"THE TRUE CAUSE OF THE COMMERCIAL DIFFICULTY OF GREAT BRITAIN."

"Every now and then a man's mind is stretched by a new idea or sensation, and never shrinks back to its former dimensions. After looking at the Alps I felt that my mind had been stretched beyond the limits of its elasticity, and fitted so loosely into my old ideas of space that I had to spread these to fit it."

So wrote Oliver Wendell Holmes after his first visit to Switzerland, and a similar claim is made by the joint editors of Mr. C. B. Phipson's book entitled, "The True Cause of the Commercial Difficulties of Great Britain,"* in that he has given to the world nothing less than an epoch-making discovery worthy to be compared to the productions of Galileo or Darwin in its power of expanding our minds and changing our outlook. Mr. Phipson's discovery once understood immediately puts an end to the endless strife between Free Trader and Protectionist, not only furnishing complete and satisfying explanation of the cause of British trade stagnation, but also supplying the unique and undoubted cure. Truly these are great claims to make for the work of any man, and having completed the preface of the joint editors, in which they are made, we settled down with pleasurable eagerness to read Mr. Phipson's message to the world. The gravamen of Mr. Phipson's indictment is that Britain's imports of goods consistently exceed her exports of goods, and that with a gold currency common to all the leading nations of the world, she is driven to redress the deficiency by exporting gold. As, however, she does not produce gold, this export in no way helps to stimulate British industries, which, in consequence, are in a chronic state of stagnation. The gold standard, which is common to all the leading nations, is therefore the cause of this stagnation, and the cure is the abandonment of the gold "international" standard and the substitution of a purely "national" currency of no value outside this country such as Treasury notes. "Assume," it is said, "that the change has been made and that Germany, in the highly picturesque language of our Press, still contemplates unloading the contents of her warehouses upon us and flooding us with her goods. What of it? We presume the Germans will require payment for their goods. What form will the payment take? We have only goods and Treasury notes. Which will she have? If goods, the taking of them in exchange will not have harmed us one iota. She has done us good by stimulating our exports. If she does not want goods, but takes Treasury notes, what then? They are of no value to her until they come back here to purchase goods, and again this is a stimulation of exports. Deprived of her ability to withdraw gold as money, she would be deprived of her ability to do us any harm. Such is the claim.

By this simple change we would, without the use of Tariffs, secure true protection, for the Treasury notes being of no use in themselves and having to be sent back to England, goods would have to exchange for goods, and sellers to us would create buyers from us. At one and the same time, Britain would thus be in enjoyment of the blessings, both of Free Trade and Protection, and the lion lie down with the lamb amid peace and plenty for all. So the epoch-making discovery is out. It appears that all we have to do is to change our gold standard into a paper one, and good trade, high wages, and general prosperity will follow.

We agree with the writer that all truly great discoveries are simple, but that does not prevent us asking why the foreigner should take our paper at all if all he does with it is to return it to us again for the purchase of things? Why not purchase these same things straight away in exchange for goods without the tedious roundabout process of first taking paper? The result would be precisely the same; but throughout the book we find no answer to this very obvious query, and until it is answered we have no alternative than to dismiss the whole thing as devoid of meaning. Moreover, in this connection, at least, we are quite incapable of seeing that any harm can be done by the export of gold. It does not cause lessened employment, for before we can get the gold we must pay for it, and we pay for it in goods, the making of which provides employment. The writer seems to assume that gold is always flowing out of this country to make good "adverse balances" of trade. This cannot be so, for gold must flow in at least as quickly as it flows out, seeing that we do not produce it in Britain. Besides, in virtue of a beautiful economic (and therefore natural) law, gold cannot for long continue flowing in any one direction, for the flowing of gold, say from Britain to America, causes a restricted currency in the former and an inflated currency in the latter. This results in the prices of commodities falling in Britain and rising in America, with a corresponding inducement for America to purchase goods in Britain and for gold to flow back.

