

DEBT

*By the same Author*

THE CONFESSIONS OF A CAPITALIST  
IF I WERE A LABOUR LEADER  
THE LETTERS OF AN INDIVIDUALIST  
TRADE  
THE RETURN TO LAISSER FAIRE  
ABOUT RUSSIA  
ACCOUNT RENDERED (1900--1930)  
HONEST DOUBT  
THIS SOFT AGE  
MODERN GOVERNMENT

# DEBT

(PRIVATE AND PUBLIC, GOOD AND BAD)

by

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## INTRODUCTION

*The world would be a dismal place if everyone understood the technicalities of the Money Market. Most people know that they can more or less rely upon £3 a week, £1,000 a year or whatever it may be, and, being wholly ignorant of the science of money, are able to give their thoughts to other things, perhaps better things, certainly happier things. They cheerfully part with thirty-pence worth of real values, taking in exchange a piece of metal called half-a-crown containing sixpennyworth of silver. They buy twenty shillings' worth of groceries, giving in exchange a piece of paper called a pound note, worth, as paper, a fraction of a tenth of a farthing. All that is very happy and very convenient and there is no reason to disturb it, if it is going to last, if it is in no danger.*

*Among the sound political and moral notions on which we have relied, are the two with which this little book is concerned. First, that family finance and national finance are both subject to the same principles and governed by the same forces. And second, that a debt is a thing to be incurred with great caution and, above all, that it has to be paid. These platitudinous propositions have been forgotten in connection with a great deal of the public and political work of the last twenty years.*

*This is not a technical book ; it tries to be popular while dealing with highly technical matters. These matters are now at the mercy of the popular vote and there are only two possibilities ahead of us. Either*

*the popular vote will acquire a quality fit to be trusted with these matters, or else democracy will give way to one of the several "isms" under which dictators and bureaucrats now rule a large part of the earth's surface.*

*The writer is a firm believer in our thousand years of political experience, which has produced in us a sturdy combination of practical ability and moral sense. A mere twenty years of wrong thinking cannot permanently alter the solid results of centuries of right thinking, but meanwhile there is a danger that our money will go the way of its Austrian or Chilian counterpart, unless the alarming growth of our public debt can be checked.*

*Economic problems can be made very complicated and technical, and thus be lifted right out of the reach of solution by popular vote. They can also, on a wider, grander scale be made very simple and thus be safely left to the care of the public conscience and the ballot box. The urgent task is to raise public affairs up to the traditional standards of private affairs. This urgency is due to the very rapid growth of general reliance on the State as a sort of fairy god-mother, a reliance which is sapping at the independence of the people and tending to lower our former high standards in private, as well as in public, affairs. We need simply to return to the ideas on which all our progress has been founded, and to recognize that what is right and wise for the ordinary family is equally right and wise for the family of the City, the County or the Nation.*

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## CHAPTER I

### THE WORLD OF PRIVATE DEBT

THE plight of the man in debt is a matter of common knowledge, is a popular subject with story writers and has, through the ages, very properly given a bad name to debt. When Polonius told Laertes: "Neither a borrower nor a lender be", he was speaking of the world as he knew it, when, in this country, there was a tenth of the present population, when each was dependent upon his own immediate resources, and when the interchange of labour and its products, since developed and now enjoyed by all, was almost non-existent.

It is altogether right that the average person should have a horror of personal debt. He is concerned with the earning and spending of an income, generally a modest income, and has little or no right to indulge in borrowing. It is good that he should conceive of debt as something associated with the gambler, that he should visualize the total absence of the means to pay, the sinking deeper and deeper into the mire of trouble, the eventual recourse to the proverbial money-lender and the other ills which are commonly associated with those processes.

There is, however, another story of a totally different kind to be told about debt. Civilisation on its commercial side may be said to be founded on debt. Debt is quite essential to it. All the

wonderful complications by virtue of which we enjoy the results of the labours of one another would not have arisen or come into being at all were it not for the growth, studied, gradual and beneficent, of a system of borrowing and lending sometimes referred to as the credit system, sometimes as the capitalistic system but which might equally well be described as the debt system.

Debt is of three kinds : the personal debt for personal convenience such as Polonius had in mind; the commercial or business debt by means of which the work of the world is facilitated and expedited ; and the public debt, the main subject of this little book, a quite recent phenomenon, by means of which we pledge the future to pay for our present delights or necessities. The first and third of these three kinds of debt differ from the second, for while the debt of commerce is always associated with goods, services or other real values, the personal debt and the public debt represent nothing more than the hope of future capability, as well as future willingness, to pay.

Commercial or business debt enters into every detail of our modern life and a complete study of all its variations and ramifications would require much time and many volumes, but it will be convenient if we glance at a few of its many forms before proceeding to discuss the public debt. When a penny is thrown upon a bookstall to purchase a morning newspaper, that simple transaction closes a very long story of lending and borrowing. The newspaper is a good example of the end of such a story because as a rule it is wholly and finally consumed. It will be read by

the man in the morning, by the woman in the afternoon, used the following day to wrap up a parcel and a week later it will light the domestic fire. But the life of the newspaper started years before when somebody lent somebody else the money to pay the wages of a forester in the northern regions of Canada to prepare the timber, which would become the pulp from which the paper on which the news is printed was made. It is not, perhaps, correct to say that the story started with the forester. One could go back much farther than that. There is hardly any limit to the number of stages in tracing back all the operations of borrowing and lending which end in the purchase of the penny newspaper. The miner who received, years previously, his day's wages for winning the coal which helped to smelt the metal out of which the hammer came that was used by the fellow who made the copper wire that subsequently formed a cable to bring the news from Shanghai to Fleet Street, is a part of the wonderful romance.

None of these things would have happened had it not been for the belief that at the end of them all the penny paper would be bought. At every stage in the story somebody is found to be lending in the hope that the loan would be repaid out of the pennies put upon the bookstall by the final consumers and, of course, many similar little transactions. That sort of story could be developed indefinitely and is full of fascination for anyone who is interested to think out for himself all the wonderful complications, almost mysteries, that go to make possible the simplest commonplaces of civilised life.

There is no borrowing without lending ; debt is not arranged for the comfort and convenience of the borrower alone, but arises even more from the demands and needs of the lender. Were there no borrowers there would be no lenders, no savers, and thus it is seen that this discreditable thing we call debt is really the raw material of one of the best of human qualities—saving, thrift or care.

In the days of Polonius there were almost no savers. There were only misers. Saving for the average person was a matter of putting coins into secret cupboards, hoarding or withholding. Saving was for the most part a selfish process carried on by the parsimonious-minded and had little or no relation to the needs of those who might usefully borrow. The situation to-day is wholly different.

The banking system which does more to make life comfortable than any other human service is entirely a matter of lending and borrowing. The banks, commonly conceived to be strong-rooms full of wealth, would be more correctly described as ledgers keeping records of debts. We hear a great deal, which to those who know the facts is almost funny, of the failure of the banks to lend as they should. It is alleged that people wanting money find the bankers sometimes unwilling to produce all that is needed on demand. We know that the borrower approaches the bank with a healthy respect. The manager's room is often described as a "sweating parlour" where the nervous borrower does his best to persuade the hard representative of capitalism to part with a little of all that superfluous wealth which the "system" is supposed by some to keep in the

hands of the unworthy and deny to those who really need it.

The funny side of that story is evident when one considers that the banker depends for his existence upon lending. The whole of his revenues are derived from lending, either directly to his customers or indirectly by investment. The salary of the manager and his assistants would not be forthcoming unless they succeeded in lending the money in their care. So far as the rest of us are concerned the miraculous ease with which we can—or it might be more accurate to say, could—secure the proceeds of the labour of anyone in any part of the world by means of the banking system is directly due to the borrowing and lending which is the beginning and end of what we call the bank. In Utopia the bank would presumably make a charge to depositors sufficient to cover all its expenses and would lend to the borrowers without interest. Seeing, however, that no Utopian designer has had the courage to visualise such a class of altruistic depositors, we can safely conclude that there would be no banking system without the present conceptions of the right way to borrow and to lend.

Next in order of importance in the financial structure come insurance institutions, all of which are a solid mass of debt, although a different sort of debt from that which interests the banks. The common person regards the insurance office as a savings institution. To him it is a concern in which small sums can periodically be placed and placed safely with the assurance that at some time in the distant future the total of those sums, and more, will be available to meet the crisis of death

or the needs of old age. That however is only half the story. The wiser owner of an insurance policy, while looking upon himself as a saver, knows quite well that he is really a lender depending absolutely and always upon the existence of a corresponding borrower.

The bank and the insurance company considered together help to an understanding of the common difficulties about borrowing ; they may be said to provide the short and the long of the matter. The bank receives its money from the depositor on the understanding that it will be produced or repaid the instant it is required. Thus the bank can only lend to such borrowers as can be relied upon to pay their debts at short notice and without any sort of doubt or question. By contrast the insurance company receives its premiums from the insured on the distinct understanding that the money will not be required until the maturity of the contract, maybe at age sixty-five, maybe on death, but on the average it will certainly be twenty-five years later. The insurance company is therefore anxious to find reliable borrowers who need their loans for long periods and can be trusted to keep them safe and intact for many years to come.

For a couple of centuries this process of borrowing and lending in hundreds of different forms has been the special study of the City of London ; in the result there exists to-day a great money trade or industry, the perfection of which depends upon the absence of formal organisation and the maximum of personal initiative and freedom. The life of this essential service is now threatened by the modern tendency to organise, control and manage

everything. There is in London the means to satisfy every need in the borrowing and lending way and to satisfy such needs on terms appropriate to their character and quality. The continued existence of these facilities depends upon the continued existence of a constant supply of good borrowers and good lenders, and the tendency to limit the freedom of the individual, a tendency which is universal to-day, is drying up both sources. Bad borrowers are gaining an ever growing share of the market.

Shipping provides another illustration of our dependence upon debt. There would be no shipping in the modern sense without borrowing and lending. Our galleons in the days of Polonius went off with their cargoes of cheap jewellery or flashy cotton cloth and came back with skins, ivory and the like—a business which has next to no relation to shipping as we know it to-day. It is not only engineering skill that has made the present wonders of the shipping world, but also and chiefly the perfection of the science of lending and borrowing. The present difficulties of international trade are not due to the absence of ships and steam and machinery, but are very largely due to the restraints which have been laid upon the sister science of finance.

The story of the finance of international trade tends to become technical. The bill on London, which twenty years ago was the basis of the whole world's import and export, means very little to the man in the street. He knows vaguely that the shipper in the foreign market wants his money before he will part with his goods. Similarly the

importer in London or elsewhere requires to receive the goods before he will part with his money. These natural and understandable difficulties were completely eliminated by the London Bill Market. The Chinese merchant would not consider anything in the nature of credit for his counterpart in Peru and yet the two of them traded freely and without qualm or hindrance by virtue of the sterling bill. The London bill market was reduced to the shadow of its former self before post-war statisticians claimed the ability to tell us all about everything, and no figures are therefore available. It is probable that £2,000,000,000 a year was handled on behalf of the foreigner and that the discount and commission earned upon this great business represented the larger half of our invisible exports. The debt business had been developed by London to the point of perfection where persons anywhere could transact any business that appealed to them, troubling themselves only with the problems of demand, material, quality, taste, style, pattern and the like, but never for a moment giving themselves any trouble or concern as to the possibility of paying or receiving. All that was due to the debt machine, the money-lending market, the capitalistic system, the profiteers as some still say, all summed up in the City of London.

One of the simplest but perhaps most useful forms of money-lending is to be seen in Ground Rent, for rent and interest are very closely allied. A ground rent arises when a piece of ground is lent and borrowed for say ninety-nine years for a given rent or interest per annum. Space forbids the development of this subject here, but it may use-



fully be noted that borrowing or lending as exemplified in the ground rent and the leasehold system was responsible for roughly half of all the buildings which stood upon our land before Mr. Lloyd George came along with his political theories, did irreparable damage to the building trade and prepared the way for the housing difficulties of which we have heard so much since.

Just as in other lines of business and with other commodities there are the wholesaler and the retailer in the lending market. The Joint Stock Bank will lend at a low rate to an established dealer in credit, who will lend again at a profit rate to some concern lower down the credit scale. This process is seen very clearly if we look at the Hire Purchase market. Within quite recent times there has grown up a system of payment by instalments enabling large numbers of people to enjoy a standard of comfort that would not otherwise be available to them. Hire Purchase has its weaknesses, it is open to a certain amount of criticism, but it should be noted, in parenthesis, that it flourishes only among the English-speaking peoples. Except in the British Empire and the United States there are very few of such facilities available to the buyer. The point has a bearing on national character, political stability and other matters, but it is sufficient for us to note that the Frenchman, German or Italian seldom thinks well enough of himself or his compatriots to risk the loan of goods to be paid for over a lengthy period of time.

As practised, here and in America, Hire Purchase is a system in which losses, when they occur, are well spread over resources sufficient to carry them,

and the structure as a whole is therefore safe and able to function for the benefit of society. None of which must be taken to commend to the reader a good deal of the improper instalment buying which does, in fact, take place. The instalment system is wholly commendable when applied to capital goods but extremely doubtful when extended to include the purchase of consumable or rapidly wasting things. The service rendered by debt might be illustrated by the life story of an ordinary perambulator, an article which was unknown to the wage earner of fifty years ago. From the very earliest stages of its manufacture right down to the payment of the last instalment two years after it first brought a share of comfort to some mother and baby, every moment of its career is associated with debt. No single screw or thread in it could have come into existence without the modern science of borrowing and lending.

## CHAPTER II

### MONEY AS A COMMODITY

FROM the few illustrations given in the previous chapter it is already becoming apparent that money is the most hardworking of all the commodities we know. Money was also the cheapest of all the commodities. When before the war money was free to move the world over, and actually did so, it never received for its services more than all the money in the world, in active and open competition, was willing to take. All the many classes of dealers in money, from national banks downwards, were concerned to see that all their resources were always employed. When the day's business was nearing its end and the requirements of the customers were known and satisfied, the amount left over would be lent for perhaps a quarter of 1 per cent. per annum until the following morning to some other bank or credit house whose requirements for that particular day were not completely covered. Thus apart from the personal practice of hoarding, none of the money in existence at any time was allowed to be completely idle; further, and this is of the utmost importance, every sovereign was always in active competition with every other sovereign, and no money ever earned more than the lowest rate of interest which any of the owners or controllers of any fund were able in their wisdom to accept.

Since the war the qualities of this great organisation have been very seriously impaired by that economic nationalism of which so much is said and written and so little is understood. Thus in Great Britain we have prohibition upon foreign lending imposed by the Government with the triple purpose of forcing the money into the Treasury, promoting the home trade and keeping the rate of interest down. In other countries, such for instance as Austria in 1937, we find a prohibition upon borrowing abroad with the purpose of keeping the rate of interest high.

A favourite subject of comment among those who criticise the lending and borrowing of the money market is the system of loans to the Stock Exchange. It is thought that money is lent to a gambling stockbroker or an avaricious speculator which might better be used by one or other of the social services. Many a vote at election times is given by some poor person suffering from the delusion that the money which the Stock Exchange can borrow so freely might by better political arrangement be diverted into his own pocket. In considering borrowing and lending therefore something ought to be said about this very important section of the subject. Within quite recent times Mr. Roosevelt has found a good deal of popularity with his electors by legislating against loans to Wall Street, and the spectacular collapse witnessed in the autumn of 1937, a collapse which brought widespread distress to the selfsame electors, can be traced directly to that folly.

A normal Stock Exchange loan starts with the case of, say, the young man requiring £100 for the

purpose of starting a chicken farm. That is a common case within the personal knowledge of many. It furnishes an illustration of a wholly unmarketable security. Everybody knows that most of such loans will be lost irretrievably, and there is no way of financing that class of business except through the personal friend, who will risk his £100 on personal grounds, will take a close and detailed interest in the business, and by adding his knowledge and experience to that of the borrower will sometimes succeed in bringing the enterprise through to success. It is, however, extremely unlikely that the personal friend would be able to lend the £100 unless the banks were free to lend money to the Stock Exchange. As soon as it reaches the chicken farmer the £100 loan is completely and absolutely unmarketable. It is impossible, however much the need, to secure its repayment at short notice, and therefore any owner of £100 which will later be required for some other purpose is wholly unable to employ his money in such an enterprise. To examine the chicken farm transaction, even in a cursory way, we must journey, perhaps, to Exeter where a local trade union in the ordinary course of business requires to invest £100 in, say, Great Western Railway 4 per cent. Debentures; we must call at Tunbridge Wells to inspect the farm; run over to Cardiff to the home of the financial friend; pay a visit to a stockbroker in Birmingham and look at the ledgers of a bank in London.

The financial friend begins the chain of events by agreeing to lend £100 to the chicken farmer. To raise the money he instructs his stockbroker to sell

£100 of G.W.R. Fours. The stockbroker (we omit the jobber for the sake of simplicity) borrows £50 from the bank, his own resources being insufficient to pay the whole £100 at once. The following day the Exeter trade union decides to purchase G.W.R. Fours and sends a cheque to the stockbroker for that purpose. The stockbroker pays off the bank and is thus ready to buy the next parcel of stock that comes upon the market. The chicken farmer has in the meantime received his £100 and placed it safely in his bank, to draw upon it as he gradually buys his farming equipment. While the money or any part of it remains in the bank, it is available to finance other Stock Exchange purchases for the same sort of purposes.

In practice, of course, anything quite so simple very seldom occurs. It is more likely that the financial friend in Cardiff will want to sell £115 of G.W.R. Fours and that the trade union at Exeter will elect to buy £90 of  $3\frac{1}{2}$  per cent. Conversion Loan and that both will leave the stockbroker and the bank with ragged remnants to fit in to other transactions, but we need not unduly complicate our story. It is enough for us to know that a trade union treasurer in Exeter, a chicken farmer in Tunbridge Wells, a financial friend in Cardiff, a stockbroker in Birmingham and a bank in London are able to come together and carry through a complicated transaction to the complete satisfaction of each. It is also useful to remember that millions of such transactions are completed every week, each of them with a fraction of the fuss and formality needed to renew an ordinary motor driver's licence.

No chicken farm or any other form of enterprise could be financed with the present ease, without the present facilities for the sale and purchase of Stock Exchange securities. The small Post Office depositor and the large holder of G. W. R. Fours are in the same position, they can both realise at any time when they need their money for other purposes. Neither of them would be safe in that happy position if the banks were to withdraw their support from the Stock Exchange. If for any reason there were a run on the Post Office, the Savings Bank would sell securities to the Stock Exchange and they would almost certainly be paid for with money borrowed from the banks. Some critic may raise the point that Post Office deposits almost always exceed Post Office withdrawals and no such accommodation is therefore needed. Such an argument forgets that if the facilities did not exist and if the power to withdraw was not thus entirely free from doubt or question, there would most certainly be a run on the Post Office Savings Bank.

The briefest sketch of the science of borrowing and lending would be incomplete without a reference to the question of interest and dividends. It is important to note that the rate of interest must always be a natural thing. Before the War, when money was absolutely free, without any restrictions on its movements anywhere, the rate of interest always was a natural thing. It always represented exactly the figure which would insure that the borrowers and the lenders balanced one another, for it will be obvious that the rate of interest is not only the amount which the borrower may reluct-

antly be prepared to pay, but also the amount which the lender will willingly be prepared to receive.

There are few subjects on which more nonsense is talked by politicians and others than the subject of interest. The rate of interest is a natural rate, always the same, although it may not always be accurately measured. What is called interest is often only part interest and part capital, for example 10 per cent. interest on an industrial share and 4 per cent. on a gilt-edged security are both 4 per cent. investments. The lender or investor who imagines that he is receiving 10 per cent. from his industrial investments is generally grossly deceiving himself. 4 per cent. of his dividend should be regarded as interest on his money and the other 6 per cent. should be put aside as repayment of his capital ; such an arrangement assumes a life of  $16\frac{1}{2}$  years for the enterprise in which he has invested, and a search of the records of the Stock Exchange will show how few industrial investments have survived to pay a regular 10 per cent. for  $16\frac{1}{2}$  years.

It is unnecessary in this cursory examination of the subject to indulge in too much complication, or else it might be wise to point out that the 10 per cent. and 4 per cent. mentioned above are not strictly accurate in the circumstances of to-day. The presence of a 5s. income tax reduces the 4 per cent. to 3 per cent., and the 10 per cent. to  $7\frac{1}{2}$  per cent., so that the portions of both rates which belong to the individual are as 3 to  $7\frac{1}{2}$ , and only  $4\frac{1}{2}$  of the original 10 can be considered as the repayment of capital : the investment thus requires a



twenty-two year life to make it a safe 3 per cent. net. That is the wise point of view for the investor, but it need hardly be remarked that the tax-gatherer who takes his  $2\frac{1}{2}$  out of the 10 regards it and uses it wholly as income, and takes no note of the fact that he is consuming part of the nation's capital.

The true rate of interest, in normal circumstances, is probably somewhere in the neighbourhood of 4 per cent. gross, and notwithstanding all the index figures with which modern science has provided us, it is impossible to speak of the true rate of interest without the qualification of the "probably." The rate will dip when trade is bad and money consequently plentiful and it will rise when trade is good and money therefore in active demand. The effective rate of interest appropriate to any particular loan is thus 4 per cent., more or less, plus whatever is required to provide for the amortisation of the loan, that is to say, the amount required to provide for its replacement during the life of its purpose. Money borrowed on a house must be repaid out of the interest or the rent, before the house tumbles down, and so on. It is entirely erroneous therefore to talk as some people do of 10 per cent. and 15 per cent. as if they were talking of a rate of interest. Money for example lent at 20 per cent. to finance some untried invention may prove to be a far less satisfactory transaction than if the money were lent on deposit to the bank at half of 1 per cent.

