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FREE THE EXCHANGES

Mr. Eden is reported to have said, July 20, that the public are weary of crises. He might have added they were also weary of jargon about sterling blocs, soft currencies, dollar resources, trade gaps, blocked balances, etc., which hides the essential meaning of each crisis from the average man. To understand the current crisis we must go back to those first causes with which the publicists are not specially concerned.

Trade is and always has been the exchanging of goods or services for other goods or services. Traders have always found some particular kind of goods can be used as a medium to facilitate this barter, and for hundreds of years gold has served as the most useful medium; so much so that even to-day, despite all the efforts of governments to frustrate natural desires, the possession of gold is almost synonymous with the possession of more direct wealth, such as food, clothing, etc.

When trade is comparatively free there is little need for much gold to circulate from one country to another. Only occasionally will a creditor nation prefer to have, instead of direct wealth, some of the goods called gold to store against a seasonal fluctuation of trade. Under this free system the exchange rate fluctuates only slightly, trade is always balanced, and the money of any country based on tangible gold—is freely exchangeable with the money of another. This is the system when people believe in themselves, not in government omniscience, and it proved itself in practice during the almost-free trade system in operation in Great Britain before 1914.

In times of panic, however, the function of gold as an assistant to trade becomes subordinated to its importance as a storer of wealth. It is therefore seized by the strongest powers, *i.e.*, the governments of each country, who then issue to the previous owners paper-money, current only within that government's sphere of influence. The balancing of accounts between traders of one country and another must thus become a goods-for-goods transaction, unassisted by the easy adjustments of gold. If, for example, one paper £ in Great Britain will buy goods which in France can be sold for 80 paper francs the value of the £ in France is 80 francs and the franc in Great Britain 3d. But, under this crude system fluctuations will occur and when one currency falls abruptly in international value, although left to itself it would eventually reach its most suitable level, the people nevertheless demand, or politicians suggest, "something should be done about it." This demand is reinforced by some shortsighted money lenders anxious to prevent interest being payable in currency of lower value. The rulers then set about trying to improve on nature, or presenting a fictitious trade balance or exchange rate.

One method, of course, is to transfer part of the gold reserve, but for obvious reasons governments are reluctant to take this course. Another method is suddenly to cut down imports; and this is facilitated where Protectionist or Socialist propaganda has weakened the people's resistance to their impoverishment in this way. It becomes inexpedient, however, for the government to allow the full results of trade limitation to show themselves. So the next stage is reached, when the lowering-exchange-rate government approaches a higher-exchange-rate government for credits or loans. Then comes the era of well-boosted international conferences, when the average man, lost in the jargon of financial terms, seldom realises the real purpose of these negotiations. During these periods, when a sudden change of currency value might occur at any moment, traders have to carry on at a venture, or trade is regulated by governments on a purely hypothetical exchange rate pending an anticipated settlement of balances by transfer of gold or credits. Hence arises the "trade gap." On the basis of the hypothetical exchange-rate exports do not appear to pay for imports. The supposed gap can be closed by exporting gold or by "winning" at the international conference game—which, in parenthesis, becomes extremely complicated when teams line up in currency "blocs" of varying consistency according to the extent to which the currency is based on real goods or gold, or on promises.

At first sight one would think such a structure of promises and hopes too fantastic to exist. But when one considers that perhaps not one "democratic" elector in a thousand understands the essential nature of the process it is not really surprising. And in the present instance the American people's belief that they could relieve European people's hardships by loans to their governments, or at any rate prevent them from going Communist, has protracted the unreality to an almost unprecedented extent. If the American people were prepared to allow themselves to be increasingly taxed for ever the ultimate crisis might be postponed indefinitely. But the threatened trade slump in the United States would appear to make that impossible.

One notices that, apart from the original gold robbery, all this fantasy would be impossible if the people refused to give up to governments any more than the natural revenue required for services strictly communal. If the people were sufficiently enlightened and spirited to resist tax oppression no government could make or promise to make or repay any loans depending upon its ability to tax the future production or exchange of its subjects. For the same reason no government would be able to subsidise those artificial exports which partly conceal the damage resulting from limiting imports. (When one remembers that the Protectionist-minded mob actually welcomes a system which artificially raises prices to themselves and lowers them to the foreigner, it is surely not remarkable that a crisis is accepted as inevitably as the weather).

If in only one country, even under present conditions, no debt-promises could be made to other governments, or subsidies granted to exporters, and no restrictions placed on imports, the international exchange rate of that country's currency would of necessity be left to find its natural level. And that would automatically become the level best suited to the exporters and importers of that country, irrespective of the actions of other governments. Goods would have to balance goods, without delay or concealment, according to mutual satisfaction of desire arrived at by an infinite series of bargains on a free market. In so far as any advantage is to be gained from international exchange (and free exchange occurs only if an advantage can be gained) the people of that one free-international-exchanging country would become more prosperous than others. Cheaper goods from overseas would raise the real value of wages, and a lower monetary cost of living would cheapen the monetary cost of all internally produced articles—including exports. The comparative advantages of such a country as Belgium to-day, even if one chooses to ignore the aggregate prosperity of Great Britain in its Free Trade era, is sufficient evidence of this.

