements that recalled the end of the second Punic War. And each power tried to get the better of the others. The sentimental generousities of the 1914 alliances were all forgotten. Every belligerent country was wounded, damaged, overstrained, irritated, greedy, afraid and in a state of inflamed patriotism. Each victor was resolved to get *something* for the victory. Each, therefore, presently set about the readjustment of its evidently very shaky money arrangements in its own fashion.

For the better part of a century finance had been cosmopolitan

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and had centred upon London. No one had planned that: it had happened. Finance now became national. A new spirit came into monetary affairs. As long as England had been the world's banker, the Germans, Jews, Italians and so forth, who had controlled the City naturally did not seek any undue advantages for Great Britain. They worked the gold standard by rule of thumb, taking only economic factors into account. Banking was an international service, centring in London. It had concentrated about the London nucleus, quite independently of English national quality. Financially London had never been a national centre, it had been a cosmopolitan focus. The City, throughout its gold-standard free-trading period, had existed not for Britain but for the world. All this was now changed. With the utmost ease the world forgot a monetary unification it had never fully realized.

Nearly every country in the world had been issuing more paper or token money for internal use than its resources justified. That is, there were more tickets for goods than could be honoured at the existing price level. So prices rose to restore the balance between tickets and goods. But in order to meet the interests on their debts, and to pay for war materials, swollen war salary lists, costs of demobilization, reparations, etc., etc., the separate sovereign powers (each in its own fashion) continued to increase the supply of these tickets. That is to say, independently and separately, they *inflated* the currency already in circulation. And with every increase of the volume of issued money, prices rose higher and higher.

Inflated money favours the worker and the active producers against the creditor, because one need not do so much or produce so much to earn a particular sum of money as one would have to do were the circulation not inflated. It is easier to pay off debts, to pay fixed rents, debentures, interest on loans, in a phase of inflation. Also the holders of the national securities, while receiving the monetary interest they had bargained for, get in effect nothing like the original purchasing power of their money. The community as a whole therefore is able to carry its debts more easily. It is true that higher money wages will be eaten into or even eaten up by higher prices, but these in their turn are made up for by increased employment. It is the family wage and not the individual wage which determines the level of working-class prosperity. Every belligerent

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government was heavily in debt for war expenditure to the creditor sorts of people, and inflation was a very convenient equivalent of bankruptcy. All the world was burthened with debt, and it would probably have eased the world situation immensely if there could have been a concerted simultaneous equivalent inflation of all currencies, if, for example—and disregarding various local adjustments and complications—an ounce of gold had been given three or four times its pre-war monetary value.

Gold at that time was actually cheap, but that was because it was not being used as a standard. It was cheap because it was in abeyance. So soon as there was an attempt to refer money back to gold, it appreciated, and the reality of the situation became apparent.

When an individual goes bankrupt he pays his creditors a fraction, a "dividend" of so much in the pound, to settle his debts. Money is, in effect, the acknowledgment of a debt from the community in general to the individual, and for a community the equivalent of bankruptcy is for it deliberately to pay only a fraction, a dividend, of the purchasing power its money originally represented. That is to say that monetary inflation is for a country what bankruptcy is for an individual. A concerted general inflation was indicated. Such a world bankruptcy would have relieved the situation altogether, and the general economic life, released and refreshed, could have been resumed at a new monetary level in much the same manner as before.

But nothing of the sort was possible in the feverish post-war atmosphere. Impossible reparation payments in gold had been imposed upon the protesting Germans, and the United States had been figuring out and building great hopes upon the debts (reckoned in gold) owing to her by her allies for munitions supplied them for the common effort. America returned to the gold standard in 1919. She returned to the pre-war weight of gold represented by the dollar. Any increase in the monetary value of gold would have enabled the defeated Germans and the debtor countries of Europe to pay with smaller amounts of it. But the more prices were brought down, the more onerous was the repayment of debt.

It is doubtful if this was done with any idea of increasing the burthen of the debt on the debtor countries. It is more probable that the American deflation was carried out in simple obedience to

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banking routine—because the Federal Reserve Bank of New York was losing gold—and without regard for the effect that it would have on millions of human lives. At all events, the value of gold was raised in terms of goods—the dollar rose seventy-five per cent in a year relative to commodity prices. Great Britain took the same course of supporting gold, partly because she did not like to allow the pound to fall too far below the dollar, and was already anxious to get back to the pre-war parity of 4.8. Partly, too, the great rise in prices which had taken place during the war—they had risen over three times from 1913 figures—had inflicted a sense of loss on the debt-owning classes, and British finance is in the hands of just those classes. To them any rise in prices savours of dishonesty, even though it may be accompanied by general prosperity, while falls in prices which create millions of unemployed and bring trade to a standstill nevertheless seem mysteriously “sound.”

On the continent of Europe the reverse was going on. The French Government, for instance, was seeing the franc fall and making no real effort to stop it because it was realized by the business world in France that this was building up French industry and clearing the country of debt. The other European currencies were fluctuating wildly, but the sum of their movements was always in the direction of inflation.

The monetary situation about May, 1920, was one of immense local inequalities. America was back at the gold standard. But there had been a great interruption of economic life and a great diversion of productive energy to supply munitions to the whole of the allies. There had been a lowered production of goods and an inflow of gold, and goods generally were relatively scarcer in comparison with gold than they had been before the war. Prices rose. There was a rise in prices, although there was no deterioration of the currency by the measure of gold. Prices in the U.S.A. in 1920 were, all over,  $2\frac{1}{2}$  times as high as they had been in 1913;  $\frac{227}{100}$  to be exact. In Britain the gold standard was still in suspense; Britain was using paper money; prices as compared with 1913 were  $\frac{123}{100}$  and the pound note was at that level of inferiority,  $\frac{247}{324}$  to the gold dollar. Instead of being at its gold parity, which is nearly five dollars to a pound (4.8), it was under four. Many other European countries were much further away from any gold equivalence. They had so increased their uses of paper and token money that

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prices were soaring to levels hardly measurable by index numbers. In France the rise in prices was slower. French prices took some time before they doubled the British figures. Denmark, Norway, Sweden, Holland fluctuated within still narrower limits.

Each country pursued its own course with a sublime indifference to the commonweal of mankind. In America, there was a steady fall in prices. There was also a drastic restriction of credit. By the end of 1920 prices in America were  $42\frac{1}{2}$  per cent what they had been in May of that year, and at that level they remained fairly stable until 1929, when a new fall brought them down to the pre-war figure.

Meanwhile the British authorities set themselves to deflate their currency. The issue of money was restricted, credit was restricted; in two years prices were forced down to fifty per cent of the May, 1920, figure, and the process was continued until in a little over four years, parity with the dollar was attained. This involved a tremendous restraint upon business enterprise and a gigantic transfer of wealth from the producing to the creditor classes. People who had bought War Loan with pounds signifying so much purchasing power found themselves receiving interest in pounds of more than double that purchasing value. They were the lucky ones, and the general community paid for their luck.

The rest of the world did not sink so complacently under the yoke of the creditor. Many states did their utmost not merely to shake him off, but to destroy him. A number of governments inflated chaotically. Soviet Russia deliberately inflated the rouble currency to nothing and so pulverized every scrap of savings and abolished its entire creditor class completely. Germany, Austria, Poland and Hungary were all forced to follow the same path. They paid off their internal creditors with rubbish money. No other country went quite so far as these extreme inflationists. But everywhere prices reeled and leapt and staggered. Innumerable modest life schemes were wrecked, and every kind of business was disorganized. Everyone was forced to become something of a speculator; you lent your money, and you did not know whether it would be worth more or less when the time came for repayment; you fixed a price for a transaction, and when the paying time came you were ruined. The varying exchange values of these moneys as they rose or fell in regard to one another produced convulsive movements of goods

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from one country to another, and there was a vast amount of absolute prohibition of exports and imports, and later a great raising and elaboration of tariff walls, to keep home products at home or to save home industries from avalanches of imports.

The next stage after this phase of chaotic independent inflations was an attempt to return to the monetary cosmopolitanism of pre-war days by a *stabilization* of currencies, that is to say, by restoring the dependence of issues upon gold, either at the old equivalence or at a new equivalence. The American dollar had been put back to its former gold value, the pound sterling had been inflated but, as we have seen, a successful attempt had been made by restricting the issue to "deflate" it up to parity with the dollar; while France, after an alarming plunge towards inflation, frankly accepted the new order of things by *devalorizing* the franc, which had been worth nominally about one fifth of a gold dollar, to a fixed equivalence of about one twenty-fifth. Italy also devalorized. Most of the other debtor countries devalorized.

So in the course of seven or eight years the world was brought back to something formally resembling its previous monetary conditions. Every country except the United States was still saddled with big external debts for war expenditure, payable in gold, and the United States was carrying a big internal gold debt on the same account. Soviet Russia had repudiated its external debts—at a grave injury to its foreign credit and trade—and abolished its internal debts, and most other European countries except Great Britain had had a more or less complete massacre and clearance of their internal obligations. But the workers and producers of Great Britain, with its deflated currency, carried an undiminished weight of internal as well as of external debt. Indeed, as we have already pointed out, it was an increased weight so far as the internal debt was concerned, because Great Britain had borrowed enormously when the pound was at an inflation value, and was now paying back at a deflation value. Before, however, we can carry this question of reconstructing a world currency further, it will be necessary to take up certain other contributing issues that enter into the problem.

It will be convenient to return for a moment to our egg-born enquirer. He wanted to know why we did not cut out the gold altogether from our monetary methods, and by way of a partial

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answer we have informed him of these, the main facts, about the post-war inflations, deflations, and devalorizations. We had to break it to him that the world is not yet an economic unity. The world has not one monetary authority but many, and that is the sort of thing that happens when individually and separately states attempt to get away from gold. The countries of the world are economically interdependent and politically and financially they are independent. Thus far they have been totally unable to get together for any concerted monetary control. That is the gist of the trouble. Until they are able to get together effectively, any modernized world monetary system, released more or less completely from the gold tie and based on a steadily more accurate and trustworthy index figure, is impossible. It may be the plain common sense of the world situation, but it cannot be done. We cannot make money what it surely can be made, a due and trustworthy check for social services to the world commonweal. We shall remain at our present stage of comminuted barter. And everywhere money must continue to have uncertain purchasing power dependent upon the available gold supply, and be an unsatisfactory link in the economic machine.\*

### § 4. *The Gold Standard*

After their various experiments in the inflation and deflation of their currencies most sovereign governments of the world had struggled back in a cowed state to the gold standard, that is to say, to barter, through the intermediate bartering of gold or gold notes, which worked so admirably in the great period of human expansion after 1850. But it was not working so admirably this time, for reasons that we will now very briefly examine.

One reason why the gold standard cannot work indefinitely is the inevitable drying up of the gold supply. The amount available from known sources is calculable, and its limits are in sight, and geologists are more than doubtful of the existence of any new gold-fields at present undeveloped. By 1950 competent authorities estimate that new gold production will have shrunken to a fifth of its present

\* A short but clear and stimulating little book which the beginner in these matters will find interesting to read side by side with this and the following sections is J. S. Wardlaw Milne's *The A.B.C. of £ S. D.*



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volume.\* Consequently, while in the pre-war period reliance on the gold standard had the effect of a steady, stimulating inflation, gently dissolving away the relative purchasing power of the creditor, raising wages and encouraging the producer with rising prices, a new period of a restored gold standard is likely to have exactly the opposite effect. Adherence to the gold standard means a progressive deflation of the currency. It will never again have the effect it once had of a regularly and progressively inflated currency. It will tend now to make the patient inactive hoarders of gold the lords of the earth. Public debts under the new conditions will become more and more difficult to meet. Concerns with obligations towards debenture holders and the like will find their overhead charges becoming more and more onerous until bankruptcy supervenes. There will be, therefore, a strangulation of industrial activity and, from this cause alone (there are several others), a secular progressive fall in employment. All this follows necessarily if the gold standard is maintained indefinitely.

It is absurd that the general economic prosperity of the world should be at the mercy of an unknown probability, the probability whether fresh auriferous deposits will or will not be discovered, but that is how things are while we are ruled by gold.

On the other hand, let us note that the solution, which is quite possible, and probable, of the problem of converting baser metal into gold upon paying lines, may also, at any time, if we are to hold to the logic of the gold standard, impoverish or altogether wipe out the *rentier* class and stimulate or overstimulate all the activities of the work and wealth of the world to an incalculable extent. To trust to gold is to put the economic life of the world at the mercy of the unforeseen. It is to rob the world of any pretence to economic justice.

But this approaching exhaustion of the gold supply is not the immediate factor in the unsatisfactoriness of gold as a monetary standard. In the pre-war period the most remarkable merits were ascribed to this metal. It was pointed out that it is almost in-

\* Lord Brabourne (January, 1931), at the annual meeting of the Consolidated Gold Fields of South Africa, said that in ten years' time the world's production of gold would fall from £85,000,000 to about £55,000,000, and that in a further five years South Africa, which is now responsible for half the world's output, would be giving no more than £10,000,000. From 1910 to 1919 the world produced £900,000,000 of gold; from 1920 to 1929 only £771,000,000.

