Hirst, Francis Wrigley

The Paper Moneys of Europe Their Moral and Economic Significance

THE PAPER MONEYS OF EUROPE

THEIR MORAL AND ECONOMIC SIGNIFICANCE

By

FRANCIS W. HIRST

BOSTON AND NEW YORK
HOUGHTON MIFFLIN COMPANY
The Riverside Press Cambridge
1922

The Riverside Press
CAMBRIDGE · MASSACHUSETTS
PRINTED IN THE U.S.A.

BARBARA WEINSTOCK
LECTURES ON THE MORALS OF TRADE

This series will contain essays by representative scholars and men of affairs dealing with the various phases of the moral law in its bearing on business life under the new economic order, first delivered at the University of California on the Weinstock foundation.

THE PAPER MONEYS OF EUROPE

THEIR MORAL AND ECONOMIC SIGNIFICANCE

No more severe reflection could be passed upon the moral and political capacity of the human species than this: Five thousand years after the invention of *writing*, three thousand after the invention of *money*, and (nearly) five hundred since the invention of *printing*, governments all over the world are employing the third invention for the purpose of debasing the second; thereby robbing millions of innocent individuals of their property on a scale so extensive that previous public confiscations of private property through the adulteration of money—in ancient Rome, in Ireland under James the Second, in Prussia during the Seven Years' War, in the American colonies and the United States, in Portugal, in Greece, in various republics of Central and South America, even the assignats of the French Revolution—seem pigmy frauds in comparison with the present vast inundation of counterfeit paper money.

In these times, when so much attention is given to what I may call the prehistoric history of mankind, it would ill become me, a mere adventurer in anthropology, to discuss the origin of money or to attempt an explanation of the curious fact that the art of coining money was invented and perfected a thousand years before the art of printing. The coins struck by the best cities of ancient Greece are a model and a reproach to our modern mints; and being for the most part of good silver, they fulfilled the two main functions of currency—as a measure of value and a medium of exchange.

Silver was well adapted for the purposes of currency by its ductility, durability, divisibility, portability, and value. Its value depended on three things. In the first place, it was scarce; in the second, it was much in demand for the arts and manufactures; and in the third place, its intrinsic value was increased and stabilized by the needs and demands of the mints.

Gold had similar qualifications, but it was too scarce and too precious until the nineteenth century, in the course of which (for reasons which I need not enter upon here), most of the great commercial nations adopted a gold standard. Copper possessed in a less degree the qualifications of gold and silver, but it was the first metal to be coined into money in ancient Rome. The Roman *as* or *pondo* weighed a Roman pound of *good* copper, therefore possessed the two principal attributes of good money, a definite weight and a definite fineness. It was divided like our troy pound into twelve ounces of good copper.

The English Troyes or Troy pound was first used in the English mint in the time of Henry the Eighth. Edward the First's pound sterling was a Tower pound of silver of a definite fineness. Charlemagne's livre was a Troyes[1] pound of silver of definite fineness. The old English Scotch pence or pennies contained originally a real pennyweight of silver, one twentieth of an ounce and one two hundred and fortieth of a pound. The famous pre-war English sovereign, now demonetized and misrepresented by the depreciated paper pound, was itself also a weight; but the twenty shillings and two hundred and forty pence which exchanged for it were token coins depending for their value upon the gold sovereign.

From the time of Charlemagne among the French, and from that of William the Conqueror among the English [wrote Adam Smith in 1776], the proportion between the pound, the shilling and the penny, seems to have been uniformly the same as at present, though the value of each has been very different; for in every country of the world, I believe, the avarice and injustice of princes and sovereign states, abusing the confidence of their subjects, have by degrees diminished the real quantity of metal which had been originally contained in their coins. The Roman as, in the latter ages of the republic, was reduced to the twenty-fourth part of its original value, and, instead of weighing a pound, came to weigh only half an ounce. The English pound and penny contain at present about a third only; the Scots pound and penny about a thirty-sixth; and the French pound and penny about a sixty-sixth part of their original value. By means of those operations, the princes and sovereign states which performed them were enabled, in appearance, to pay their debts and fulfil their engagements with a smaller quantity of silver than would otherwise have been requisite. It was indeed in appearance only; for their creditors were really defrauded of a part of what was due to them. All other debtors in the state were allowed the same privilege, and might pay with the same nominal sum of the new and debased coin whatever they had borrowed in the old. Such operations, therefore, have always proved favourable to the debtor, and ruinous to the creditor, and have sometimes produced a greater and more universal revolution in the fortunes of private persons, than could have been occasioned by a very great public calamity.[2]