It is to be remarked that this comparative advantage would occur even if an internationally-recognised medium of exchange, such as gold, was still excluded from normal operation. Goods would still have to balance goods, without deception or delay; there could be no "trade gaps" or uncertain rates of exchange depending upon the outcome of international conferences. Lacking the power of pledging the people's credit the government of the freer country could not attend such conferences otherwise than as a spectator. It would thus escape the odium which inevitably attends those governments most active in these blackmailing contests. Its moral influence for international good will, reinforced by the example of its people's prosperity, would make for real peace to a degree that no mere protestations can attain.

From the foregoing considerations the best course for a British government under present circumstances would appear to be (1) to make it quite clear how much it intends to pay of its international debts, or interest on them, during, say, the next five or ten years. Obviously, to promise to pay more than it is likely to afford is a far more dangerous course than to encounter any temporary disadvantages creditors might now impose. Also, creditors would be very likely to accept such a settlement if the British government would set its internal financial house in order; (2) the Government must then withdraw from all other negotiations designed to falsify the exchange rate, and allow the external value of British currency to find its natural level; (3) as soon as possible, but independent of the action of other governments, lower and abolish import duties and restrictions, together with export subsidies; (4) although it might be expedient at first to limit the export of gold, as soon as the increased confidence in our solvency began to show itself, then abolish restrictions on the flow of gold.

It is to be noticed that all these recommendations are concerned with external trade, not internal industry and trade, internal employment or disparity of wealth. Internal restrictions of all kinds affect all these things directly, and external restrictions affect them indirectly; but if we would discover the essentials of the present crisis it only confuses us to consider the social services, internal costs, internal currency inflation, Trade Union restrictions and other subjects which do not directly bear upon the question of balancing revenue, paying debt, or facilitating our exchange of goods with foreign countries.

Freedom of exchange, external and internal, in theory confirmed by practice, increases immensely the wealth-producing capacity of nations *as a whole;* but it does not directly affect the basic causes of poverty and unemployment. To suggest that it affects the distribution of wealth weakens the argument for Free Trade and lessens our chances of surmounting the present crisis. F. D. P.

WHAT IS THIS CRISIS? — A Spanish Writer informs a Spanish Editor

Señor Emilio Lemos Ortega, of Sevilla, has been successful in gaining publicity in prominent Spanish journals with expositions of the Henry George principle and policy, notably in the NUEVA ECONOMICA NACIONAL, *the Madrid weekly financial review, and in* CAMPO, *the farming journal. Among his chosen themes have been the Origins of Indirect Taxation, the Life and Work of Quesnay, the French physiocrat, and the Future of Atomic Energy. We are trying to hold space for one or more of these illuminating articles. But there comes to us now Señor Lemos Ortega's letter of June 30 to the Madrid* DAILY A B C, *which, not having achieved publication, we are happy to use in our columns giving it precedence over the other articles named, brilliant as they are.*

Sr. Lemos Ortega writes thus to the Editor, Sr. D. Andres Revesz:—

I read in to-day's A B C your article on the British Industrial Crisis. Only too frequently the mind, even of a talented person such as yourself, is led astray by the outward appearance of economic problems, and this has occurred in the case of your article. It may well be that you have overlooked the following points.

The lack of consumers of the finished articles of any country cannot be put down to the fact that most parts of the world are now more or less industrialised, but rather to the lack of *purchasing power* on the part of those who both desire and need such products. This lack of purchasing power, from which the vast majority of the human race suffers, is not due to any excessive increase in world population, and with even less justification can it be attributed to soil fatigue or erosion. Astronomers and meteorologists have yet to announce a falling off either in the intensity of the sun's rays or in the evaporation of water. Every year brings witness of the climatic changes of December, April and August. Corn shoots continue to flower, to ripen into grain, and finally to return to the earth to nourish new plants. Matter is never destroyed; man only damages its form, by various processes, so that it might render him some particular service, until it finally returns to its crude state. Nothing has been lost in this world unless it be the good judgment of man, king of creation and a slave of his own stupidity.

The industrialisation of Spain during the last 50 years —if we may take an example—has assuredly been very notable; notwithstanding, more than 20 million Spaniards aspire to own motor-cars, radio sets, and an infinite variety of domestic appliances and working tools, which the British industrialist and merchant might well supply, seeing that our own people cannot adequately do so. And why is this not done? Is it because we lack purchasing power. And why are we short of money? Because we do not produce sufficient to warrant exports. Why, then, do we not produce more? Is it that our population, having increased by eight millions, forces us to keep such products for home consumption as we formerly sold abroad? But have these eight million individuals been born without heads or arms—with nothing more than a mouth and a stomach?

All we mortals born into this world are endowed, not only with a stomach, but also with an intelligence and two