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corruptible chemically; it could not be forged or fabricated, it has a magnificent stupid honesty. The quantity of gold in the world could be increased only by new production. It remained available even if it was used in the arts, as jewellery and the like. In a fluctuating world it was the symbol of stability. This was all very well in the pre-war period, when the monetary centre of the world was the cosmopolitan, unpatriotic City of London. Then, except for a regular and so not very disturbing amount of hoarding in Asia, all the gold in the world was forthcoming as coin or as a coinable or pawnable metal, and the instinctive unpremeditated, cosmopolitan benevolence of the City was ascribed to it. But in this new post-war era of competitive nationalist finance this has ceased to be the case. The United States, which collects debts in gold and wants to sell without buying, has been taking gold out of circulation to an enormous extent. "America," said Lord D'Abernon in an interesting little book, *The Economic Crisis, Its Causes and Its Cure* (November, 1930), "has now the equivalent of 800 millions of pounds sterling in her Central Treasury; France has the equivalent of 414 millions compared with 160 millions five years ago; we" (Great Britain) "have only 150 millions, the same amount as in 1925. Therefore we are not responsible for the *maldistribution or corner in gold.*"

This was published just over a year before the date of printing of this book. By September, 1931, the American accumulation had passed 1,000 millions and the French 500 millions and the British reserve was down to 130 millions.

This cornering of gold was a quite new thing in world economics. It was a breach with all the traditions of the City and all the usages of the expansion period. And it had been one of the chief factors in producing the present world-wide inability of everyone to pay debts or buy or go on producing.

"Since the time of Midas," says Lord D'Abernon, "there has not been a more paradoxical position than that in which America finds herself; for the central reserve vaults are bulging with gold, while in New York and other shipping points warehouses are overcrowded with wheat, with cotton, with copper; all unsalable except below the cost of production."

In 1931 mankind was getting gold out of mines in South Africa and elsewhere in order to bury it again in treasuries—and to no

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other perceptible end. It seems a pity to spend all the labour of mining and transport on such an operation. "Ten countries," says the Interim Report of the Gold Delegation of the Financial Committee of the League of Nations, "acquired 1,055 millions of gold dollars during the three years ending December 31st, 1928, a sum equal to nearly 90 per cent of the total amount of new gold mined during this period." In 1929 France and the United States together took 538 millions of gold dollars or probably over two years' supply of new gold. To immobilize it.

National hoarding of gold had taken place before—notably when Germany went on to the gold standard—but it was on nothing like so large a scale. It was an artificial anticipation of the exhaustion of the gold supply, and it had the inevitable effects of discouragement and arrest of business (and human unhappiness) a fall in prices invariably entails. Gold which we had always supposed to be an honest incessant worker, incorruptible if stupid, had been led off unprotestingly from its appointed task to sleep in the national treasuries and work no more.

The Gold Standard had culminated in this Gold Scramble and it was plain that as a cosmopolitan currency it had failed altogether. The world staggered along with it for a time because of the impossibility of immediately imposing another. Exhortation like that of Lord D'Abernon, financial diplomacy, might induce the two great hoarders among the nations to release some or all of the stores of economic alimentation they had amassed, and there might be a helpful resort, as the League of Nations' Report suggested, to an extended use of cheques, credit transfers, and clearing-house, but these were obviously emergency reliefs, palliatives. Before the world, if economic progress was to go on, lay, it was evident, a vaster, more heroic task than any such temporary adjustments—namely, the establishment of a world money organized primarily to give the worker or entrepreneur his sure reward and divested of the last trace of barter. It was due to a conspiracy of favourable accidents that gold money, or money that consisted of tokens or tickets for gold, worked so well during the age of expansion. That age has taught the world what money can be, and sooner or later the human intelligence will see to it that what money can be, money shall be. Meanwhile an educational period of economic stresses and widespread discomfort and misery has come upon mankind. The

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dominant fact now in the world's affairs is the reconstruction of money.

§ 5. *Currency Schemes*

The experiences of the past century should have taught the whole world quite convincingly that it needs a currency, that is to say, money, purely as a counter, a cheque, between services and commodities. Such a money is, as we have shown, possible in the measure that trustworthy index numbers can be established. To keep the maximum of people at work, content and hopeful, the issue of currency needs to rather more than keep pace with the increase in the production of commodities. A continuous moderate inflation will be continually easing off the accumulation of debt. And this currency must be a world-wide currency; it can no longer remain under a divided control. All this seems to follow from the present facts of the world situation, when they are viewed broadly and dispassionately from the point of view of social interaction.

Circumstances have recently stirred up the general intelligence to the main factors of the currency situation. It has never hitherto been a very attractive subject. People have avoided it if they could, because it made them feel slightly uncomfortable and had an air of being highly technical and inconclusive—it was at once as intimate and as unconvincing as talk about one's liver—and general discussion has been further burked by dubbing anyone who raised the question, a "Currency Crank." Still, there may come a time when a man will be obliged to look his doctors in the face and consider the state of his liver, and the time has certainly come for mankind at large to consider the working of its monetary organization.

In the preceding sections we have done all we can to show that the elementary consideration of money need be neither obscure nor cranky. The broad lines of the matter become plain enough when we approach them from the study of social motive. It is only when the business is discussed in smart-looking, unsound technicalities and obscured by undefined terms and secondary implications that it becomes difficult. Here we have stuck to fundamental elementary considerations, and the conclusions to be drawn seem as plain as they are sound. It may appear to many that it would be a Herculean, an impossible, a "Utopian" task to bring about any world

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control of currency. But since plainly the alternative is disaster, that is no reason why the task should not be discussed and attempted.

For some years as the world's monetary situation has been unfolding and becoming demonstrative, there has been an increasing ferment of ideas and a great output of books on this subject. We cannot attempt any detailed examination of that literature, most of which is already out of date, but still it may be advisable here to summarize in the most general terms the nature of the proposals made.

This literature of monetary reform has some very distinctive characteristics. For the most part it has been extraordinarily superficial. Very few of those who have dealt with money have made any attempt at all to go down to its roots in psychology and material necessity. Currency reformers, as we have insisted already, have a way of beginning in the air, high in the air, even more detachedly and arbitrarily than did the old political economists. They assume international competition for prosperity and all sorts of secondary, questionable and transitory complications as though they are essentials in the matter. Few of them approach their subject from the point of view of world interests. And also, few of them are content simply to establish a working generalization. Usually they produce some Scheme or Plan for national, imperial, or (more rarely) universal adoption. They advance it with polemical vehemence. Few of them, except for a passing execration, take notice of the others, much less do they attempt any consideration, analysis or criticisms of previous and competing Plans, Remedies and New Models. Yet since many of them are active, bright-minded people, there is surely a wealth of half truths in this enormous accumulation of suggestions and proposals. Whether that wealth is in paying quantities is less certain. There ought to be an exhaustive classification and analysis of this chaos, and whoever attempts it may count with certainty upon a special circle of enemies of exceptional pamphleteering and epistolatory power for the rest of his life. Here we can only note in the most general terms the leading types of project in order to illustrate our present attitude.

The first broad classification of monetary reformers is divided into two sections: (1) those who still cling to the barter core, who

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insist that some commodity be made the standard of value by the substitution of other commodities for all or some of the gold in use, and (2) those who have already turned the matter about from the point of view of the money manipulated to consider it from the point of view of the worker, and who have realized that money can be detached altogether from standard commodities. We might put together all that former class of projectors as the Old Money School and this latter the New Money School. An outstanding name among the exponents of the New Money ideas is Mr. J. M. Keynes,\* whose commonsense suggestions are rapidly spreading into and saturating contemporary monetary thought. The conception of a barometric currency based on an index number is set forth very clearly in that work.

The difficulty that prevents the Old Money School from assimilating the newer views, is the difficulty of escaping from the desire for intrinsic worth in money itself. Whatever token or note is circulated they seem to think, somehow, somewhere it must be "presented" and something of value, a piece of metal or the like, handed over.

\* *A Tract on Monetary Reform, 1923; A Treatise on Money, 1931.* But let us not forget that long before the war Arthur Kitson and Silvio Gesell were writing of managed currencies, though they did not use that term, or at any rate of elastic currencies entirely freed from commodity standards, and Major Douglas was active with his "scheme" before 1920. See Douglas's *Economic Democracy and Credit Power and Democracy*. Arthur Kitson's *Scientific Solution of the Money Question* was published as early as 1894, and his *Money Problem* in 1903. Professor Irving Fisher of Yale was discussing money from the new point of view a quarter of a century ago and when the story of these ideas comes to be written, his influence will probably be found to bulk very large in their development. (*The Nature of Capital and Income, 1906, The Purchasing Power of Money, 1911, e.g.*) The history of the origin and interaction of ideas is the most obscure and difficult form of history and priority is rarely to be determined with any exactitude. In no field is this more true than in the one of currency discussion. Gesell will probably be a quite cardinal name in that story when it is unravelled. Most of his *Natural Economic Order (Die natürliche Wirtschaftsordnung)* was published in Switzerland in 1906. The ideology of Silvio Gesell and his followers differs widely from that of this book. His doctrines are in agreement with the present work upon the necessity of increasing the amount of purchasing power in the world with increased production, but he would do so by giving the increased purchasing power to the individual producer. And while we would modify or thrust aside individual ownership of natural resources and productive organizations in favour of highly organized collective controls, he would modify or thrust aside the monopolistic and unproductive ownership of natural resources and productive organization in order to give individuals free access to them. From our point of view his projects are projects for chaotic production; from his, the conception of the organized world state we are unfolding here looks no doubt like a collectivist tyranny. Our whole enterprise involves a criticism and repudiation of the uncontrolled individualism of Gesell. We show that the socialization, education and civilization of *Homo sapiens* is essentially the restriction of individual impulse.

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That is the haunting idea that encumbers their minds. They will accept, as we shall see, the most remote and shadowy refinement of this presentation and payment, but they will not part with it altogether. They have a profound dislike, based on the horrid memories of the post-war currency convulsions, of any money that cannot be brought to the test in this fashion. "Sad experiences suffered by many countries," says Professor Cannan, for example, "have convinced the world that a currency . . . must be made to conform with some outside standard"—and he argues no more about it.

At bottom theirs is a mistrust of the probity and intelligence of their fellow creatures, of even their official and responsible fellow creatures. They believe that index numbers would surely be faked, falsified and manipulated. In the world of a managed currency they ask, they continue to ask, where are you to take your note and present it? The New Money School answers that it can be presented in any shop where you want to buy something. That, for the old school, is not enough. There is something, they feel, disingenuous in such a reply. Any commodity does not suffice them; they want a particular commodity.

Both classes of monetary reformers, the Old Money School and the New, can be divided into two main sub-classes; those who focus their attention upon national or imperial welfare, and those who take a wider view. The former subdivision of each class has hitherto been the more considerable, but the trend of events during the past few years is bringing more and more minds to the realization that nothing effective can be achieved in monetary and financial affairs, except upon a scale that transcends existing political boundaries altogether—upon, in fact, a planetary scale. As this realization becomes general, the projects of both the Old Money School and the New become cosmopolitan.

A considerable body of opinion in the Old Money School has turned towards silver, very naturally, for it is not so very long ago since silver stood in the place of gold as the chief precious metal. The history of silver as a standard of value is a long and very illuminating story, and it may help our exposition here to note one or two salient points. Before this present age of economic confluence began, people lived so "locally" (cp. Fosdick's New England farmer in our Chapter IV, § 7) that international payments were quite a

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minor interest in public affairs. International trade hardly affected the staple commodities of life. Countries could have quite different standards without serious inconvenience.

At the beginning of the nineteenth century (1819), England had its currency on a gold basis and most other European countries used silver as their standard. It was believed then that silver had a fairly steady value in regard to gold; 1 oz. of gold was supposed to equal 15½ ozs. of silver, and France (in 1803) on that supposition adopted a double standard of value, that is to say bimetallism; and for a time it worked. The ox of gold pulled the plough of industry amiably side by side with the ox of silver. The ratio in value between the metals in their uncoined state had not changed very strikingly for a long time. J. F. Darling (who makes proposals for the remonetization of silver through an Imperial bimetallic standard of value to be called "Rex"\* combined with a restraint upon the export of gold beyond the Imperial frontiers) asserts that it held good for two and a half centuries. Bimetallic arrangements seem to be based on the belief that that ratio holds good eternally. Ever that statement of Mr. Darling's is extremely "loose in its handle." There were considerable undulations in the ratio throughout this period. Under William III the ratio was close upon 1 to 16. In 1717, when Sir Isaac Newton was Master of the Mint, it was 1 to 15¼, and the value of the golden guinea was in consequence changed from 22 to 21 silver shillings. In 1760 the rate of exchange between uncoined gold and silver was 1 to 14.14, while the Mint was still maintaining gold and silver on the 1 to 15¼ ratio. How did it manage to do this? It was only coining gold. It had not coined any more silver, says Professor Cannan, after 1717, and it did not do so again until 1816. For a hundred years the English people made their old silver coins, for the most part very worn and reduced in weight, serve their needs. And after 1816 when new silver coins were issued, they were token coins of a less value intrinsically than monetarily, and the ratio did not matter.