John Stuart Mill follows his master in exposing and denouncing what he calls this "least covert of all forms of knavery which consists in calling a shilling a pound." But the opinions of Mill, the saint of rationalism, deserve and demand citation as they bring us directly to our subject. He writes:

When gold and silver had become virtually a medium of exchange, by becoming the things for which people generally sold, and with which they generally bought, whatever they had to sell or buy; the contrivance of coining obviously suggested itself. By this process the metal was divided into convenient portions, of any degree of smallness, and bearing a recognised proportion to one another; and the trouble was saved of weighing and assaying at every change of possessors, an inconvenience which on the occasion of small purchases would soon have become insupportable.

Governments found it their interest to take the operation into their own hands, and to interdict all coining by private persons; indeed, their guarantee was often the only one which would have been relied on, a reliance however which very often it ill deserved; profligate governments having until a very modern period seldom scrupled, for the sake of robbing their creditors, to confer on all other debtors a licence to rob theirs, by the shallow and impudent artifice of lowering the standard; that least covert of all modes of knavery, which consists in calling a shilling a pound, that a debt of a hundred pounds may be cancelled by the payment of a hundred shillings. It would have been as simple a plan, and would have answered just as well, to have enacted that "a hundred" should always be interpreted to mean five, which would have effected the same reduction in all pecuniary contracts, and would not have been at all more shameless. Such strokes of policy have not wholly ceased to be recommended, but they have ceased to be practised, except occasionally through the medium of paper money, in which case the character of the transaction, from the greater obscurity of the subject is a little less barefaced.[3]

A few illustrations from the past may help us to a critical contemplation of the present monetary conditions on the continent of Europe, which constitute fraud and robbery on the most wholesale scale ever practised by governments (with the style and title of democracies!) upon the miserable victims, called citizens, and supposed to be endowed with the blessings of self-determination.

Those who believe that war, if not a divine institution, is at least an inevitable feature of human society may plead in extenuation of this species of fraud that it is usually the last desperate resource of a government which has pledged all its taxes and credit for war or armaments.

I remember reading in the Roman historian Sallust of a financial crisis which was ended by debts contracted in silver being paid off in copper—*argentum ære solutum est*.

A few years before Adam Smith wrote his chapter on money, Frederick the Great, during the Seven Years' War, resorted to the Jew, Ephraim, who coined tin silver:

Outside noble, inside slim,

Outside Frederick, inside Ephraim.

But Frederick, wiser and more honest than our European belligerents, made it his first care after the peace to restore an honest silver coinage.

A lively example from English, or rather Irish, history is supplied by Macaulay and belongs to the year 1689. It is one of the incidents in James the Second's brief and luckless government of Ireland:

It is remarkable that while the King [James II] was losing the confidence and good will of the Irish Commons by faintly defending against them, in one quarter, the institution of property, he was himself, in another quarter, attacking that institution with a violence, if possible more reckless than theirs.

He soon found that no money came into his Exchequer. The cause was sufficiently obvious. Trade was at an end. Floating capital had been withdrawn in great masses from the island. Of the fixed capital much had been destroyed, and the rest was lying idle. Thousands of those Protestants who were the most industrious and intelligent part of the population had emigrated to England. Thousands had taken refuge in the places which still held out for William and Mary. Of the Roman Catholic peasantry, who were in the vigor of life, the majority had enlisted in the army or had joined gangs of plunderers. The poverty of the treasury was the necessary effect of the poverty of the country: public prosperity could be restored only by the restoration of private prosperity; and private prosperity could be restored only by years of peace and security. James was absurd enough to imagine that there was a more speedy and efficacious remedy. He could, he conceived, at once extricate himself from his financial difficulties by the simple process of calling a farthing a shilling.