By the same reasoning the larger the debt in relation to the cover the higher should be the rate of interest. It is obvious that a small debt on a

big estate will be more easily paid, and is more thoroughly secure than a large debt on a small estate. In the latter case it is necessary that the rate of interest should be sufficient to provide a sinking fund out of which the lender can cover the risk that the estate may depreciate more quickly than the debt is paid. One of the dangers of the present time is the universal attempt by politicians to reverse this natural state of affairs. It frequently happens in connection with public debt that the rate of interest will be reduced simply because the borrower has not, for the moment, the means to pay. That is a state of affairs which is allowed for in the proper working of the borrowing and lending market where bankruptcy is a recognised factor. The modern endeavour by the use of political power to accommodate the rate of interest to the political situation and divorce it from actuality has helped to bring every country in Europe into difficulties, and is undermining the wonderful structure of British finance.

This brings us to a very brief consideration of the principles which underlie the science of debt. The reputation of the City of London has been built and still relies upon their observance. First among these may be put the rule that good borrowing is always for capital purposes and capital purposes only. In individual affairs, just as in state affairs, it is the height of folly to borrow in order to provide those things which ought to come out of income. A debt, if it is a good debt, must always have at the back of it the assets which constitute the security for it. A debt raised to provide something which is immediately consumed is a bad debt, it is a

burden upon the production of the future, instead of, like a good debt, accommodation raised upon the production of the past to add to the assets of the future.

In private affairs a rule of this kind has upon occasion to be broken. The most usual example of this sort of need arises out of illness, but few will be in doubt as to the difficulties that can be created that way. Nevertheless if a man with a modest income finds himself faced with the necessity of raising £100 in the hope of saving the life of a member of his family, there is adequate excuse for shouldering burdens which may prove onerous and difficult in the future. Apart from some such vital purpose the obligation of debt is not undertaken by the person who has respect for his own reputation for wisdom. It is sometimes permissible to borrow for educational purposes. There may arise the case of a particularly bright son or daughter for whom a higher educational course is so obviously desirable that debt can be incurred in connection with it. While however such cases will occur with individuals here and there, it is foolish to imagine that the practice of borrowing for consumption can be indulged in at all widely without disaster to society. From this point of view much of our present day public borrowing stands condemned.

The next principle which emerges is that debt, to be good debt, must be self-liquidating. This applies as a matter of course to all trading debts. The grocer can borrow the price of a ton of tea pending its sale in separate pounds to his customers, and every trading debt has the same self-liquidat-

ing quality in its nature. A debt incurred to build a house will be self-liquidating if the house is well built, because somebody else may be relied upon to come along later and buy the house for its value, thus providing the means of liquidating the debt. A debt, on the other hand, raised to build a town hall is not in the same sense a self-liquidating debt, for the town hall will not be for sale, and the debt will remain for the rest of time as a charge upon the incomes of the citizens.

A study of the several sorts of commercial debt which we have so far considered brings out very clearly one vital point about them all. They all rely on what is known as the personal covenant. The borrowing and lending market as we have described it is a vast human machine, concerned in every detail with individuals, each of whom in his own particular way accepts some degree of personal responsibility for its proper working.

Thanks to the growth of joint stock and limited liability enterprise the element of personal fortune and personal risk is to some extent obscured. But in spite of all the joint stock advantages the money market has never lost that personal quality which must be the essence of any good service.

There does not exist in the borrowing and lending market itself, apart from those fringes which attach to any market such as outside brokers and bucket shops, any of the "here to-day and gone to-morrow" element. It is impossible to enter the market on those terms. Personal fortune will give a standing, but personal reputation counts for even more. The whole market is always subject to the healthy check of bankruptcy, another subject

upon which the public is in serious need of instruction. Bankruptcy is a disaster to the individual whom it overtakes, it is a blessing to any market which desires to be healthy, and it is the greatest of the safeguards the public enjoys against irregularities.

Were the reader to allege that all this is special pleading, there would be some slight foundation for the charge. We have endeavoured to give a rough impression of the workings of a few of the many departments of the borrowing and lending business and our observations have been of a complimentary kind, confined to approval of the daily doings of the most important of all the modern social services. The public is sufficiently informed, indeed over-informed, of the other side of the picture. The swindlers, thieves and evil doers who are to be found in finance, in the same natural proportion as in all other departments of life, are front page features with the sensational newspaper. Finance and marriage are alike in that when anything goes wrong, the purveyors of sensation fill their columns with all the lurid details. But finance and marriage differ widely in that while every member of the public has some personal knowledge of the latter, there are comparatively few with much personal experience or knowledge of the wonders of the former. The public acquaintance with finance tends therefore to be like that of some observer from another planet who relies for his knowledge of the marriage system upon divorce court reports.

A description of a great retail store which gave no more than a reference to the glove, stationery

and glass departments would be recognised at once as wholly inadequate. We have merely touched upon three or four of the hundreds of sections of the great debt and money trade and must be content to be woefully inadequate. But to proceed as we now do to the vexed question of public debt, it was necessary to take a glance at the world of private debt upon which the public obligations are founded. The common tendency in public affairs is to give their full face value to proposals for doing things in new ways. Sufficient trouble is seldom taken to study and understand the old ways, and to be sure that they are capable of the many improvements so readily suggested by inexperience or ignorance. The world of private debt has been, until quite recently, entirely outside the world of politics. It was not until the War that the politicians discovered the full possibilities of the borrowing and lending science, and we must now proceed to inquire into the results that have followed upon that discovery.

## CHAPTER III

### DEBT AND OPTIMISM

At the close of the Napoleonic Wars, public discussion centred for a time on the subject of debt. There were the Bullionists and the anti-Bullionists and great battles between great brains. The nineteenth-century precursors of our "managers" or "planners" were eventually beaten, the Bullionists held the field and a hundred years of great prosperity were begun. A parallel is sometimes drawn between the 1820's and the 1920's and it is suggested that the situations at those dates are similar, that the debts in relation to national wealth are comparable and that we have no more cause for worry than had our ancestors of a century ago. In so far as that argument is good, the planners are defeated and those who pin their faith to sound currency can rest assured of victory.

Unfortunately, however, there are several serious differences between our situation and that of the 1820's. The debt then under discussion was almost wholly war debt, the debt of to-day is one-third concerned with the conduct of the War, and two-thirds due to what were described as Fruits of Victory.<sup>1</sup> In 1820 the discussion was carried on by the limited governing class and was not complicated by the existence of vast numbers of State

<sup>1</sup> The reader is referred to Chapter V of *Account Rendered* for the arguments on which this assertion is founded.

beneficiaries. None of the groups or parties to the debate had any personal gains or losses to vitiate the quality of its opinion. Until quite recently it was against the law for the receiver of a dole to take part as a voter in the control of public affairs. In 1820 we had more philosophy and less philandering; it was for instance generally agreed that a little knowledge was a dangerous thing. By contrast to-day 30,000,000 electors are considered competent to take decisions on all questions however technical.

In 1820 the nation was ready to listen to appeals to its manhood, exhortations to sacrifice, demands for effort and endeavour. To-day the political appeal is to a wholly different set of sentiments. The best of the thought of 1820 was concerned with the future, a hundred years later we think only of the comforts of the present. A very practical difference is seen in the furniture and materials of public opinion. Then, people relied upon the views of their fathers and the discussion at the village inn, helped by an occasional glimpse of a sixpenny newspaper. In consequence, opinion moved slowly whereas to-day it is switched on and off with such ease, that millions of minds make mental somersaults every few weeks.

It is therefore advisable, in discussing our subject, in the hope that some impression may be made upon public opinion, to take careful notice of the quality and character of the twentieth-century mind and conscience.

At its inception a loan produces a feeling of wealth and ease and comfort; that is common to every loan transaction. The money is in hand, the



pressure has relaxed, there is a temporary absence of need to consider before writing a cheque. The bank balance no longer presents a problem, and for the moment the whole atmosphere has changed, it seems, for the better. Both lender and borrower are in a cheerful frame of mind. All the estimates and hopes on which the arguments for the loan were based remain intact. The paper calculations for repayment are still good, indeed it may be said that the recipient of a loan is the natural optimist. Later on more chastened views will prevail, but at the start of its history a loan is a matter of gratification and cheer both to the borrower and to the lender.

This very ordinary set of circumstances should be held in mind when considering present-day public opinion. A nation which has within the trifling period of twenty years increased its borrowings by nearly thirty times must expect to be very vulnerable to the weakness of optimism. In 1914 our public obligations, both national and local, totalled almost exactly £18 per head of the population. To-day, if accounts were properly kept, and due notice taken of all the obligations piled up since the War, we are responsible for something in the neighbourhood of £500<sup>1</sup> per head of the population. We are, as a nation, fully occupied with the enjoyment of thousands of millions of newly borrowed money, so very newly borrowed that the other side of the transaction seems too remote to trouble us.

Is it therefore any wonder that at the end of an orgy of borrowing without any precedent in human

<sup>1</sup> *Account Rendered*, Chapter V.

experience, public opinion in regard to debt should be at its very lowest level ?

Other influences have also been at work to bring about an alteration in the quality and character of the opinion which governs our public affairs. First, of course, is the vast extension of the franchise and the sudden entry of some twenty million women and young people who until a few years ago had no formal part whatever in the making of our public opinion.

Nobody will complain that such a great and good experiment should cost us something or should lead to some little inconvenience in its early stages. We are the happy possessors of long experience in the working of the democratic system and there is no reason why thirty million electors of the same stock and quality should not, in time, work that system with as much success as was achieved by the ten million who until recently monopolised the right to participate in public affairs.

We should therefore expect to see some increase in debt and other difficulties as the inevitable price of training this great army of new recruits up to an adequate degree of skill in citizenship. In so far as we are doing that, we can regard the debt burden as a necessary part of the cost. It must follow that in widening the franchise as we have done there should be a certain lowering of the quality of public opinion at the start.

Latterly, however, a new difficulty has arisen. It is a difficulty which is common to the debt question and to the question of public opinion, for both money and opinion have suddenly come under

the new phenomenon of management. Our pound, which was a twenty-shilling pound, has been managed down to a twelve-and-sixpenny pound, and at the same time the sound judgment of a free democracy has tended to become a sheepish acceptance of mass produced official dope. It will be agreed that in these days public opinion in the mass simply ignores the question of debt. Debt is not discussed. Indeed it is doubtful if the man in the street is conscious of its existence. Millions of worthy people are deceiving themselves with the comfortable thought that they own a few National Savings Certificates, and are unaware that on the other side of the page on which they write that wholly unsecured asset, they ought also to write as a liability £500, being their individual share of the total public obligations. In such a state of affairs, then, what is the worth of public opinion? An easy way to answer that question is to go back through the files of a favourite newspaper for three, five or ten years. Such an exercise will reveal in startling fashion the extent to which public opinion, just like money, has been subject to the novel dangers of management and mass-production.

In a question like arms public opinion has completed the circle in less than a dozen years. The newspaper will show that a dozen years ago this country displayed a remarkable unanimity on the question of disarmament. It was commonly held that arms were the cause of war. It was thought that the road to peace required the abolition of arms, and yet the reversal of that opinion has been so complete that even the Labour Party now thinks it proper to proclaim its determination, in the

cause of peace, to return to a policy of strength in arms.

The subject is interesting in connection with the study of public opinion amongst ourselves, but it becomes more serious when a glance is taken across our borders. A world which for a thousand years has looked with envy upon this country as the one place where stability was always to be found, is amazed and confused to see that age-old reputation weakened, if not destroyed, by irresponsible wobblings in opinion such as have never before been associated with England. Foreign belief in our stability is among our invisible exports and plays a considerable part in our own financial well-being.

On arms it can at least be said that the complete reversal—whether wise or not does not affect our argument—has been undertaken with a certain amount of reluctance and with as much decency as can be crowded into a decade. But when we come to minor matters, such for instance as the embargo on the export of arms, it is, to say the least, disconcerting to notice the rapidity with which the new electorate has been swung from one view to another.

In connection with Abyssinia, Spain and China there arose a fervent demand for the prohibition of the export of any arms to anybody. We need not here consider the outcomes of such a prohibition upon international trade, or the way in which it would promote the interests of competitors without affecting the purpose in view. We are only concerned with the fact that, in each case, a few weeks were sufficient to cause the very people who

were loudly demanding embargoes to lead the agitation for the supply of arms to the weaker party in each of these contests. Public opinion on this question has acquired so different a character that we now find all the fervour recently applied to the cause of disarmament switched over to demands which taken together amount to a proposal that we should undertake war against Franco, Hitler, Mussolini and the Mikado all at one and the same time. Such instability of mind and opinion, seen through financial glasses, does not make for that character and quality which are summed up in the word "credit," and yet it is on the faith in the public credit that we have raised loans of astronomical dimensions.

It is understood that public opinion in the totalitarian states is a thing of poor quality and value. If the mind is allowed to receive only such information as seems desirable to a dictatorial power, that mind may produce arguments but it cannot produce considered opinion. The raw materials of opinion are denied to it. It would not therefore be unreasonable to expect an obvious superiority in quality between the public opinion of a people living in freedom and that of a people living in the slavery of dictatorship. But at this point in our brief glance at the abstract question of public opinion we come across a curious and novel situation. Public opinion here seems to be almost as easily swayed or controlled as it is in those countries where the raw materials of opinion are closely guarded by the official machine. The explanation, into which we cannot enter here, is probably to be found in the rotary press, that new

marvel with its millions of circulation ; and later and more important in the mysterious science of wireless. So long as a monopoly of the hearing power of ten million people is allowed to remain in the hands of the controller of a single microphone, public opinion must have a far lower value than when it was the result of the clash of a thousand different points of view.

The recent history of the Abyssinian question provides a case in point. Without entering upon the merits of one case or another we can agree as to the existence of a new problem when forty million people in one country accept those points which favour one side of the argument, and an equal number of decent people in another country accept completely and with enthusiasm just those other points which favour the opposite side of the same argument. Here we believed or thought we believed that Mussolini was the worst type of buccaneer. He was widely held to be suffering from various ailments, among them paranoia, and the only really serious question was how soon some benevolent assassin would rid his Italian victims of the menace of his presence. Italy itself was thought to be hopelessly bankrupt, it did not occur to anyone that the new developments of economic nationalism might bring temporary advantages to Italy as well as to other countries. The campaign in Abyssinia was held up as the merciless slaughter of a worthy Christian people, and we were only comforted by the certain knowledge that the rains due a few weeks later would put an end to all this barbarism. There were very few people to be found in this country in the first

few months of the Abyssinian campaign who did not confidently know that the certain collapse of Italy was imminent.

Side by side and at the same time a complete nation in Italy itself was almost worshipping at the Mussolini shrine. So far from being mad or ill he was believed to be a saviour. The country itself was, to all appearances, within its borders, busy and prosperous. Employment was good and paper money plentiful. Instead of thinking of merciless slaughter these good people were led to believe in the call of duty. The example of the great British nation was held up before them and they were told that it had remained for the valiant Italians to clear up the one pestilential spot which had escaped the similar attentions of the British. These people were reminded that they were the allies of the British in the Great War itself, and were amazed and disappointed at the way in which Britain had deserted them in a work as necessary to the progress of civilisation as the work of that War. The history of Abyssinia was sorted out, and while we were treated to scraps of evidence of a curious type of Christianity, the Italians were regaled with lurid stories of barbarism, many of them taken from a book written by the wife of a former British Foreign Secretary.

We are not concerned here with the truth of either story. We are considering the value of public opinion because we are interested to see how it can be influenced in connection with the most vital of all the governmental problems that face mankind, this question of the monumental growth of post-war debt. It is for that reason, and that

reason alone, that we take a peep at the workings of the forces which seem able in these latter days to do exactly what they like with public opinion, not only in a totalitarian state but even, and far worse, in a free democracy. Illustrations of the difficulty can be found all around us. The skilful use of the phraseology of contempt in reporting the doings of Hitler ; the way for instance in which the B.B.C. told us about the Nazi celebrations in Nuremberg was balanced and well balanced by the terms which the German counterpart of this sinister force applied to our own Coronation. Germany to this day is under the impression that the Coronation was a fiasco, and is full of tales of the work of the police in keeping a discontented public in order while the flummeries of official proceedings were carried through.

Turn to Spain, and notice how the ability to suppress can be even more powerful than the facilities for the dissemination of news. Day by day we were informed of the doings of the Italians and Germans who were occupied in the Spanish tragedy, but the Italians and the Germans, on the other hand, got little news about Spain that was not concerned with the side of the matter which did not appear to interest us. Both those nations accepted with enthusiasm the theory that they were carrying on a great war to save Spain from conquest by the Russians. Such distressing reflections throw grave doubt on the value of public opinion here or anywhere.

It was perhaps to be expected that the new electorate, which is one of the natural causes of the temporary deterioration of public opinion, should



be tempted by the conception and arguments associated with the League of Nations. Here again we have a matter that has a direct bearing on our subject. The most skilful use of the modern arts of propaganda has led us to think of a world yearning for a League of Nations, yet the facts are that except in this country there never has been any popular acceptance of the feasibility of the plan. While we have had an enthusiastic branch of the League of Nations Union in almost every village, it has been difficult, if not impossible, to get a hundred citizens of any other nation to attend a meeting to hear about a proposal which has always been regarded as the product of inexperienced American idealism. If President Wilson had possessed sufficient political skill to represent the League as a scheme for undermining British predominance in the world, America might have been the leading member of that body. It is only now when the natural aggressors everywhere are taking advantage of the impotence of collectivism that British public opinion is beginning to understand the fundamental error of the Geneva plan. Those countries which previously would not have dared to flaunt officially expressed British opinion now regard the British Empire as having retired from its guardianship of good and right, and therefore think themselves free to indulge in their own devices.

But the League of Nations is not our subject. We are concerned only with public opinion in the abstract in order to discover what it can do about Debt. The most loyal and unrepentant devotee of the League will agree in this : for twenty years we have been subjected to the eloquence of those who

believe in the League and hardly a whisper has been heard on the other side. In connection with the League of Nations we have forgotten our very foundations. Any political qualities which we possess can be traced to our fundamental belief in the principle of hearing both sides. In Parliament we have His Majesty's Government and "His Majesty's" Opposition. Under our system of law we scout the notion of an examining magistrate and however guilty a prisoner may appear to be, we insist upon hearing every point and argument that can be produced in his favour before coming to judgment about him. With these facts in mind consider the case of the League of Nations. It would require a laborious search to discover among the millions of words that have passed out of the B.B.C. on the subject of the League a few odd syllables of doubt or criticism. Our views are the result of the constant repetition of one simple thesis. An institution which is regarded by the whole of Italian opinion as a modern Tower of Babel is looked upon by us in a totally different way. Italian opinion is admittedly the work of the censor and is one-sided. Our opinion is supposed to be free from the limitation of censorship and yet is almost as definitely a limited one-sided affair.

We thus begin to see the difficulties which confront us in approaching a subject such as debt. We should note, although we may perhaps leave it aside as an unworthy consideration, that the subject will never be a pleasant one and will for that reason be the more difficult to popularise. We have to face the natural difficulties arising from

those feelings of comfort and optimism associated with the early stages of any debt and lastly, and most difficult of all, these curious new powers or forces which seem able in these modern times to do almost anything they like with public opinion.

Behind them all we have the New Despotism, as Lord Hewart has called it, the massive bureaucratic machine which, with the politicians as its advertising department, and the wireless as its medium, is able to exercise an influence on our minds and our purses such as was unthinkable only a quarter of a century ago. Here is a power which when its character is properly understood will arouse any remnants of the true spirit of democracy that may then remain with us.

When we return to the safer habits of the past and resume the practice of hearing all sides, the quality of the discussion in a thousand council chambers will alter for the better. We shall want to know who is going to pay the debt. We shall debate not only the comfort of the present generation but also the well-being of the next. The demand will be for information as to the effects of the proposed borrowing upon the economy of the future. Closer inquiry will be made into the workings of sinking funds and especially into the curious circumstance that, notwithstanding all the sinking funds, it appears to be necessary to renew old debts as they mature. It may even be suggested that trustees might be useful as in the case of private borrowings. There will in short be a case for and against, which as a democracy we shall desire to hear. Indeed, only so can we remain a democracy.

## CHAPTER IV

### THE GROWTH OF DEBT

FOR all practical purposes public borrowing may be regarded as a war and post-war affair. The War taught us how it might be done, and that lesson being learnt, we have applied ourselves with vigour and energy to the new-found delights. Up to 1913 the citizen was considered as the supporter of the State ; since 1918 the State has been regarded as a milch cow from which the Socialists and the Planners could draw all the needs of the citizens. From Social Service to Subsidy full provision is to be made for poor and rich alike. The nineteenth century witnessed the growth and perfection of the modern banking system, and by the building up of a network of good personal and trading debt made possible a rapid expansion in trade, and a spectacular rise in the general standard of living, not only for us but for a large part of the whole world. We discovered in the course of the nineteenth century how to bridge the gap between the first processes of manufacture and the last processes of consumption, and in that way made it not only possible but easy for all of us everywhere to exchange the products of our labours.

It was not until 1914 that the politicians discovered the immense possibilities of the debt system. We have only to remind ourselves of the common conversation of the autumn of 1914 to

make it quite clear that until the War governments had no conception of the possibilities of political finance. Newspaper leaders in September and October 1914 eased our anxieties with the certainty that, the money being exhausted, the War would be over by Christmas. Lord Kitchener was considered by many, at that time, to be talking nonsense when he warned us to be ready for a three years' war.

In thinking of public debt, therefore, we have two different and distinct periods to help us. A century of economy during which the trifling debts of the Napoleonic War were actually reduced. Notwithstanding the cost of the abolition of slavery in 1835, the Irish famine in '47, the Russian War in '55-56, and all the expansion of the nineteenth century in such little matters as the purchase of the telegraphs or the building of town halls, the public money obligations were steadily liquidated. In the period from 1914 to 1938 we have twenty-five years of unprecedented borrowing, a quarter of a century in which public debts have been multiplied, as some think by thirty times, but if we confine our attention to the non-contentious table published on page 40 certainly by ten times.

