
ALLEGED FAILURE OF REFLATION

It is, I believe, possible to achieve a rise in the internal price level by monetary management, and I am unshaken in this opinion by the frequent charge that reflation has already been tried and found wanting both in Great Britain and the United States. If we examine the course of affairs in these two countries we shall find that deliberate monetary management specifically designed to raise the price level has not been tested in either. In our own country, it is true, an expansion of credit has been effected, but only under conditions which could give it but partial success in raising the price level; and partially successful it has been, for our price level has not accompanied the downward movement of gold prices. In the United States, notwithstanding the current talk of vast new credit having been pumped ineffectively into the banking system, the experiment has not been tried at all. Reflation means the expansion of bank deposits, and therefore of potential purchasing power, to such an extent as will restore the price level to the point at which it stood before the present great slump began.

PROSPECTS FOR AN EXPANSIVE POLICY

Mr. McKenna then outlined the course of monetary affairs in the two countries, and proceeded: There is nothing, then, in recent experience to give ground for discouragement or scepticism regarding the benefits to be derived from an expansive monetary policy. We are free to regulate in great measure our own price level by increasing or diminishing the quantity of money. But we must not allow ourselves to be disturbed by the fact that if gold continues to appreciate while our price level remains steady or rises the inevitable effect is a fall in our exchange. If we become alarmed by the fall and counteract it by a renewal of deflation, our exchange, it is true, will recover, but only at the expense of our trade. Internal prosperity, with a balanced Budget, lower taxation, and reduced unemployment is far more important to us than the rate of exchange. Sooner or later, even if no voluntary measures are adopted, Budget deficits in gold-using countries will themselves produce a remedy for falling price levels, and we ought meanwhile to allow nothing to deter us from the policy of restoring our internal price level to a higher standard.

Two conditions, however, are essential for the success of this policy. First, it must be pursued wholeheartedly; the maintenance of an abundant supply of cheap money must be accompanied by full facilities for its use. And secondly, we should set aside, at least for the time being, all thought of returning to gold, either at the old or any new parity. There should be no attempt to govern our monetary conditions by reference either to the gold value of sterling or to the size of our gold stocks. There is no reason whatsoever, for example, for suggesting that money should be dearer and scarcer here because gold has been sent to America in payment of an instalment of war debt. In one respect at least the reported attitude of the British delegates to the preparatory commission of the World Economic Conference is cordially to be welcomed; it is worse than useless to consider returning to gold unless and until it shows some reasonable prospect of becoming a stable standard.

If under such conditions as I have mentioned an expansive monetary policy is consistently and strenuously pursued, I have little doubt that the enlarged supplies of money will lead to a higher level of commodity values. This result would have every prospect of paving the way to prosperity. Our national finances have been brought under better control; the spirit of our people, notwithstanding grave sufferings and disappointments at home and incessant difficulties abroad, is still firm and progressive; and the basic position of most of our industries is healthy. If, then, we match industrial and trading potentialities with a liberal and enlightened monetary policy we can ensure the fullest enjoyment of our own economic resources, and, at the same time, contribute to the restoration of world-wide prosperity.