The right of coining was undoubtedly a flower of the prerogative; and, in his view, the right of coining included the right of debasing the coin. Pots, pans, knockers of doors, pieces of ordnance which had long been past use, were carried to the mint. In a short time lumps of base metal, nominally worth near a million sterling, intrinsically worth about a sixtieth part of that sum, were in circulation. A royal edict declared these pieces to be legal tender in all cases whatsoever. A mortgage for a thousand pounds was cleared off by a bag of counters made out of old kettles. The creditors who complained to the Court of Chancery were told by Fitton to take their money and be gone.

But of all classes, the tradesmen of Dublin, who were generally Protestants, were the greatest losers. At first, of course, they raised their demands; but the magistrates of the city took on themselves to meet this heretical inclination by putting forth a tariff regulating prices. Any man who belonged to the caste now dominant might walk into a shop, lay on the counter a bit of brass worth threepence, and carry off goods to the value of half a guinea. Legal remedies were out of the question. Indeed the sufferers thought themselves happy if, by the sacrifice of their stock in trade, they could redeem their limbs and their lives. There was not a baker's shop in the city round which twenty or thirty soldiers were not constantly prowling. Some persons who refused the base money were arrested by troopers and carried before the Provost Marshal, who cursed them, swore at them, locked them up in dark cells, and, by threatening to hang them at their own doors, soon overcame their resistance. Of all the plagues of that time none made a deeper or a more lasting impression on the minds of the Protestants of Dublin than the plague of brass money. To the recollection of the confusion and misery which had been produced by James' coin must be in part ascribed the strenuous opposition which, thirty-five years later, large classes firmly attached to the House of Hanover, offered to the government of George the First in the affair of Woods' Patent.[4]

But paper money offers far more extensive facilities to knavery than a metallic currency. In his *Essays on the Monetary*

History of the United States,[5] Mr. Charles J. Bullock has described in sufficient detail the "carnival of fraud and corruption" which attended the paper money coined or rather printed by most of the American colonies in the century preceding the American Revolution. Thus, about the middle of the eighteenth century, the paper money of Massachusetts fell to an eighth of its original value. People were driven to barter, and one writer observed that "the morals of the people depreciate with the currency." Parties were divided into debtors and creditors, and a New England writer in 1749 noted: "The Debtor side has had the ascendant ever since anno 1741 to the almost utter ruin of the country."[6] To this writer belongs the credit of discerning, at a time when even Benjamin Franklin was in error, that "the repeated large emissions of Paper Money" were responsible for its depreciation.

"Not worth a Continental" is an expression which brings us to the next chapter in American experience of inconvertible paper currencies. The so-called Continental money was the means by which the Continental Congress and the individual colonies—too timid to tax—endeavored to finance the Revolutionary War. By 1781, a paper dollar was worth less than two cents in specie, and soon afterward it became practically worthless.[7] Robbery was legalized; rogues flourished; and their frauds were encouraged and protected by a government whose policy enabled debtors to pay their debts in valueless money. We hear of creditors running away from their debtors and being paid off "without mercy." Stories were told of creditors in Rhode Island leaping out of back windows to escape the attentions of their debtors.[8] In short, the law became an engine of oppression and destroyed the fortunes of thousands who had put their confidence in it. In the words of Breck, a friendly critic, "... the old debts were paid when the paper money was more than seventy to one ... widows, orphans and others were paid for money lent in specie with depreciated paper."

The astonishing thing is that all this knavery was devised, or winked at, not only by low class politicians but by statesmen of renown. The maxim *salus populi suprema lex* was relied upon not for the first or last time as a sufficient excuse for a crime far more pernicious than that of a private forger. But we have not yet realized, in our minds or in our penal codes, that public vices ought to be punished at least as vigorously as private crimes.