Under the fourth dynasty in Egypt silver was more precious than gold. In the days of the Roman Empire the bullion ratio of silver to gold varied about 10 or 11 to 1. In recent years silver, demonetized, has fallen steadily in value; the bullion ratio has descended to 1 to 20, to 30, to 40, 50, 60, and still it tends to sink. On May 23,

\* J. F. Darling, C.B.E.: *The "Rex": a New Money to Unify the Empire.*



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1931, the price per oz. was  $12\frac{5}{16}$ d., while fine gold remained at its fixed value of £4 5s. od. per oz. and standard gold about £3 18s. od. per oz. Greater ease of separation from gold, lead, copper, zinc and other metals, is one of the factors in this cheapening of silver. The production of any of those metals involves the production of silver also. No fall in the price of silver can check this "by-product" supply. It has to be separated, anyhow. If the "gold mines" of the world were closed, there would be no more gold, but if all the "silver mines" in the world were shut down, there would still be millions of ounces of silver forthcoming.

In America at the beginning of the nineteenth century, the ratio adopted was 1 to 16, and this did not work, because then it over-rated gold. It paid on those terms to change gold coins for silver ones in order to sell the silver abroad or for industrial use at home. The great gold discoveries, from 1848 onward, led for a time to a relative cheapening of gold. Silver began to be driven out of circulation even at the French rate. A fairly obvious fact then dawned upon the world, that there was no divinely fixed ratio of the two precious metals, and that whenever the relative production of one of them increased, the other went out of circulation (this principle is what is commonly called "Gresham's Law"). No system of bimetallism which is not based upon a comprehensive international agreement can overcome this difficulty. It is a difficulty which is bound to arise sooner or later whenever more than one substance is used as a standard.

Professor Henry Clay in his *Economics for the General Reader* points out that bimetallism, the joint use of gold and silver, would be a much more practicable method if all the mints in the world acted in concert to *fix* a price between gold and silver. They would then become a world combine, a world co-operative of precious metal buyers. The chief use of both gold and silver is for coinage; the mints are the chief buyers of both metals, and if they presented a united front to producers, instead of competing against each other for the gold output, production would have to adjust itself to the ratio they determined. The question of the ratio of bullion values would lose its importance. If either metal became more abundant, it would supply the bulk or all of new currency, and the output of its companion would be checked. This would not matter in the least to the general economic process if all the mints of the world

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were acting together. The rarer metal could not be driven abroad in accordance with Gresham's Law, because there would be no abroad to drive it to. And that nightmare of the exhaustion of the gold supply would be lifted from our minds at once. Such a combine of mints might prove a very helpful preliminary to a world currency control. But that we must consider later on when we take up the question of sovereignty. Let us return to our history of the gold-standard age which is now coming to an end.

In the 'sixties, with gold getting rapidly more abundant, the trend was all against the further use of silver, and in the 'seventies Germany and the United States adopted the gold standard. But (in the 'seventies) the gold output declined for a time, a fall in prices and commercial depression ensued, and the discovery of rich silver mines in America restored more than the former cheapness and abundance of silver. Wherever that metal was still acceptable for coinage it began to push out gold. There was an attempt to get along with a strictly limited amount of silver coin used as well as gold. Gold was to be coined without limit, but silver only to a defined amount. This arrangement, the "limping standard," was adopted by France and a group of associated countries. Coined silver by this adjustment became more precious than uncoined silver; coined silver was silver that had been ennobled, so to speak; and forgery became almost an honest trade. All that the forger had to do was to buy silver and make coins exactly like the government ones.

Meanwhile the shrinking of the gold output, the shrinking that is of currency in the gold-standard countries, and particularly in America and Germany, was producing the inevitable consequence of deflation, that is to say, a fall in prices and a phase of worldwide depression (1885-86). These were the great days of the bi-metallist agitation. Let silver be rehabilitated, and the required inflation would be achieved. In the United States the struggle for the free coinage of silver side by side with the free coinage of gold went on into the 'nineties; silver became the symbol of release for mortgagors and for every form of debtor, and in 1896 William Jennings Bryan made his great speech about "humanity," debtor humanity, and particularly the mortgaged Western farmer, being "crucified upon a cross of gold."

Then abruptly the Transvaal reefs came into play and the mines

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of South Africa began to pour so much gold into the world that, although the output of silver also increased in even greater proportion, the monetary tension was released without its intervention, and for a quarter of a century little more was heard of bimetallism. South Africa had pumped new life into the declining gold standard.

Now, in a fresh phase of falling prices, projects for the rehabilitation of silver are reappearing—still with no real solution whatever of the problem of fluctuating relative value that every attempt at a multiple standard must raise. The nearest approach to a reconciliation between the two metals, so that currency can be inflated by the addition of silver without Gresham's Law operating, is the proposal known as Symmetallism, in which a gold-silver alloy is suggested as the single monetary standard. That is really the most thinly disguised inflation imaginable. Exactly the same effect could be got by diminishing the gold value of a pound note and not bothering at all about the silver, because since silver is the cheaper metal it would merely be a diluent of the gold. . . .

Such are the primary facts which account for the present widespread disposition to replace the existing control of currency issues through the commodity gold, by more complicated controls bringing other metallic commodities to the aid of gold. The end sought is inflation. Or at least the end sought is a reversal of the process of destructive deflation that has been going on under the Gold Standard. Always the end sought is a local or general distribution of more purchasing power to producers and increased ease of debt payment.

We will not expand this section further by a more detailed examination of particular currency projects. They are all provisional projects. The broad issue is simple, and it is practically beyond dispute. The arguments that a managed currency, free of entanglement with any standard commodity, under a world board of control, is the best possible currency, are so overwhelming that any other scheme, plan, or project can only be regarded as a compromise, a political expedient, a way of getting round the supposedly invincible opposition of national policy, popular prejudice, and powerful interests, or of carrying on until that opposition can be overcome. In this work we do not admit that opposition is invincible. We believe that *Homo sapiens* is fundamentally sane—if sometimes disastrously slow and inattentive to his proper interests.

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The question of carrying on is on an altogether different footing from the broad final necessities of the matter. One must distinguish sharply between the two sets of issues. The world's business must be carried on from day to day. That is a primary political principle. The release of the captive gold in the United States and France or a return to some form of bimetallism through the concerted action of the world's mints may do much for a time to relieve the strangulation of economic life that has been going on. A grave dislocation of the world's economic life, Professor J. W. Scott alleges, has been caused by the demonetization of silver, which has changed over India and China from purchasing communities to communities unable to buy and driven therefore to the worst forms of sweated production. Sir Arthur Salter cites figures which qualify this assertion very considerably. But the conviction is widespread that some manipulation of the standards in favour of silver may restore this lost balance. It is less questionable that the credit boycott of Russia has also driven that country to ferocious exportation at cut prices.

But we must not be lured into questions of current politics and current expediency. Our objects here are descriptive and scientific, not legislative nor administrative. Our business has been to show as plainly as possible what money really is and the nature of the difficulties the world is encountering in its use, and there our part ends. It is for the reader to apply these facts to the problems of every day. The final settlement to be sought is the world organization of a New Money based on an index number, but a score of expedients may be necessary to avert disaster and gain time for the propaganda and establishment of the scientific method.

Let us in conclusion recapitulate the essential facts about the New Money idea. Barometric money, "managed currency" is paper money of which the issue and withdrawal are planned to secure stability of purchasing power in general. An index price of staple commodities has to be maintained. If it falls, issue is increased; if it rises, issue is restricted. So the primary end of a sure real value in wages is attained.

But a managed currency would have to be controlled by other factors as well as current prices. In certain circumstances, whenever, for instance, employment and production are increasing rapidly, an anticipatory increase of issue may be needed to keep

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pace with the general enlargement of economic operations. Where populations are increasing, more money will be needed to provide purchasing power for the additional human beings unless the general standard of living is to be forced down. As a special case of this we may note that as invention progresses and industrial plant becomes more elaborate and expensive, more capital is required to equip each worker in an efficient and modernized industry with the power, tools, machines, etc., which he will use in his task. The Federation of British Industries has estimated that this item has risen in England from under £1,000 before the war to over £3,000 in 1927. The new workers and the new machines are of course a potential source of greater wealth, but unless money is provided to balance this increased potentiality it will only tend to lower prices and dislocate trade. The whole literature of currency we have already noted is permeated by the feeling that the amount of purchasing power in the hands of the public should be subject to a continued slight increase. This is sometimes referred to as "inflation," but as long as it is only desired to *stabilize* prices there is no true inflation. Inflation occurs when prices are made to rise, and this too is often advocated as a method of devaluing money and thus gradually lessening the world burden of debt.

Were this policy adopted, in course of time each unit of currency would cheapen down out of common use and give place to a successor, as in France the double sou is giving place to the franc, and the franc to the five-franc note.

It is evident that the efficiency of barometric money depends very largely on the soundness of the index prices used. At present index prices are often very debatable. To make them quite trustworthy there is need for a trustworthy world-wide system of economic reports. That great and neglected pioneer, David Lubin, almost succeeded in creating a world bureau for the registration of production in Rome, but the war crippled that development for some time. We shall have more to say about his Institute of Agriculture later (Chapter XII, § 13). Slowly but surely it seems that the science of statistics will overtake and resume his fine ambitious effort. We shall become more and more able to anticipate shortages and abundances and the gross and relative values of commodities.

The science of statistics is still only in its infancy—a vigorous infancy. Every year the possibility of "figuring out" quantities in

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the human outlook increases and the problems of money and credit change. They change in the direction of managed currency and credit scientifically controlled. The rate of that change is dependent largely on the amount of knowledge and understanding available. To this idea we must return after we have directed the reader's attention to the speculative element in all contemporary business enterprises.

### § 6. *The Bank*

From an examination of these remarkable monetary counters by which our unconsolidated, fragmentary world civilization is still so painfully, so distressfully, endeavouring to compute its affairs, we must pass to the elementary phenomena of credit. We come back to the counting house and board room. We have to ask how the entrepreneur carries on, between the beginnings of his enterprise and the payment for the goods his enterprise has produced. We have seen him first paying out and later on receiving money again. Who hands him the money in the first instance, and why does he send his takings to the bank?

The history of banking is a comparatively simple one. It is easy to trace and understand its development from the time when it was a mere expedient for storing valuables and minimizing the dangerous transport of money by means of bills of exchange.

At first banking and usury had very little to do with each other. One was an affair of safe-keeping and the other was an affair of safe-lending. I suppose the earliest usury, the usury of the ancient world, was practised because cultivation had to carry on until harvest, or after a bad harvest, and the loan was material sustenance for which the cultivator pledged his future produce. Or else it was sustenance of the merchant until the ship or the caravan came home. Or it was supplied to the monarch embarking upon a raid or conquest that promised to be remunerative. In the ancient world, the temple was the primitive treasure-house, pawnshop and loan-office of the community, and some god the nominal lender. The priest was the first financial expert.

I do not know how far the financial expedients of the ancient world were carried over into the revivir.g economic life of mediæval Europe. What is desirable—I do not know if it is at present

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practicable—is a study of the evolution of ideas about credit loans and usury in the ancient world, an account of the financial methods prevalent under the Roman and Byzantine Empires and the way in which these ideas and methods emerged again, modified or not, after centuries of social and political collapse in western Europe, as social security was restored. There may have been a practical continuity. There may have been fresh initiatives. Ordinary history helps but little here. Scholars have always been disposed to condemn account books. What we want is a History of the Counting House. Few historians of the old school escaped sufficiently from the blinkers of language and national traditions to attempt anything of that kind. But a competent history of finance would have to flit from Constantinople to Venice, from South Germany to the Hansa Towns, and wherever credit was showing itself and new devices were working.

However wide and diverse that preliminary survey, the broad treatment of modern banking conditions would begin with the returning abundance of trade and money in the sixteenth century and the extension of arrangements for its deposit. The goldsmiths, who were developing into bankers, took care of money and issued signed receipts; the receipts were made payable to bearer and the bank note was evolved. It was an age of religious dissension, and the Christian temple never recovered the financial prestige and advantages of its Semitic and Egyptian predecessors. It kept the primary religious domination over marriage and burial and education, but the new economic developments remained outside its influence. It restrained the believer from usury, so that before the Protestant Reformation produced a new Christian business persona, the Jews were given something like a monopoly of money-lending.

It was soon realized that the deposit and issuing bankers who were appearing could lend out part of their money in hand, so long as they had the confidence of the public and there was no danger of a run upon them. They were thus able to attract deposits by paying interest in the place of charging for their services, as they did at first. From these beginnings the banking organization grew rapidly. A long history of legislative control, the definition of banking activities, and the creation of national and central banks, would have to be given to display this growth with any completeness. But here again that capacious and inclusive *Science of Work*

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*and Wealth* of ours may very conveniently relieve these pages. The broad effects of the growth of banking were these. It utilized and vitalized savings. Under mediæval conditions, which held good almost up to the present time in India and China, savings were either hoarded as treasure or spent upon display, palaces, gold plate and jewels. Nowadays everyone has a paying use for savings, and they are all turned back, practically, for the animation of industry. Even the European peasant's stocking has unravelled and released its hoard. The bangles of the Indian women will follow the bankward movement. Business which in pre-banking days would have had to keep a treasure chest out of which to pay wages, buy material, finance particular operations, now goes to the bank for a short-term loan.

