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How Recovery May Come

BY SIR ARTHUR SALTER.

PRESIDENT CHALMERS:—We have as our guest to-day, Sir Arthur Salter, and it is most fortunate that we should, at this moment in economic developments, have as our guest speaker a man of the character and the experience of Sir Arthur. From the beginning of this economic crisis he has been pointing directions, in fact from the end of the war, and those directions are more clearly seen by us now than they were then. I have great pleasure in calling upon Sir Arthur Salter. His subject to-day is, "How Recovery May Come."

SIR ARTHUR:—Mr. Chairman, ladies and gentlemen, you will notice from the chairman's remarks that my subject is, "How Recovery May Come." Now, let me say at once, that the use of the word "may" instead of "will" does not represent in my mind any doubt as to whether recovery will come but it does represent a feeling which most of us must have as to precisely how and precisely when. Economists are most unhappy members of society. They look with envy upon those engaged in such sciences as astronomy where it is possible many centuries before to prophesy with precision the exact date of some event such as an eclipse. The economist will never be able to do that. He has to allow for the impact of the effect of human psychology and human policy, and that introduces a sphere in which nature enters the case and exact prophecy is, I think, and will always be, impossible. Let me just give you one example. I think any competent economist could have said a year ago that sometime or other before recovery there would be a serious bank crisis in America.

The crash came but I do not think that economists, with the knowledge available, could have said with absolute certainty that there would be a greater banking crash this year. There were movements of human psychology, actions of individuals, which were required to be added to those conditions and, of course, you have the great active policy such as recently initiated by the United States, which is a measure that could not have been predicted with certainty by anyone, although it might be regarded as a possible development.

For that reason and for others no one can say with confidence and certainty precisely when or how recovery will return; but it will return. I think we may have implicit confidence. Just in the same way I cannot prophesy precisely when and precisely how, so I am unable and anyone else is unable to prescribe anything like a sane and simple remedy. The present depression is a result of long development, weaknesses and many mistakes of the past. Anybody who proposes a simple remedy is proposing a quack medicine which will not really establish the health of the body politic. I remember some years ago I saw an advertisement in the south of France. It was to this effect, "This medicine permits you to indulge in any excess and saves you from the consequences." Undoubtedly there is no such medicine and no such simple remedy for physical and economic ills of the world. In fact remedy will have to come as a result of many kinds of efforts.

First, the individual effort—innumerable concerns of the world adapting themselves so far as they can through individual businesses to the changed and changing conditions. It is perfectly clear that such individual efforts must be in vain unless they are aided by collective efforts, both national and international. To a large extent, national efforts which I have seen in operation for a long time past have consisted essentially, if you really analyze them, in trying to get a larger share of world prosperity or to try by a process which incidentally wastes a good deal of the cake. There is a great deal of national effort of a character that does not increase the cake which we have to share but

rather increases the national share of that cake. It is perfectly obvious, one has got to have a combination of national and international effort to secure recovery. No international action can replace the effort which each nation should take to overcome its own particular weaknesses.

Speaking as a recent visitor in Canada, I have not the necessary knowledge and the audacity to suggest what are your national weaknesses and the proper remedies. It is for you to know what they are and how to deal with them. When I speak of national weaknesses, for example, in my own country in Britain the specific national weakness eighteen months ago was a certain disorganization and distrust of the national functions of the country. We have been engaged now for eighteen months in curing them. In the United States it has been the banking system and they are now engaged in curing that national weakness.

There are perhaps three principal spheres in which concerted international action is desirable. There is the sphere of monetary policy; there is the sphere of credit and debt problems and there is commercial policy. For several reasons I think the first of these is of the greatest importance because it is the key through which one has to open the door to the other two problems. Let me illustrate what I mean. The world is now engaged in trying to concert a policy which will have the effect of somewhat raising the general price level. Now, it clearly depends a great deal upon the character of the action taken in that sphere, and the success which attends it, how far the indebtedness problems of the world will be removed. I am now not speaking of a particular class of debts like war debts but the whole mass of public and private debts which, it is perfectly clear, under present conditions, are an undesirable burden upon the enterprise of the world. But the extent to which action will have to be taken in that sphere will obviously depend a good deal upon the extent to which prices are raised by general monetary action. That is why I say monetary policy takes a certain priority over other problems.

In the third sphere, that of commercial policy, tariffs are a net result of quite a number of different causes and

different motives. New tariffs which have grown up in the past two years are a result very largely due to financial conditions in the world. I think the key towards their removal is going to be found in the first sphere of monetary policy. Therefore, the discussions on the world's monetary policy are of overwhelming importance. That importance is, of course, made greater by the greater initiative taken in the United States of America.