That, even as a desperate last resort for financing war, a flood of paper money defeats its own object was conclusively proved a few years later during the French Revolution. The French assignats "have taken their place in history as the classical example of paper money made worthless by over-issue. After their final collapse in 1796, French finance reverted perforce to a metallic basis." So Mr. Hawtrey, a British Treasury official, who has given us recently a lucid and sufficiently detailed account of this extraordinary incident—extraordinary but no longer singular, for the same course with the same results has been pursued during and since the war of 1914-1918 by Russia and Poland, and in a greater or less degree by most of the European belligerents.

The issue of French assignats began in 1789 because the assembly would not vote adequate taxation, and Necker, the minister of finance, was unable to borrow enough to cover the deficit. In the two years from 1789 to 1791, the public revenue was 470 millions, and the public expenditures, 1719 millions, of livres. The deficit was covered by assignats, or paper livres, bearing interest, in denominations varying from 1000 to 5 livres. Thus the assignats may be regarded as a floating debt currency. In November, 1791, the assignats were worth 52 per cent of their face value. In June, 1792, after the declaration of war on Austria, they rose to 57. After the victory of Valmy, in September, they rose to 72 and remained there till December. In January, 1793, the king was guillotined, and war was declared on England. By August, after violent fluctuations, the assignat had fallen to 15 per cent of its face value. Thereafter the laws enforcing the acceptance of assignats were strengthened.

It became an offence to sell coin, or to differentiate between coin and assignats in any transaction, or to refuse payment in assignats, or to negotiate assignats at a discount. By a decree of the 5th of September the death penalty itself was imposed. Here was a forced currency indeed.[9]

For a few months an artificial improvement was effected in the value of the assignat by these ferocious measures; but in 1795, after the Terror, the system and the paper money collapsed. The gold and silver money, which had been hoarded, returned to circulation. In June, 1795, the quotation of the assignat oscillated violently. On one day a louis of 24 livres would buy 450 paper livres, on another, 1000.[10] Paper notes which fluctuated so violently were useless as money. They could not serve either as a medium of exchange or as a measure of value. Country people expressed their contempt for the assignats by calling them *l'argent de Paris*.

A new currency of *mandats* was tried, into which assignats were made convertible. It was a complete failure. The *assignats* were wound up in 1796, and in February, 1797, there was "a general demonetisation of paper money."[11] The holders got practically nothing. France returned to hard cash, as Mexico has done recently. In 1918, when Mr. Hawtrey wrote, he was able to describe the decline and full of the assignats as an 'almost unique' instance of "the currency of a great nation fading away into nothing." The Russian paper rouble has performed the same feat since 1918. So has the Polish mark. And now (December, 1921) the German paper mark is also fading into nothingness.[12] In Austria and in most of the new states of Europe, the inconvertible paper legal tender currency has lost almost the whole of its value, in comparison with the pre-war coin which it pretends to represent.

The real difference between the present monetary conditions and the American *continentals*, or the French assignats, is a difference not of kind, but of degree and extent. The causes and the consequences, the motives of those who work the mint, the ruin and demoralization of the victims, the effects upon public and private debts and credit are the same. But a whole continent populated by four hundred millions of people is concerned. The commercial and moral fabric of European civilization is tottering. Three years have passed since the war ended; but the currencies and exchanges of Europe are in a much worse condition than when peace was being negotiated.

At the end of June, 1921, I walked from my office in the Strand down to Messrs. Hands & Co., who deal in foreign money at Charing Cross. On the way I passed the shop of a tailor, who had placarded on his shop window the announcement that he would give a hundred thousand roubles to every customer who bought a suit of clothes from him. He added that at the pre-war rate of exchange the one hundred thousand roubles would be worth ten thousand pounds. He did not add that they were at that time worth only two shillings.[13] On arriving at my destination, I asked to see specimens of the most debased currencies and eventually laid out ten shillings,[14] or, to be exact, 9*s*/10*d*. Here is the bill:

Ten German marks	cost me one shilling
A hundred Austrian crowns	cost me one and sixpence
A hundred Polish marks	cost me sixpence
Twenty-five Russian (*Czar*)[15] roubles (1909)	cost me sixpence
Two Italian lire	cost me eightpence
Two Greek drachmas	cost me eightpence
Two Roumanian lei	cost me sixpence
Five Yugoslav dinars[16]	cost me one shilling
Ten Czechoslovakian crowns	cost me one shilling
Five Bulgarian levas	cost me sixpence
Five Finnish marks	cost me one shilling
Five Esthonian marks	cost me one shilling
Five Latvian roubles	cost me sixpence

To show that my friend, the exchange dealer, made a decent profit out of this retail transaction, I quote some of his selling rates for the day on which he based his charges:

	Rates of Exchange	June 29, 1921
Austrian paper crowns	2400-2600	for £1
Finnish marks	220-240	for £1
German marks	265-275	for £1
Polish marks	6000 (selling rate)	for £1
Greek drachmas	62-65	for £1
Italian lire	76-77	for £1
Roumanian lei	230-250	for £1

The last I heard from Vienna was that they had been varying from ten thousand to fifteen thousand to the paper pound!

The difference in the rates depended, of course, upon whether the customer was buying or selling the foreign money. If he was buying Austrian notes, he would get twenty-four hundred paper crowns for a pound. If he was selling them, he would receive a pound in exchange for twenty-six hundred paper crowns.

All these paper notes are called after, and profess to represent, silver coins, which were themselves before the war, tokens, and passed current at more than their intrinsic value because of their relation to gold.

Thus the pre-war parity of marks was about twenty to the gold pound; of Austrian crowns, about twenty-four; of francs, lire, etc., about twenty-five. On the day of my purchase, therefore, the exchange value of the German mark was less than one thirteenth, of the Austrian crown less than one one hundredth, and of the Polish mark, one two hundredth, of its pre-war status. But this underestimates the depreciation; for the British pound is no longer a gold sovereign, and even gold has been depreciated.[17] The paper pound in June, 1921, was, I think, about the equivalent of twelve pre-war shillings in purchasing power. The gold dollar, which would only buy a little more than four shillings before the war, would buy five at the beginning of December, 1921.

Although an inconvertible paper currency has no intrinsic value, it can (in accordance with the quantity theory of money) be maintained at a fairly stable ratio to gold or commodities by an honest government if the total issue is fixed, or kept between reasonable maximum and minimum limits. The rise of prices since the war, in each country where reliable statistics are available, has been in proportion to the expansion of the paper currency, allowance being made for the scarcity of commodities. Of course a decline in purchasing power *follows* an expansion of circulation. The stability of the British paper pound since a limit was imposed illustrates the correctness of the quantity theory of money. Its increase in purchasing power (like that of the gold dollar) during the first half of 1921 is, of course, due to the fact that the supply of utilities had overtaken the demand.

At first sight it seems difficult to understand how any government, however bad, can *deliberately* issue flood upon flood of inconvertible paper money, seeing that its printing operations are ruinous to both public and private credit. To obtain the same amount of revenue, each new issue, each new dose, has to be much larger than the preceding. In the course of twelve months, for example, the exchange value of the Polish mark was divided by ten, that is, at the end of the period, ten times as much paper money had to be printed as at the beginning, to get the same revenue. Yet the Polish Government continued upon its course with the approval and support of the Polish Diet.

The following quotation is from the Warsaw correspondent of the *London Economist*, who wrote on July 28, 1921:

The effects of the last collapse of the exchanges are beginning to make themselves felt, and the Diet is already preparing fresh ground for new currency inflation. By its last vote the limit on the note circulation has been increased to 118 milliards, and on the advances of the Polish National Bank to the Government to 150 milliards.