Unexpected consequences of banking convenience have appeared. The idea of the cheque was a very obvious and simple one, and yet its working out leads us towards results of a quite remarkable kind. The opening nineteenth century saw the rise of the cheque to an importance far exceeding that of the restrained and regulated bank note. Even allowing for the increasing production of gold, it is doubtful if the great economic expansion of that period could have occurred without the cheque. It let out the financial clothing of the growing economic giant who might otherwise have been strangled. If cheques were forbidden to-morrow, all the money in the country, even if no one held any for more than a day, would scarce suffice for half the needs of the very slackest working of our economic life. An enormous amount of the business of the English-speaking communities is now transacted by cheque without the shifting of a bank note or the movement of a coin. The clearing-house has become an organ of primary importance in economic life.

The use of the cheque is by no means equally developed throughout the world, and its handling varies in different countries. French business, for example, is much more realistic than English, and for transactions of a few thousand or a few score thousand francs a larger proportion of at least paper money passes from hand to hand. But the experience of a century is making it clear that, except for the convenience of paper or coins for small immediate transactions, it would be possible now to dispense with actual concrete money altogether; it would be possible to sustain the general working of an entire economic system by clearing-house bookkeeping, by the



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continual transfer of money of account, of crude "purchasing power" that is, from one account to another.

This consideration alone opens out a very interesting prospect of the future of banking. If it is possible to get away from money to this extent, it may be possible to get away from it to a very much greater extent. There must be many imaginative and scientific-minded bankers and statisticians who have already glimpsed something of a phase in economic development to which these facts may be pointing. If it has already become possible to carry on a voluminous tangle of productive and distributive activities with all the monetary side simplified down to cheque-sorting and book-keeping, may it not be possible, ultimately, to carry on the whole productive and distributive system of mankind on a basis of debit and credit entries of purchasing power to the account of this or that community or association or individual?

It is difficult to discover any inherent impossibility in such a suggestion. One can think, of course, of a jungle of manifest obstacles, at present trackless, but I should imagine that any banker who is not the mere creature and slave of routine, must apprehend to some extent this conception of a world system of current accounts and cheques, comprehensively embracing all his particular activities and providing a medium for the final adjustment of the main economic discords of our present world.

### § 7. *The Contemporary Evolution of Banking*

It is by the criterion of this possibility, the possibility of the banking system of the world becoming a complete guiding record of "purchasing power" from day to day, that we must appraise contemporary banking organization and usage. Banking falls far short of that possibility, but it is not at an immeasurable distance from it. The story of the *record of purchasing power*, the story of modern banking, that is, runs on lines closely parallel to the story of modern industrial development. We shall have to note the same rapid progress in a century or so from small completely independent personal enterprises enormously various in their character and trustworthiness, to vigorously competing companies, and so on to grouping, associated working and amalgamation.

But here the factor of State intervention, regulation and partici-

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pation, is from the outset more important. In the United States, for example, there are legal restraints upon the opening of branch offices by banks. Consequently, small independent local banking concerns, of very unequal stability, take the place there of the local branches of the great amalgamations that one finds everywhere in Britain or France. The tradition of international malevolence also plays an even more important rôle in hampering the extension of banking systems beyond national boundaries than it does in restraining the production and distribution of commodities.

A full, illustrative and descriptive history of human credit methods would include an account of the earlier, more adventurous days of banking and of typical "runs," stoppages of payment and failures. Much material for this lies buried in the newspaper files of the nineteenth century. Those were the days of "romantic" banking. In America, for the reason just stated, local banks remain romantic. As the story approached contemporary conditions it would carry an increasing quantity of pictures of the typical buildings and other tangible property of banking concerns and give glimpses of strong-rooms, safe-deposits, and the like. Half the prominent street corners of London witness now architecturally to the great wealth of the modern banking corporations, and in Professor Soddy's *Money Versus Man* the reader will find a bitter protest against the extraordinary privileges that have favoured this accumulation.

The State gives banks the privilege of issuing money and then borrows money at interest from the banks. That, on the face of it, seems more than a trifle absurd. But we shall give a reason for that absurdity a few pages further on. The State, we shall find, is too afraid of its own temperamental fluctuations to issue money and reap the profit of the issue itself.

Our next exhibit, so to speak, in the banking section of our survey, will show the entrepreneur in conference with the bank manager. The rôle of the latter varies between that of the mere self-protective and acquisitive money-lender and that of the sympathetic (and even encouraging and stimulating) associate. But there is always a risk that sympathetic participation may pass into interference and control, and a mind directed mainly to security and profit may see a business organization from a widely different angle than the point of view of the creative entrepreneur. In all great industrial organi-

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zations there must be a constant risk of conflict between material and financial considerations, and especially, when monopolies are created either by natural conditions, patent rights or tariff protection, is there the danger of holding back improvements in method while profits are still being made upon obsolescent lines.

The whole trend of the mass of description and narrative our imaginary encyclopædia would assemble, would be to show how far we are as yet from that unified, simplified exchange of purchasing power which is the ideal bank. Things have progressed far enough to render that ideal conceivable and credible, but they are still at an incalculable distance from its effective realization. It is as yet only in his moments of exaltation and lucidity that the banker is able to think of himself as the guardian of the measure for human interaction; for ordinary everyday purposes he is still under the sway of a long tradition of profit-seeking. In the latter phase, if his practice is less satisfactory to his higher nature, it is certainly more grossly sure and gratifying. Only a change, not merely in his own ideology, but in the standards by which people judge and esteem him, can alter that.

Such a change is certainly going on at the present time. A time may come when profit-seeking banking will not be tolerated and all banking operations will be recognized as vital public services. That does not mean that banks will be "nationalized." They tend through the natural development of financial affairs to become quasi-public organizations side by side with the politician's governments. Already "profit-seeking" is a rather excessive phrase for most great banks. There is much legal limitation upon their capital, and upon the dividends they may pay their shareholders. They may have maximum and minimum dividends fixed for them.

What are called central banks, about which we have more to say, are in several countries partly or entirely the property of the State as the chief or only shareholder. There is a great variety of such restraining arrangements, summarized very clearly in Kisch and Elkin's *Central Banks*. There is more or less legal restraint upon all banking businesses. The modern banker arose out of the townsman-trader tradition, but he is rapidly assimilating the educated ideology. His manner nowadays mingles the reserve of the confessional with the alertness of a responsible controller. The vast amalgamations of Joint Stock Banks, banks of enterprise, that have occurred

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in recent years, tend to transfer the direction of banking more and more from bank "owners" to scientifically trained functionaries, who look not to profits but to promotion as the result of their work, and whose pride is rather in honour and prestige than in super-abundant riches.

The possible and probable development of the world's banking system towards a central exchange, a world clearing-house of purchasing power, becomes still more evident when we turn our attention to the way in which currency control is passing out of the hands of governments into the hands of a system of central banks. At first (in the eighteenth century, e.g.) bank notes were simply the promissory notes of banks to pay definite sums of cash at sight, and governments everywhere were the sole money-issuing authorities. Then in the interests of the public the banks were obliged legally to hold more or less adequate reserves of money to cover their notes. There was more and more restriction upon the right to issue notes, as the notes became more and more manifestly an accessory currency. Then from being accessory currency bank notes became the main currency. They are ousting metallic currency everywhere, except small-change metallic tokens. The period of monetary confusion that followed the Great War created a strong disposition to transfer currency issue from the direct control of politicians to expert management. Kisch and Elkin quote a declaration of the Irish Free State Banking Commission that is very significant:

"Mindful as it is of the disasters of past years in all countries where currency was issued by the Government, and recognizing the hazards which come from changes of Government, from the development of budget deficits and other evils from which no country has found itself immune, the Commission is definitely of the opinion that the management of the legal tender note issue should be placed in the hands of a non-political and independent body, which shall control the conditions of issue and shall have full control and custody of the securities it holds."

These are the ideas that have ruled the post-war development of Central Banks throughout the world. With comparative rapidity a network of these organizations has been created either by special modifications of the constitutions of pre-existing national banks,

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or by the creation of new ones, and from them it is, and not from the State directly, that the money now used by the ordinary citizen comes. This banking nexus, working with a considerable and increasing detachment from politicians, diplomatists and the press, is a comparatively new and most interesting organization in the economic life of the world. Its full possibilities are still largely unexplored.

We shall note in Chapter XII, § 13, and § 14, certain new broad strands that have come into existence since 1929 to make this banking nexus still more effectively cosmopolitan. These strands are still too new for judgment; they are the Bank of International Settlements at Basle and its projected associates the International Trust and the International Mortgage Bank.

Here, because of the living interest of the subject, instead of motioning our reader towards museum galleries vanishing into imaginary perspectives and non-existent encyclopædias, we will name a few recent books that he will find informative and stimulating if he wants to expand what is given here. There is no really comprehensive history and description of banking in existence, but the interested reader may be referred to *A History of Modern Banks of Issue*, by C. A. Conant (6th edition, 1927), which is thoroughly good within its scope, and *Currency and Credit*, by R. G. Hawtrey (1928), which deals very soundly with the general theory of money and the theory of banking. His Part II, "Historical Illustrations," describes most of the great banking crises from the Middle Ages onward. There is as yet no outstanding history of Central Banks or Central Banking. The history of cosmopolitan banking is being made but it is not yet being written. Kisch and Elkin (1930) give the constitutions of various Central Banks and the statutes governing them. *The History of the Bank of England*, by Andreades (translated from the Greek), is also well worth reading by the student.

These books will give methods of dealing and figures, but to make this part of our picture of human activities concrete and vivid something more is needed. How can we conjure up the visible manifestations of this banking network that now binds the vast complex of work and wealth together? At prominent corners, in busy streets, wherever there are towns and cities, rises

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the stout and handsome architecture of the banks. Within are the familiar bank desks and counters with their brass rails and guichets; altogether there must be miles and miles, hundreds of miles, thousands of miles of desks and counters; and clerks, clerks now by the hundred thousand, by the million, busy, intent, entering up billions and billions of transfers of purchasing power, sorting cheques, adding, subtracting, balancing.

Already the world's clearing-house for purchasing power, which may ultimately supersede the use of all money but small change, is half evolved.

This also we add now to the panorama of mines, plantations, factories, warehouses, docks, shipping, railroads, habitations, villages, towns, cities we have evoked, culminating in those gold-mines where, with the use of the most skilful organization, the most efficient apparatus, the most beautiful applications of modern science and the toil of many thousands of workers, gold is released from the quartz rock in which it was disseminated countless ages ago, to start forth on its long, indirect and solemnly idiotic journey to be sterilized in the vaults of the hoarding powers.

### § 8. *The Modern Fragmentation of Ownership*

So far it has been simple and convenient to speak of the entrepreneur as though he were a single person, a man of the peasant-townsmen type touched by imagination and larger ideas. That is what he was. But the fruitful device of joint-stock enterprise, fruitful of evil as well as of good, has long since made the entrepreneur no longer the organizing owner of an enterprise, but simply the organizer of its ownership. A very large and miscellaneous body of prosperous people "the investing public," now exists whose wealth consists partly or wholly of the shares or obligations of enterprises over which they exercise no control, or of loans made to governments or public bodies equally outside their range of personal activity.

The expenditure arrangements of this comparatively novel class of people are fairly uniform. They carry about with them a small amount of ready money, which they constantly renew from the current account they have open at the bank. This current account, according to the fortunes of its owner, credits him

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with a few score or a few hundred pounds. Any more purchasing power than that, waits in a deposit account bearing interest, from which usually it can be withdrawn at short notice, either to be brought forward into the current account for actual spending, or invested. Behind the current and deposit accounts come the "securities" which constitute some or all of the investor's possessions. These may be stored for the investor in the bank's strong-room, or in the investor's solicitor's bank, or in a strong-box, and normally they can be converted into cash (at variable prices) in a few days. They are from the owner's point of view a sort of money, a slightly congealed purchasing power, which may be liquidated with reasonable facility and which has the advantage of yielding higher interest than the deposit account and possibly increasing in value, but which also carries grave risks of deterioration.

Such is the typical investor's position; he is essentially a concentration, small or great, of irresponsible purchasing power. To borrow a term from biology, the body politic has *secreted* him as an oyster secretes a pearl. But his reaction on the social body is much more considerable than the reaction of the pearl upon the oyster.

The existence of this stratum of people, wholly or partly supported by investments in businesses over which they exercise no control, or in the loans made to governments and public bodies, at home and abroad, is one of the most important differences between the social structure of the modern community and any previous state of society. In every preceding phase where there has been a concentration of wealth it has been far less easily converted into kinetic purchasing power and far more burthensome upon its owners. Securities are an abstraction of purchasing power hardly less mobile and irresponsible than a cash balance. That causes a great complication of the currency question. In the preceding sections we have talked of monetary inflation sending up prices and deflation sending them down. But easy credit and a rapid movement of cheques are in their effect indistinguishable from inflation. And so also is a general rise in the prices of securities during a boom period. A phase of hopefulness among security owners and buyers — to all intents and purposes *inflates*.