The problem would be difficult even if it were merely a matter of the growth of debt. That however is a very superficial view. This debt raised on the public credit is of a character different from that of the ordinary debt of trade and industry. It will probably be some years before the essential difference in the two sorts of debt is appreciated. No conception of education yet

expounded includes a state of affairs in which forty million people will be, all of them, experts in the technicalities of the Discount Market, but to make our study of the matter useful we must pause for a moment to note the wide differences between the two sorts of debt.

Before the War there was £649 millions of public debt, and, nobody knows exactly, but at least ten times as much private debt. Every penny of the latter was concerned with some real transaction. Every sovereign had behind it either the personal undertaking of some individual to pay, or the actual goods or services in respect of which it was incurred. Private debt is a process of pledging existing assets, and undertaking to redeem the pledge out of visible income. With such a mass of good debt always in the market it was a matter of little moment that the Government should put into the mass 10 per cent. of public debt. Indeed instead of looking upon the public debt, with its absence of tangible backing, as something inferior to private debt, the habit grew of talking of "gilt-edged," and the 649 millions, depending on nothing better than the good faith of future generations, was universally considered to be a safer investment than the day by day working debts, each of which had behind it a personal guarantee of payment within a matter of days or weeks or at most months. This curious distinction between well-secured debt and unsecured hope was at least justified by the circumstance that the citizens standing behind the State were in a position to pay the public debt. It amounted to no more than £18 per head of the population. When

we come to the last twenty-five years of lavish borrowing a completely different situation appears, for while we have increased the funded National Debt to £166 for every man, woman and child amongst us, we have also diminished the personal ability of every man, woman and child to discharge that obligation. While £18 was properly regarded as a good loan to a citizen who recognized himself as one of the supporters of the State, it is absurd to speak in the same terms of £166 lent on the credit of a citizen who looks upon the State as a source of income to himself. £166 is the official figure, the actual liability being something in the neighbourhood of £500 per head.

In the following table will be found the best figures available, but they should not be presented without a word of caution. They require to be adjusted in several directions to accord with the price-level, and the altering values of the currency, to mention only two of many complications, but if they are studied without too meticulous regard to such detail and examined only in order to discover general tendencies they will convey a correct impression. We start with the year 1891 for two reasons. That year happens to be the last in which the annual volume known as *Fenn on the Funds* made its appearance. But it also happens that taking 1913, the last pre-War year as our basis, 1891 and 1936 give us roughly equal periods backwards and forwards.

*Fenn on the Funds* was published for the edification of bankers and investors generally, and made year by year an exhaustive examination into the public debts of our own and every other country

POPULATION, GOVERNMENT FINANCE AND OVERSEAS TRADE OF THE UNITED KINGDOM

Year	Population Thousands (a)	Revenue £ 000's (b)	Expenditure £ 000's (b)	Public Debt <sup>1</sup>		Imports £ millions (d)	Exports £ millions (e)	Total Foreign Trade		
				Actual £ millions	Per Head (c)			Per Head		
					£			£	s.	d.
1891	37,733	98,577	97,510	675·8	17·9	435·4	247·2	18	1	0
1901	41,459	152,712	205,236	745·0	18·0	522·0	280·0	19	4	0
1911	45,222	185,090	178,545	668·3	14·8	680·2	454·1	25	1	0
1913	45,648	198,243	197,493	649·8	14·2	768·7	525·3	28	7	0
1921	47,123	1,124,880	1,079,187	7676·3	163	1085·5	703·4	38	0	0
1922	44,325	914,012	812,497	7742·2	175	1003·1	719·5	36	7	8
1923	44,550	837,169	788,840	7641·0	172	1096·2	767·3	41	2	8
1924	44,866	799,436	795,777	7597·8	169	1277·4	801·0	46	6	6
1925	45,014	812,062	826,100	7558·6	168	1320·7	773·4	46	10	5
1926	45,185	805,701	842,395	7554·6	167	1241·4	653·0	41	18	6
1927	45,394	842,824	838,585	7527·8	166	1218·3	709·1	42	9	2
1928	45,580	836,435	818,040	7500·3	165	1195·6	723·6	42	2	1
1929	45,685	814,970	829,493	7469·0	164	1220·8	729·3	42	13	9
1930	45,878	857,761	881,037	7413·3	162	1044·0	570·8	35	3	11
1931	46,082	851,482	851,118	7433·9	161	861·3	390·6	27	3	3
1932	46,346	827,031	859,310	7643·8	165	701·7	365·0	23	0	4
1933	46,533	809,379	778,231	7822·3	168	675·0	367·9	22	8	3
1934	46,680	804,629	797,067	7800·4	167	731·4	396·0	24	3	0
1935	46,885	844,775	841,834	7795·9	166	756·0	425·8	25	4	2
1936	47,098	896,596	902,193	7797·2	166	848·9	440·7	27	7	5

<sup>1</sup> The Public Debt for the years 1891 to 1921 includes remunerative debt, e.g. capital expenditure of the Post Office, while figures for the other years do not include this.

This data has been obtained from the Statistical Abstract for 1937 with the following exceptions :—

1) The figures for 1936, with the exception of the estimated population, have been obtained from other sources. (2) The debt per head has been obtained by dividing the total debt by the estimated population, and (3) The trade per head has been obtained by dividing the total trade by the estimated population except for the years 1913 and 1922–35 inclusive which appear in the Statistical Abstract for 1937.

(a) Estimated population at middle of the year, the figure for 1936 is provisional.

(b) Revenue and Expenditure are for the year ending March 31st of the following year.

(c) As at March 31st of following year.

(d) Total Imports.

(e) Exports of U.K. produce only.

Figures for 1922 and after exclude the Irish Free State except the figures for foreign trade which include the Irish Free State up to April 1st, 1923.



where figures were available. The following table, taken from Fenn, shows the progress of the National Debt of Great Britain, funded and unfunded, from its commencement in 1688 to the close of the war in 1815, and its decrease down to 1873. We reproduce the table for the interest contained in the periods which Fenn selected, and for the way he noted the causes as he saw them, of the increase or decrease of the Debt.

THE NATIONAL DEBT OF GREAT BRITAIN FROM  
ITS COMMENCEMENT IN 1688 TO 1873

	£
National Debt at the Revolution in 1688 . . . . .	664,263
Increase during William III's reign . . . . .	12,102,962
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Debt at the Accession of Queen Anne, 1702 . . . . .	12,767,225
Increase during her reign . . . . .	23,408,235
<hr/>	
At the Accession of George I, 1714 . . . . .	36,175,460
Increase during his reign . . . . .	16,675,337
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At the Accession of George II, 1727 . . . . .	52,850,797
Decrease during 12 years' Peace, ending 1739 . . . . .	6,236,914
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At the commencement of the Spanish War, 1739 . . . . .	46,613,883
Increase during the War . . . . .	29,198,249
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At the end of the Spanish War, 1748 . . . . .	75,812,132
Decrease during 8 years' Peace . . . . .	1,237,107
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At the commencement of the Seven Years' War, 1756 . . . . .	74,575,025
Increase during the War . . . . .	52,219,912
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At the Peace of 1763 . . . . .	126,794,937
Increase during 12 years' Peace . . . . .	367,476
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At the commencement of the American War, 1775 . . . . .	127,162,413
Increase during the War . . . . .	104,681,218
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At the end of the American War, 1783 . . . . .	231,843,631
Increase during 10 years' Peace . . . . .	16,031,203
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At the commencement of the French War, 1793 . . . . .	247,874,434
Increase during 9 years' War . . . . .	289,778,574
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At the Peace of Amiens, 1802 . . . . .	537,653,008
Increase during 13 years' War . . . . .	323,386,041
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Debt at the Peace of Paris, in September, 1815 . . . . .	£	861,039,049
Decrease to March 31st, 1855 . . . . .		55,627,359
<hr/>		
Debt in March, 1855 . . . . .		805,411,690
Increase during 2 years of the Russian War . . . . .		30,264,564
<hr/>		
Debt in March, 1857 . . . . .		835,676,254
Decrease during the past 16 years . . . . .		50,704,151
<hr/>		
Debt in March, 1873 . . . . .		784,972,103

"The figures of the foregoing Table are taken from a return furnished by the House of Commons, and from the Statistical Abstract issued by the Board of Trade.

"Since the conclusion of the long war in 1815, the National Debt of the Empire has thus declined from £861,039,049 to £784,972,103, or nearly 9 per cent. in something over half a century, notwithstanding the additions in 1835, when slavery was abolished in the Colonies; in 1847, to supply food to Ireland; in 1855-56, on account of the Russian War; and in 1870, for the purchase of the telegraphs. The annual interest on the debt has fallen from £32,645,618 to £26,804,853 in the same period, or about 18 per cent.; but it must be borne in mind that this reduction would have been still more considerable had not the present charge included some £3,000,000 yearly towards the payment of the principal of the Terminable Annuities."

Between 1873 and 1913 the debt was further reduced from 785 to 649 millions. The nineteenth-century record is one of steady reduction in debt and rapid expansion in trade. Between 1815 and 1873 debt was decreased by 9 per cent. and imports and exports increased by 700 per cent. The comparison is more accurate if we relate it to the growth of population, for while the average debt per head in 1815 was £43 it had been reduced by 1873 to £24. On the other side of the account the average foreign trade per head increased from £3 15s. *od.* to £21. It is obvious that the ability to bear a weight of debt is closely related to the amount of trade, thus we arrive at the striking fact that the nineteenth century saw our import and export trade develop by nearly seven times per head, and our ability to stand a debt therefore increased, and yet such was the public opinion of

the time in relation to debt that we nearly halved the individual liability. By comparison, and it is indeed a very vivid comparison, between 1913 and 1936 we have multiplied our debt per head by ten times, and reduced our overseas trade per head from £28 to £27.

*Foreign Trade and National Debt (funded only)  
per head of population.*

	<i>Trade</i>	<i>Debt</i>
	£	£
1873	21	24
1913	28	18
1936	27	166

On a wider view it will be noticed how politics react on trade. From 1815 to 1873 political interest in trading matters may be described as negative; the political effort of the time was directed to the freeing of trade from restraint and interference. In the result our import and export business grew from £3 15s. *od.* to £21 and our domestic trade, of which there are no figures, made corresponding strides. It was in the last quarter of the nineteenth century that Parliament began to take a positive interest in the improvement of our trade, and after sixty-five years of endeavours in that direction, our trade has increased from £21 to £27. The jump from £3 15s. *od.* to £21 was made without political assistance and also without most of modern science. The commercialisation of electricity might have doubled the figure again, but politics having intervened, electricity has brought us no benefit, at least in trade figures.

While we have abandoned every rule which guided us in the past, we have never ceased to pay lip-service to the principles of which our Victorian forebears were so properly proud. Every Chancellor of the Exchequer in making his Budget Statement always says something about our Pre-War principles, and a shallow-thinking public accepts this annual dose of rhetoric as if it really means what it says. Mr. Churchill would hardly be selected as the most orthodox or rigid of our Chancellors, and so we select from his Budget Statement of 1927 the following short quotation :—

“ There are two ways in which a gigantic debt may be spread over new decades and future generations. There is the right and healthy way ; and there is the wrong and morbid way. The wrong way is to fail to make the utmost provision for amortisation, which prudence allows, to aggravate the burden of the debts by fresh borrowings, to live from hand to mouth and from year to year, and to exclaim with Louis XV, ‘ After me, the deluge.’ In that way posterity receives an ever-increasing load, and is year by year confronted with a more desperate choice between exhaustion and repudiation. Not only does the load increase but the power of bearing the load diminishes as national credit deteriorates, and at every stage those who follow are confronted with a more grievous choice between intolerable sacrifices or failure to meet the obligations of the State.”

It is, of course, a misconception to regard the figures of the Funded Debt as an adequate representation of our liabilities. These figures are the totals of the various State Funds dealt in on the Stock Exchange, and do not include the figures of the local authorities now amounting to more than twice the total of the pre-war State Debt. We

must also add numerous and varied liabilities not so easily reduced to exact figures.

There is, for instance, a long catalogue of Government guarantees, some of them firm, others nebulous, but all of them adding to the weight of our responsibilities. This catalogue is of considerable historic interest, for it ranges all the way from £1,331,000 for which we are still liable in respect of the expenses of Turkey during the Crimean War, down to £1,681,000 put upon us for the purposes of carrying out the provisions of the Welsh Church Act.

We have to face the considerable demands that will come in respect of our backing of various League of Nations' loans. It is the British Exchequer which will some day foot its full share of the bill for the money spent upon the fruitless restoration of Austria. A benevolent government has handed out in all directions guarantees for loans classified as "trade facilities." There is the cost of the London Passenger Transport Board with the tax-payers' credit behind it to the extent of £32,000,000.

Before we could state the total of the National Debt we should have to indulge in elaborate actuarial calculations to arrive at the value of hundreds of thousands of pensions so glibly added to our obligations in recent years. Note must also be made of the vast local undertakings which depend upon promises of Government support by way of block grants, pro rata grants, per capita grants and other curious forms of subsidy, many of them being almost perpetual charges.

There is always the difficulty with a national debt that its figures are beyond the reasoning

powers of the average individual. A million means nothing at all to most of us. Unlike good commercial or personal obligations, the public debt is owed by nobody in particular, is beyond the calculating powers of most people and is thus so completely impersonal in its nature as to be dangerously uninteresting to the average man. He is incapable of getting astronomical figures into his calculations unless he divides them up and relates them to the price of butter or the cost of a motor-car, or something in his own personal experience. But we can get a little nearer to the substance of the matter by turning from the national to the local accounts.

Fenn estimated that in 1871 the loans outstanding in respect of local government amounted to £63,457,891. The following table shows the growth of this class of debt since that date :—

LOCAL AUTHORITIES LOAN DEBT

	1870-71	1913-4	1933-4
England and Wales	£63,457,791	£562,630,000	£1,404,362,000
Scotland		66,896,444	160,984,784
Northern Ireland		10,173,731	20,137,593
Total		£639,700,175	£1,585,484,377

The figures, as with our previous table, are given for the purpose of gaining a general impression, and do not pretend to be meticulously accurate or absolutely comparable. For instance, the Scottish debt in the last column is for the year '32-33, the last figure available at the time of writing. The Irish figure in the 1913-14 column is for the year 1921, the first figure available for Northern Ireland.

Local debt, like National Debt, is different in its character from personal, trade, or commercial debt, and the point which we endeavoured to make in considering the National Debt comes out rather more clearly when we think of the debt of local authorities. The debt or capital of a motor-bus company dwindles, depreciates and disappears as the life of the motor-bus comes to its end. The debt and the bus are linked together. If, however, the bus is owned by a public authority the capital is attached, not to the bus, but to the credit of the ratepayers. As the ratepayers cannot dwindle, depreciate or disappear, the liability remains whether there is a bus or not. Take as an example the case of a gas or electricity works. Under a system of private enterprise money would be raised from shareholders on the security of the works, dividends would be paid representing interest on capital and return of capital. As the works depreciated in value the capital would also depreciate, and the two things would, side by side, in course of time, disappear and give place to some later and better pattern or method, the works and the debt being all the time inseparable one from the other, and every pound of the debt having some little piece of the works actually attached to it. A very different conception has been applied to the municipal gas or electricity works. The money is raised, not on the security of the plant and machinery, but on the security of the rates. The debt remains while the works become senile and decay, and future generations of ratepayers will, in this way, be loaded with debt in respect not only of gas and electricity works, but of all sorts of experi-

mental and passing notions that happen to find favour with a spend-thrift public in a quarter of a century of debt-raising orgy.

It is in the study of local debt that we see most clearly the revolutionary change in both opinion and method, which has taken place since the politicians discovered the easy possibilities of borrowing. The Statute Book, prior to the arrival of the first Socialist Government in 1924, is full of limitations and safeguards on local authority borrowing. The Local Government Act of 1888 provided that :—

**“ Where the total debt of the County Council, after deducting the amount of any sinking fund, exceeds, or if the proposed loan is borrowed, will exceed, the amount of one-tenth of the annual rateable value of the rateable property in the County, ascertained according to the standard or basis for the county rate, the amount shall not be borrowed except in pursuance of a provisional order made by the Local Government Board and confirmed by Parliament.”**

That healthy provision is worth noting in days when many of our local authorities have debts totalling not one-tenth of, but six or seven times the total of their rateable value.

The Public Health Act of 1875 laid it down that the sum borrowed

**“ shall not at any time exceed, with the balances of all the outstanding loans . . . the assessable value for two years of the premises assessable within the district in respect of which such money may be borrowed.”**

Many such provisions are to be found in Local Government Acts prior to the last few years. It was the Socialist Government of 1929 that made an



end of all this Victorian caution. They did the thing not by halves but thoroughly. In section 74 of the Local Government Act of 1929 there is the omnibus clause which sweeps all this anti-Socialistic nonsense away. It reads :—

**“ So much of any enactment as imposes any limit on the borrowing powers of any local authority by reference to the value for rating purposes of hereditaments within their area, shall cease to have effect.”**

That clause has been a godsend to many a spend-thrift council since 1929. We find, for instance, loans for eighty years for the purposes of allotments, and for the same period for small-holdings. It may be argued that a loan to buy land may properly be made a long-dated affair, but a curious situation will arise when these same Socialists proceed to the nationalisation of the land and find that they are by the logic of their own proposals forced to confiscate their own land, on which they have contracted eighty years of debt. The Housing Acts of 1930 and '31 permitted local authorities to borrow for eighty years to build houses, a more doubtful proceeding since few would be found to imagine that the houses will be acceptable to anybody in eighty years' time.

The Road Traffic Act of 1930, for which the most expensive of our public characters, Mr. Herbert Morrison, was responsible, dispenses with a time limit altogether, and takes permission to borrow for any period which the Minister may prescribe.

It is no part of our intention to lead the reader into the sophisticated realms of the higher mathematics, to enter into the discussion now proceeding in the inner circles of the bureaucracy and the

intelligentsia, and endeavour to forecast the future of the public debt. There are those who deliberately plan to pile a debt so high that its weight will crush and destroy the present money system. There are those with less sinister intentions who believe that the only way to relieve the burden of debt is to increase the quantity of money, that is to say, depreciate the currency, raise the price level, and in fact cheat all the lenders of this mass of debt. We may indulge with better purpose in one or two observations of a simpler character.

Our figures bring out very clearly the differences between the century or more before 1913 and the few years since. When as was the case in Victoria's time, the debt had to be borrowed from the monied classes, great caution was exercised, not altogether the caution of the monied classes themselves, but caution on the part of the authorities and the politicians who were interested to raise the debt. Electors and the monied classes were, in those days of a limited franchise, more closely allied than they are to-day but it is nevertheless true that when this money was considered to be the money of the capitalists, part of the personal possessions of the rich, great caution and care were the key-note of public finance. By contrast to-day when the monied classes, as we shall see, and as the term was understood, have in fact almost ceased to exist, when the money is raised from the people themselves, caution is thrown away and the wildest extravagance appears on every hand.

In the working of public affairs it is common form to lock the stable door after the horse has gone. Parliament is continuously at work re-

dressing grievances that have already redressed themselves. No wonder therefore need be felt at the fact that a century of confidence in the Funds has spread over into the post-War period, and is still the greatest asset of both national and local government. That confidence rested on the satisfactory nature of the pre-War figures, when the Funds valued the average citizen at £18. The public credit was a good credit because it was so little used. It was also good because it was so little discussed. There was no need to debate or argue about anything so solid. But absence of discussion and debate led naturally to general ignorance as to the character of the Funds and of the public credit, and the notion remained and has prevailed that the public credit is good.

Exactly like the ostrich with its head in the sand we remain under the illusion that the public credit is good, in days when, by any system of reason or argument, that credit has completely altered both in character and quality. It is interesting to notice, if we try to bring the argument from the general to some little particular, the case of a Trade Union investing its funds in the securities of a local authority which is incapable of paying 1s. in the pound should it be called upon to honour its debts. We have therefore to recognise that we have multiplied the debt by ten times or by thirty times—the multiplication factor is immaterial—but we have in addition to recognise, and this is very much more serious, that in doing so we have undermined the whole debt structure, public and private, and weakened the most essential of the facilities which enable us to live as civilised beings.

## CHAPTER V

### “ SOAKING THE RICH ”

WHEN the factory worker enters the stately new cinema palace, his thoughts turn to the newspaper descriptions of these decorative enterprises. He thinks of stars, with princely salaries, and of great names reputed by the newspapers to be associated with all the impressive finance of the film business. He enjoys his 9*d.* look at a picture, but very seldom thinks of himself as interested in the enterprise in any other way. He vaguely imagines that the rich are making money, he is not quite sure how, but in any case that side of the matter is, he thinks, beyond his personal reach, and does not give him cause for worry. Such thoughts would have been appropriate and correct thirty or forty years ago ; to-day they are foolishly careless and very wide of the mark.

Examination of the accounts of the cinema palace would show that its total cost was £150,000. The first £50,000 had been provided by the creation of a ground rent, sold to, perhaps, an insurance company, and on turning to the figures of that company the simple fact would emerge that two hundred thousand policy holders, of whom our factory worker might well be one, had put up 5*s.* 3½*d.* apiece to provide that part of the money. There would then be a mortgage on the building and the leasehold interest, provided perhaps by a

trade union or a building society, for £75,000, and this sum, when analysed back to its real owners, would turn out to consist of a few shillings apiece from some thousands of members and depositors. The final £25,000 to make up the total capital of the enterprise would probably take the form of ordinary shares, favourite speculative counters on the Stock Exchange, bought and sold freely by clerks and managers and other people, who like to have their little flutter, but it would be the exception to find any really rich shareholder in such an enterprise. These ordinary shares might, for a time, produce handsome profits but are certain in due course to depreciate and eventually to disappear. The cinema is typical of business enterprises to-day. Thirty years ago it would have been necessary to find some very wealthy backer to provide the bulk of the money, now nothing of the kind is needed.

Public affairs run naturally to large figures, and if the factory worker finds it difficult to appreciate his personal interest in a £150,000 cinema, it is even more difficult for him to work up personal anxiety about the totals of a housing scheme by the borough council involving half a million of money.