The depreciation of the Polish mark in June was followed by a rise of prices, and this led immediately to a strike movement in almost all industries. In the Lodz district 40,000 workmen have gone on strike, demanding a wage increase of 120 per cent! The manufacturers declare that they cannot raise wages by more than 20 per cent; that even under present conditions the Polish textile industry is in a most difficult position on the foreign markets, especially in Roumania, the Baltic States, *etc.* Posnania was menaced by an agrarian strike, but a settlement has been reached. The strike of the municipal workers in Warsaw was short-lived. Everywhere, however, wages have been increased by more than 50 per cent. This naturally will entail a new wave of rising prices, the Government will be obliged to double the salaries of its officials, and the printing press will work again under a higher pressure. This is the vicious circle round which the country has been travelling for three years.

Ex uno disce omnes. The monetary policy of the Polish Government is merely a flagrant example of the recent monetary history of all the states of Europe northeast, southeast, east, of the Rhine and of the Alps. There is only one real remedy, the reëstablishment of complete peace, disarmament, the abolition of conscription, the drastic reduction of bloated bureaucracies, and a wholesale lowering of tariffs, which will allow the miserable and half-starved populations to renew the arts of peace and the exchange of their agricultural products and manufactures.

APPENDIX

THE BRUSSELS CONFERENCE[18]

If all countries were included, a general and proportionate reduction of the military and naval establishments to one half of their present cost would set free a fund of probably at least $3,000,000,000 to $4,000,000,000 annually for the purchase of food and useful commodities, for the stabilization and partial restoration of debased paper currencies, for the payment of debt, the removal of public deficits, the revival of credit, and the reduction of taxes. Thus the road to recovery lies plain before us. Will it be taken by the statesmen to whose hands the peoples have intrusted their lives and fortunes?

Deficits the Rule

In order to show that this view is in conformity with the conclusions of experts, and even of officials delegated for the purpose of examining world finance by the governments themselves, I turn to the conclusions unanimously arrived at by the Brussels conference a year ago, after eighty-six financial experts from thirty-nine countries had presented the accounts and balance sheets of their respective governments. In a general review of the situation they point out that "the total external debt of the European belligerents, converted into dollars at par, amounts to about 155 milliard dollars, compared with about 17 milliard dollars in 1913." They say that the government expenditures of the European belligerents amount to between 20 and 40 per cent of the total incomes of the peoples. They say emphatically that the restoration of real peace, with disarmament, is "the first condition for the world's recovery."

Four commissions were appointed. The first dealt with public finance, and its resolutions were adopted unanimously by the conference. The following extract from its resolutions deserves attention:

Thirty-nine nations have in turn placed before the International Financial Conference a statement of their financial position. The examination of these statements brings out the extreme gravity of the general situation of public finance throughout the world, and particularly in Europe. Their import may be summed up in the statement that three out of every four of the countries represented at this conference and eleven out of twelve of the European countries anticipate a budget deficit in the present year. Public opinion is largely responsible for this situation. The close connection between these budget deficits and the cost of living, which is causing such suffering and unrest throughout the world, is far from being grasped. Nearly every government is being pressed to incur fresh expenditure; largely on palliatives which aggravate the very evils against which they are directed. The first step is to bring public opinion in every country to realize the essential facts of the situation and particularly the need for reëstablishing public finances on a sound basis as a preliminary to the execution of those social reforms which the world demands.

Public attention should be especially drawn to the fact that the reduction of prices and the restoration of prosperity is dependent on the increase of production, and that the continual excess of government expenditure over revenue represented by budget deficits is one of the most serious obstacles to such increase of production, as it must sooner or later involve the following consequences:

(*a*) A further inflation of credit and currency.

(*b*) A further depreciation in the purchasing power of the domestic currency, and a still greater instability of the foreign exchanges.

(*c*) A further rise in prices and in the cost of living.

The country which accepts the policy of budget deficits is treading the slippery path which leads to general ruin; to escape from that path no sacrifice is too great. It is therefore imperative that every government should, as the first social and financial reform, on which all others depend:

(*a*) Restrict its ordinary recurrent expenditure, including the service of the debt, to such an amount as can be covered by its ordinary revenue.

