



Light in Dark Places

Full text of a speech by LORD DOUGLAS OF BARLOCH
in the debate on the economic situation, in the House of Lords,

August 1

LORD DOUGLAS OF BARLOCH: My Lords, I do not propose to follow the noble Lord in his interesting prognostications. I want to come back, if I may, to the essential economic argument upon which we are engaged. One thing of course we are all agreed about, perhaps with slightly different emphasis, and that is that our economic affairs are in a mess. But the important question is why they are in a mess, or what are the ultimate causes of this difficulty from which we are suffering. We hear time after time, and I have listened to or read most of the debates which have taken place either here or in the other House, statements that we are suffering from paying ourselves too much, from a prices and wages spiral, from incomes outrunning productivity, and so on.

But these are merely phrases which describe the symptoms of the trouble. They do not explain why the trouble has arisen, and I find it very difficult in the measures which the Government have proposed to connect them with any basic thinking about this problem. Indeed, the latest set of measures which are to be debated in this House appear very largely to be based upon the theory that our troubles are all caused by original sin; that it is because the work-people of this country and the employers and manufacturers are naughty and irresponsible and are the cause of the increase in wages and the increase in prices which have taken place. After all, when a price is paid for anything, be it for labour or for services or for a commodity, it is paid because somebody is willing to pay it and he thinks it is worth his while to pay it.

It is true, of course, that, in a condition in which you have a monopoly, the monopoly can control to a certain extent the price which is paid by restricting the supply of the service or commodity which is offered. It may be to a certain extent that the bargaining with regard to wages in this country is influenced by a form of monopoly when you have a trade union with a million members or so confronting a united body of employers. The result of that kind of bargaining, I suppose, is apt to be somewhat uncertain; but, even so, employers as a general rule do not pay wages which they do not feel they are able to pay, nor do people buy commodities at prices which they consider to be totally uneconomic.

In the statement made by the Prime Minister on July 14, he referred to the increase in the bank rate and he mentioned the lack of liquidity abroad. I do not gather that he implied that there was any lack of liquidity at

home. Indeed, that would be entirely contrary to another measure which he announced at the same time, namely, that the special deposits of the bankers to the Bank of England were to be doubled. That is a means of reducing liquidity, a means of reducing the amount of circulating credit; and personally I think it was right. But it is only a temporary measure. In its nature it can be no more than that. The special deposits will be released sooner or later to the banks which provided them, as has happened on previous occasions. Therefore, this affords no permanent solution.

By liquidity I understand—although this is a phrase which is used in very loose ways—the circulating means of payment, which consists, on the one hand, of the coin and notes which are provided at the instance of the state, and, on the other hand, of the credit which is provided by the bankers in order to carry out exchanges. It is undoubtedly the fact that the amount of bank credit available is dependent on the amount of currency which is put into circulation at the instance of the Government.

My Lords, let us look for a moment at what has happened in this respect in recent years. In 1938, the last pre-war year, the average amount of currency in circulation was £446 million. In 1946, the first post-war year, it stood at the figure of £1,340 million, almost exactly three times as much. It became increasingly evident that it was impossible to reverse this inflation. Nor was it possible to maintain the parity of exchange between sterling and the dollar which existed at that time, and the result was that in 1949 devaluation took place. I think that was right and inevitable, and I defended it at the time. The position continued after that, more or less stable for a time.

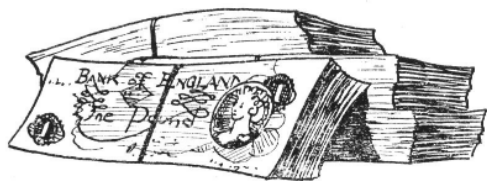
In 1951 the average circulation was £1,302 million, a little less than in 1946, but after that it began to rise steadily, year by year, and in May of this year, the last figure I have seen published of the average circulation, it had risen to £2,628 million—that is to say, more than twice as much as it was fifteen years earlier. The consequences of that are inevitable. That is the reason why the prices of everything, including wages, have been bound to go up;

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and if, after some temporary pause, the inflation of the currency continues as before, sooner or later there will inevitably be another devaluation which, my Lords, will not solve anything if we then resume exactly the same path as before.

To my mind this is a very serious situation. I am not imputing in this blame to any Party. It has gone on with the acquiescence or approval of both Parties ever since 1951, and I know that there is a school of thought which says that it is absolutely essential that we should have a continuance of inflation in order that there should be economic growth. That is a proposition which I entirely deny. What happened in the Victorian era and up to the outbreak of the First World War? This country's trade and industry expanded constantly. It was the workshop of the world. It provided capital for development in



foreign countries all over the world, and the ships of this country provided for the carrying of commodities from country to country. That was achieved upon a practically stable currency without any inflation at all. I am, of course, aware that there were many economic troubles and that the standard of living was not as high as it is at the present day; but the increase in the standard of living has been brought about not by inflation but by the inventiveness, the skill and the hard work of our population; that is the only reason for it.

In a country in which economic change is taking place, and in which economic change is bound to take place, probably with increasing speed because of the accumulation of technical skill and the rapid development of inventions of all kinds, it is inevitable that certain trades and occupations will decline and others will rise up to take their place. When that happens it is also inevitable that a certain number of people will be temporarily unemployed. This is a problem which is capable of being dealt with. Steps have been taken to ease it in one way or another. There are the redundancy payments, for example, and the schemes for retraining and redeploying labour. Indeed, as the human being is infinitely adaptable and capable, it is much easier to redeploy labour than to redeploy capital which has become obsolete because of changes in the direction of production. In many cases that capital is inadjustable and must be lost for ever. That is the price which has to be paid for economic change, but it is a price so far as labour is concerned which, given such help and understanding, can be reduced to small proportions—a price which in the end will enable labour to earn higher wages and further raise the level of remuneration of the population generally.

But I once more return to the point that we have to

stop the inflation which has been taking place year after year in this country. It does not make for the benefit of the population. It does not make for real economic progress. It may induce spurts and starts, and then stagnation afterwards. It may very easily induce speculation which will divert the direction of investment into channels which appear temporarily to be advantageous but which are permanently detrimental. In my opinion, it is entirely a mistake to suggest that inflation has any desirable consequences at all, and it certainly has some very undesirable ones, because the victims of inflation are those who, economically, are the weakest in our society. They are the persons who have saved and retired, the old-age pensioners and others who have not any longer a commodity or a service to sell and who are unable to profit from the increase in prices which takes place, but have to suffer from it.

Therefore I repeat once more that I hope every effort of the Government will be devoted to dealing with the basic cause of this trouble. I do not disagree with the necessity for temporary expedients in order to tide us over the present emergency, but they are at the moment only temporary expedients, and I do not know yet—I hope we shall know in time—what permanent measures the Government propose to deal with this problem.

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—City Press