The Socialist conception of a limited capitalist class, true enough in its way fifty years ago, remains as the predominant thought in the minds of a very considerable proportion of us long after it has ceased to be true. There was a time when an outcry about rates and taxes was the expression of a genuine grievance by the few who had to pay these impositions. We still get such an outcry from the small minority who are really conscious

of the weight of the demands put upon them, but the majority, consisting of all the weekly tenants who pay inclusive rents, and all the members of all the many forms of co-operative institution which provide the great bulk of the rates and taxes, remain in ostrich fashion quite ignorant of the seriousness of the inroads made upon their own personal estates.

The capitalist class, in the Socialist sense, is rapidly dwindling. As a proportion of society it is the mere shadow of its former self. It has been reduced to comparative insignificance, not only by Socialism, but chiefly by all the many forms of collective and co-operative enterprise which have developed with such amazing rapidity since the twentieth century opened. Joint stock banks, limited liability companies, savings banks of various kinds, insurance companies, provident societies, building societies, and the rest have assumed the command of the Money Market and the private capitalist, however wealthy he may be, is reduced to a position of relative inferiority. Whereas in the nineteenth century, when Karl Marx and Sidney Webb were producing the arguments for Socialism, it was true that industrial development depended upon the support of a small class of wealthy individuals, now in the twentieth century, when the Marx and Webb arguments are beginning to be accepted by the populace, the conditions on which they were founded have completely altered. It is not uncommon in the political field for action to be taken long after the circumstances on which that action was recommended have disappeared.

It is not part of our purpose in this connection to discuss the merits or demerits of the Socialist theory, or the wisdom or unwisdom of what has happened. We are merely concerned with the simpler task of explaining the facts ; the tremendous growth of general wealth, and the rapid rise in the standard of living at the lower end of the social scale, are of course matters of delight and satisfaction to all right-minded people. It does not follow that because these improvements have been accompanied by an apparent deterioration in the position at the upper end of the social scale the alterations are necessarily connected one with the other. We must not be taken to approve of the Ruskin theory that the poor could only be made rich by taking from the well-to-do. The impressive facts which are set down below will suggest quite different considerations to those who decline to follow Ruskin. In *The Confessions of a Capitalist* some pains were taken to examine the Pareto theory, and if the conclusions drawn are still good, then a new conception opens up before us.

Science, mass production, business organisation, the wonderful growth of the science of lending and borrowing, education and the rest have enabled us, in three or four decades, to raise the standard of living beyond all previous recognition, notwithstanding that at the same time, in response to ignorant political pressure, we have almost wiped out the capitalist class. Had we possessed the wisdom to allow the capitalist class to function freely with all the scientific advantages of the twentieth century, as they did in the nineteenth century without such advantages, the general standard

might have been immeasurably higher still.

President Roosevelt, who is at present engaged in forcing down the throats of the unfortunate Americans the whole Socialist pharmacopoeia in as many weeks as it has taken us years to swallow, has built up a great deal of his popularity on the vulgar slogan, "Soaking the Rich." It must be confessed that in a young country like America, with little more than a century of wealth production behind it, there is a better superficial case, because of the existence of large numbers of spectacular and speculative fortunes. "Soaking the Rich" is a good political cry, not only in America at the present time, but everywhere at all times. Very few of us are proof against the feeling that the man with a little more than ourselves is better able to pay. Although most of us hope, in time, to improve our own position, we are not unwilling to destroy the work of those who have prepared the way for us. Some day the Science of Political Economy may return to favour and with it the obvious truth that there must be leaders in any advance. For the present we are absorbed in the study of a curious mixture of vote catching and extravagance called Economics and so we must still expect the politician to get what he can from the ignorant use of the "Soaking the Rich" idea.

In the United Kingdom the personal fortune in the top class has been steadily shrinking for years. In 1921-22 there were 10,720 surtax payers, with incomes of £10,000 a year and over. By 1934-35, merely thirteen years later, nine of them having been spent under Conservative rule, the number of surtax payers with incomes of £10,000 had



dwindled to 6,512. It is, at the same time, a tribute to the growth of joint stock enterprise and a tragedy in regard to our stability that this great country has not more than six thousand persons who, on their own account, relying on their own judgment, are in a position to give substantial backing to new and untried enterprises.

We should widen our discussion unduly if we attempted to enter into this aspect of the matter, but it does mean that whereas in Victorian times the man with ideas, the inventor, the pioneer, the originator of all progress, was able to find some individual to back him, that same man is now faced with all the paraphernalia of collectivism, committees, authorities, boards of directors and the rest, and no one will ever know how much progress has been stillborn in consequence.

The total of incomes liable to surtax has diminished from 1921 to 1935 in proportion to the number of surtax payers. £570,384,000 has dwindled to £424,339,000. There are, therefore, only 6,512 people amongst the 43,000,000 of us in enjoyment, as the phrase goes, of £10,000 a year or more. They are, many of them, to be found riding in tram-cars and omnibuses, for those who have never had the responsibility of administering an income of £10,000 a year, retain, not unnaturally, the most curious notions as to what is, and what can be, done with such a sum.

If from incomes we turn to estates the same tendencies are noticeable, but we get a better picture of the gradual nature of the process. Estates of over a million dwindled from 1922 to 1935 by 14 per cent., while estates of under £5,000

increased by 36 per cent. The total of all the estates on which duty was paid rose by nearly 50 per cent. in number and 25 per cent. in value, so that there has been a definite increase in the numbers of what is known as the "middle-class." But that alteration, satisfactory as it may be, cannot be compared with the changes over the whole. By 1934-5 we had reached the position where the life savings of the rich, that is all the people who left anything behind them on which Estate Duty could be claimed, did not in total amount to one-quarter of the annual wages of the insured workers. For Probate purposes all the capitalists put together, having spent their lives in the process of amassing wealth, for that is the impression given by Sidney Webb, only succeeded in presenting accounts to Somerset House for the year 1934-5, which in total would have paid the wages of the insured workers for a mere matter of thirteen weeks.

We must therefore look elsewhere to discover the whereabouts of the real wealth of the country. The following little list taken from the Statistical Abstract is by no means exhaustive, but it provides as many figures as the reader will require :—

## PEOPLE'S SAVINGS

	1935
	£
Registered Trade Unions (funds) . . . . .	14,166,428
National Health Insurance Fund . . . . .	133,406,000
Unemployment Fund . . . . .	24,241,000
Post Office Savings Bank . . . . .	390,331,000
Post Office Savings Bank Government Securities standing to credit of holders . . . . .	169,658,000
Trustee Savings Banks . . . . .	100,049,000
National Savings Certificates . . . . .	393,936,215
Building Society Shares and Deposits . . . . .	561,417,072
Industrial and Provident Societies . . . . .	302,974,133

Co-operative Trading Societies :	£
Retail Societies . . . . .	175,696,214
Wholesale Societies . . . . .	93,920,728
Friendly Societies . . . . .	76,948,939
Joint Stock Company Capital . . . . .	5,692,800,000
Life Assurance Funds :	
Ordinary . . . . .	903,000,000
Industrial . . . . .	366,000,000

Apart from these big funds, most of them available for investment purposes, there are many other accumulations. An interesting little fact emerged just before Christmas, 1936, when the Lord Mayor of London made an appeal for the odd shillings and pence for the King George Memorial Fund. It then transpired for the first time that we have 14,000,000 bank accounts between us in the Joint Stock Banks, and that the odd shillings and pence in these accounts, at any given moment, total £7,000,000, less seven million halfpennies.

The members of the above funds and the owners of the bank accounts are all folk who recognise, in their day by day financial problems, the wisdom of consuming rather less than they produce. The above figures are eloquent testimony to the widespread acceptance of that idea in so far as we as private individuals have control over our own actions. When, however, we come to act in our capacity as citizens, when we ignorantly rid ourselves of the anxiety of personal ownership, we proceed to borrow large portions of the money that we have saved on the one theory, in order to satisfy the demands of those who adopt the opposing theory and want to consume more than they produce.

The old capitalist, the person with whom Marx

and Webb were concerned, put, as we have already seen, 700 millions of his money into the public funds and all the rest into real values. It was he who built up our impressive investments abroad and who provided the money for all the advances and improvements at home. Apart from 700 millions all his money was backed by gold or goods. The new capitalists, the owners of all such funds as are mentioned above, are in a very different position. 7,000 millions of their money is in the public funds, in some cases half, in some cases the whole of these accumulations being represented by Gilt-edged Securities. In the ultimate analysis their supposed wealth is found to consist of the debts of their grandchildren.

To complete the story of the increase in wealth, or what is recognised as wealth, at the bottom of the scale, we must glance from capital accumulation to incomes, and the figures in the "Statistical Abstract" are even more enlightening when we come to wages. The following examples are typical:—

WEEKLY WAGES<sup>1</sup>

	1914	1935
	s. d.	s. d.
Bakers . . . . .	30 1	62 0
French Polishers . . . . .	37 5	69 3
Compositors . . . . .	35 8	73 10
Plasterers (per hour) . . . . .	9.7	18.2
Tram Drivers . . . . .	31 1	61 1
Engineers' fitters . . . . .	38 11	60 9
Boot and Shoe . . . . .	27 0	54 0

There will be common ground for Socialists and anti-Socialists, and all the many variations of those two views, in one conclusion at least to be drawn

<sup>1</sup> These figures, as with all the others, take no account whatever of alterations in price levels or the relative value of currency.

from the figures given above. The basis of the arguments of fifty years ago has gone. A National Debt of £700,000,000 backed by the untold wealth of a capitalist class which, whatever the figure may have been, was well able to pay that Debt if called upon to do so, was appropriately described as Gilt-edged. To-day that capitalist class, while the remnants of it still exist, holds only a fraction of the capital of the country, receives an ever-diminishing fraction of the National Income, and can no longer be regarded as security for the public debt. In the meantime the public debt has been multiplied to unprecedented figures, and the security for it is only to be found in the unprecedented figures of the wealth and income of all the little people represented by the societies and funds set out above.

It follows that anxiety over debt and expenditure ought to have shifted from the so-called capitalists to the so-called workers. They have an interest ten times greater than the class which in popular thought is still imagined to be responsible. There are in fact no longer any rich to soak. That interesting game can still be played in a small way, but the prizes to be gained from it are negligible. The people to be soaked are the people as a whole, and the problem is whether there can be developed in the public conscience as a whole the necessary sense of the dangers that confront us. There was, no doubt, some measure of truth in the older argument that the people were at the mercy of a small class of owners of capital, but things have altered and to-day these people, with much more to lose, are absolutely at the mercy of a smaller

class of bureaucratic managers. Under the old arrangement the private profiteering managers had at least to stake their own fortunes on their own opinions, and did in fact produce the wonderful advances of the nineteenth century. Under the new arrangement the bureaucratic managers stake nothing in a personal way, and are able to experience all the joys of experiment without the anxieties of responsibility.

The new position has a new and bigger danger in its nature. We have seen in other countries how the population have from time to time lost confidence in the management of their affairs and the quality of their currency. Our present discussion on debt has an element of danger in it, for if the people did develop an undue degree of anxiety about their liabilities, their confidence would wane, there might be a run on the banks and the other co-operative bodies, a flight from the currency, and the risk of a crash. Such a crash, which in former days would have involved a limited capitalist class in distress, would now involve the whole population, and the vast accumulations of wealth, which appear to belong to nobody in particular but in real fact constitute the security of innumerable little worker-capitalists.

But foreign experience is not a reliable guide to the probable actions of the more phlegmatic British, and a national awakening to the dangers of bureaucratic management, as to any other dangers, is likely to lead us, as always, into calmer, steadier, safer ways. A national determination to stop the folly of borrowing, to respect the sanctity of sinking funds, and to resume the courage to pay our own

way, would give us the exact reverse of a crash. The funds would rise, confidence would grow, credit would begin to be its old true self and the savings of all would cease to be in jeopardy.

President Roosevelt may be able, in the less mature world of America, to gain votes on a promise to soak the rich, we in this country have surely advanced beyond that stage. It is still possible to soak the Savings Banks, soak the Provident Societies, soak the Insurance Corporations, soak the bank depositors, but the rich, in the sense still good in political jargon, are no longer here in sufficient quantities to make the soaking worth while.

The task before those who are concerned with the comfort and well-being of our people is of a more serious kind. It is simply to revive in their minds a right conception of the nature and responsibilities of debt.

Philosophers will be interested to reflect that when the common people had little or no interest in the matter, they were in fact imbued with a sense of right and wrong in borrowing and lending. Now, when the public debt is raised not only in their name, but upon their own personal property and possessions, they appear to know nothing whatever about it, indulge freely in all the delights of further borrowing, and never, if public discussion is any guide at all, bother with the thought that a debt has to be paid.

Having improved out of recognition the personal position of the ordinary private individual, we have yet to advance to the stage when that same individual will refrain from destroying, in his

capacity as a citizen, the good work done. He must be taught to restrain his civic extravagance in order to safeguard his personal thrift. It is no longer a case of "Soaking the Rich" but rather of "Saving the People."



## CHAPTER VI

### THE PEOPLE WHO BORROW

GOOD debt is, as we have seen, an essential part of our financial foundations, without it the purposes of commerce could not be accomplished. The business of supplying us all with our daily needs necessitates some means of exchanging a present sacrifice for a future benefit, a process or transaction which is essentially individualistic in its nature. Broadly speaking no other sort of debt existed before 1914. The figures, even then impressive enough, of government debts represented a mere fraction of the mass of personal debt which made the trade and intercourse of the world possible and easy. Where before 1914 a government would owe a hundred millions, there would be some thousands of millions owing by the private individuals living under that government. Of all these millions every sixpence depended absolutely upon a personal signature, all of them were backed by goods or services, personal belongings, or personal earning power, and all of them therefore possessed such qualities and such defects, as we shall see, are wholly absent from the new sort of debt, public debt, about which we are here concerned.

Rather an impressive picture comes up to the mind when looking at the money markets of the world in 1914 and noticing the astronomical figures of the dealings in London, Paris, New York,

Berlin and elsewhere, if it is remembered that behind every fraction in these figures was some very personal little problem. The security and smooth working of the whole were due to the fact that there were reputation to be lost, bankruptcy to be faced, personal degradation or personal success hanging on every transaction however large or however small. The man with little credit and the firm or institution with cast-iron credit were each accommodated on appropriate terms without difficulty, and the varied interests of each were properly cared for. There was no shadow of trouble in carrying on the work of the world in so far as that work involved the transfer or movement of money from one individual to another on any part of the earth's surface.

The picture is worth reconstructing in these days when we have entered a new world, and the old has almost disappeared. There is a good deal of talk about revolutions. In our capacity as politicians we are proud or worried about the way in which we have improved or altered all sorts of things—the widening of the franchise, the status of woman, or whatever it may be. We think of Russia when we talk of revolutions and are inclined to attach an importance to the substitution of one tyranny for another, which is of very minor consequence compared with the substitution of one financial system for another by the new habit of piling up public debt. The greatest of all the revolutions has proceeded almost silently in our very midst, and the great majority of those who are quite prepared to talk glibly about world affairs are simply and wholly ignorant of much more

important things going on day by day under their very noses.

It is usual to talk of public debt in connection with the War, because it was the War that started this great revolution. In the autumn of 1914 there were politicians, economists and financiers who comforted us with the assurance that the War would be over by Christmas, for the simple reason that our money would be exhausted by then. Those people knew nothing of the possibilities of public debt, which, invented out of the necessities of the War, have continued to be our undoing ever since. The most active of the public securities of the Stock Markets is still called War Loan, a little fact which lends colour to the theory that our burden of debt is part of the price of the War. It is all the more necessary therefore to have it clearly in our minds that only about one-third of the present public debt is due to the military and naval expenditure upon the War, and that the other two-thirds must be charged to our post-war enthusiasm for doing all sorts of original things in original ways.

Since 1914 public debt has increased out of knowledge. Sums which would have been regarded as in the realms of fancy prior to this new fashion have been raised by governments or authorities all over the world. We should in all humility recognise that we led the way, and that it was our example which encouraged many a small nation to proceed to its own destruction. After twenty years of this orgy of borrowing we have the dubious satisfaction of noticing that most of the money borrowed has been lost, wiped out by

bankruptcy, written off by currency depreciations, repudiated by revolutions, or in some other way cleaned off the slate. Germany disposed of the whole of her public debt by currency manipulation, and at the time there were those who would have had us believe that by so doing Germany was reaping an advantage. It is not quite so easy at this length of time to understand the nature of that supposed advantage. France has reduced her public debt to one-sixth of the amount she borrowed, again very easily, by juggling with the value of the franc. Other countries have taken the simpler course of refusal to pay, and while their debts remain on paper the paper itself is in many cases of more value than the debt.

It is almost only in sterling that a public debt remains in the minds of the public as a good, or fairly good, debt. Our pound has lost some of its value, and the good money lent to the Government in say 1914 will be paid back, if at all, in money of a slightly lower value, but it remains true, thanks to the financial flair, the experience, the reputation, the character of the British Empire and its money machine that British public debt is almost the only Government security which a serious lender will consider to-day. America takes a definite second place, for she has thought it wise in her new-found enthusiasm for governmental activities to adopt the age-old device of the devaluation of her currency, and has mutilated her dollar just as effectively as the powers of old with shears and chisels chipped little bits off their coins.

Remembering our glance at the structure of commercial and civilising debt, the first thing that

strikes us in examining this mass of public debt is the absolute and total absence of anything in the nature of personal responsibility about it. Behind this conglomeration of figures there is nowhere a shred of personal quality. There is nobody's name on the back of the bill and the drawer himself has no personal stake in it. A couple of illustrations from the national field may help emphasise this point. In a moment of anxiety in the War Mr. Winston Churchill did one of the silliest things in the whole of the silly record of that period when by a stroke of the pen he gave a  $12\frac{1}{2}$  per cent. increase in wages to the engineers. In a matter of a few months the engineers were back on a level with the rest of the population, for all our prices adjusted themselves, and something like  $12\frac{1}{2}$  per cent. went on to everything. That simple bit of folly was responsible for a substantial part of our burden of debt. The calculation is beyond the wit of man but to put it at £500,000,000 is a certain understatement.

Nobody suggests that Mr. Winston Churchill should be punished personally for this ghastly blunder, but had Mr. Churchill, instead of being a Minister of the Crown, been a mere chairman of one of the big banks, had he in the same careless and silly way accepted an alteration in the general rate of interest and upset the personal finance of everybody else, Mr. Churchill as a bank chairman would long since have been in discredited retirement, and his word or view would count for nothing in the business world. By contrast the politician can actually get credit and reputation out of failure and may even win a prominent place in history

if only his failures are sufficiently spectacular.

A still more serious case is that of Dr. Addison who, in response to Socialistic clamour against profits, arranged to buy our war supplies on a new-fangled basis of cost plus commission. The credulous Socialists were pleased to think that despised employers were thus robbed of their profits and given in their place a modest commission. The arrangement was typical of much of our political improvement. It sounded well. Persons with no experience of buying and selling or of book-keeping were able to talk about it and able to claim credit for it. The effect, however, was to open the flood gates of extravagance, and Dr. Addison must in that respect be charged with an even larger proportion of the War debt than is properly debited to Mr. Churchill. Neither of them will be asked to accept a shred of personal responsibility or discomfort in respect of transactions which have loaded the rest of us for generations to come with onerous obligations.

For the purpose of the lay reader, and it is of course with the layman in finance that we are here concerned, it will be more convenient if we consider the problem of local public debt. There is no difference whatever in essential characteristics between the debt of the Parish Council and the debt of the Commonwealth of Australia. The figures in the latter case have more noughts at the end of them, but both debts in their origin, character, manner of creation, chances of repayment and all other essential respects are identical. A very important part of the debt burden is nearly two thousand millions borrowed by our local

authorities, and most of it borrowed since the War. Having in mind the strictly personal character of debt as we noticed it prior to 1914, remembering how personal well-being hung on every fraction of it, it will be seen that this new local debt is absolutely devoid of any such quality.

A Bill of Exchange concerned with the transfer of a cargo of figs from Asia Minor to Manchester carried on the face of it the reputation and solvency, for what either was worth, of some Turk in Smyrna and an importing house in Manchester. Although the document was dealt with as part of the millions of the money market of London, it was in the last resort dependent upon the various individuals whose names appeared on the back as well as on the face of it. But this public debt of the Parish Council has come into being without any of these safeguards. The only backing it possesses is a vague and curious notion called the Public Credit, a credit which as we are beginning to see simply does not now exist.

When the financial revolution of the last twenty years begins to have its effects the politicians will have some pungent things to say about this public credit. In the careless manner of the post-War period we have hurried along with a new slogan on our lips, and public credit has seemed to us to be quite a good idea. A little later we shall have time to think it over, and it will dawn upon us that the credit of the State is only the sum of the credit of all the individuals who compose the State. When we have completed the process of destroying the credit of those individuals the State will have no credit left. There was a public credit at a time

when the individuals were left in their own responsibility with resources which could, in case of need, be commandeered by the State. We are approaching the stage when, those resources having been collected by the State and the State having spent them, the phrase "the Public Credit" will be full of bitter disillusionment.

Let us consider the way in which these public debts are created and the people who create them. For the sake of simplicity let us go back to the least important of our local authorities, whose accounts will show only a few score of thousands of money borrowed upon the credit of the public. We are entitled to ask who it was who arranged these debts and what were their qualifications for dealing with matters of such importance. The first point that strikes us is that these local authorities are composed of "temporary" councillors. There is not a man or woman in public affairs whose tenure of office extends beyond five years. A member of Parliament may, although he seldom does, last for five years, the local councillor cares for his ward for three.