Mr. Phipson is no longer with us, but until answers are given to these quite elementary objections we may be forgiven if we continue to be sceptical as to the reality of the great discovery his editors claim on his behalf. W. R. L

* George Allen & Unwin. 2s. 6d.

CORRESPONDENCE

MONEY AND THE CAUSES OF INCREASED PRICES

Sir,—I have come to the conclusion that Mr. Madsen is correct in substance and in fact, that a not inconsiderable portion of the increased prices is due to the issue of Treasury notes. To be strictly correct, I should say that the issue of Treasury notes is a proximate factor; the cause forcing this or some other expedient being the restrictions due to a war on the present scale.

What I have, therefore, called irrelevant may be explained, and more justly explained, as an attempt on his part to anticipate arguments, and to suggest or state the conclusions following from these arguments. This question of prices involves a consideration of the idea of money value and nothing else. The statement of Mill and others that if all of us suddenly became possessed of double the quantity of money, *i.e.*, general purchasing power—presumably, by necromancy—prices would be doubled, although at the same time the rate of exchange between different goods and services would remain the same, supplies the correct view point.

Commodity money, such as gold and silver, naturally adjusts itself to the requirements of exchange by passing from monetary to all uses, and *vice versa*, or by transference from one country to another. Token or paper money, that is, our silver and copper money (not of intrinsic value) and our bank notes, are maintained at par with the commodity standard, gold in our country, by restricting the quantity, limiting their amount as legal tender, and making convertible into gold. These are the methods generally applied.

Before the war, there were circulating in Great Britain 78 millions of gold coins and 45 millions of bank notes, 29 million Bank of England, 16 millions issued by other banks. If the notes had been over-issued the gold would have passed out of our currency, according to the law known as "Gresham's Law," that "bad money displaces good money," or, as it should properly be put, "money of a lesser intrinsic value displaces money of a greater intrinsic value." This is a simple deduction from the fundamental law of Political Economy, that "men seek to gratify their desires with the least exertion." The medium of lower value serving the purpose of exchange, displaces the medium of higher values. If a debt of £1 can be discharged for 19s. 9d., no one will give a pound.

Before the war gold and paper money exchanged freely, and there was neither premium nor discount. We had thus properly a gold standard. On the outbreak of war the gold standard was in jeopardy as the result of increased demands for gold on the part of belligerent Powers, and, indeed, of all Powers, and as the result of fear there was a general tendency to hoard gold, because of its being "much value in little bulk." The Government commandeered the gold or as much as they could get, so that no intrinsic or commodity money was left to compete with paper money. Treasury notes were issued, not only to the extent of the displaced gold, but at December, 1916, to the extent of 150 millions. In addition, there were issued 39 million Bank of England notes, and 34 millions from other banks, a difference of exactly 100 millions being added to the currency. Purchasing power, that is, goods produced or their money measure, not having increased, the result is a considerable rise in prices, due to this over-issue of notes. The process is similar to that called "watering stock," but in this money process it is called "inflation."

Mr. Madsen pointed out that gold being given for notes only at the "Bank of England," was in itself evidence of a premium being paid for gold. A speaker at the discussion at Glasgow stated that working jewellers in Birmingham would readily pay a premium for gold. Now it does not matter whether we think of the value of gold rising with other values, or the value of gold remaining the same and the value of money falling. These facts all go to show that we have departed at least internally from the gold standard, or the pre-war gold standard, which we are supposed to have retained. Mr. Madsen's argument about stamping a pound on pieces of paper, which I characterised as irrelevant, is quite relevant to his point of view.

If the Government can issue 200 millions of paper money without result on prices, why should they bother about loans? Why not issue paper money for all the requirements of the war? The answer is that such inordinate issue would defeat the end in view, by greatly increasing the prices, thus lessening the amount of goods and services the Government could secure, and by placing hindrances almost impassable to international adjustments. In the matter of Increase of Credit, I think that on reflection Mr. Madsen will admit that the double purchasing power was, to say the least, exaggerated. Bankers use the expression "Create Credit" in a technical banking sense, but in a fictitious sense from a physical or economic point of view. Man creates nothing in a material sense, and bankers in an economic sense cannot create a desire for a loan. Nobody can create credit unless some one wants credit, and bankers see to it that the person to whom they give a loan is trustworthy or leaves wealth or wealth's worth to secure them.