(*b*) Rigidly reduce all expenditure on armaments in so far as such reduction is compatible with the preservation of national security.

(*c*) Abandon all unproductive extraordinary expenditure.

(*d*) Restrict even productive extraordinary expenditure to the lowest possible amount.

The Supreme Council of the Allied Powers in its pronouncement on the eighth of March declared that "armies should everywhere be reduced to a peace footing; that armaments should be limited to the lowest possible figure compatible with national security and that the League of Nations should be invited to consider, as soon as possible, proposals to this end."

The statements presented to the conference show that, on an average, some 20 per cent of the national expenditure is still being devoted to the maintenance of armaments and the preparations for war. The conference desires to affirm with the utmost emphasis that the world cannot afford this expenditure. Only by a frank policy of mutual coöperation can the nations hope to regain their old prosperity, and in order to secure that result, the whole resources of each country must be devoted to strictly productive purposes.

The conference accordingly recommends most earnestly to the Council of the League of Nations the desirability of conferring at once with the several governments concerned, with a view to securing a general and agreed reduction of the crushing burdens which on their existing scale armaments still impose on the impoverished peoples of the world, sapping their resource and imperiling their recovery from the ravages of war. The conference hopes that the Assembly of the League, which is about to meet, will take energetic action to this end.

The above recommendations were ignored by the League of Nations and by practically all the governments concerned. Consequently the debts and deficits of most European countries are larger at the present time than they were a year ago, and most of the paper currencies have depreciated—some very heavily—during the last twelve months.

The Dangers of Inflation

I turn next to the resolutions proposed by the second commission which had to examine problems of currency and foreign exchange.

From its resolutions, which also were adopted unanimously by the conference, I extract the following:

The currencies of all belligerent and of many other countries, though in greatly varying degrees, have since the beginning of the war been expanded artificially, regardless of the usual restraints upon such expansion—to which we refer later—and without any corresponding increase in the real wealth upon which their purchasing power was based;

indeed in most cases in spite of a serious reduction in such wealth.

It should be clearly understood that this artificial and unrestrained expansion, or inflation, as it is called, of the currency or of the titles to immediate purchasing power does not and cannot add to the total real purchasing power in existence, so that its effect must be to reduce the purchasing power of each unit of the currency. It is in fact a form of debasing the currency.

The effect of it has been to intensify, in terms of the inflated currencies, the general rise in prices, so that a greater amount of such currency is needed to procure the accustomed supply of goods and services. Where this additional currency was procured by further inflation—that is, by printing more paper money or creating fresh credit—there arose what has been called a vicious spiral of constantly rising prices and wages and constantly increasing inflation, with the resulting disorganization of all business, dislocation of the exchanges, a progressive increase in the cost of living, and consequent labor unrest.

It is of the utmost importance that the growth of inflation should be stopped; and this, although no doubt very difficult to do immediately in some countries, could quickly be accomplished by abstaining from increasing the currency—in its broadest sense, as defined above—and by increasing the real wealth upon which such currency is based.

The cessation of increase in the currency should not be achieved merely by restricting the issue of legal tender. Such a step, if unaccompanied by other measures, would be apt to aggravate the situation by causing a monetary crisis. It is necessary to attack the causes which lead to the necessity for the additional currency.

The chief cause in most countries is that the governments, finding themselves unable to meet their expenditures out of revenue, have been tempted to resort to the artificial creation of fresh purchasing power, either by the direct issue of additional legal-tender money or more frequently by obtaining—especially from the banks of issue, which in some cases are unable and in others unwilling to refuse them—credits which must themselves be satisfied in legal-tender money. We say, therefore, that governments must limit their expenditure to their revenue.

Here again we have excellent doctrines and good practical advice from these financial experts to the governments which appointed them. But the doctrines have remained unapplied, and the advice has been honored in the breach instead of in the observance.