Here we touch perhaps one of the most important points in the discussion, for it must be remembered that debt is a deal in futures. The future is the essence of a good debt. That future in the case of a proper commercial debt will be in the care of the man who borrowed the money. No such safeguard is thought to be necessary with public debt. The councillor who authorises the loan will be out of office long before any question of repayment arises. Further consideration of this aspect of the matter drives the financial mind to desperation. The



temporary councillor will not be dismissed from his office because of his bungling in finance, but for altogether different reasons. He may even be a good judge of a money transaction. He may understand the best ways of arranging the details of a debt, but just at the critical moment in the life of an important financial scheme he will be dismissed from his office because the electors do not like his views on licensing or some other question. The director of a company, thanks to the Limited Liability Acts, is relieved of ultimate personal responsibility for the whole of his folly, but his position is a very different one from that of a councillor, who from the moment he starts to the moment he finishes never has any suggestion attached to him of personal responsibility for anything.<sup>1</sup> This is not the place to discuss the position of women in public affairs. It may however be noted in passing that women have taken a full and equal share in local administration during a period which has been characterised more than in any other way by this debt phenomenon.

Every man, woman and child in Great Britain is responsible for something like £50 of local as distinguished from National Debt and that has happened side by side with the revolution in the status of woman. A knowledge of finance and facility in dealing with large-scale business matters may in course of time come to woman, just as in perhaps another century it will come to the American nation. We are not here concerned with that argument, but the fact that hitherto woman has

<sup>1</sup> This may seem to be an argument against democracy. That is not the case. It is an argument against the mis-use of democracy in connection with matters outside its proper sphere.

not had a share in the working of the money machinery of the world, and is therefore without experience of these matters, is not in dispute.

Glancing at the old debt picture and the one which confronts us to-day the next big point that emerges is the presence of our friends the Socialists. This two thousand millions of local public debt is very largely due to Socialist influences. To be fair the responsibility is not direct. Most of the money has been spent by woolly-brained Conservatives who fondly imagined that they were defeating Socialism by stealing the Socialists' programme. But this much at least is obvious. If a council is considering a proposal for borrowing a large sum the Socialist will vote for that proposal, if he is a good Socialist, quite apart from its particular merits. He is, in obedience to his faith, committed to the destruction of capitalism, and is therefore bound to vote for the borrowing of any sum, however vast, for any purpose however futile, knowing that by so doing he is knocking another nail into the coffin of the hated system.

When the Socialist is convinced that the proposal is wise and good in itself, that view will be strengthened if he is one of those very exceptional Socialists who really understand Socialism. He will delight in the knowledge that he can kill two birds with one stone, carry out his beneficent purpose of a park or a swimming pool, and at the same time do something towards the hastening of the Marxian heaven. In the realms of higher finance those super-Socialists, who call themselves Planners, welcome every million added to the burden of debt, because it increases the pressure under which

they hope we may be reduced to the adoption of one or other of their many brands of imported panaceas.

Side by side with the Socialist on the local authority there will sit the Squire or his wife, and here we come across one of the most curious of the undercurrents of the post-War financial revolution. The Squire's resources have been greatly diminished by the weight of modern taxation: his ability to perform all his traditional functions has thus been curtailed, and he will often unthinkingly vote for raising money to relieve himself of social obligations which he finds harder than ever to maintain and, by so doing, make more certain than ever of his eventual extinction as a factor in Society. The Parson who occupies the next seat to the Squire's wife is a poor man, sorely troubled with the way in which the sources of charity are drying up, and will similarly be driven to support the Socialist in the raising of a loan to take over work formerly considered to be the function of the Church. So far as he can see, for why should a parson be expected to understand finance, he is merely getting his good works out of the other tap.

This council (we cannot go through the personal history of each of its members) will contain its proper proportion of black sheep. Mankind has its good and bad qualities. There are black sheep in every grade and the modern notion that the acts of a council have, as such, better moral foundation than the acts of the Stock Exchange is of course nonsense, so that a proportion of the debt of the council will be due to the persuasion of people who have something to make out of it. This is a subject of its own and will one day become a front page

subject in the newspapers. Under the skilful guidance of the Fabians we have for half a century been beguiled with the iniquities of the black sheep of capitalism, but the next half century is very likely to see a change in the fashion, and our skilful purveyors of the details of all sorts of dirty work will turn their attention to the curious doings to be discovered up the backstairs of many of our town halls.

This is quite natural as these people with all their virtues and all their faults are elected by a free democracy, and on the whole they represent the rest of us in our proper proportions. They do some good things and some silly things just like the rest of us. To the best of their ability they follow current opinion for what it is worth. If they make mistakes they are mistakes which would be made by the rest of us under majority rule. They are the working evidence of a democratic system which is, or should be, very precious to us, and in that way they represent our hope as a nation and embody our chances of holding our place in the world.

It is not therefore any part of our present purpose to criticise what they do in so far as they are concerned with our own personal comfort or discomfort, and our own personal money and responsibility. Debt however concerns the future and is the biggest of all the many questions in public affairs, yet the only question which is hardly in the mind of the elector. A loan may be described as the receipt of an immediate benefit in consideration of a promise of a future sacrifice. In the light of that definition it is obvious that our local council has for twenty years past been

accepting immediate benefits and thoughtlessly, but none the less criminally, leaving the question of the ultimate sacrifice for the future to consider. In discredited Victorian times we laid it down by law that a local authority could borrow for a maximum period of thirty years.

In these more expansive times that healthy rule has been removed, and we can see by the prospectuses of local loans, appearing in the newspapers from day to day, how money is borrowed for sixty, sometimes eighty years ahead, to be spent upon purposes which must be exhausted in much shorter periods. Whereas we of this generation are not called upon to part with a penny in respect of the ideas of our grandfathers, our grandchildren will be faced with the necessity of paying rates and taxes in respect of our current notions of what is proper. That limitation deliberately placed by us upon future generations will of course diminish the ability of those generations to carry out their own ideas, which it is fair to imagine, may be rather different from the ideas entertained by us. Here we come across another of the great social changes of recent times. The nineteenth century was filled with enthusiasm for passing on to the future something better, for leaving behind rather more than it inherited, for providing for the children of the next generation. The twentieth century with a wholly different point of view says without a blush, "We ourselves will have a better standard of living, we don't care where it comes from, and seeing that our children and their children have done nothing for us, to hell with posterity."

Before we leave our typical local authority a

word should be said about the official side of it. If a democracy insists upon governing everything and everybody and every detail of everybody's everything, it is useless to complain about the vast armies of people who must be employed to carry out the administrative work involved in such a policy. We must not be tempted in this connection into the fascinating subject of the growth of the bureaucracy, or the way in which a democratic people is so busy handing over its new-found powers to a permanent official class that it is hard to distinguish, in one's day by day life, between the nature of a democracy and that of a good dictatorship. We must however take note of the fact that these local loans raised in the name of the Parson, the Squire and the Socialist are in fact for the most part originated by the clerk, the surveyor, the engineer and the rest of the hierarchy of permanent officials, who in their locality are building up a great big business concern, in which the temporary councillors will one day find themselves of about as much use as the dummy figures which the popular tailor places in his shop-window.

Here again it will be seen there is not a suspicion of personal responsibility attached to any official in respect of the mammoth debts with which he deals. A good town clerk has in many cases been worth vast fortunes to the ratepayers for the way in which he has kept his hand upon the local financial position, but the good town clerk who looks upon his job, in the manner of the managing director of a company, as his life's work is becoming rather the exception than the rule. Very few of these official people can be kept in their positions

for a week if an opportunity offers to take their card-indexing abilities to some other district or some other branch of the bureaucratic business for another £100 a year.

The Civil Service, once our pride but now too large and bloated to be a pride either to itself or anybody else, is from the official's point of view a movable feast. There is absolute security for the man who enters the Service, but no security whatever for the job as a job or for the money involved in it. In these days when the demand is for everything to be done by the Government, the best of the Civil Servants will set some great scheme going, load it with a huge debt, attach to it a salaried and pensionable staff, and then—discarding all the thought and experience which founded the thing, robbing it of all the early working knowledge needed for its future success—will calmly move on to the next department or the next great new movement. The inevitable deficit thus carefully provided for, although not deliberately planned, will in due time and season be swallowed up in the intricate maze of the public accounts. The Civil Servant from his nature has many high qualities, but among them, again from his nature, there is nothing of that sense of personal responsibility which is the very essence of sound finance.

Before we leave our local authority and its debts, thinking of them in the light of our investigation into traditional financial ways, another difference appears which will help our general argument. It is part and parcel of the contract in any sound finance that periodically accounts should be produced and submitted for the approval

of others than those who are responsible for the figures themselves. In the case of a company an annual meeting must be held, and every shareholder in the company has the right to address the most searching inquiries to the board of directors. By law the auditors are required to make stringent comments on the value of the assets and the conduct of the year's work of all those who have served the undertaking. From the Bank of England downwards these rules apply, and are applied in a very practical way. The money market has developed a type of critic of its own whose business it is to keep us informed of any departure from the strictest paths of rectitude. In principle it may be thought that the same rules apply to public finance. In practice nothing of the kind can be claimed. It is highly improbable that one in a thousand of our population has ever taken the trouble to look into the balance sheet of his local authority.

A shareholder in a railway company has a sense of personal interest, which is strangely enough entirely absent in the shareholder, who is called the elector, of a local authority. In the result there is no adequate examination of public finance, it is nobody's business. When to this natural but troublesome defect is added the curious circumstance that many of the directors or councillors nominally responsible for the solvency of the undertaking only hold their seats on the council, on condition that they will bribe the electors and bankrupt the business they are running, the difference between public and private finance is only emphasised.

Financial limitations are never absent from



private affairs. Every individual is troubled with some desire for something, that must be denied or postponed because finance is not available. No sane person desires to see this universal limitation removed from individuals ; to do so would be like abolishing brakes on motors, or eliminating the force of gravity. Post-War public affairs, especially local affairs, have been conducted too often with ignorant disregard of any financial limitation. A council is called upon to consider the demands of the electorate for benefits or comforts. Those demands are debated from different points of view, but are seldom denied for financial reasons. Money is supposed to be cheap and the financial rake's progress is easy. Whatever is wanted is borrowed and old debts are easily renewed.

The position then is this : in 1914 the money market was concerned with many thousands of millions of debt built upon the personal credit or responsibility of individuals, everything about it involving the well-being of an individual and every sovereign in it being backed by the endeavour of some individual to make it good. A quarter of a century later the money market is swamped with thousands of millions of public debt, for no single penny of which any individual has any personal responsibility. That constitutes a social revolution, the magnitude of which and the consequences of which have first to be appreciated and subsequently suffered. These sufferings are understood in many unfortunate foreign countries. It is ample time that we, guardians for the world of credit and all that appertains to money and finance, should wake up to our own position.

## CHAPTER VII

### THE BALANCE OF POWER

IN the discussion of public affairs, modern fashion runs to long words, proletariat, totalitarian, stabilisation, equalisation. Few people know what they mean, but the use of them gives a satisfactory feeling of political wisdom. Some terms quite commonly used mean exactly the opposite of what they say. When, for instance, we receive in food, material and other things more than we send away, we talk wisely about the "adverse balance."

A favourite word with many of us is "authority," almost universally accepted to cover up and explain away any form of stupidity. We are not asked to define what we mean by authority, but in the course of the last twenty years the word has completely changed its meaning. A really modern dictionary would define authority as "a number of half-educated young people in an ill-kept room of a public office, whose chief interest in life is the making of tea for one another, and whose nominal excuse for existence is the issuing of pieces of paper to the citizens, permitting them to continue the village cricket dance until midnight or to satisfy various other similar desires." That definition tends a little towards exaggeration, but read quite literally it explains many hundreds of thousands of local public debt.

There is a word which is just long enough to take

its place in popular politics and which might be introduced with advantage, the word "perspective." As the discussion of politics steadily improves in quality it will start a little farther back and look a little farther forward than is usual in these times. Few great public matters, if one considers only the popular newspapers and popular talk, are subjected to the test of perspective. We get excited about Mussolini's statement of yesterday, and seldom trouble to think of its relation to what Sir Samuel Hoare said two or three years ago. The cultivation of respect for perspective is the more desirable when public affairs are coming into the hands of a generation whose personal experiences are confined to post-War happenings. Without perspective we shall lose whatever value there may be in a knowledge of a world which depended far more upon the citizen and far less upon the State.

In our present study of debt and finance we must really do our own intelligence the justice of using a little perspective. We must look back and forward, and we must also take a perpendicular section and glance from the bottom to the top.

Let us begin by reminding ourselves that there is no difference whatever in principle between the finance or economy of the humble household and of the proud nation. What is good in the family budget is also good in the national budget. The humble family budget has an over-riding characteristic which we should note. There are two sides to it, two departments of it. There is a head of the household with his salary or his wages, a part of whose income is handed over to the spend-

ing department for food, clothes or whatever it may be. A very definite, conscious and sometimes troublesome division is maintained between the earning departments and the spending departments. Exactly the same characteristic is noticeable in the case of a widow with trustees: the widow doing the spending and the trustees controlling the sources from which the income is derived.

If we look back to the days before the War this same division was very clearly marked, and very definitely understood in the national economy. The earning department, consisting of the people themselves, performed their functions in the freedom that was common in those days, and handed over, albeit with considerable reluctance, a shilling in the pound, or in 1913 as much as one and two-pence in the pound, for all the purposes of that part of spending which was known as Government.

In a mere matter of ten or fifteen years this position had been reversed, and this is where our need of perspective comes in. At the beginning of the period forty million people were making their own livings and handing over never more than  $6\frac{1}{2}$  per cent. of the product of their labours to authority to provide them with security and any other needs that were thought to be proper parts of the business of governing. At the end of the period half of the total product of the labours of those forty million people was taken by "authority" and applied to these same services and all the many extensions of them that have since been thought to be desirable.

It is not necessary to believe in the wisdom of the

past or to accept the view that a shilling in the pound was a much better arrangement than ten shillings in the pound, to see the wisdom of at least informing ourselves as to what has in fact happened. Among the many dangers of the present political situation is the existence of a generation which is so accustomed to the present proportions, so busy with all the details of current happenings, as to have no time, perhaps even no inclination, to inquire what was the position even a few years ago.

In our domestic economy we have always been dependent upon debt. We have already seen how in the details of our daily doings the debt service is quite essential to us, but on examination it will be noticed that the question of debt is of interest to one side only of the domestic economy. The trustees in charge of a family fortune concern themselves with a mortgage on property, with an investment in the appropriate debts required by other people, with the raising and the collecting of debts and loans. But the widow spending the income or proceeds of the estate, or the workman's wife spending the housekeeping money will never for a moment have anything to do with debt. While the workman, if he is wise, will borrow money to buy a house, his wife will in no circumstances borrow money to pay the butcher's bill. There is the exception of crisis, illness, or other family catastrophe, when a loan must be raised as a very last resort to meet a contingency thought to be altogether exceptional.

In public economy or finance the ten years 1913-1923 or thereabouts witnessed a complete reversal of this position. Forty million people

making their own living ceased to have full responsibility or rather 90 per cent. of responsibility for the finance of life, and the spending departments, the authorities, the governments, corresponding in every way to the widow with her trustees, or the housewife with her earning husband, took over the lending and borrowing part of the business. The financial structure has changed in character, and to put it in its simplest form, it is as if the solid, responsible and quite proper debt, which the householder arranged in respect of the bricks and mortar of his house, has become a totally different sort of debt which the housewife has piled up in respect of her butcher's or draper's or furnisher's account.

It must be admitted that government is impossible without debt. Just as the household will incur a debt in respect of the vital illness of the breadwinner, so the Government will incur a debt to carry on a war. War has always been conducted on debt. The population of a city can hardly be expected to finance the cost of a new town hall out of current account, and it is entirely proper, and was in the past frequently done, for the cost of the town hall to be spread over say thirty years, and thus paid within the life of those who thought it wise to indulge their particular opinions as to what was appropriate in the matter of a town hall. But employing our faculty for perspective, we find that the debts of government prior to 1914 were invariably raised for capital purposes, almost entirely concerned with wars and town halls.

The spending departments of government, poor

law, education, police, defence, were always hard up, always relying upon the arrival, in the form of taxes, of the next instalment in income, always in the exact and proper position of the housewife waiting for her proportion of next Friday's wages. Just as the housewife was secure in the knowledge of the solvency of the breadwinner, so the government's spending departments were secure in the knowledge of the solvency of the tax-payers behind them. The policy governing the whole thing was put into a sentence by Gladstone, who left the money "in the pockets of the people to fructify," so insuring that there was always more and more to tax and borrow.

The position in 1914 was in violent contrast with that of to-day, for we had a healthy money market and an efficient money credit or debt machine, standing solidly at the back of the Government, representing its security, and giving to it powers and possibilities wholly absent to-day. It is interesting and curious to reflect that in those days very little was heard in political discussion of the public credit. That was taken for granted. To-day when we have (to return to our homely illustrations) passed over the care of debt and credit from the trustees to the widow, or from the breadwinner to the wife, we talk very loudly and confidently of a public credit which has in fact almost ceased to exist.

In all these circumstances it is little wonder that the new management of the debt and credit business is indulging in a number of practices which seem strange and dangerous to those who are acquainted with the old ideas. The spenders, the

widows and the housewives, hitherto completely outside the realm of debt, have suddenly taken control of it, and have multiplied our public debt as between 1913 and to-day by something which, at the lowest estimate, is ten times and on a business-like calculation is probably thirty times.

Considering the money market or the money trade as a trade like any other, the Government has taken control, just as in other commodities, but while the effects of control in milk, or herrings or coal may be good or bad for a section of the community, the effects of control in the money trade must be good or bad for the whole.

At the present time, the money market is completely enslaved to the Government. It is as much in the hands of the politicians and the bureaucrats as the trade unions of Germany are in the hands of Hitler.

We must content ourselves with a very brief summary of quite recent happenings in order to justify that statement. It is impossible to separate the question we are discussing from all the other details of public affairs, and we must admit that it is unreasonable to complain of financial follies or manœuvres necessitated by prior political stupidities. If we start with the 1931 crisis, when the National Government was suddenly called into being, there existed a lack of confidence, almost a panic, everywhere. Unemployment had reached unprecedented dimensions; money was fleeing the country; trade was on the point of coming to a standstill, and the position of the country and everyone in it was for the moment extremely dangerous. Those matters are beyond



our present scope, except to remind ourselves that it was on such a basis that the series of events we have now to consider were arranged.

The National Government's first big effort in the restoration of confidence was the spectacular conversion operation of 1932. Two thousand millions of 5 per cent. War Debt were converted to a  $3\frac{1}{2}$  per cent. basis. The conversion was of a magnitude beyond the realms of possibility at any previous time, and it is to be hoped at any time in the future. It made the most wonderful impression upon our own people and upon the whole world. It was a master stroke which will place Mr. Chamberlain in a very prominent place on the pages of history, and there are few in any political party or any financial circle with any sense of grievance or any desire to criticise what he succeeded in doing. We are concerned here with the after effects, but we must look first a little more closely at the operation itself. We are accustomed to read that the governments of third rate powers in their amateur way announce a reduction in the rate of interest and thus bungle into bankruptcy. Chamberlain's moves were much more subtle, much better conceived. He had the courage to declare that he would repay in cash the whole of the two thousand millions of the War Loan.

Faced with the necessity of making good that declaration, he proceeded to control the financial doings of all of us in such a way as to make his plan succeed. He forbade foreign lending. He secured from the banks a gentleman's agreement under which no issues of new capital were to be permitted. He sterilised everybody's money. He

stopped all the usual business of the money market, and he forced us to pile up our money in the banks. The plan succeeded so well that when the due date of payment of the 5 per cent. loan came along, we found ourselves with no option but to subscribe the  $3\frac{1}{2}$  per cent. loan, and thus provide him with our own money at the lower rate of interest to enable him to pay us back our 5 per cent. War Loan. It is, of course, absurd to pretend to describe the biggest operation in the history of finance in half-a-dozen sentences, but the above outline will be acceptable to almost every school of thought as a rough and correct general description of what happened. In the result money became cheap, and in obedience to the law of supply and demand cheap money proceeded to make trade good, and the revival of the next few years was assured.

The history of that transaction should, in justice, include a tribute to the patriotism of the City of London, and every section of the money machine which stood loyally behind Mr. Chamberlain, and submitted with gratitude to a rigorous control for the purposes of a period of crisis, control which in any other circumstances was and is wholly out of keeping with the nature and necessities of a healthy money mechanism.

The 1932 conversion gave to the bureaucracy their first good taste of power in the money market, and the bureaucracy, true to its traditions, has clung tightly to all the delights it then experienced. In the natural course of events cheap money will help to produce active trade. Active trade will in time cause money to be dear. Dear money will save us from the dangers of a boom in trade. As

trade makes more money the rate of interest will tend to decline, cheapening money will form the basis for a further advance in sound trade and so on. Cheap and dear money, like the rising and falling tide, will keep the processes of nature in proper order, and things will thus proceed and progress. But the bureaucracy of 1932, no more interested in the processes of nature than bureaucracies have ever been, found themselves in charge of the money supply, and being, like all bureaucracies, without any sense of perspective, clung to the opinion that cheap money meant good trade, and that perpetual cheap money would mean perpetual good trade.

Five or six years have been sufficient to alter the whole position, and now we have cheap money forced upon us, not, if you please, for the purposes of trade, but simply and solely in order that the bureaucracies themselves can continue to borrow cheaply.

To come back to 1932. When Mr. Chamberlain started on his triumph he found in existence a certain amount of control. There was the Bank of England with its statutory fiduciary issue and its bank rate. By altering the bank rate from Thursday to Thursday, and by the purchase or the sale of securities in the market, the Bank of England, for a century past, had smoothed out the rises and falls of supply and demand, and tended to steady the money market. The Bank had acted like the governor on a steam engine, and had restrained excessive movements in one direction or the other. That restraint was exercised by the Court of Governors, carefully selected according to

law, not from the ranks of the bankers, but from among the leading merchants of the country.

A mere matter of five years has witnessed the dismissal of this control with its century of success behind it, and the usurpation of its powers and functions by a body of bureaucrats.

## CHAPTER VIII

### TREASURY CONTROL

WHEN the 1932 conversion was over, the City found itself unable to resume its normal work in its normal way. The embargo on foreign lending was retained without a shred of excuse, except the desire of the Government to go on borrowing cheaply. This embargo on lending has no doubt helped to keep us going for a few years on the interesting business of doing our own washing, but it has helped to reduce the rest of the world to ruin, and will bring its own disastrous consequences to us. In due time and season we shall pay dearly for our absence of perspective.