It would be an intricate task to disentangle the statistics that conceal the relative importance of the income earner (individually and collectively) and the investor, as spenders. I am inclined to

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think we shall find the investing public is now quite dominant in the exercise of purchasing power so soon as we consider any but the broad staple necessities. The investing public calls the tune for the rest of production. Its demands and its refusals determine the forms and quantities of all that production. It is the decisive customer in the world of work, the free buyer.

There is no great freedom in buying below a certain level of individual prosperity. It is a delusion that individual buying gives the freedom to get what you want. You get what the shops will let you have. Unless you are very wealthy and will take the trouble to order and have exactly what you want made, your buying is only a few degrees more free than if a socialist autocrat gave you what he thought good for you. You may buy model A or model B or model C. That is the limit of your freedom of choice. You are served out your necessities wholesale, and live by a definite standard. Your spending, at the middle class or any lower level, is dictated for you almost as much as your work. You *must* have this, you *must* have that, and by the time you have got this, that, and the other thing you cannot do without, your money has gone.

But as the individual earner's income rises above the demands of his standard of life, as he begins to "make money," he enters either partially into the investor class by purchasing securities, or he expends his money as his fancy dictates upon pleasures and an increased consumption of perishable goods, or he acquires material property for exploitation or enjoyment. The prevailing practice is probably, in the first phase, investment. The first impulse is to "put something by." The prospering money-maker does not immediately expend his surplus, but puts it out to earn interest or dividend and so supplement his own earning power. He withdraws this sum from the to-and-fro dealing of consumer and producer to increase the capital wealth of the country, and then he sits down to wait for the interest or dividend to come to him. Then, feeling safer, he readjusts his purchasing activities to his new scale. He launches out upon that new scale. He begins to signify now to the advertiser. Will he have a new automobile or a better automobile? Will he enlarge or refit his house? Or his wardrobe? Will he travel and see the world? Or will he reinvest and grow still richer? He has become one of those people who—in the measure of their freedom of initiative—command the world. The producer considers his wishes.

*not in  
Spain!  
May be  
a car!*



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Let us ask how this investing and spending public, this most characteristic and influential stratum in the existing social order, achieved its present importance. It is not very ancient history. We shall need only to glance back to the sixteenth century to see a social system in which none but the actual holders of very real property, or people with money in pocket or strong-box, had any purchasing power at all. To own anything was a task. Rents, tithes and taxes formed the wealth of the rich and powerful, and they needed constant watching, collecting and administration. A mediæval strong-box, with its mighty locks and its key that had to be hidden, was a dreadful monster in comparison with a cheque book. The borrowing power of governments was slight. Partnerships were active and very personal, and only a few chartered trading companies had transferable stock. The free-spending investor was unknown.

It was not until towards the end of the seventeenth century that business corporations and trading and industrial companies appeared in any abundance in the world. They were simply partnerships with transferable shares and undefined liability. The great speculative storm of 1720 in France and England, the Mississippi scheme and the South Sea Bubble, marked the appearance of the investor as a serious factor in the world's affairs. Probably few of those who were ruined in these crashes were independent investors, people who had "made money" and were seeking a use for it; they were landowners, merchants, farmers and sinecure holders in a wild fever to grow much richer. They were people who sold their concrete property in order to invest; they brought their skins into the business. The mass of the modern "investing public" is not doing that.

There was a steady development of this new form of mobile wealth in stock and share, and a concurrent expansion of national debts, through the eighteenth and early nineteenth centuries, leading to the epoch of larger business organizations, of gas companies, railways, ship canals and town building, that followed the recovery from the Napoleonic Wars and the spread of invention and imaginative enterprise. We have traced already how this larger handling of affairs became mechanically possible, and now here we have to note how it became financially possible. The entrepreneur had insufficient credit for these enlarged undertakings, and so he

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had to call upon the credit of others. He had to form companies, to share and realize his hopes. Company promoting became an art and a profession, businesses were merged, vast new adventures were contemplated, and the proportion of the economic apparatus in the country owned by company shareholders increased rapidly. This development was enormously facilitated by the device of limited liability, which with due legislative precautions gave a long-needed reassurance to the hesitating investor.

Within a few decades there was a great increase of the productivity of the world; a considerable expansion of population followed, and the rate of its increase rose to a maximum and declined; individual wages rose with relative slowness, but the numbers of the earning class multiplied greatly, and there was in particular an immense proliferation of the investing public and of the organization of investment. A new and growing system of purchasing power was arising, not in equivalence to, but in association with, and dependent upon, increased production, and it was diverting a large amount of the increased product both from the active earner and the genuine economic entrepreneur on the one hand, and, on the other, from the landowner, the rent receiver, into the pocket of the investor.

The contrast between the economic life of four centuries ago and life under the new conditions can be easily stated. The social-economic process of the sixteenth century distributed the power to acquire its product, that is to say, purchasing power, as wages, as profits of manufacture or trade, as rent, as interest upon incidental loans, and as taxes in support of the still very undeveloped State and such other public organizations as then existed. By the middle of the nineteenth century the same process had become much vaster and more highly organized, and in addition to the former recipients of purchasing power, workers, traders, landlords, usurers, tax-gatherers, there was now added this great and growing body of inert investors, receiving interest or dividends, and constituting a vast expansion of those formerly rare and minor items, the money-lender and the sleeping partner. The State and public bodies were now not only functioning in new and elaborate and expensive ways, but they were also carrying a great and growing burthen of debt, so that the share of purchasing power over the general product which was assigned to taxes was rising steadily, to be returned in part to the

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community in services, and in part paid to the State's creditors, the investing classes. The old social classifications had changed both in their proportion and in their nature because of the great expansion of this practically new class of investors.

That change continues. The war preparation of the opening years of the twentieth century, the Great War and its legacy of unsettlement, have enormously increased the public debts of the world, and the pressure to buy War Loan has, in America particularly, extended downward the disposition to invest to classes hitherto innocent of aught but petty hoarding. Beneath the body of investors who live mainly or entirely on their investments, comes a stratum, a multitude now, of earners, who may be, as regards a quarter, or a tenth or a hundredth part of their spending incomes, investors. The investor's income is taxed heavily, but so far as his money is directly or indirectly in public securities, a sufficient part of it returns to him to leave him now the dominant purchaser, albeit not the chief consumer of common needs, in the world's markets to-day.

In Socialist and Communist literature, that ill-defined term, the Capitalist System, is abundantly used. Because of its confusing implications I have preferred not to use it here. What these thinkers of the Left have in mind when they say "Capitalism" is just this predominant presence of the investing public, the creditor public, in the social organism. But they seem to think the investing public exists through some inherent malignity of its own; they do not realize that it is an inevitable and necessary part in the confused evolution of a world economic system. There is a continual production for profits and a continual withdrawal of a proportion of these profits from consumption to investment and the creation of further capital demanding further dividends. The creditor mass, the debt burthen, increases steadily therefore until bankruptcy, inflation or—the Communist would add—revolutionary repudiation, relieves the economic body.

### § 9. *Contemporary Investment Practice*

The voluminous pages of that non-existent encyclopædia of Work and Wealth, would afford space for a detailed account of the current methods of company promotion and the flotation of public loans.

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It would explain the varieties of investment, in ordinary and preference shares, in debentures, in public loans. It would give a conspectus of the variations in company and corporation law in different countries, and the methods of subscription and sale. The reader would be taken in imagination to some of the world's stock exchanges with their supplementary outer markets, and be shown something of the manners and graces of these vortices in the modern economic process.

At these centres, from which financial stimulus or restraint radiates out to the material processes of world production, there is an incessant uncertainty and fluctuation of values, and a whole world of human activities concerned primarily with these fluctuations. An immense amount of human intelligence is being directed to the safety and "yield" of every item in the list of quotable and buyable securities, and beyond the acute professional practitioner, selling and buying to achieve a maximum of income and safety, is this whole vast "investing public" of ours, never altogether indifferent to the falling and rising prices and payments upon which it counts for its sustained purchasing power, and very prone to moods when better returns seem imperative, or when distrust chills the heart and panic impends. Climatic vagaries, bad crops and excessive crops, sudden revelations of mineral resources, new methods of production and unexpected inventions, fire, flood and political stresses, are all reflected in the plus and minus entries of the price list of stocks and shares.

But the stock and share market is not merely a barometer to register the unpredictable weather changes of the economic life of the world outside. It has also moods and pressures and storms of its own, originating within itself and having also heavy repercussions on the general life of the community. A study of company promotion reveals how great are the temptations to overestimate the price and prospects of any undertaking that is offered to the investing public. There is a natural disposition to "over-capitalize" undertakings and to exaggerate the permanence of profitable returns. There is so much hopefulness in man that, according to Mr. Mellon of the United States Treasury, as much as 1,000,000,000 dollars is lost annually in the too sanguine investments of American citizens. Much of this may be due to honest miscalculation, but a considerable proportion, it would seem, goes to support an interest-

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ing industry of deliberate investor exploiters, who deal systematically in unsound and bogus securities. There exists a very complete organization for this exploitation; there are even registers of "suckers" who may be trusted to subscribe to almost any rotten project that is put before them with sufficient attractiveness. A special study of the methods by which these trash dealers acquire their thousands of millions of purchasing power would make an entertaining and instructive section in our encyclopædia. There must be thousands of them and their families, rich but, one imagines, a little indisposed to "talk shop." If you are prosperous enough you may have sat beside some of these browsers upon the investment public last night at the theatre, or travelled very pleasantly with them in the train de luxe. Our sons and theirs may become great friends at college.

Hopefulness is a recurrent epidemic in America, and, as we shall show by a study of the 1929-31 boom and slump, it is possible to have a whole community over-credulous of values and prospects. While the mood lasts, everyone seems to be making a fortune, and purchasing power is used to stimulate industry to the utmost. The prices of securities rise—and bull speculators (buying for the rise) push them up still further. As we have pointed out already, this works almost exactly in the fashion of currency inflation. When a phase of disillusionment arrives, buying ceases, and workers are thrown out of employment by the hundred thousand and bereft suddenly of purchasing power. Their slackened demands further intensify the slump, and so the slump continues.

From these phenomena our encyclopædia of human activities would pass to the various methods of operating upon the exchanges. It would tell of bull and bear operations; of the way in which bear sellers of stock may be "caught short" and "skinned" and so forth. The fine question of how far a man may sell what he has still to buy cuts down to the roots of incessantly recurring financial situations. The foundation of considerable fortunes has been this dubious expedient of anticipatory selling. Some able but practically impecunious salesman has induced a seller or sellers to quote a price to him, or has secured an option to buy, and has then found either a purchaser at an advanced price or a bank willing to support him until he could put his proposition to the investing public. Such intervention, with a great range of variations, constitutes indeed a

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conspicuous part of contemporary "business." If the adventurer can keep his credit throughout the transaction, he "gets away with it"; he becomes one of the New Rich, a Power in the financial world. If bankers become unfriendly, if they decide to call in his credit and he can find no friend to help him, he must unload what he carries, at disastrous prices. He is "skinned." There may be bankruptcy and suicide or effacement. Here, too, we find a system of inexactitudes and uncertainties that do not merely admit, but invite and provoke, the speculator and the cornerer, the seeker of wealth without work, the bold and brilliant parasite upon the sap and vitality of the economic body.

All the matter sketched out in this section will be so familiar in a fragmentary form to most readers that few will find it anything but natural and inevitable. It is, however, if we measure it either by former social conditions or by Utopian standards, a very extraordinary state of affairs in which we are living. The modern world of work and wealth, with all its industries, cultivations and distributive organizations, has been evolved *pari passu* with the development of the investing and speculative public, as the desert camel was evolved with its hump, or the elk with its antlers; it has been all part of one evolution; and no one has ever yet speculated what changes of the environment, great or small, legal, political or "natural," might have developed the creature in a different form, with a smaller hump or a lighter burthen of bone and horn. Nor have we any measure yet of the extent to which, or the rapidity with which, this hump may not under changing conditions be reabsorbed into active nerve and muscle. Or whether the whole organism is so tied to its hump that it will perish rather than lose it.

### § 10. *Is the Investing Public More than a Transitory Excrescence upon Economic Development?*

A very natural enquiry arises here. This is the question: how far uncertainty is inevitable in economic processes, and how far a more scientific handling of the quantitative, distributive machinery of mankind may not eliminate most of the weaknesses of the system that renders this fungoid growth of large speculative fortunes, and the still larger growth of speculative fortune-seekers, possible.

After all, we have to remember that the present state of affairs

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is recent and novel. Our world has not always suffered from the superposition of a great creditor class "living on debt." Our civilization has been floundering about with experiments in partnership and joint-stock enterprise for only a brief century or so; limited liability dates from 1855. We have been realizing as yet only the crude possibilities of invention and science, and it is altogether too much to assume that the first adaptations of the old property-money-credit ideas to these new powers and their new range were anything but provisional.

Behind the adventurer, the speculator, comes that scavenger of adventurers, the statistician. He ends adventure and cleans up the mess. The method of trial and error will surely give place to analysis and the plan. Enterprise will then cease to look for support to the casual investments of ill-informed amateurs. Industrial projects will become more and more exactly calculable. *Pari passu*, the company promoter will be brought under more effective control; there will be a more critical supervision of his acts and a readier jail for his delinquencies. And the "investing public" will gradually be helped and persuaded to avoid spasmodic investment, and its search for a safe return turned into new and less adventurous directions.