The word "credit" is objectionable in some respects; it has been proposed by some writers to substitute other words, such as "loan," but to such words there is a still greater objection. When I get goods now or services or money now on a promise to give an equivalent at a future time, I am said to get credit. That is, we take the lender's point of view. The goods are got by me on security or trust. For the time being I get goods without giving an equivalent. A credit demand in such circumstances would seem to be at least the equivalent of a cash demand, and would have the same effect on prices.

But a demand with cash payment means demand of a particular class or particular classes of goods in exchange for equivalent purchasing power, in the case of a credit demand, the equivalence is deferred to a later period. In point of immediate time, I take goods out of the general stock without adding to the stock, and so would seem to raise prices.

In normal times and, to some extent, in all times, such demands are anticipated and supplies created to meet them; previous credit demands like previous cash demands determining the direction of supply. Credit, like other things, is a matter of "demand" as well as of "suppply." The bankers' power to create "credit" simply means power in relation to his assets and reserves

An increase of paper money in the hands of bankers is equal to an increase in their reserves, and enables them to lend more pounds at a depreciated purchasing power. In other words, as the total money-purchasing power has depreciated, the new additions have the same value as the stock, no more and no less. There is no fresh creation of credit possible on this account, there is only a fresh marking of current prices. But in periods of speculation, and a war period is a period of great speculation, bankers, under the influence of ordinary good customers, customers of hitherto undoubted reliability, strain their reserves to the utmost; they, like their customers, run greater risks than usual, and create a demand for present goods for future payment and so raise prices.

The banks of this country lent directly to the last war loan some 200 millions, as presumably they had only in existence adequate assets and reserves, for their general business; this loan was simply a book entry, or, if you like, a more efficient use of money, giving the banks a present of 200 millions, and the Government the purchasing power. This purchasing power not being derived from existing claims, must increase prices in the same way and in the same degree as the issue of Treasury notes.

The financial measures in connection with war loans, by which the banks pay the loans in instalments as their reserves are made up from Government creditors, is also equal to more efficient banking, and would seem to involve higher prices.

I should like also to modify my criticism of Mr. Gemmell's letter. His statement that "decreased currency relative to a currency calculated at a much greater amount of produce is bound to increase prices" I would now accept without demur. I would also consider that a landlord, owner of land apart from improvements, having credit power (power to get goods now) against payment of his rents hereafter, has the power to raise prices now to the extent of his credit demands.

Yours, etc.,

William Cassels.

AGRICULTURE AND SPORT

The Editor of "Land Values.

Sir,

I can cap Mr. A. P. M'Dougall's story of the noble landlord in Fifeshire, with his claim on his tenant's shed corn for his pheasants, at the expense of the farmer's poultry, by another, which happened in this neighbourhood a few years back. A great friend of mine who held a farm close to me, went in, by my advice, rather largely for poultry. After harvest he naturally placed his birds on the stubbles. His landlord, who still owns the farm, came to see him personally, to remonstrate; he pointed out that the presence of the poultry had a prejudicial effect on the partridges, and asked for their removal, winding up by saying, "What do you think I bought the estate for?" My friend fortunately was in a position to buy a farm of his own, and now, to my loss, lives 40 miles away, where he can keep his poultry in peace. We many of us are no doubt in sympathy with the remark of the Scottish Farmer. "A touch of starvation prices for necessary food may teach this nation and its rulers, the elementary lesson, that agriculture, and not sport, makes for national prosperity."

We may hope too, but this is by no means certain, that the lesson has not come too late to avert the national disaster of absolute starvation. A catastrophe that our rulers seem to have seen, and are still almost asking for.

Yours, etc.,

King's Langley, Herts. T. W. Toovey.