

To combat views of people who have proved to be so incapable of learning even from the most cruel experience, is a hopeless undertaking. Nor do I propose to resume the campaign for a deliberate stabilization of the monetary system which I have carried on ever since, in my Memorandum presented to the Brussels Conference in 1920, I pointed out the dangers of a deflation. What I now have to say is merely that any compromise between these opposite points of view is impossible, and that those countries which elect to proceed further on the path of deflation will alone bear the responsibility for the resulting ruin. At an international conference it would be quite futile to try to agree on a more or less vacuous formula intended to disguise the insoluble conflict of ideas which exists here. On the contrary, the only hope lies in an increasing realization that this gulf cannot be bridged.

In the United States the deflationists make out that the crisis was caused by a previous inordinate expansion, encouraged by an unduly liberal grant of credits. They maintain that America has been lured into this hazardous lending by her desire to accommodate herself to the monetary policy of Europe and of Great Britain in particular. This view is indeed wrong - I have confuted it, in fundamentals, in the October 1932 number of this Quarterly - but we must reckon with the fact that it still persists and is an important factor in the attitude of America to the world economic problem. If this view continues to prevail, it can scarcely be expected that America will be willing to cooperate with England and the rest of the world in order to bring about an extension of the monetary supply and thus to break the force of the deflation and raise the general level of commodity prices. Cooperation on such important questions must be based on agreement in regard to basic principles. We may venture to hope that the unprecedented distress of the American farmers will force the United States fundamentally to revise their attitude towards the monetary problem. At all events, until such a change takes place, there is no prospect of the crisis being overcome by a united world policy for the regulation of the monetary system.

Each individual country, however, is at liberty, within its own sphere, to stop the process of deflation, to bring about such a rise in the level of commodity prices as is absolutely necessary, and afterwards to maintain a certain stability in the internal purchasing power of its currency. In this way a country can protect its industry and commerce from the most serious dangers with which it is menaced as a result of the continuous process of deflation. If such a sensible course is adopted merely by a small group of countries, that little group will, of course, be unable entirely to escape the evils attendant on the continuous decline of the world economy.

Experience, however, has shown that the right of self-determination of an individual country in the monetary sphere is liable to be misunderstood and to be wrongly utilized. Instead of concentrating efforts on a judicious regulation of the internal purchasing power of the currency, attention has often been focussed on the foreign quotations of the currency. This tendency has been accompanied by a very ill-advised desire to lower these quotations in order to gain commercial advantages. In England it was supposed that the pound sterling on the restoration of the gold standard in 1925 was quoted at rates of exchange higher than those which corresponded to the internal purchasing power of the currency, and that this had an adverse effect on the balance of trade. France, on the other hand, when in 1928 she reverted to a gold standard at a new parity, fixed that parity so low that her exports were favoured, at any rate for a time, whilst her imports were handicapped. This experience has evidently been taken as a basis for well-nigh universal endeavours to keep down the international value of the currencies. Since England in September 1931 was forced to abandon the gold standard, British monetary policy has deliberately aimed at a low international valuation of the pound. The