Perhaps it would not be a bad thing for the world's work if this swarm of amateur distributors of purchasing power were restricted altogether from direct investment in business enterprises. At present there is a very remarkable development of "investment trusts" which spread their clients' little capital over hundreds of securities. The small investors merge in one big investor, the Trust. This development, this pooling of small investors, may go on. It may be found possible, in the future, to confine individual investments absolutely to semi-public properly audited Investment Trusts.

At present the Investment Trust is in its early phase, and in making this suggestion we conceive of the Investment Trust evolving and rising to its possibilities and opportunities. It may seem an extreme suggestion that the freedom of the individual to throw away his savings should disappear. But it is at any rate worth while investigating how much of that 1,000,000,000 dollars per year, of Mr. Mellon's estimate, might not be embanke'd back by some such restriction from sustaining a horde of rogues and unproductive financiers, and directed into economically fruitful channels.

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Dividends would, of course, fall as this was achieved, but the capital would be secured. High dividends are the reward of risk-taking. High dividends are due to the uncertain profit of an exploitation, and where the exploitable value of anything can be calculated with certainty there is no need to pay unduly for the use of money. The enterprise can obtain its capital at the minimum rate of interest that is ruling at the time. In a perfectly safe, perfectly calculated social and economic system, the various directive and employing boards would do their book-keeping with one another, and individuals would neither hoard nor lend their money; they would have no reason for doing so, and they would spend it. Consumption would equal production. Money then would have simplified out to its ultimate use as a check, giving purchasing power against a claim established or services rendered. Stock and share and all such interest-bearing quasi-money would have disappeared. A world economic control, evolved perhaps from the banking organization of to-day, would apportion purchasing power to the various world services, to experiment and research generally, and to bodies engaged in localized development. The existence of this investing public of ours would then become unnecessary. It would become an interesting past phase in the economic history of mankind.

There is nothing fantastic, and so far there is nothing Utopian, in these intimations of a world that will be largely released from the inconvenience of uncertain and fluctuating values. It is no imaginary "No-where," it is here on this planet that such an exact and unencumbered economic life is possible. Possible, in the sense that no absolute obstacle can be defined. People will be disposed to object that such completeness of organization is "incredible"; they will rake up the old vague rubbish about "human nature" being in the way, meaning ignorance and bad habits of mind; and they will attempt to substitute a confused vision of romantic incoherence, a distorted and foreshortened continuation of the past two thousand years of human life, for this plain prospect of a world with an adequate system of book-keeping. But the movement of the last hundred years is all in favour of the statistician.

It is no good saying nowadays that "man has always been so and so and always will be so and so," meaning that he must remain for ever an ignorant, limited, pitiful, disastrous fudger. Human



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biology knows better. We can trace our escape from dreams to ordered thinking. We can trace the spreading subjugation of life to ordered thinking. We see all about us the struggle of the human mind to escape from Realist delusions to Nominalist methods of thought. Science spreads into all human concerns, changing spirit as well as method. What science, with quite small resources, has done in a century or so in establishing a progressive order throughout a large part of the field of possible knowledge, all mankind in a century or so can do for all the affairs of earth.

This prospect of a proper accounting in human affairs presupposes certain things. It presupposes a vigorous extension of scientific enquiry into the field of business, the development of a powerful body of scientific workers in the social and economic field that such institutions as the London School of Economics foreshadow; it presupposes also an increasing honesty and broadening intellectual interest among business men, and a wide diffusion of the ideas and conclusions this gathering cloud of work and thought will produce. Further, it presupposes a correlated change in the business atmosphere where greed, rapacity, cunning and secrecy have played so freely hitherto. Every step that is won in ousting that tradition of hidden methods which is dear to the mediæval peasant and trader, and that other tradition of rapacious adventurousness which comes to us from the mediæval brigand-noble, in favour of the modernized intellectual tradition—the mentality, that is to say, of the self-devoted co-operative *educated* man—brings this prospect of a clear accounting in economic life nearer.

At bottom the dire economic stresses of our present world, its injustices and its vileness and the tantalizing uncertainty and irregularity of its progress, are due to the defective or pernicious education, mental and moral, of the vast majority of energetic people. It is not that they are bad at heart, but that they do not think sanely; they have no idea of what is needed, no image of conduct necessary to run the great machine of the world properly.

It is not  
we have  
such faith  
in edu-  
cation

In Chapter VII, § 11, we discussed grades of organization and their relation to the moral and intellectual level of the community. To that idea we now recur.

out can  
we really  
educate

As that scientific devoted persona, which must be the guiding object of modern education, is built up in more and more of the minds of active men and women, the face of our world will change.

people up to that standard? We cannot increase intelligence. Can right-thinking be taught to all? That is the great question.

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Things that are now impossible will become practicable, easy and "natural," and this dark and wasteful tangle, muddle, and obscurity in the counting house of humanity, this vast leakage of purchasing power, will no longer hamper the development of our racial life.

There is no essential reason why a world-controlled monetary system should not be continually draining away indebtedness by a steady gentle continual monetary inflation; why it should be necessary to upset the balance of production and consumption by "savings"; why the creation of new productive capital should be possible only by the evocation of debts. The economic mechanism of mankind groans under a vast burthen of debt now, by habit and custom, and not by necessity. Debt prevents plenty, it is a restraint and a subtraction, but debt is no more essential to economic life than was human sacrifice to the building of a bridge or the raising of wheat. Yet for ages men were unable to disentangle the one thing from the other.

### § 11. *The Elements of the World Depression of 1929* 31\*

We have now put before the reader, in an orderly fashion, the main facts about the payment for, and financing of, human work at the present time. We have pointed out some manifest looseness in the machinery and some conspicuous weaknesses, defects and dangers. And lest this should seem to be mere carping at human and tolerable characteristics of the monetary and financial organization of mankind, let us now make a compact study of the machinery in a phase of bad results. This is a simple, unbiassed report upon the way in which the machinery has been grinding and stalling in the past three years. It recapitulates very conveniently many points already raised in this chapter.

Never has the industrial and commercial intelligence of mankind shown to such complete disadvantage as at the present time. Sum up the position calmly, and it remains unbelievable. All over the world are exceptionally large stores of the raw materials required for every type of manufacture. There are in the industrial areas more factories, better equipped and organized, than ever

\* The elements of the story are to be found also in the Report presented to the Assembly of the League of Nations, 1931. *The Course and Phases of the World Economic Depression.*

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before. The knowledge and skill of workers, directors and inventors have never been greater. Our treasure of gold has reached the highest known level and is being steadily increased. The banks are choked with money which they cannot put to profitable use. There is no war to speak of anywhere—communications are safer and speedier than at any time in history. Wholesale prices are back at pre-war level, and millions of decent, industrious people would be glad to obtain more food, clothing, houses, furniture and other goods which it would be well for them to have. And yet the League of Nations has just announced that twenty millions of the world's workers are unemployed; machinery stands idle everywhere; whole towns are stagnant and desolate; the manufacturer, unless he has already sold his product, hesitates to manufacture, and those who can afford it hesitate to buy. In the United States alone—a country which is drawing tribute from all the principal nations of the earth—eight or nine million men and women, who were in productive employment a couple of years ago, can find no work and many of them are in urgent need of food. At the same time and within a few hours by train from these starving people, enormous stocks of wheat are held up unsalable in the elevators, while something like £1,000,000,000 worth of gold is lying in cellars, most of it performing no work at all, beneath the banks of Washington and New York. We have arrived at a deadlock.

Let us recall the main features of the story to the reader. We can begin most dramatically on October 24, 1929.

No one doubts that the proximate cause of this economic desolation is the crash which occurred on the New York Stock Exchange on that date. It is possible to put a finger on the calendar and show the exact moment on which the avalanche began to slide. But that was only the proximate cause—the Americans have speculated before without involving the whole world in industrial disaster. Their smash, bad as it was, merely widened and accelerated a downward movement which had been going on already for three years, worsening the position in countries which were already depressed, and laying open to the infection those, like France and the United States, which had so far escaped it. It is that downward movement which must first be examined if the great slump is to teach us anything worth learning.

One dominating influence can be indicated in a sentence: in an

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industrial world both trade and money seek to be international in their movements, while at the same time we have no international machinery, either physical or mental, for dealing with them. If our vast contemporary populations living in completely different climates are to be fed and maintained in reasonable comfort, goods must move to and fro across the earth, and gold, or its equivalent, must to some extent go out to meet them. And at present mankind is trying not so much to encourage or guide this process as to interfere with it from a dozen independent and hostile centres and on as many different principles. Some of the ideas now shaping economic policy date from the Middle Ages, some from the Roman Empire, some from before the dawn of history. Nowhere do we see conceptions based upon actual world conditions in operation. There is no authority to-day trying to promote world trade, or empowered to enquire whether the maximum quantity of desirable goods is produced and consumed. There are only partial governments trying to secure for their own nationals some opportunity, not of enjoying goods, but of making a profit which might otherwise have fallen to the citizens of a different country, whether or not this adds to, or subtracts from, the volume of their trade as a whole, or even contributes to the real comfort and welfare of the nationals concerned.

This state of affairs shows no tendency towards improvement—on the contrary it seems probable that there is less harmony to-day than there has been since the rise of modern industry. Before the war the financial side of international trade was in practice, as we have pointed out, controlled very largely from London, and the difficulties of the post-war period have been greatly increased because that no longer happens. It may be possible to produce all the goods the world needs and to distribute them in a rational manner while London, Paris, New York, Berlin, Calcutta and Shanghai are all in their greater or lesser degree empowered to take their own line, issue their orders that money is to be made scarce here or to accumulate there, that goods are to be refused admittance at one frontier or heavily taxed at another. But an examination of the policies and actions which led to our present stagnation does not encourage one to think so. If we are to avoid a recurrence of this slump, and if these separate powers are to be retained, they will have to be used in a very different way. The tragedy of the years

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1929-31, in the last analysis, must be traced to suspicion and ignorance, to a flat refusal to use the accumulated knowledge of economic science, or to understand that even a nation cannot ruin its customers without suffering itself.

To illustrate this contention in detail would be a very complicated business and would take far more space than can be given it here. But it should be possible to make the main features clear and to indicate their importance and their inter-relations. They will be found in the first instance to be rooted in economic nationalism. Whether such disasters can be avoided in the future while that background remains unaltered is for the reader to judge.

Economic nationalism, we say, is at the root of this, the greatest slump the world has ever known. But we do not mean that it is the only operating cause. Were all the world one, we should still have to face the distresses created by an ever-increasing efficiency in production, whereby output increases while employment and the general purchasing power under our present system of distribution diminish. But that problem, as we shall see later, would be altogether less formidable if the world were economically unified.

Plainly a chief cause of the trade depression which preceded the great slump was scarce and dear money. When the crash came there had been in the majority of countries and for several years a dearth of money for ordinary buying and the purposes of trade. Money is an artificial thing; its amount can be artificially increased or lessened, and it is as a result of monetary policies that consumers have been short of power to buy, while producers have been unable to afford the money they wanted either to re-equip their existing businesses or to establish new ones. To rebuild the world after the war, cheap money in adequate quantity was vital. And yet almost every step taken anywhere to influence its supply has been taken in the direction—and with the result—of making it dear and scarce. Each central banking authority has had its reasons for this—they have not restricted the supply for the sake of restriction—but the result has been that up to the day of the New York crash interest rates remained at a high level. The price of loans frightened off ordinary trade borrowers. And at the same time national incomes, instead of being increased to allow for the increases which have taken place in populations, have either been prevented from growing fast enough or have been actually contracted.

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As Mr. J. M. Keynes has pointed out\* there have been two main sources of pressure on the supply of money and credit. The first has been the financial distress of governments, aggravated in some cases by reparations payments. Unable to balance their budgets, states have been compelled to borrow, no matter what rate of interest they might be charged. If the money-lenders have made a good thing of it, the blame for that must go to the politicians. The other main cause is almost certainly the return to the gold standard on the part of Great Britain and the other important industrial countries. For one thing this meant that huge sums in gold had to be removed from active use in order that they might be stored away as cover to currencies—a policy which has brought about a wholly unnecessary scarcity of gold. By 1928 nearly two thirds of the world's monetary gold—almost £1,250,000,000—had already been locked away to perform a function which can better be filled by interest-bearing securities. Secondly, the various currency acts passed during the period of return have imposed upon central banks the statutory duty of protecting most of this gold, and thus forced them to check every sort of movement which might have led to the metal leaving the country. In England, where the Currency Act is elastic, the Bank of England refused steadily to make use of this elasticity and part with gold. The blame for the consequences which have flowed from this can hardly be escaped by Great Britain, for she, with her dominant financial prestige, not only took the lead in returning to gold, but urged and encouraged other nations to follow her example.

In a little book, *Stabilization*, by E. M. H. Lloyd, published in 1923, the reader will find how clearly the evils of deflation were foreseen at that time, and how plainly the British and American authorities were warned by such experts as Maynard Keynes, McKenna and Professor Cassel of the mischief they were doing the world. To these warnings, the British bankers, speaking in the person of Sir Felix Schuster, replied:

“Countries which had departed from their pre-war gold standard must aim at deflating their currencies gradually so as to inflict the least injury, but with one object in view, a return as soon as possible to the pre-war gold standard. That would be the policy of

\* *A Treatise on Money*, Vol. 2, pp. 378 *et seq.*

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the Bankers of the United Kingdom, and until that object was attained he thought they must adhere to a policy of gradual deflation—certainly in this country.”