Perhaps the biggest of the other experiments that have followed from 1932 is the mysterious Exchange Equalisation Fund, the proudest of the products of the theorists of the Treasury. Considered by itself it was not a bad idea, that is if we are wholly patriotic and agree that it is the duty of our Government to look after us, even to the lengths of cheating other people. The world was in a state of chaos. There was, and is, a mass of "funk" money everywhere, and not unnaturally the foreigner in a funk looks to London. The foreigner knows all about the reputation of London when it understood the law of supply and demand, and has not yet had time to study the history of London

since it came under official direction. It was therefore good business to set up a department which sold sterling dear to the foreigner in a funk, and bought it back cheaply when that unfortunate creature had developed, for a few weeks, a greater degree of confidence in the stability of his own currency. Not very creditable, but at least commercially sound. The people who devised and started the Exchange Equalisation Fund overlooked, as is the way of planners generally, the simple fact that other governments might do the same. They should have known, if only from the history of the War and post-War period, that any folly perpetrated by British officials is promptly copied by the officials of every government in the world and that therefore the appearance of other exchange equalisation funds was a certainty.

Our Exchange Equalisation Fund is a novelty in many ways, but in no way so completely new as in its secrecy. The confidence so much talked of, and so little understood, the remnants of which still cling to London, has been built upon publicity, freedom, knowledge and daylight. The Bank of England publishes weekly accounts. Every other financial institution of any standing has disclosed all the details of its position at frequent and regular intervals. Our Joint Stock Banks produce, every half year, meticulous information, giving every relevant detail of their enormous trust position. Not so with the proudest product of the theory-mongers, the Exchange Equalisation Fund, and the presence in the market to-day of five hundred millions of gold or sterling or Treasury Bills or foreign exchange or other sorts of purchasing

power, about which nothing is known, is doing grave damage to confidence.

At the present moment the leading governments of the world are all running secret exchange equalisation funds, playing a game of poker with one another. It remains to be known whether the graphs and charts and index numbers produced from the abstruse theories of the Treasury Control are winning against the skill or graft or corruption of the others or not. The scheme is too new to be rightly assessed, but the existence of a secret conclave able to buy or sell at any moment in its own sole discretion and for reasons known to itself alone, up to the gigantic total of 500 millions, abolishes all balance and places power well beyond the outside limits of any democratic system.

However, we can be content in this connection to agree that in a managed world the National Government has so far saved our skins and has succeeded in diverting the worst of the horrors of management to the unfortunate foreigner. We can agree, with some serious mental reservations, that the history of 1931-37 is a credit to our Civil Service, but we must remain in doubt about the consequences to the world and to ourselves of the wholly artificial and unnatural position which has, in these few years, been built up here and elsewhere.

What is clear and certain is that the balance of power in the management of money and all that is involved in that phrase, the value of currency, the price level and so on, has quite definitely shifted under the National Government from the free and open market place to the secret recesses of the

Treasury chambers. The most acceptable of all the definitions of Socialism is "the application of political power to natural economic forces." If that be a good definition then the genuine Socialist should be grateful for the National Government, for no government in history has done more to apply political power to natural forces.

Our view of this question of debt will be all out of perspective if we limit ourselves to the figures of the National Debt and the operations of the Stock Exchange. We have there thousands of millions, impressive enough in their way, but only in fact a fraction of the debt and lending business which forms so important a part of our way of living.

A world of interest is to be found, wherever we look in the compilation of figures. We can all be our own statisticians if we are so disposed. The average housewife, for example, peels 4,380 potatoes in a year; our trams carry the equivalent of the total population of Asia; the London 'buses and coaches convey, in the course of a year, almost as many people as there are in the world; 35s. is spent in this country every second of the day and night in the purchase of confectionery; 400,000,000 transactions are carried through in this little island every day of the year, each of them involving the sale and purchase of paper and so on. All these little things make their contribution to the debt and lending problem. They are all dependent upon somebody borrowing something at every stage from the beginning to the end, and this mass of borrowing and lending transcends in importance and completely overshadows in bulk all the figures of public debt and Stock Exchange transactions,



Only, therefore, when we remember that the money market is the index to all this more important business, and then see how the Government have secured control of the money market, can we understand the real importance of the subject. We can lift the question on to a plane quite out of the reach of the statisticians, for the best of them cannot calculate with any pretence to accuracy the volume of the minute-by-minute business we transact with one another.

We should be on the safe side if we said that in 1913 the Stock Exchange represented one-tenth of the total debt and lending business of the nation, and in 1913 the Gilt-edged stocks upon the market were less than a tenth of the securities quoted in the Official List. So that in those days government debts and loans did not exceed one-hundredth part of the debts and loans that we arranged amongst ourselves in order to carry on our business. To-day government securities amount to very nearly half the total of the Stock Exchange Official List and the balance of power, which twenty years ago was heavily in favour of the people, is now in favour of the State.

Since 1913 we may well have increased considerably the total of our debts for trams or potatoes or newspapers and other things, the half of the Official List may not therefore be more than—let us again be very safe—one-fiftieth of our total loans ; but even so the change in the balance of power is sufficiently obvious and dangerous. The Stock Exchange is, as we have said, the index or governor of the lending or borrowing functions. Even in the most minute of our transactions we are influ-

enced by the day-by-day results of dealings on the Stock Exchange. When we hear of a "black Monday" we are apt to feel ourselves to be poorer; we become nervous and we reduce our purchase say of cigarettes. In that way the forty millions of us reduce the volume and the value of the total loans by much greater sums than the long lists in the City page of the newspaper.

The circumstances of the present time are without parallel in the history of finance. Centuries of steady natural development have taught us how to lend and borrow to and from one another in such a way that the material comfort of our lives can be continuously improved. Those centuries of experience and practice have evolved the London money market, with its complicated mechanism able to deal with every phase and fancy in borrowing and lending. The whole impressive structure is dependent upon the freedom of everybody to come and go as they please, to follow their varying inclinations and to do so with safety and confidence, knowing that all the natural forces thus set going would balance and compensate in the free and open market of London. So perfect, notwithstanding all the imperfections and weaknesses with which we are familiar, was this borrowing and lending structure that the whole world made use of it. When the War began, the known strength of the London money market was our greatest contribution to the Allied cause. Half the world relied, not on the British Government, not on the British fighting forces, but on our financial strength and reputation. And that financial strength and reputation at that critical time were entirely indivi-

dual, private, profit-making matters with a very minimum of government about them.

Then came the War and post-War period in which governments for the first time discovered these facilities and put the whole world in a muddle by the too-free use of them. Both at home and abroad government borrowings have enslaved or ruined the monetary mechanism of civilization.

When we need for the healthy conduct of our day-by-day affairs the stimulus of cheap money or the restraint of dear money, the State ought not to be in a position to say that it will alter the natural ebb and flow of the tide simply to suit political ends.

Power grows in subtle and devious ways, and the power of the State over borrowing and lending has, since the War, increased by reason of other circumstances which require to be mentioned. As a nation we have taken a new and whole-hearted interest in social service, and have greatly extended Health and Unemployment Insurances, pensions and numerous other reliefs designed in each case to improve the lot of some section of society. While these matters have been fully discussed in most of their aspects, little or nothing has been heard of their influence on the Money Market. The carrying out of these benevolent purposes has necessitated the accumulation by the Government of vast sums of money. The arrangement would be altogether desirable and sound if the Government, as Trustees for the unemployed or the invalid, were to proceed to invest this money in the stocks and securities which the market provided. That, however, is not the position to-day.

An illustration of the new power of the State is provided by a glance at the recent arrangements for the finance of the armament programme. The Government has taken powers from Parliament to borrow £400,000,000 at the rate of £80,000,000 a year. Such an operation would, by all the natural rules, tend to make money dear. In fact, however, this decision to borrow £400,000,000 has actually been used by our new managers to make money cheap. It happens that while having the power to borrow an additional £80,000,000 a year the Treasury is also at the same time accumulating an additional £80,000,000 a year in its trustee capacity as controller of the Post Office, the National Insurance Fund, the Unemployment Fund and the rest, so that in the years 1937 and 1938, while the Government was, according to the Parliamentary papers, borrowing more and more for the purpose of armament, it did in fact borrow nothing at all.

We shall see in another chapter rather more of the curiously involved processes of this period, but the matter must be mentioned here to remind us of its bearings on the balance of power, and to indicate one of the ways in which the new power is used. When the market can be faced with a borrower who announces beforehand that he requires £80,000,000 a year for five years and that same market can thereupon reduce the rate charged for borrowing, we get a state of affairs about as far removed from the natural, the healthy or the sane as anything well can be. If some political opponent at the end of 1937 had cared to start the scare that the money collected for pensioners and the aged and infirm,

was being spent upon the purchase of submarines or aircraft, he might perhaps on strictly technical grounds be charged with exaggeration. It is, however, difficult to deny that in the curious arrangements of the times the money collected for pensions and the money spent upon submarines goes into and out of the same purse held by the National Debt Commissioners.

All this brings us back to the age-old question: "Does the Citizen support the State, or does the State support the Citizen?" In the former arrangement which prevailed and served us well up to 1914 the citizen made his own markets, and the Government drew its tolls. At the same time the Government made such laws as were thought to be beneficial for the conduct of the Market and the restraint of abuse. In the latter arrangement, which seems to-day to be more acceptable—for a very large proportion regard themselves as dependent on the State—we have more laws than ever to govern what is left of a natural market, and the Government is also by far the biggest operator in the market. Furthermore, while the citizen in respect of those operations which are still within his own discretion is subject to the laws made by the Government, the Government itself, the biggest operator in competition with the citizen, recognises none of its own laws, and indeed as we shall see, frequently operates in flagrant defiance of them.

## CHAPTER IX

### POLITICAL MONEY

THE year 1937 and thereabouts will stand out in financial history as a very remarkable period. It brought us to the end of one chapter, one might wish the last chapter, in the history of the political effort to control money. For five or six years previously the Government had succeeded in imposing a policy of cheap money, and by all the rules, cheap money having then served its purpose, the tide or pendulum should have swung in the opposite direction. But by 1937 the pundits and professors of the Treasury, for London as well as Washington has its Brain Trust, had secured so firm a hold upon the temporary occupants of political places as to persuade them that a continuance of cheap money was still desirable.

The circumstances can be stated in terms of domestic economy. A serious illness had overtaken the national family in 1929-31, the household structure had been shaken to its foundations by threats of change and new sorts of ways of living if not indeed of total abolition. In 1931 the doctors, in the shape of a National Government, took control and 1931-6 was an anxious period of nursing and slow convalescence, ending by 1937 in a return of some of the old confidence. By that time however the chemists and dispensers, instead of working to the orders of the doctors, had them-

selves taken control of the situation. They insisted on continuing the supplies of pills, dopes and injections and were in fact in a position to force these things down the throats of the family, in the place of the normal meat and drink for which the convalescents were more than ready.

Or to change the metaphor the 1937 position can be illustrated from the football field. It is not so very long since trade, the money trade with the rest, was supposed to carry on its affairs under the healthy stimulus of competition and desire for gain, and the Government was supposed to hold the ring, to see fair play, and especially to provide for any of the victims or casualties of the competitive system. That was certainly the Victorian conception, and we have never wholly parted with it, although the first third of the twentieth century has held it in small respect. The position reached in the money market by 1937 was that the old game in the old way was still recognised as more or less necessary and more or less permissible, but that the rules had been changed to the extent that the goal-keeper of one of the most powerful of the teams had usurped the functions of the referee.

1937 was remarkable because the whole force and power of the Treasury were exerted to keep money cheap, and to maintain the machinery of control, while the natural forces did in fact come back into play and inflicted a spectacular defeat upon the dispensers of control. The rate of interest went up, in spite of all the endeavours of the Treasury to keep it down. The patient had actually declined to be fed entirely upon pills and had begun to enjoy a little natural nourishment.

The struggle will no doubt continue, but it has at least become apparent that the science of control has not yet been perfected to the point when it can finally suppress the forces of nature. In 1931 the disastrous effects of two or three years of political folly were weighing heavily upon us, and there was good reason for the application of political power to force cheap money and thus encourage trade and industry back to the healthy position of 1929. By 1937 justification of that policy was complete. The revival of trade, at least home trade, was quite extraordinary. The number of persons in gainful employment reached higher figures than ever before, and, more important, a higher proportion of the total population than at any previous time in our experience.

This great achievement was accomplished in spite of new devices in social amelioration that might have been expected to reduce the numbers in employment. The theory that necessity was the mother of invention, commonly held by our grandparents, was thought to make us need the spur of privation and hardship in order to drive us to work. By 1937 we had to revise somewhat the severity of that point of view, for while privation and hardship had been mitigated out of recognition of their former selves, we still went to work in numbers far exceeding any previous record. In those circumstances money ought to have become dear. The 3 per cent. of the year of slump should have been the 5 per cent. of the year of prosperity. Good trade and employment had in fact pushed up the prices of everything, labour, commodities and the rest, and should in the natural course have also



pushed up the price of the commodity which we call money. Had that happened we should have heard nothing in 1937 of the risks of boom and the horrors of slump. The Bank Rate would have saved us from either.

There has always been a certain amount of control of the money market. The Bank of England and its traditional ways of working illustrate our genius for doing things well without saying very much about them. The Bank is nominally a private institution. It acquires a definite status from being the Bank of the Government. It was established to take care of the national bank account, and passed on from that to being the bankers' bank, acting as the clearing house for all the trading banks which served the public. Taking those responsibilities seriously, actuated by those high motives which are always, with us, associated with status and position, the Bank of England developed a moderate system of control of the money market which for a century and more kept us on an even keel, and enabled money to become the universal civiliser. The rest of us, not only here but all over the world, were able to go about our business and do our share of the processes of modern civilisation, confident that while other things might have their ups and downs, money would remain comparatively stable, steady and reliable.

The Bank of England's control of the money market can be described in a few sentences. When lenders were more numerous than borrowers it put the Bank Rate down, thus discouraging the lenders and encouraging the borrowers. When the posi-

tion was reversed it put the Bank Rate up with corresponding effects in the opposite direction. Every Thursday morning a crowd of messengers could be seen standing at the corner of Princes Street and Lothbury waiting for the decision of the Court of the Bank, and the moment that the rate was posted on the Bank's doors those messengers would race to their respective offices, so that within a few minutes the whole world would know that the Bank of England rate was unchanged, or had moved up or down a  $\frac{1}{2}$  per cent. Thus by midday on Thursday the world—and it is important to remember that we were responsible for the whole world under those arrangements—knew that money was in greater demand and could judge that orders were plentiful, trade was on the move, prosperity was not in jeopardy.

It all sounds very simple, even paltry. Twenty or thirty messengers, most of them in top hats with brass buttons on their coats, standing about in the rain. A gorgeous beadle with a little piece of paper, pinning it up on the Bank door, and the  $\frac{1}{2}$  per cent. per annum alteration in the price of monetary accommodation. And yet on that very simple incident millions of commercial travellers spread over far-away lands would find buyers cheerful and depressed by turns, and trade and industry were able to resist the tendency to excess in either direction. This is the sort of story that can be written with the period 1932-37 in our minds. We must be fair and recognise that such a story could not have been written with the same enthusiasm in any period before the War, for notwithstanding the Bank of England and its gentle control of monetary

forces, there were ups and downs, slumps and booms, periods of distress and periods of prosperity. Those inconveniences were very properly the subject of much discussion and criticism, but since then we are in a position to smile at that criticism for we know from bitter experience that the application of exotic economic and political theories, so far from removing those inconveniences, has made them immeasurably worse.

But the control of the Bank of England over the money market was not limited to the adjustment of the Bank Rate. There was the further device of the sale and purchase of securities. Here again a highly complicated and very technical matter is capable of fairly simple general explanation. The Bank of England under the authority of Parliament issued bank notes. It was empowered to issue a limited number of notes known as the fiduciary issue without any backing. The fiduciary issue at the moment of writing is £200,000,000. Beyond that figure it could only issue notes if it held in its strong rooms either gold or securities to the amount of the notes so issued. The traders of the world secured their money from the Joint Stock and trading banks, but the banks could only lend a proper proportion of such money as was deposited by their customers with them. When therefore there were more demands upon the banks than the banks could satisfy, the Bank of England would buy securities, and in their place put money into the market. To be specific, the National Provincial Bank, holding a mass of securities bought with money for which a few weeks previously there had been no call, would sell those

securities to the Bank of England which under its powers would then issue to the National Provincial Bank notes properly covered, put the National Provincial Bank into funds, and enable it to satisfy the needs of its customers. When the customers had no further use for loans the money would return to the National Provincial Bank, which finding itself with superfluous funds would repurchase the securities from the Bank of England by returning the bank notes, and the currency in circulation would in that way be temporarily reduced.

These two devices, the sale and purchase of securities and the movement of the Bank Rate, sufficed between them to keep money comparatively steady, and although we used to get excited about a  $\frac{1}{2}$  per cent. one way or the other, the financial course of those days was as smooth as glass compared with the stormy billows experienced since political control effaced the Bank of England.

The Bank of England might be compared with the brake of the motor-car or with the pedal on the piano, and worked much in the same way as those useful and harmless mechanisms. It worked with almost complete lack of personal interest, and there was never anything worth consideration in the make-up of the Bank which could be described as personal, selfish or unsocial. Now, thanks to 1932-37 and our Treasury Brain Trust, the Bank of England has for practical purposes almost gone out of business, and its beneficent control has been supplanted by a sinister mechanism which works, not for the benefit of the trade of the world, not with the object of keeping the course of money

even, but with the deliberate purpose and almost the only purpose of facilitating the work and operations and machinations of governments.

This is an enormous change, a tremendous step towards Socialism, a revolutionary alteration which has been accomplished in the name of a National Government, and under an umbrella which was opened to shield us from Socialism. Whereas the Bank of England served to keep a healthy respect for money in the mind of the Government as in the minds of all the rest of us, now the Bank has been reduced to the position of a part of the machinery for the manufacturing of political money in any quantity that may be required for any government purpose, and with a minimum of respect for the needs of the rest of us for genuine, satisfactory money on which the affairs of life can be founded with confidence. We are inclined to be critical of the Fascists in Italy or the Nazis in Germany, who in the name of Anti-Communism have imposed upon those countries many of the worst of the horrors of the communistic system. We should in justice remember that we ourselves have adopted many of the errors of Socialism, in pursuance of an avowed purpose to defeat the Socialists.

To justify these general charges it is necessary to bring evidence in some detail. We must proceed to inquire in individual cases how the money game has fared since the Treasury became both goalkeeper and referee.

The Commonwealth of Australia has been founded and financed with London money. By the rules Australian credit should be measured by the weight of Australian debt, that is to say, when

Australia wants little money she should be entitled to have it cheaply, and when she requires a lot of money she should be required to pay a rather higher rate for it. The money lent is secured upon the wealth of Australia, and the debt should not increase at a greater rate than the increase in wealth. If the proportion of wealth behind the debt is diminished, the debt is less secure and the rate of interest charged requires to include a larger sum for depreciation, so that in the end the 3 per cent. of true interest and the capital may be returned to the lenders. We must never forget that capital is always depreciating. Capital values are always being lost, and always requiring to be renewed.

In the post-War period Australia, following the example of the Motherland, has rushed into political expenditure. By 1937 the total of the funded debt of the Commonwealth had risen to £200 per head of the population, that is to say, to the amount of the average year's wages of a London 'bus conductor, for every man, woman and child to be found in the backwoods anywhere on that extensive continent. The hope which the London 'bus conductor can reasonably entertain for the ultimate repayment of his Savings Bank account or his National Savings Certificate rests, in part, on the ability of some infant in the wilds of Western Australia to produce £200 on the maturity of the many spectacular Australian loans. That was the situation when, in November 1937, the Australian Government floated on the London Market a loan for eleven millions of money. By any rules understood by anybody who knows anything about

money, 5 per cent. would have been a generous rate at which this accommodation might have been granted. Instead we find the Australian loan foisted upon us at the absurd price of  $3\frac{1}{2}$  per cent.

The illustration helps our argument in another way, for it will be seen that the practice and theory of control have been extended beyond our own domestic needs. Started with the notion that it would solve our employment problem, it is now used to undermine the little estate of the London 'bus conductor, for the benefit of the political reputations of those who are seeking the suffrages of the Australian electors. At the risk of being technical we must look a little more closely at the Market situation in November 1937. Employment, commodities, trade, as we have noted, all up, security prices as a whole obeying the laws of nature and going down. Great industrial concerns doing better and therefore being in a position to make a better return to the investors. But, standing out miles apart from this natural position, gilt-edged, which should be spelt "guilt," actually rising, actually returning rather less to the investor than before. This wholly unnatural, entirely improper, position was forced upon us by the Pooh-Bah of modern finance for the benefit of the Australian politicians.

By recent operations Australia has saved £3,000,000 per annum in interest. That, however, is not the whole story, for we have also adopted the curious notion that commodity prices should be managed; with the difference, however, that while interest rates are managed downwards, commodity prices are managed upwards. Thus, for the export

of a given quantity of wealth to Australia, we have ourselves arranged to receive a smaller return of wealth on Interest account, and also to reduce our rightful dues still further by bolstering up the money value of the smaller quantities. Such movements are inconvenient when they arise from the natural workings of the Law of Supply and Demand, but in that case, at least they check and correct themselves. Our management of money is advocated as a way to save us from the rigours of the natural law, but it would appear that far more inequality, indeed injustice, may result from the strange modern conceptions of the proper functions of a National Treasury.

We hold no brief against Australia, and if her managers have been wise enough, or clever enough, to take advantage of the folly of ours, she can hardly be blamed.