Wise Counsel Ignored

I pass next to the resolutions proposed by the commission on international trade and adopted unanimously by the conference, from which the first two paragraphs will be quoted:

The International Financial Conference affirms that the first condition for the resumption of international trade is the restoration of real peace, the conclusion of the wars which are still being waged and the assured maintenance of peace for the future. The continuance of the atmosphere of war and of preparations for war is fatal to the development of that mutual trust which is essential to the resumption of normal trading relations. The security of internal conditions is scarcely less important, as foreign trade cannot prosper in a country whose internal conditions do not inspire confidence. The conference trusts that the League of Nations will lose no opportunity to secure the full restoration and continued maintenance of peace.

The International Financial Conference affirms that the improvement of the financial position largely depends on the general restoration as soon as possible of good will between the various nations; and in particular it indorses the declaration of the Supreme Council of the eighth March last "that the States which have been created or enlarged as a result of the war should at once reëstablish full and friendly coöperation and arrange for the unrestricted interchange of commodities in order that the essential unity of European economic life may not be impaired by the erection of artificial economic barriers."

Here again there is a full recognition of the fact that peace is necessary to the renewal of prosperity, and that the atmosphere of war preparations is fatal to the growth of trade. But neither the League of Nations nor the Supreme Council, so far as I am aware, has made any effective response to these appeals.

Fourthly and lastly, I come to the commission on international credits. This commission passed a number of resolutions, all of which were adopted unanimously by the conference; but it will suffice to cite the first two:

The conference recognizes in the first place that the difficulties which at present lie in the way of international credit operations arise almost exclusively out of the disturbance caused by the war, and that the normal working of financial markets cannot be completely reëstablished unless peaceful relations are restored between all peoples and the outstanding financial questions resulting from the war are made the subject of a definite settlement which is put into execution.

The conference is, moreover, of opinion that the revival of credit requires as primary conditions the restoration of order in public finance, the cessation of inflation, the purging of currencies, and the freedom of commercial transactions. The resolutions of the commission on international credits are therefore based on the resolutions of the other commissions.

My argument then is fully endorsed by the experts at Brussels. All the facts and figures set forth in the voluminous records of that remarkable conference indicate the urgency of peace and disarmament. A year has passed.

The Brussels recommendations have been ignored, and conditions in Europe as regards its currencies, debts, trade and credit have deteriorated. The Naval limitations proposed by Mr. Hughes at Washington, even if they are ratified, will give practically no relief to Europe.

Footnotes

[1] "The Fair of Troyes in Champaign was at that time frequented by all the nations of Europe, and the weights and measures of so famous a market were generally known and esteemed." (Adam Smith, *Wealth of Nations*, Book I, chap, iv.)

[2] *Wealth of Nations*, Book I, chap. iv.

[3] Mill, *Political Economy*, Book III, chap. vii.

[4] Macaulay, *History of England*, I, chap. xii. "The Affair of Woods' Patent" is celebrated in Swift's Drapier letters.

[5] Macmillan, 1900.

[6] Douglass.

[7] Bullock, *Monetary History of the United States*, chap. v.

[8] *Ibid.*, chap. v. In 1780 Congress actually adopted a plan to redeem its paper issues at one fortieth of their pretended or nominal value.

[9] R. G. Hawtrey, *Currency and Credit*. Longmans Green & Co., London, 1919.

[10] Hawtrey, *op. cit.*, chap. xv.

[11] A *turn* which even a Polish Chancellor of the Exchequer might envy.

[12] In the second week of November the mark fell to 1300 to the paper pound, recovering a day or two later (Wednesday, November 9) to 980.

[13] A month or two later they were not worth a shilling. The Russian Soviet Government was offering two hundred thousand roubles for one pre-war silver rouble!

[14] Two dollars.

[15] Twenty-five Soviet roubles would have been dear at a farthing.

[16] On this note is stamped 20 *Kruna* to indicate that five dinars exchanged for twenty Austrian crowns.

[17] To-day, November 30, 1921, the paper pound is worth about four fifths of a gold pound. The purchasing power of gold—say, the gold dollar—is perhaps about two thirds of what it was before the war.

[18] Taken by permission from an article by the author in the *Saturday Evening Post* of November 12, 1921.