Looking back now, it is evident that the history of the decline began with this return. Before the gold standard could be restored, it was necessary for her financial authorities to raise English money rates and check supply in order to force the pound up to a pre-war parity with the American dollar, and so the Bank of England found itself committed to a régime of dear money and restricted credit, a régime which has led straight to the present debacle. Owing to the extent of the British Empire, and to the position of London as the centre of international finance, money rates and conditions in London still govern those prevailing in lesser centres, and the dominant factor making for world-wide depression has been the policy pursued in London. In 1925 the Bank of England's discount rate was put up first to  $4\frac{1}{2}$  per cent and then to five per cent, and these steps were accompanied by a serious contraction in credit.

Choosing a different aspect of the same facts, we may say that the pound was forced up in terms of other currencies and of goods, so that prices fell. British exports were reduced by £9,000,000 in nine months and the national output fell by £100,000,000 a year. Britain was unable to import so much or to pay so highly for what she did import, and there followed a depression in Germany, the United States and the British Dominions. France escaped by taking the opposite course—allowing the franc to fall in value and thus stimulating her exports and throwing the burden on to her *rentiers* and fixed salary-earners.

From then onward the economic vitality of Britain declined, and the diminished purchasing power of this great consumer of raw materials acted as a steady downward drag on world prices. The English bank rate may be taken as the mercury which registers monetary conditions, and until the present slump made money unusable it never fell below  $4\frac{1}{2}$  per cent, while at times it rose to  $6\frac{1}{2}$  per cent. As a corollary, during all this time credit was restricted whenever a demand for it arose. A progressive strangulation of business was inevitable under the conditions thus created.

The fundamental idea of the gold standard is that in certain

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financial centres, and particularly London, there shall be a free gold market, and the essential feature of that arrangement is that anyone who wishes to do so may buy gold from the central bank at a fixed price. The Banking and Currency Act of 1928 left the Bank of England provided with a very narrow margin of exportable gold, and there has been continual pressure upon that margin. The provision in the Act which allows the bank to relieve this position it refused to use. The position was that since the bank could not refuse to sell it was forced to prevent its customers from wanting to buy. This it is able to do, but only by the roundabout method of so decreasing the amount of money in the pockets of the public that everybody was obliged to buy less of everything.

There are three main reasons why individual purchasers require gold for export, and all of them in turn, during the period under review, exercised pressure upon the London rates. In the first place gold may be wanted to pay for imports. Where, as in the case of Great Britain, imports of commodities normally exceed commodity exports by large amounts, there is always a possibility that gold may have to be sent abroad to pay for imported goods. Other countries deal with this difficulty by duties which discourage their people from importing, but the central bank of a free trade country is fully exposed to the hazards of demand. And since it cannot prevent people from buying imports in particular, it must take the course of checking confidence and diminishing credit, and so discourage them from buying not only imports but anything at all.

A second and possibly a much more important influence during these years, is the traditional disposition of English investors to send their money abroad. Before the war Great Britain, in receipt of immense revenues from foreign investments, was virtually obliged to keep on relending the interest abroad, in order that other countries might continue to purchase her goods. Since the war the amounts coming in have been smaller, and they have been set off in part by a larger adverse balance of imports, yet the country has continued to lend abroad in excess of its real power to do so. Custom plays a considerable part in these arrangements, and the machinery for foreign lending in London is planned on a large scale, and, so to speak, draws in its own supplies. Borrowers are accustomed to come to London, and London is accustomed to lend. From a world point of view that function should now be shared by Paris and New



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York, the money centres of the two other great creditor countries. But the French fared so badly over their pre-war Russian investments and the Americans show such a preference for investing in their own industries, that large though the loans from the United States have been in particular years, neither of these countries has in fact played the part which international trade now demands of it. Even had the French wished to invest they would have met with legal difficulties, for France, in her inveterate nationalism, taxes both issues of foreign loans and dividends received from them by as much in some cases as twenty-five per cent. As for the private investor in England, his motive was the reverse of his American brother's; he wanted to get his money out of the depressed industries of his own country. The worse conditions became at home, the more reasonable it seemed to him that he should seek his profit abroad. Political fears have accentuated this tendency, and it has been further increased by the discovery on the part of wealthy citizens that there are ways of placing money abroad which enable them to escape income tax and surtax.

These were influences which affected long-term investments. Another cause of the drain on the British gold supply was the movement about the world of what is called short-term money—funds which are lent for days, weeks or months on money markets and stock exchanges. Money of this sort is very mobile; it follows high rates of interest from one great financial centre to another, and there is always a danger that when it comes in paper it may be taken away again in gold. To prevent those persons who are accustomed to lend money in this way from dislocating monetary conditions, money rates in the various centres have to be kept in step, and the country which is in need of cheap money must forgo it whenever a leading foreign central bank thinks well to raise its rates. Thus as long as countries consider it necessary to maintain large reserves in gold while selling gold freely at a fixed price, the mobility of this form of capital is a continual reason for keeping money dear, and again and again during the period with which we are dealing it had this effect.

Further, both these factors combined to aggravate a third—that storing away of money in central banks to which reference has already been made. Both France and America in one way and another were receiving more gold than they could use. During 1930

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alone they added to their already swollen reserves more than twice the annual output of the mines. France, as we have already noted, held over £500,000,000 in 1931, and the United States nearly £1,000,000,000. As against this the whole British Empire possessed only £250,000,000, of which something like £150,000,000 was held in the Bank of England. And since these two great hoards had been accumulated faster than new gold had been produced, all other countries were in constant fear of losing their own reserves, and Britain especially tried continually to tempt money to London or to keep it there by the offer of exceptional rates.

All these modes of human behaviour, the buying of what in the circumstances were too many foreign goods, the desire to invest abroad, the wish—expressed through central banks but reflecting a profound instinct in peoples—to amass as much gold as possible and part with as little, helped to make the British system unworkable except at a monstrous cost to its industry. Taken by themselves alone they would have formed an adequate explanation of bad trade and unemployment. No country could have flourished under the monetary conditions which have been considered here. But in all their badness they were aggravated by another influence, that of the high tariff walls erected by both France and the United States. It is argued on behalf of the gold standard that if gold flows into a country, goods will flow in after it and bring the gold back again. That is how things ought to work. Under a system of free trade, if France and America had used their gold either directly to increase the money in circulation, or as a basis for fresh credit, or both, demand would have increased, prices would have risen, and goods would have been sent from all over the world to take advantage of the higher prices. In this way prosperity would have spread from the centres where trade was brisk to other producing countries. Purchasing power would have risen there in response to the intelligent exercise of purchasing power by these creditor countries. But by means of higher and higher tariffs foreign goods were in fact shut out from these two prosperous areas, so that nations buying from them, unable to pay their debts in goods, found themselves obliged to remit yet more gold to markets already gorged with it. Great Britain especially, unwilling to prevent her own nationals from buying from France and America, suffered by being refused a market for her own merchandise. From a world point of view the

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countries which should have admitted goods freely were the most determined to shut them out, and the nation which could perhaps least afford to do so—having regard to its monetary system—bought too much from abroad.

To these main factors of the world's distresses—dear money during a period when cheap money was most urgently required, faulty working of the international loan machinery and maladjustment of tariffs—other causes of adversity must unfortunately be added. The war-debt arrangements increased the flow of gold to the United States, which did not need it, from Europe, which needed it very badly indeed. The position of Russia, with her depreciated currency and inadequate foreign credit, was another source of weakness. She had ceased to be a customer on an adequate scale, and in order to buy even the equipment vital to the success of her Five Year Plan, she was forced to be a destructive seller, throwing wheat, furs and timber into the market for what they would fetch, and dislocating the trade of the countries which took advantage of her necessity.

Lastly, all over the world a series of plentiful harvests occurred, and agricultural countries made unprecedented efforts to recover prosperity by increasing and improving their production. Had world trade been good, these additions to real wealth would have been absorbed and added to human well-being, but coming at a time when prices were already being forced down by monetary influences—when less and less money was available for buying—they caused the prices of raw materials to fall yet further and increased the distress they would otherwise have alleviated.

These are the fundamental causes which had been operating to prepare ruin in the midst of potential plenty. The last touches were added to the picture by greed, folly and mismanagement. In 1926 one effort was made to stop the decline. When the Federal Reserve Board of the United States found that Great Britain's return to the gold standard was preventing the sale of American harvests and producing a depression, it took the wise step of releasing money and keeping its rates of interest low. This enabled trade to recover, and a period of prosperity in America ensued. It even led to a certain amount of gold being withdrawn from New York in order to take advantage of the high money rates in Europe. Had this been followed by a lowering of tariffs so that some of the fresh money

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could have gone abroad in payment for goods, prosperity might have spread across the Atlantic and the balance been restored. There was a potential world recovery in the 1926 situation. So much sanity was still too much to expect from the current American ideology. Moreover, the spectacle of European indigence side by side with American plenty led the American investing public to tip the scales still further by decreasing their purchases of foreign loans and using their money at home. And so we come to the American boom in 1928, when it still seemed to the ordinary man in America that his favoured continent was to be exempted from the malaise of the rest of the world and that an era of abundance opened before him. Everyone was to buy hopefully. Prosperity was assured.

The prices of stocks soon answered to this feeling, and as they rose the gambling instinct of that great adventurous people awoke; the plentiful bank credit which had been created in order to help agriculture, was lent to provide money for speculation, and there followed one of the worst Stock Exchange booms in history. America went through a phase of violent inflation—not currency inflation but inflation of security values. A man's bank balance remained the same but the negotiable securities, which formed his next line, mounted to astonishing levels. America passed into this phase of inflation by security values, while the world at large was in a process of steady currency and credit deflation. Prices of commodities did not rise in America, but they did not fall as they were doing elsewhere. But an immense rise in production and profit was *anticipated*. There was consequently a fantastic exaggeration of the value of all but fixed-interest-bearing securities. There was a boom in hope. People became giddy with this rise. You bought, you sold again; you got out with your profit as the rise went on. You were sorry you had not stayed in—just a little longer. So you went back to it. Attention focussed on the Stock Exchange. People did not spend their profits at once; they reinvested. No such expansion of trade occurred to justify the mounting prices of industrial shares. Nothing real was responding to all this hopefulness.

All America rang with a new gospel, the gospel of wealth by consumption. It seemed possible to evoke prosperity through a mere imaginative effort. "Every day, in every way," said the

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American investor, following the Coué formula, "we grow richer and richer."

By the middle of 1928 the Federal Reserve Board began to feel alarm. It had already been fiercely attacked in the Hearst papers for its policy in allowing gold to leave the country, and it now decided, as Mr. R. G. Hawtrey has put it, "to stop speculation by stopping prosperity." During 1928 the rediscount rate was raised by steps from  $3\frac{1}{2}$  per cent to five per cent, securities were sold by the banks in the open market, and other action was taken to reduce the supply of money. Trade began to suffer at once, but nobody was paying any attention to trade. The upward gamble continued. The results were that the rates for call money in New York rose to extraordinary heights—in March, 1929, they touched twenty per cent.

It takes time to stop a gambling fever; people will pay whatever they are asked to pay for loans so long as they imagine that they can make a profit with the borrowed money, and money was, of course, rushed in large amounts from Europe to earn this preposterous interest, in spite of the fact that European banks had raised their own rates to check such adventures. In August the New York Federal Reserve rate was put up to six per cent, in September the London rate went to  $6\frac{1}{2}$  per cent. These figures foreshadowed a crash, and doubtless operators of sufficient intelligence recognized this and got out of things.

On October 24th the crash which we have made the starting date of the world slump came, and on the 31st of that month the bank rates began to go down. But instead of attempting to offset the inevitable wave of depression by a decided policy of cheap and plentiful money, the Bank of England brought its rate down slowly and reluctantly and did nothing whatever to expand credit. This was probably due to nervousness engendered by the behaviour of the French, who were characteristically engaged in turning everything they could lay hands on into gold or notes and hoarding it away. A currency shortage in France could only be avoided by the issue of notes to replace those hoarded, and the Banque de France, under its charter, is obliged to cover in gold every such fresh issue whether its gold stock is already too great or not. In any case it was May, 1930, before the London rate fell to three per cent, and by that time the effect of widespread losses, combined with that

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of the Hatry scandals (a forgery of securities on a large scale), had conspired to establish an atmosphere of dismay and hopelessness.

### § 12. *The Suspension of the Gold Standard by Great Britain in 1931 and the Situation Thus Created*

During the year that followed nothing was done to relieve the gathering stresses. Wholesale prices fell almost week by week; gold continued to flow into France and the United States to be sterilized by their central banks. Economists were at one in pointing out that this could not continue without dislocating the finance of the whole world, but as the debtor countries did not wish to default, only the two great world creditors could take any steps to arrest the process, and neither in France nor America was public opinion thought to be ready for a change in policy.