The Money Market is obliged to consider its daily needs, and being only the medium between the borrower and the permanent investor, may not always attach enough importance to the ultimate worth of a loan. Genuine long-term investors are in a very different position. Public Borrowings are now of two kinds—borrowing for new requirements, and borrowings to replace maturing debts, and it is noticeable how, especially with our local authorities, old debts almost always seem to require to be renewed. One sometimes wonders what has become of the revenues which at the time of the original borrowing were held up as the certain means of repayment, and of the Sinking Funds arranged for the amortisation of these Loans.



A case in point is provided by the recent raising of £10,000,000 at  $3\frac{1}{4}$  per cent. by the Government of the Dominion of Canada. Part of the excuse for this flotation was the maturity of the  $3\frac{1}{2}$  per cent. Loan of 1888. Under the influence of a Cheap Money policy, the Government of Canada thought it necessary to do no more than mention the simple fact that the Loan of 1888 was about to mature.

On reference to the Prospectus of 1888 a curious story unfolds itself. Messrs. Baring Brothers arranged a Loan on Fifty Year Land Grant Bonds of the Canadian Pacific Railway to be repaid out of the proceeds of lands. The Government of Canada guaranteed interest on the Loan and accepted the position of Trustees, the Prospectus stating that :—

**“The Trustees for the bondholders will be the Minister of the Interior for the time being, or such other Minister as the Dominion Government shall name, and two other persons approved by the Dominion Government.”**

It went on to say that

**“the net proceeds of the sales of the said lands shall from time to time be paid over to the Government . . . to constitute a fund to be set apart and held by the Government exclusively for the purpose of satisfying the principal of the said bonds.”**

Those very rigid conditions have been fulfilled and this money raised in 1888 has been repaid in full to the Government of Canada, acting as Trustees for the Lenders who accepted Messrs. Baring's invitation fifty years ago. Under management the Public Finances in Canada, as well as at home,

are able to escape the obligations and safeguards common to ordinary finance, and so the Dominion Government, as Trustees, having received the whole of the money on trust, and being under the most specific obligation to hand it over to the lenders, is able to come back to the same market and, without questions being asked, proceed to borrow fresh money, they having applied these Trustee Funds to other purposes in the meantime.

In justice to Canada it should be said that there is nothing exceptional about this particular loan. It is selected as a typical example of public borrowing, to show how the forcing of a borrowers' market tends to weaken the safeguards formerly thought to be appropriate to the high standing of public finance.

## CHAPTER X

### DEMORALISING THE MARKET

THERE are certainly a thousand books in circulation telling us all about the evils of capitalism. We have no lack of information as to the cheating that went on under a system of private enterprise. It might however now be remarked that while some private capitalists may have cheated one another, the Government capitalists cheat everybody, and that the business of cheating has indeed been completely nationalised. It is quite impossible within the limits of a short and popular discussion to attempt more than the broadest outline of the Pooh-Bah Treasury operations which have characterised the years 1932-37.

Private finance was the subject of a good deal of carefully devised legislation ; amongst many rules and regulations it was laid down as a crime for a company to deal in its own shares. Such a proceeding meant jail for the directors of a company, and very properly so. If it were possible for a company with a good reputation and a high price for its shares to sell those shares on its own account prior to the issue of an unsatisfactory report, all confidence in company finance would disappear in an instant. This salutary rule, strictly applied to every non-official security upon the market, has been calmly ignored by those who would have us believe that our monetary affairs

are safe in the hands of a secret junta of theorists who meet somewhere in the recesses of the Treasury, and, while wielding power beyond the dreams of the most ambitious of boards of directors are subject to none of the restraints or penalties associated by law with the office of a director. These people have pounced upon machinery devised for the convenience of the public and provided with legislative safeguards for the security of the public, and have used it for the convenience of the new trade of governing, while ignoring all the legislative safeguards under which the more honest work of the world has to be carried on.

The story of 1932-37 in rough outline starts with the great Conversion operation of 1932. That operation necessitated a number of special restrictions, which were accepted and tolerated to make it possible, but have since been continued to a point where they threaten our prosperity. The Government itself has now a very minor interest in cheap money. There is the matter of the Treasury Bills, some six or seven hundred million of which are always on the market at a nominal rate of 10s. per £100 per annum. Dear money would alter that rate, and would cost the Government a few millions a year—a mere trifle when regarded in relation to the great issues at stake. If the Treasury Bill rate went to 2 per cent. the National Budget would be charged with about as much as would keep the London County Council going for a fortnight. Apart from Treasury Bills which require to be renewed periodically, Government Loans are placed, the rate of interest is fixed and dear money would depress the price of these

securities, thus bringing joy to the heart of a Gladstone who would be thinking of the advantage accruing to his Sinking Fund. But management having got into the saddle, Pooh-Bah having tasted power, the abuse continues, and is likely to continue until either sufficient damage has been done, or the public has awakened to its dangers, or, as is more probable, both events have happened.

We remarked above that the present position may be likened to a game of football in which the goalkeeper of one side had also usurped the position of referee. We have seen how side by side with the development of control, the Government has itself become possessed of new and greater investing powers. The social services have put this power into the hands of the Treasury. By the end of 1937 a thousand millions of Government securities were actually owned by Government departments. Here is the list :—

	£
Post Office Savings Bank . . . . .	451,000,000
Trustee Savings Bank . . . . .	130,000,000
National Health Insurance Fund . . . . .	122,000,000
Unemployment Fund . . . . .	43,000,000
Treasury Pension Fund . . . . .	19,000,000
Fiduciary portion of Bank of England note issue . . . . .	200,000,000

In addition there must be added the secret £550,000,000 of the Exchange Equalisation Fund, about which so little is at present known. To get this picture into that perspective we so constantly emphasise, it should be noted that at the end of 1937 the total investments of all the clearing banks amounted to only £639,000,000 or less than two-thirds of the securities held by Government Departments.

Having these figures in our minds, consider the

position of the widow with her little capital and her investment problem. The widow has always been a popular figure in political discussion. She was for many years the catspaw of the brewers, subsequently she was borrowed by the early advocates of social services, but whatever the cause she has always been a popular political platform figure. This poor widow is considering whether or not she shall invest her £100 in War Loan, Conversion Loan, Consols, and the rest. She goes to her stockbroker and inquires the price. She is, poor soul, still under the impression that the price is regulated by the demand from other widows for this class of investment, and she makes her investment, parts with her precious money, in the fond belief that when a little later her executors will pass it on to her favourite niece, the same amount of money will be available. That is the sort of problem with which widows have struggled ever since there was a Money Market. Many a poor widow has been misguided into speculative shares only to find that her hopes have been falsified, but no widow until recently has ever thought it possible that her savings in the Funds could be subject to any such doubt or risk.

Such confidence was built upon a state of affairs which has been entirely destroyed by the modern control of finance. Government departments are able by the purchase and sale of their own securities to make the price of Gilt-edged almost what they like, while denying the law of supply and demand they are able to do their own supplying or demanding at their pleasure and price, having the rest of us almost entirely at their mercy.

The gilt-edged market, once the aristocracy of the whole society of money, has ceased to be a market at all, and is a mere playground for the experts in graphs and charts and theories and the jugglers in index numbers who have between 1932 and 1937 taken complete control of the situation.

Control is drifting into a new set of difficulties. Experimentalists have to learn, and political management is in the experimental stage. The City, where the management of money is a highly perfected science, has no doubt of Pooh-Bah's future difficulties, but the Treasury is not so well informed. There is at this moment in the Treasury itself a conflict of interests wholly incompatible with any sound theory. The Government is in possession, as we have seen, of forty-three millions of money belonging to the unemployed and nineteen millions belonging to the Treasury pensioners and prospective pensioners. As Trustees for these unfortunate and dependent people it is the plainest duty of the Government to secure the best possible return upon these Funds. A rise in the rate of interest will enable the Government as Trustees for these people to deal more kindly with the unemployed or improve the income of a pensioner, and make the position of both the Trustees and their dependants more secure. But Pooh-Bah is actually using these Funds in pursuance of the Government policy of cheap money to depress the rate of interest, and to decrease the income of the unemployed and the pensioner. Management may do all sorts of wonderful things, but it will indeed have to succeed in creating an entirely new world before it can at one and the same time diminish the

income of the pensioner and improve his status and comfort.

That simple illustration brings out the artificial nature of the whole curious business and will surely make it clear that the future of society cannot be regarded with indifference if we continue to allow its foundations to be undermined in this way. The reader, who is assumed to be the general reader, is not expected to be familiar with the technicalities of high finance, but to justify the above general strictures still more illustrations must be given.

Between November 1932 and April 1937, there were seven issues of British Government Loans, and the following list gives the amounts and prices of each, together with, in the last column, a note of the market price at the end of June 1937. The first two of these issues were made in accordance with the rules and in the circumstances take their place in the long list of Government securities as genuine Gilt-edged. The last five can claim no such quality. Four of them stand well below their issue price, and leave in the mind of the market an uncomfortable suspicion of manipulation if not trickery.<sup>1</sup>

In each case the price was fixed above the market level, that is to say the rate of interest offered was lower than that obtainable on other similar securities. These issues were the prize products of those Treasury pundits, who imagined at that time, and some of them still imagine, that the rate of interest and the price of securities can be controlled in obedience to the political desires of government. In order to maintain this point of view processes

<sup>1</sup> See table on opposite page.



ISSUES AND PRICES OF BRITISH GOVERNMENT LOANS, NOVEMBER, 1932—APRIL, 1937.

Price at  
June 30th, 1937.

(1) Conversion 3 per cent. Loan 1948-53	•	£301,839,770 issued in November 1932 at 97½	98
(2) Conversion 2½ per cent. Loan 1944-49	•	£55,000,000 issued by weekly tender at prices ranging from £94 11s. 9d. for the first issue in March 1933 to £92 9s. 3d. for the last issue in May 1933	
		£151,000,000 issued in September 1933 for conversion of Treasury Bonds and cash at 94	95½
(3) Funding 3 per cent. Loan 1959-69	•	£152,366,160 issued in April 1934 at 98	93
(4) Funding 2½ per cent. Loan 1956-61	•	£200,000,000 issued in December 1935 at 96½	85½
(5) Treasury 1 per cent. Bonds 1939-41	•	£100,000,000 in December 1935 at 98	99½
(6) Funding 2¾ per cent. Loan 1952-57	•	£100,000,000 issued in November 1936 at 98½	90
(7) National Defence Bonds 2½ per cent.			
1944-49	• . . . .	£100,000,000 issued in April 1937 at 99½	96

were adopted which call for drastic criticism. For example, each of these loans was advertised and offered to the Market in the usual Market manner, and in each case an announcement was made that the Loan had been subscribed. In no single case was that statement true, if the words used were intended to convey to the Market the impression with which they had always been associated. Each of these Loans was put out at a price above the Market level, in each case with the desire to give the impression that money was cheap and would become cheaper. Remembering what we have already discussed as to the influence of Stock Exchange happenings upon all the little dealings of all the little people of the whole world, these Loans taken together may be described as a huge bluff, a tragic try-on, by the Treasury in the interests of socialistic planning and modern management.

If we take the case of Number 6 in our list, Funding  $2\frac{3}{4}$  per cent. Loan 1952-57, £100,000,000 of which was issued on November 19th, 1936, at  $98\frac{1}{2}$ , we shall have sufficient evidence for the purposes of our argument. On November 19th *The Times* in its City Notes purporting to express the view of the City, but really acting in its other capacity as the mouthpiece of the Government said :

“ . . . There was a general endorsement of the view that the Treasury were well-advised to undertake the operation at this juncture . . . the market nowadays promises stability rather than excitement. The fact that the new loan is offered at a discount will attract subscriptions. . . . The new stock seems definitely preferable . . . for not only has it a life shorter by four years, but it gives a flat yield which is 2s. per cent. higher.”

That was *The Times* on the morning of issue, November 19th. Here is what the same newspaper said on the 20th, when the Treasury were faced with the necessity of beginning to hedge :—

“ The subscription lists for the issue of the £100,000,000 Two-and-Three-Quarters per Cent. Funding Loan, 1952–57, offered at the price of 98½, which were opened yesterday morning, were closed at 11.15 a.m. We understand that, as expected, a good response was made to the issue, especially by those to whom it was specially designed to appeal—namely, institutional investors such as banks, discount houses, and the like—but there was also a large number of applications from private investors. Letters of allotment were posted last evening, and dealings in the new loan will begin to-day. . . . In view of its attractions in relation to comparable securities in the Gilt-edged market, the new loan may be expected soon to rise to a small premium.”

That slight lowering of the tone of *The Times* on the 20th seemed by the morning of the 21st to need a little official correction, and so next day *The Times* made the following announcement, and this is the most important of them all :—

“ Dealings in the new £100,000,000 Two-and-Three-Quarters per Cent. Funding Loan began yesterday at about par. . . . Allotments showed that applications for amounts up to £5,000 received allotment in full, while applications for amounts in excess of that figure received about 88 per cent.”

We must jump from November 21st, 1936, to May 1st, 1937, when the next operation, the National Defence Bonds, 2½ per cent., 1944–49, was undertaken. *The Times* published a long apologia for this loan, and in order to bring out its qualities felt itself free to tell the truth about the previous issue. Referring to the 2½ per cent.

Funding, 1956-61, and the  $2\frac{3}{4}$  per cent. Funding, 1952-57, this is what appeared in the City Notes :—

“ The public departments, it is understood, had to take up a substantial amount of both these loans, and clearly they have also had to take up a substantial slice of the National Defence Bonds.”

To make the outrage of these proceedings clear to the mind of the reader unacquainted with the technicalities of Stock Market procedure, a word of explanation must be given. When a new loan, for say a million, is issued, it never happens that applications for exactly a million are received. If the applications fall below the million then the newspapers report that underwriters were “ left ” with 10, 27, 32, or whatever it may be, per cent. When, however, applications exceed the million offered, the issuing house has to decide how the applications shall be dealt with. It is commonly thought to be wise to spread an issue over as many investors as possible, and for that reason it is usual to allot in full to all the smaller applicants. If the demand for the loan is really heavy it may be decided to allot in full to all applications up to £500, to give 50 per cent. to all those between £500 and £5,000, and to give 30 per cent. to those above that figure. In some such way as this justice will be done as between various applicants, and the loan will be safely placed in quarters where it is more or less likely to remain. That is the usual practice, and from it this irrefutable point emerges : when the public is told that “ applications above £5,000 received about 88 per cent. ”, that statement is, for market purposes, a categorical assertion that the stock has been over-

subscribed. Therefore on the morning of November 21st, 1936, the Stock Exchange, the public and the world at large were deliberately led to believe that in response to the British Government offer of £100,000,000  $2\frac{3}{4}$  per cent. at  $98\frac{1}{2}$ , something more than £100,000,000 of money had been offered by the ordinary investor, and that the demand was in fact greater than the supply. Nothing more definite could be said about the matter. No one with knowledge of monetary procedure could draw any other conclusion from the announcement in *The Times* of November 21st, and yet such a conclusion had, in fact, no truth in it. If, and this can never be known, the Treasury had the impertinence or immoral courage to scale down the application of some private investor for more than £5,000 of the loan, in order to cover up the deceit of over-subscription, the scandal becomes all the greater.

What is more likely to have happened is this. The lists were opened on the morning of the 20th and were not closed until 11.15. A peep behind the scenes might have shown the Treasury officials ringing up their Post Office or Unemployment or Pension colleagues, and browbeating them into large applications. That would be about 10 o'clock. These official applications were arranged on a scale calculated to provide the £100,000,000 in the course of the morning, for a Government loan could not remain open more than a few hours if appearances were to be maintained. These interlocking arrangements having been made, say by 11 o'clock, further applications from private victims arrived between 11 and 11.15, so that on

the closing of the lists at 11.15 the Treasury may perhaps have been able to scale down the application of one of its own sub-sections to 88 per cent. of the amount which it had itself dictated, and which never was, in fact, an application in the genuine sense of the term.

Following the matter through its subsequent stages we find one of these Treasury departments, say the Trustees Savings Bank, subscribing for Funding  $2\frac{3}{4}$  per cent. at  $98\frac{1}{2}$  in November 1936, and then steadily selling to the Market at prices on a descending scale, until by the end of June 1937 it was rid of the stuff at 90.

The story of the five loans taken altogether is a story of disaster, they have simply damaged the prestige of the Gilt-edged Market. The old stories of corners in wheat and rings in other commodities are reduced to paltry insignificance by the new story of a National Treasury using £1,000,000,000 of Social Service Funds to rig the market in its own securities.

There are those who are prepared to justify all these novel proceedings. They say that it is proper for the Government to put out a loan at  $98\frac{1}{2}$ , entice a few innocent investors to buy at this price, force the rest of it upon other Government departments and then sell to wiser investors at 90. These defenders of such curious proceedings see no wrong in the State taking advantage of such faith in it as may still remain in the breasts of those who do not know. When it is pointed out to these same management enthusiasts that the Post Office Savings Bank may be a heavy loser by these operations, they declare that Government finance

must be considered as a whole, that a loss to the Savings Bank is balanced by a gain to the Treasury, and that there is therefore nothing to worry about. The argument assumes one big Government account, and leaves out of consideration the conflicting interests of Post Office depositors, pensioners, unemployed, tax collectors and the rest.

It also ignores the wholesale demoralisation of the Market brought about in this way: Pooh-Bah, lending to himself, pretends that the rate he fixes is the market rate. He plays these tricks with trustee money, and deliberately puts every other trustee in the world in serious difficulties. In addition he introduces into the free and open natural world of money a process which can best be described as inbreeding, and does in fact weaken the Market as a whole and tend to destroy that confidence on which alone the Market, and all of us who depend upon it, can continue to exist in comfort.

It is no wonder that these processes have to be conducted in secret. It took, as we have seen, nearly six months, from November 19th, 1936, to May 1st, 1937, for the truth about the  $2\frac{3}{4}$  per cent. to emerge; all this, it should be noted, in direct and striking contrast to the well-established traditions of a market that has always lived in the limelight.

It may be said, and said with truth, that we are not so bad as others. We carry on, and carry on in comparative comfort because our degeneration has not been so rapid and our processes not so crafty or grafty as those of some foreigners—surely a poor satisfaction to a money market which until now

has always been the only money market in the world that could be trusted. We have not, for instance, reached the plight of the French, who in February, 1937, borrowed 4.2 milliards of francs in the London Market, paying £40,000,000 of sterling for it, and had in November to repay 5.9 milliards of francs to discharge the loan. A 25 per cent. interest in francs is the heavy price which France pays for the services of its official money management.



## CHAPTER XI

### FOREIGN DEBT

It is to the Jews that we owe the advantages of international finance. The one great gift to progress made by the Jews is to be found in this field, and in parenthesis, the biggest of all the many doubts about the new ideas on which modern Germany is founded arises from her determination to do without the Jews. The explanation of the pre-eminence of the Jew in international finance is a very simple one. The nationality of the Jew, except perhaps in England and America, is a secondary consideration with him. With us he is first of all an Englishman and secondly a Jew, but elsewhere political instability has made nationality less of an asset, and the Jew is first of all a Jew and secondly a Frenchman or a Dutchman or a German. A people without a country have escaped some of the limitations of nationalism, and a Jew will trust a Jew more readily than a Frenchman an Englishman or an Italian a Spaniard. The Jews may be said to constitute a special sort of League of Nations of their own, resting not upon paper formulæ but on the firmer foundation of a natural ability to understand and trust one another. We need go back little more than a century to find families of Jews, not only the great houses whose names are household words, but many thousands of unknown Jewish families spread all over the world,

serving the manufacturers and traders of the world by reason of the credit or confidence which was and still is their special contribution to progress.

Two brothers, one in Hamburg and the other in London, were able to run a joint account, neither of them questioning the good faith of the other, but each of them making a special study of the trading credit in each place. It is inconceivable that the manufacturer of some new commodity located in Milan or Pittsburg or Glasgow can ever be in a position to give credit to buyers in any part of the world, on the mere strength of his own knowledge of those buyers, but the Jew in Milan, Pittsburg or Glasgow, manufacturing nothing and dealing only in credit, was able to arrange the finances of the manufacturer and the buyer and thus perform perhaps the most important of all the many functions essential to the conduct of international trade. Isaac in Melbourne could give credit to or ask credit from Reuben in Chicago, with as much confidence and as little worry as Smith the baker of Puddlecombe would transact similar business with his neighbour Brown the tailor.

Although Reuben and Isaac have long since disappeared as individuals the great banks and discount houses, with their branches everywhere, are the lineal descendants of the personal businesses founded by the Jews, and possess and maintain to this day a network of well-founded confidence and trust, such as can never be associated with any political institution or any sovereign state. In public affairs the interests of nations are apt to

clash and the insolvency of an unfriendly power may be something to desire. In finance the continuing prosperity of the other party is always a principal consideration.

There appeared recently in the City Notes of *The Times*, three paragraphs under the heading "Britain's Greatest Industry" which epitomised the present position of the borrowing and lending business as between nations :—

Foreign investment is this country's greatest single industry. In round figures something like one-twentieth of the national income is derived from interest and dividends on investments abroad. Even this underestimates its relative importance. The income from oversea is tangible and net. In respect of a large part of the income from home investment there is an element of pyramiding. Foreign investment ought to be an expanding industry. The age distribution of the population is changing. A fall in numbers is more than a possibility over the next decade. Therefore the burden of home production promises to fall on fewer and fewer shoulders. In short, the dependence of the national economy on the receipt of free imports by way of return upon capital lent to foreign and Empire countries is likely to increase. Foreign investment unfortunately is a declining industry. The importance of maintaining this country's capital abroad should not need emphasis. That it still does, however, has been shown by the belittlement of the concern voiced a short time ago by Sir Robert Kindersley at the evidence that British capital invested oversea has actually on balance been reduced during the past two years.

*The Economist*, in a special supplement with this week's issue, and the Westminster Bank, in its November Review, have both taken the occasion to answer some of the objections which have been raised against a resumption of international lending. It has been said that oversea investment is too precarious and involves a greater risk of loss of capital than investment at home. *The Economist*

throws doubt upon the validity of this. On the average over a long period of years a figure of  $\frac{1}{2}$  per cent. per annum, it suggests, would probably cover the default and other capital losses on oversea investment, making, with a rate of  $1\frac{1}{2}$  per cent. for redemptions and repayments, a total "wastage of capital abroad" of about 2 per cent. per annum.