Attempts were made here and there by producers to hold up this or that particular commodity in order to check the fall, but the knowledge that accumulated stocks were overhanging the market if not actually on it served only to depress the price still further. Moreover, it was known that Russia was enormously increasing her acreage of cotton and wheat and everything else that she could grow. Most of these projects to restrict sales ended in disaster, and by the summer of 1931 producers were planning actually to destroy crops, throw them into the sea, burn them or hoe them in. The problem of wheat prices was considered so pressing that a series of international conferences was held to devise some means of getting rid of the stored-up American wheat and checking new production, but all these conferences failed. The interests of Russia and the older producing countries were completely antagonistic, and there was no supernational authority to force an agreement, no representative even of the world interests which should have been paramount. Those were left to the consciences of the delegates. By the summer of 1931 Brazil and the United States were actually bartering wheat for coffee because of the difficulty of monetary payments.

The complete failure of concerted international action left each country faced with its own problems. There were two solutions of the riddle conceivable: either to make a resolute attempt to check the fall in prices by spending money on some programme of development, or else so to cut costs that production would become profit-

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able once more at the lower level of prices. The first involved State action, for private enterprise cannot in the nature of things be expected to incur heavy expenditure without even a reasonable expectation of paying its way, much less of profit. And State action meant either additional borrowing or further taxation—at a time when people were already crushed by taxation. Moreover any single nation which adopted this course while its competitors were taking the alternative path of cutting costs, placed itself at a disadvantage in the world market, while to cut costs itself seemed to offer some hope of undercutting its competitors, even though such a course meant sending down world prices still further and depressing its own standard of living.

It was to the competitive expedient that the continental nations turned. Wages fell everywhere—sometimes by as much as thirty per cent. This drove prices lower and increased both the burden of the external debt and the proportion of wealth automatically received by the *rentier* classes. In Italy the Dictatorship was able to ease the adjustment by enacting—and securing—that retail prices should fall *pari passu* with a ten per cent drop in wages. In other countries this was not done and the poor were left to manage as best they could. In Great Britain alone wages did not fall, because they were buttressed by her system of unemployment insurance (the dole). But unemployment increased as her export trades found themselves less and less able to hold their own in the world market, owing to their disproportionate bills for wages. And though Great Britain's exports fell, her imports rose in amount—a fact masked by the continual fall in prices—because her masses still had purchasing power because of the dole.

In February, 1931, Mr. Snowden, her Labour Chancellor, warned the country that it could no longer hope to maintain the existing level of public expenditure, and an "Economy Committee" (the May Committee, named after its chairman, Sir George May) was set up inspired by the idea of economizing in every possible direction.

By June, Austria was unable to bear the gathering strain of the situation any longer, and banking failures occurred there which dragged some important German banks down with them. Germany since the war has been obliged to carry on her economic life by means of loans, and in particular she has been forced to borrow the

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money for her reparations payments.\* According to the Midland Bank Review for June-July 1931 her debts by the end of 1930 amounted to nearly £400,000,000 on long-term and £300,000,000 on short-term account. The American crash abruptly dried up the chief source of these loans, and as they ceased and the true situation became clearer to the mass of the German people, a political party, the Nazis or Hitlerites, came into being, pledged to repudiate reparations payments. At the General Elections in September, 1930, the Nazis gained enough votes to weaken the confidence of foreign investors. Loans except for very short periods really did become very difficult to obtain, a new "flight from the mark" began, and the German government was forced to confess that it could no longer maintain its foreign payments.

At this point the United States, whose citizens held over half the German loans, came forward with a constructive offer in the interests of German solvency. President Hoover, acting on the advice of the leading American bankers, announced that if all the other creditor countries would agree to follow her example America would for a year excuse her debtors from the payment of their war debts. It is said that he had intended, had this offer been accepted immediately, to make the improved situation so created, the occasion for an attempt to release money from the United States hoard and so send up commodity prices.

Great Britain accepted, so did all the other creditors of Germany, with the vitally important exception of France, France, alas! has still to disentangle finance from foreign policy. She held out, on the grounds that Germany's position was due to her own extravagance, that she was still finding enough money to build ships of war and that France owed it to herself not to give up her just rights. It is unnecessary to recount here the hasty meetings, the goings to and fro, the haggling, the marvellous diplomacies which followed. An arrangement was finally patched up, but not before Germany had had to close her banks while she set up machinery to ration imports and prevent the export of currency and gold. Under this arrangement she was relieved for the moment from repayment of her foreign debts, and it was immediately clear that this must have

\* A brilliant analysis of the German position and the position of debtor countries generally under our existing financial system will be found in Chapter IX of the Macmillan Report—Report of Committee on Finance and Industry. Command Paper 3897, 1931.



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serious effects in England. The City of London found itself with £70,000,000 locked up in Germany, much of which had unfortunately been borrowed on short-term account from France. At a time when every economist was explaining the imperative need for the richer countries to lend freely to the poorer, it is perhaps unfair to blame the City for carrying on business in this way, but use was certainly made of the fact to carry on anti-British propaganda in France, and the heavy French deposits in London began to be withdrawn in gold. We have pointed out already that these short-term French deposits have been a grave nuisance to world finance throughout the whole post-war period. Whenever the English bank rate went up they flowed to London; whenever it fell, the bank was under the threat that if the short-term lenders chose to withdraw, London would be pulled off the sacred gold standard. So long as London was obsessed by the gold standard it became possible to provoke a rise in the bank rate by withdrawing a due amount of short-term money, thus enhancing the interest on what remained. For a certain type of big operator abroad this had an irresistible appeal. But now the end of this process seemed to be in sight and the successful operators began to take away their gold and their gains for good.

The outward movement began on July 13, 1931, and proceeded so fast, that to protect its gold the distressed Bank of England arranged credits of £50,000,000 in Paris and New York. And at this most inopportune moment the May Economy Committee which had been appointed in the spring presented its report. This document informed an already uneasy Europe that there would be a British budgetary deficit in the current financial year of £70,000,000 and a further deficit of £120,000,000 in 1932-33, and proposed to meet these deficits by drastic retrenchment on education, housing and the salaries of all State employees, whatever the nature of their contracts, and by reducing the amount of unemployment benefit. Military preparations were left practically unchallenged by this mischievous report, nor was any suggestion made for scaling-off from the *rentier* the advantages which had accrued to him through the fall in prices.

The report was seized upon in the usual way by persons and parties opposed to the government, regardless--or perhaps not altogether regardless--of the effect their propaganda must have

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upon opinion abroad. For party ends the Labour Government was denounced as insanely spendthrift. These denunciations lost nothing by translation in the continental press. The foreign panic intensified and the drain of gold increased—one alarmist article in a leading London journal is said to have been directly responsible for the withdrawal of £11½ millions in one day—and by the middle of August the £50,000,000 credits were exhausted. The Bank of England informed the government that it must raise further credits and that these were obtainable to the amount of £80,000,000, but only under certain conditions. These conditions, as laid down by the New York bankers, were firstly that the budget must be balanced, and secondly that a cut must be made in the rate of unemployment insurance benefit. Such conditions may seem peculiar, coming as they did to one of the greatest “sovereign” countries in the world from a group of private bankers, more particularly when it is borne in mind that Washington displayed no intention of balancing its own budget, though faced with a very much larger deficit. But Great Britain had apparently always made it a condition of loans that the State receiving them should balance its budget and the Americans obviously had this precedent in mind.

The Labour Cabinet agreed to balance the budget but could not agree to reductions in the rate of unemployment benefit. It resigned, and at the personal request of the King a “National” Government was formed on August 25, 1931, composed of the two opposition parties, the Conservatives and the Liberals, plus the Labour Prime Minister, his Chancellor and a dozen of their followers. It proceeded without delay to carry out its pledges—that is, to reduce the national income, pile fresh burdens upon industry, check consumption and thrust prices down still further. The *rentier*, like everyone else, was to submit to a ten per cent increase in his income- and sur-tax, but he was not specifically taxed as a *rentier*, nor was any attempt made to relieve the burden of internal debt, lest he should take his money out of the country if this were done.

The British public, under the guidance of its press and politicians, rallied to this programme. An heroic struggle to save the gold standard was staged, a struggle which lasted exactly twenty-six days. The British people had come through a previous crisis, the war, by going without, in order to provide goods and money for the army and munitions, and it was apparently prepared to accept the

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suggestion that it was right to tackle this new problem of a world impoverished in the middle of unconsumed wealth, in precisely the same manner. The Labour Party adopted this view as well as the other parties—and quarrelled merely over the details of its application. There was much enthusiasm for economy in the correspondence columns of *The Times*. The King made an exemplary reduction of his civil list by £50,000, and many people sent voluntary offerings to the Treasury.

But the run on gold, though checked for a day or two, increased again. Britain was still paying—heroically—and there was a scramble for its final outpour of gold. Holland and Switzerland were now drawing on London as well as the United States and France. Both the Federal Reserve Bank and the Banque de France did what they could, now that it was too late, to staunch the flow. The Americans left their funds in London and the French stated that they would follow the American example. By September 20th the Bank of England had lost £200,000,000 in ten weeks, and gold was still going at the rate of over £10,000,000 a day. Then it was that the Bank advised the Government that England must go off the gold standard, which it had been constituted to defend. Still in the heroic manner, the British National Government turned round to the new direction.

At this point there began to be a general feeling that it would be as well to call the leading nations together and hold a conference on the gold situation. When this was put to the Chancellor of the Exchequer he explained that tentatives in that direction had already been made but that "certain nations" had refused to participate. Apparently that was the limit of effort for himself and his colleagues.

As this book goes to press the pound is, it seems, being left to find its natural level relative to other currencies. An offer by the French of a loan of Fr. 4,000,000,000 to "peg" the exchange has been refused. There seems no reason why the pound should sink very far; for the steps taken to prevent British nationals from exporting their money seem to suffice, and by the time that the embargo is removed it may be hoped that exports will have been stimulated and imports checked and the balance of trade restored. Unemployment should fall, some of the deposits lying in the banks should be made available for industry and Great Britain enabled to

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compete again upon equal terms with her competitors. But while that may alleviate the situation for the British it is no solution of the general world problem. Great Britain going off the gold standard is an excellent thing, but a permanent benefit only if it leads on to saner methods of regulating consumption throughout the world. Of itself it will not end the world depression. On the contrary though it will help the producers in those countries which like Sweden, Norway and Denmark have decided to link their currencies not to gold but to sterling, it will cause an actual fall in prices in countries where this is not done. Unless the gross amount of purchasing power in the entire world is increased, the getting of a larger share by Great Britain and her associates will only mean that some other populations will have less. In spite of the suspension of war-debt payments—payments which it now seems clear will never be resumed—France and America still remain great absorbers of gold, and are still apparently unable to use their swelling hoards even to mitigate the deepening distresses of their own peoples. The poor nations are still growing poorer, becoming less and less eligible as borrowers as the need to redistribute money grows more and more urgent. They are sinking deeper into discontent, until it only needs a demonstrable rise in the Russian standard of living to make communism a vivid issue in half the cities of Europe. An immense amount of misery is being produced during these slow blunderings towards adjustment—if indeed they are towards adjustment—and it is still an open question whether the world conferences needed for the restoration of the ebbing economic life of mankind can now be assembled and made effective, before the intolerable vexations and sufferings of the generality produce a world-wide series of social catastrophes. What Mr. W. Wylie King has called a "Grand Audit" of the world's affairs is an unavoidable preliminary to world action, and such an audit would take time. Yet concerted devaluation of money by America, Britain and France with a stringent repression of speculation and (as we shall show later) a vigorous policy of public employment, may still give the existing order of things a new lease of life.

In October 1931 there was a general election in Great Britain, and the heterogeneous "National" government under Mr. Ramsay MacDonald was returned to power with a vastly increased majority.

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A retaliating tariff war began against France, Belgium and other countries—to the great astonishment and dismay of their producers and exporters. Visits of agitated foreign ministers to London followed close upon this unqualified abandonment of the British tradition of Free Trade, and it may be that the shock produced will accelerate the development of a world organization of monetary and economic controls. Organized devaluation of money, the systematic arrest of the process of deflation by increases of currency, bold public expenditure and a raising of the common standard of life cannot be achieved by any single country or group of countries, while trade is still going on with other states which refuse to collaborate in these operations. It can no more be done than can the level of water in one part of sea be raised without an equal elevation of the rest of the sea. Given, however, a belated recognition that this is fundamentally a world problem, there exist no insurmountable obstacles whatever to its solution. It can be solved in such a way that inevitable differences in the phase of expenditure between this country and that, can be compensated for, so that they will not affect international exchange, and it can be done without destroying the real purchasing power of the gold creditor of to-day. Dr. Robert Eisler's *This Money Maze* contains, for example, a perfectly convincing and workable method of contriving these two things. He would have what would be in effect a world money of account, the bulk of which would be increased periodically by international agreement to meet the expanding needs of mankind, and he would have a controlled currency in circulation in each country, of which the ratio to the money of account would be determined by a weekly price index. He would safeguard the just claims of the creditor class and the gold-owner by fixing a minimum price in currency at which the state governments should undertake to buy gold. Since currency would be determined by an index number of commodities and services, the purchasing power of gold could not fall below its established level, while on the other hand there would be nothing to prevent an upward movement in its price and exchangeable value.—*Quod erai faciendum.*