The average rate of income on oversea investment has probably varied between 5 and 7 per cent. Excluding British Government securities, on which the return is scarcely comparable, *The Economist* does not think that a much better experience could be shown to apply to capital invested at home. Nor does it agree that the present indications point to a scarcity of loanable funds or to a dearth of credit worthy borrowers. Though private saving has fallen off, corporate saving is probably higher to-day, it states, than it ever was. Fear of war may have barred certain potential borrowers, but a large area remains, including the British Empire, to which such considerations hardly apply. Unless British capital abroad is maintained intact, the writer envisages the necessity sooner or later of a readjustment of the whole structure of British industry and of the national standard of life. The Westminster Bank makes the point that if the risks of home investment are smaller, it is also true that on the average the profits or returns are lower than those of oversea investment. Even if the removal of the present semi-official restrictions on foreign lending released but few issues which are now prohibited, it would still be worth while, states the bank, as a significant indication of restored confidence.

It is unnecessary to remind the reader that international trade, as distinct from home trade, can only be settled in gold coin or bullion. The manufacturer who delivers a railway engine to the Argentine would find himself in difficulties if, in return, he had to accept a trunk load of paper pesos. These pesos are good currency within the

territory of the Argentine but are quite unsuitable for the payment of wages or the purchase of material in Wigan. It is therefore necessary that, in theory at least, gold should be transferred from the Argentine to Wigan to make the railway engine account balance, but in practice the Jews and their successors have almost eliminated this troublesome and expensive practice. The pesos belonging to the engine maker of Wigan remain in the Argentine, in the care of one of the banking houses, and are used to pay some Argentine farmer for a shipment of beef, while the sovereigns of the beef importer here are taken by the banking machine, and used to satisfy the claim of the engine maker in Wigan. That is to state the matter in its very simplest terms, for nothing so simple ever happens in practice. The claims on pounds, pesos, marks, lire or any of the other currencies are reckoned up by the bankers, one against the other, and only when the claims on some particular currency, in total, tend to become excessive, is gold shipped to rectify the balance.

We must trouble the reader with a little table to convey an impression of the way in which this highly skilled business has been affected in the last twenty years.

The table compares the total import and export of goods or merchandise into and out of Great Britain with the total import and export of gold, bullion and coin. It will be seen that in 1913 for every £ of trade transacted 1s. 5*d.* worth of gold, bullion and coin was moved in or out of the country. By comparison in 1935 for every £ of trade done no less than 6s. 9*d.* worth of gold, bullion or

coin was actually shipped to and fro across the Atlantic and elsewhere. It must be remembered that the 1913 figures are concerned with trade and commerce, and are almost, though not quite, immune from any political influence or any governmental interference. By comparison in 1935, while the trade figures were subjected to all those modern devices of agreements and quotas, with which we are familiar, yet they do represent individual trade, but the bullion figures are, for the most part, the result of political activity :—

	1913	1935
Gold, Bullion and Coin		
Imports	£ 59,533,549	£ 244,091,330
Exports	46,087,359	174,025,439
Total	105,620,908	418,116,769
Trade		
Imports	768,734,739	756,040,537
Exports	634,820,326	481,137,047
Total	1,403,555,065	1,237,177,584
Amount of Gold and Bullion for every £ of trade	1s. 5d.	6s. 9d.

Our table is misleading unless we remember that it is only part of the story. In 1913 we were the bankers, insurers, and shippers of the world, so that the 1s. 5d. worth of bullion covered all the transactions arranged through us by all the traders of all the world who took advantage of London banking facilities. It is probable that not

more than the odd 5*d.* of our 1*s.* 5*d.* was actually wanted to do a £'s worth of our own import and export of merchandise, when the private debt system was working smoothly. Now that banking, insurance and similar services for the world at large have been reduced to the merest shadow of their former selves, and our own trade is so thoroughly wrapped up in red tape both here and in the markets overseas, it probably needs the shipment of 5*s.* worth of bullion to do a £ of trade.

Our table needs correction from still another point of view. The difference in price levels and the values of the currencies makes the comparisons unreliable. If we consider the volume of trade rather than its money value, and remember that perhaps double the human comfort in the shape of commodities was contained in the 1913 figure than is to be found in the 1935 figure, the change that has taken place is really startling. It may well be that in 1913 the same amount of comfort was obtained out of the movement of 2½*d.* in gold and bullion that now requires no less than 5*s.* worth of the same cumbersome process.

Before the War, by and large, no Government owed another Government anything. The indemnity arising out of the Franco-Prussian War was settled within a year or two, by the transfer of gold from France to Germany. There was, of course, a certain amount of Government borrowing, but even the wildest of political financial transactions always had a sane responsible individual at the other end of it. The Argentine Government borrowed from the individual investor in England, and the British Treasury had no direct interest in the transaction.

So it was in every country, and between all countries. It may therefore be said that international money, so far as it represented goods and services, was of that good quality which can only arise from the backing of individual responsibility. That part of international finance which was concerned with governmental borrowings was at least half good, because the lender in all these cases did in fact put up actual values represented by his own personal savings from his own personal surplus.

Since the War the position is entirely changed. Governments deal with Governments. Transactions as between Treasuries in London, Paris, New York and elsewhere reach figures which were beyond the dreams of the practical people who arranged the exchanges of the world, when the world was interested in trade alone. These Treasuries are free of the obligation to relate their money to goods, services and real values, and we have seen how in America, France, New Zealand, to name only three of many instances, governments have exercised their sovereign powers to declare that the price of gold in their currency should be reduced or increased, halved or doubled, and have thus altered the whole of the foreign debt position by a stroke of the political pen.

We need look only at the case of the American Debt. Mr. Baldwin agreed the figure at roughly £1,000,000,000, and we proceeded for a few years to pay a few millions in interest and sinking fund. But—such are the inherent weaknesses of political finance—at the end of a very short time, we found that the more we paid the more we owed. The debt was arranged in dollars, and the American



Government, the worst and least experienced of all the modern money managers, decided to alter the value of their dollar. Transactions such as this have since these days been common form as between the Treasuries of the world, and the life's work and savings of everyone engaged in international trade are constantly put in jeopardy by them.

It is in the study of foreign trade and international finance that can be seen most clearly the disturbing effects of the interference by the politician in the day by day work of those who have to provide for the material well-being of all of us.

The destruction of the international financial mechanism, the borrowing and lending facilities, which had been built up with such care and effort over the centuries, dates from the Peace Treaty, and we must refer back to that disastrous folly to get the story into perspective. But for Reparations, there was no reason why in November 1918 the international financial organisation might not have proceeded to resume its beneficial functions. Nobody knows to this day what is the total outstanding amount of Reparations, and new agreements are still made with Germany patching up an undefined position, in the hope that a year later better wisdom may be found.

Reparations have varied all the way from the speculative fantasy of Sir Sidney Low, who declared that Germany was capable of paying £250,000,000,000, down to Mr. Maynard Keynes' more modest £2,120,000,000. Mr. Keynes' figure when first published was thought to be an outrageous underestimate but has since been discovered to be a wild and impossible overstatement.

It will be seen how difficult was the position of any money market anywhere when figures like these were left in the air.

The practical difficulties can be roughly illustrated in a fairly simple way. In 1921 the total of all the balance sheets of all the London clearing banks was £2,006,700,000. This is the first available figure from the official "Statistical Abstract," and 1921 is near enough to the date of the Reparations discussion to serve our present purpose. This £2,006,700,000 was the total of the balances of all of us, representing our savings, our liquid capital, our requirements for our week's purchases and all the rest. Every 10s. note in this huge total was backed by some tangible value on which some individual depended. It might be a day's work or a seat at the theatre, but it really did mean 10s. in a very practical way to all the individuals concerned in the transactions of all the clearing banks. It was all, for the purpose of our present argument, perfectly good money. Imagine, then, the effect upon the economy and well-being of everybody when the Reparation authorities decided that they would put upon the market in bad money, without any personal or tangible backing of any kind, as much as all of us had accumulated in the whole of the clearing banks. Every good trading £ was, in effect, put into double harness with a bad political £ and had to do the work of the two.

The conception itself was, of course, absolutely mad and to-day that is very generally recognised, but in the mood of the Peace Treaty period there were many who thought that we could, in fact, draw from the Germans as much money as we our-

selves had in our own banks. It is impossible to blame the man in the street, whose money and intellect are absorbed in the technicalities of some other branch of human work, if he accepts a pound note just as money, and thinks no more about it ; but no such leniency can be extended to those who really did know better, and having seen the world devastated by politics and by powder and shot, proceeded to apply the even more devastating iniquities of Reparations and political money.

Glancing back to the days of our personal Jewish bankers, to Isaac in Melbourne and Reuben in Chicago, we remember that these people did not, in fact, move our money. At the most they shifted from one market to another 5*d.* for every sovereign's worth of trade which they arranged. The essence of the business was the goods which moved from one market to another, and Isaac and Reuben, by keeping account of it all, balanced it up with a minimum of inconvenience. Thus—while the statisticians might have discovered that Chicago was paying Melbourne £10,000 in pounds or dollars—gold or silver, did not, in fact, move at all. From this it is evident that £2,000,000,000, if it were to be got out of Germany or anywhere else, involved a much greater volume of movement of goods from one market to another. Nothing so simple, however, was permitted to enter the minds of the electors in France or England or America in the wild years immediately following the War. If Germany ventured to offer payment in the form of cases of cutlery or barrels of chemicals, there was an outcry, and a very natural outcry, against dumping. Every frontier in the world was closed,

and not unnaturally closed, to the flood of goods which would have descended upon every market, if these Reparations had been allowed to mean what they purported to mean.

The damage of Reparations was not altogether confined to international trade. The politicians of the time, sinking to the lowest levels ever known in the history of politics, allowed the electorates to imagine that, thanks to Reparations, there was wealth available for all. "Fruits of Victory," "Homes for Heroes," and their counterparts in France and America put these great democracies into a cheerful frame of mind. We have noted how, on the negotiating of a debt, the borrower first of all experiences a sense of wealth, and the same phenomenon is clearly visible in connection with Reparations, for all the victors wallowed in these false political fortunes, and proceeded to spend money freely at home. The French did not scruple to reckon the money to be received from Germany in their annual budget, and laid the foundations for all those financial difficulties which have since driven the franc from 25 down to 175 to the pound. The Americans, in picturesque American fashion, counted up the debt from England—for they had managed to get our name on the back of other people's bills—and having all this supposed wealth available, distributed pensions to every man in that vast continent, who could claim credit for any sort of war work.

The word "Reparations" covers up and hides the real story. During the War vast quantities of goods, guns, shells, aeroplanes, food supplies, clothes and the rest were sent from England and

America to France, Russia, Belgium, Serbia, Italy, Greece and elsewhere. The size of these transactions was indicated in the usual manner by entries in ledgers in terms of money and called debt. Those entries can never be balanced except in the old-fashioned manner which Isaac and Reuben understood so well, the transfer of equal quantities of goods in the opposite directions. No country will have the goods, but all want, or they have wanted, the money. In the end we have the tragic picture of a ruined international money market. A great human service which made possible the interchange of goods and services, has been pounced upon by the politicians who, in effect, say: "We will not have the goods and services, but we will continue to bamboozle the people with the thought of the money." Whereas in 1913 we exported or imported a pound's worth of valuables for every 5*d.* of money that crossed our frontier, now, in obedience to our political enthusiasms, we say we will have a pound's worth of bullion crossing these same frontiers, but on no account may any trade be mixed up with it.

These sorry facts are beginning to be slowly understood. We in England, as is perhaps natural, understand them on the whole rather better than any other people, unless it be the Germans. They are beginning to dawn upon the French. The Americans, as might be expected, are well behind the rest of us. It is difficult for the son of a farmer in the Middle West, who will live and die without ever seeing the seashore, to understand very much about international trade.

The politicians of the world, coming very slowly

round to a sense of realities, are doing what they can with trade agreements, but red tape is a poor substitute for that complete freedom in which alone trade can thrive.

In 1913 one had only to telephone to one's bank to send £1,000 to Milan or to draw £1,000 from Santiago. The trade which called for this transference having been done, the banking part of the matter never gave to anyone except the bankers themselves a moment's difficulty. Now, twenty years after the crime of Reparations, it is sometimes possible to transfer £1,000 to or from one country to another, but only after weeks of negotiation on both sides with the officials who have taken the place of the clerks in the foreign banking houses. Things might be better if these officials had been recruited from the ranks of the unemployed bankers. They are, it is true, steadily learning that while theory can be evolved from practice, the application of untried theory, by persons without practical experience, is apt to work less smoothly. They will, in time, come round to the view that mankind relies, and will always rely, upon obedience to the laws of nature.

As a footnote it is interesting to remember that for twenty years before the War the rate of exchange between the currencies of leading trading nations did not vary beyond the second decimal point. In the century prior to the outbreak of the War the highest and lowest of any such rate of exchange never represented more than a 15 per cent. variation. To-day with a market glutted with political money, 10 per cent. up or down in a week is by no means unusual.

Bankers' speeches are not yet considered to be appropriate front page features by our popular newspapers, but if democracy is really to grow up and survive, greater value will need to be given to the practical authorities on these vital questions. By way of a sample of the volume of information available from this source, we reproduce the following paragraphs from the address of Mr. Arthur Gairdner at a recent annual meeting of The British Overseas Bank:—

“ The general situation becomes more and more confused as time goes on, but the present occasion seems a suitable one to review at least those aspects of it in which we ourselves are more particularly concerned. It is not easy to retain a firm grasp on the fundamental issues, as they have been obscured by the artificial expedients used from time to time to meet difficulties as they arise, without regard either to the underlying causes of the difficulties or to the ultimate consequences of the measures taken. In all this confusion we can only take for our starting point the practical question of how we, as a bank, have to carry on our business. The British Overseas Bank, as an institution established to deal with commerce between this and other countries, has its foundation in the bill of exchange. In common with other similar institutions, however, we have found in recent years that the proper functioning of the bill of exchange has been seriously hampered through the imposition of the various standstill agreements and through increasing interference in other ways with the normal machinery of international trade.

In order to clear our minds on the subject it will be useful to start with more settled conditions and consider the position of the London bill before the War. At that time the three essential factors, a balanced Budget, a sound balance of trade, and a sound currency, were more or less automatically maintained by the operation of the gold standard. Shipments of gold served at once as a warning sign and set in motion forces tending to remedy an un-

sound situation. In addition to its use in emergencies gold also served to meet seasonal requirements, to finance movements of crops, and in general gave the necessary assurance to trade and industry, in the pursuit of their daily functions, of protection from violent movements in which they were not directly concerned.

The bill of exchange played a vitally important rôle in this scheme of things. It enabled London to build up its position as the dominant money market of the world and to perform its functions smoothly and efficiently. The fluctuations of interest rates provided an extremely delicate control of the movements of short-term money and thereby maintained the stability of the currency by putting a drag on over-trading and speculation, while low rates eased the situation and in time helped to revive trade when it had fallen below normal."

The study of the science of lending and borrowing as applied to international transactions brings out very clearly the difference between good and bad money. Good money which only exists to indicate the movements of goods and services, and bad money whose only backing consists of votes. These two sorts of money exist to some extent inside every national boundary but are rather more difficult to distinguish than is the case with international money.

In 1913 we had no governments exchanging cheques with other governments and the money was therefore both good and serviceable. To-day international money is mostly bad and all of it at the mercy of governments. The world is thus in chaos. Similar changes are at work in every parish at home, and because their destructive effects are more gradual, are perhaps less easy to trace.



## CHAPTER XII

### “ SOMETHING MUST BE DONE ”

THE business man's business is to look on the dark side, to study the possibilities of failure, and by preparation for trouble, to remove, or at least minimise, the risk of its arrival.

In obedience to that duty we have examined the risks of crash and collapse inherent in the political and economic experiments of the post-War period. But that does not mean a loss of faith. Patriotism is for the moment somewhat out of fashion, but fashion cannot affect the solid circumstance that gives to us and to us alone a thousand years of healthy root growth in matters of government. The failure of a season's fruit crop from a too severe left wind may bring complete ruin to the trees of younger nations, but is only a passing episode in the life of this green and pleasant land.

We pin our faith to a conception of democracy which even in England is still in its infancy, for it is only in quite recent years that centuries of struggle have given us in full the glories of self government. For the moment, a young electorate has been tempted into realms above its comprehension. Our faith leads us to believe that as democracy gains in experience, it will discover that the hard-won vote is too precious to waste and lose on matters which form no part of the proper business of government.

That full democratic power was needed to restrain and check the exuberance of governments has for centuries been the argument—liberty for the Individual against the tyrannies of the State. If democracy continues, with the child-like ignorance of recent years, to build up a bureaucracy corresponding in almost every detail to the bureaucracies of autocratic or totalitarian states, with powers to control and manage all our daily actions, then that control may for a time be content to use the democratic label, but in the end it will have as little to do with democratic ideals as has the Dictatorship of the Proletariat. Democracy must concern itself with principles alone, Parliament must rise again above the level of the milkman, or else we must resign ourselves to political money and food cards, and ultimately to concentration camps and all the other devices inseparable from political and bureaucratic planning.

But the gentle reader will say, in the fashionable phraseology, that "something must be done." That has been the cry for a whole generation and the present state of the world is the answer. All the hindrances and barriers of which we hear so much have been erected by well-meaning people in response to the cry that "something must be done."

Something must indeed be done, but done, not by the machinery of governments, but by the individual brains and consciences of the citizens. They, in full conformity with their historic traditions, must recover their sense of direction. They must distinguish clearly between two roads that are open to them and they must choose the road they desire to travel.

The wide and easy road leads to the State as a super-business concern, a sort of inflated Marks and Spencer, with an all-powerful civil service to settle the price level, the amount and sort of production, the quantities and direction of imports and exports, the values of currencies and the fate of debts. A brave new world in which brains are required only by a very limited official class.

The older, safer road, is built for the use of independent individuals, and innumerable byways run towards it with refreshment in the manner of the fibrous growths on a healthy root. It is planned by nature to encourage the maximum variety of genius, to give the widest possible scope to each little fibre and to make all conscious of individual personal responsibility to the general growth, to ensure that each shall strive to be strong enough to bear a full share of the common task.

Here are two opposing conceptions, and a choice worthy of the brains of a citizenship with ten centuries of training. The views of Russians or Germans or Americans may be interesting, but can only be of minor value in the home of the Mother of Parliaments.

To the conception of the all-powerful state there are two main objections. Firstly that it will never work. That is a proper matter for argument. Secondly that it is, from its very nature, wholly incompatible with the democratic system.

As to the older conception, the argument is not that it will never work, for it has in fact provided all the progress of the past. The objection is only that it will not work with sufficient rapidity to satisfy the requirements of an educated people.

That again is proper matter for argument. The argument should however be conducted by the democratic people who will be the victims or the beneficiaries of its outcome rather than by, as at present, those who are making or hoping to make their livings by working the government machine.

Consider the possibilities in this matter of debt. We can go on borrowing. Mr. Oscar R. Hobson, who is certainly no reactionary, tells us in a recent issue of *The News Chronicle* that "in the long run the multiplication of the National Debt may well prove the grave of the Capitalist system." Socialist readers should note, however, the difference between a grave dug that way and the grave upon which they have built their hopes. Instead of the sharing of all wealth, there will be a disconcerting absence both of the wealth and of the means of effecting the sharing.

It is certain that a multiplication of the public debt means a depreciation of the currency and in the light of that knowledge any further borrowing is a deliberate fraud. Unless it is checked, the public debt, through depreciation, will destroy itself as indeed it has already done in Germany. But in destroying itself public debt will also destroy private debt, and the cleverest of the planners has yet to explain how civilisation can continue when we cannot lend to, or borrow from, or trust one another.

There is another answer to this insistent demand that "something must be done." Democracy should give to itself a period of rest and reflection in which it can study itself and its ways, and in particular all the things that have been done since

the great extension of the franchise. It should look into the history of business and remember that more bankruptcies have been caused by over-trading than by any other way. It should strive to acquire the patience of the business mind and to realise that new plans, like new plants, need time to root and grow and bloom. After twenty years of unprecedented expansion, a period of consolidation is obviously essential. A few years of rest would enable anything of good that there may be in, say, the Ministry of Agriculture to become apparent. In the immediate past, one scheme has followed another with such rapidity that neither good nor bad has had the chance to show itself.

And a period of rest means no more borrowing.

Some, however, will still say that “ something must be done ” and as a sop to the craving for practical proposals the following may be suggested. Taxation should, during this period of rest and reflection, be maintained up to the limits of endurance and all surpluses should be ruthlessly applied to the reduction of debt. As the rest and reflection slowly discloses the good and the bad, economies will suggest themselves in the elimination of the bad. These savings will further help in the relief of the weight of debt.

So much for what may be called the negative proposals in response to the suggestion that “ something must be done.” The positive side of a policy of rest and reflection is even more important. The citizens, freed for a time from the risk of further bureaucratic interference and competition, will regain some of their old confidence, and millions of them will proceed to “ do something ”

which in present conditions they dare not do. There would be a revival of confidence, for confidence (of which so much is heard and so little seen) is not confidence in government alone, but chiefly confidence in self.

The return of confidence would improve the trading position and increase the tax yield, thus making possible further reductions in debt. Every sovereign gained this way would "count two on a division," building up our trading strength and pulling down our public debt in one operation. A comparatively short period would be sufficient to bring the debt into a safer relation to the national wealth.

By such commonplace methods, and by them alone, shall we be able to preserve our financial traditions, to conserve our savings, to retain our democratic freedom, and to regain our old power to serve a world sadly in need of such assistance as we formerly gave it.

If we decline this humdrum road and determine that our government must do everything that our bureaucratic masters dictate, then let us go on borrowing as the shortest road to the end of all we have known and the certain way to Totalitarianism and Slavery.