Now, I should like to say a few words on American initiative. You will, of course, understand I have to speak carefully. I have neither the necessary knowledge nor the degree of indiscretion required to attempt either an appreciation or a criticism of the new policy in the United States, but there are a few comments that might usefully be said. First is this, I think this initiative is representative of the fact that over the greater part of the world now the statesmen of the world have come to the conclusion that it is desirable to attempt by monetary action and by monetary policy to do something to increase the general price level of the world. Now there are many people who, for years past, have been saying that action of that kind is impracticable and, if not impracticable, would likely be injurious. The only way for prices to come down is to cut down costs even more. Well, on the whole, I think the world is turning away from that doctrine. I think myself when you have a depression of this character and magnitude, we can only get back by a combination of two processes of deflation and of inflation or reflation. And why? There are obviously two ways when costs are higher than prices that you can reverse them: one is by cutting down your costs and the other is by action which will tend to put up prices. The first of these methods is the only possible method that can be pursued by the individual concern. But I think you are setting too hard a task to individual concerns when you tell them to cut down their costs so far that they overtake the falling price level. If you demand that, you are likely to put such a strain on human nature and human institutions that they will break before you reach your result. That is the meaning of what has been happening in Germany.

I think at this stage in the depression it is most important that an attempt should be made—an attempt that can only be based on collective action—to increase the price level and, therefore, reduce the extent to which the individual concern has to lower costs. That seems to me to be the general philosophy behind the movement towards reflation. Incidentally I need hardly say that, when I use the word “reflation”, I indicate that form of inflation to increase prices through monetary action which is intended to do no more than retrieve part of the fall that prices have taken recently. Those who believe in reflation do not wish to get prices above the prices of 1928, but to retrieve part of the fall that has taken place since 1928. How can this be done? Well, in one form or another, it consists in increasing the amount of available money. There are a number of methods. Some of them are relatively safe and some are dangerous, but they should consist in one form or another of increasing the available usable money in the world. It is possible, if that method were pursued, it might induce an increase in the general price level. The monetary policy of reflation should be accompanied by some action which will not only increase the supply of money but stimulate the demand for money.

The increase in the general price level is really the child of two parents. You require a marriage of the supply of money and the demand for money before you get an increase in the general price level. Well, now, those who believe only in monetary action say, speaking figuratively, unless the supply of money is a sufficiently ardent wooer, there will be a frank, coy reluctance on the part of the other party to the marriage. Those who discuss plans for the expansion of works, such as Mr. Keynes is advocating in my country, do so on the ground that it will be an extremely good thing and will help the wooer to put the lady herself in a more favorable state of mind. There are many different methods by which monetary reflation may be achieved. We have, of course, one method exemplified recently by the initiative of the President of the United States. Every method has its advantages and every method necessarily its

distinctive dangers. I am not going to say this one or that one is the best of the possible alternative methods. It depends to a large extent not only on the gold embargo but definite deflation and re-establishment of the dollar on a different gold level and also upon other measures in the government's policies.

I just want to say that every measure has its distinctive dangers as well as its distinctive advantages. It would be a fatal thing if one country changed the gold content of its currency, which would immediately change the relations between that currency and other currencies, and there would be an attempt to avoid the trade consequences of that by further currency deflation. There is no need that it should happen. You would certainly have a great number of new mal-adjustments throughout the whole world. It can be avoided. It must be avoided. The fact that this action has been initiated in the United States makes it immensely more important that both during the conversations that are taking place and those about to take place later, through the World Economic Conference, meeting in formal session, that the world should arrive at a concerted monetary policy. If that is done, it may be possible to avoid dangers, that would otherwise be grave, of competitive currency depreciation. Well, I think that is all I can wisely say, indeed safely say, as to the American situation at the moment. Then we come to the problem of indebtedness.

Somehow or other we have got to deal with the excessive burden of indebtedness upon debtors, somehow re-establish conditions so that money can flow from those who save it, to those who need it, freely and safely. The extent to which the burden of indebtedness remains excessive will depend on the extent to which the general price level is increased.

I come to the sphere of commercial policy. There again I say that monetary policy is the key to unlock the door through which we approach that problem. For this reason, unless you have some idea, unless you have some certainty, as to the future relation between currency values of the two contracting parties, it is extraordinarily difficult, in fact,

hardly possible, for any two countries or any group of countries to make tariff negotiations. Suppose Britain and France desired to negotiate about their respective tariffs. Supposing they were agreed and certain tariffs are set, France could not enter into that contract because she would say, "I am on gold, and I cannot, unless I change the whole monetary policy, escape the consequences, as Britain is no longer on a fixed gold parity." That is why I say the monetary policy is a prior problem before you can approach other problems of the world.

As regards commercial policy in general, I have only just this to say: I stand among those who believe that it is desirable to clear the channels of world trade. I do not mean by that, there should be no tariffs in the world, but I do mean that I think the tariffs of the world should be not so high, not so unstable and so frequently changed, that it is impossible in the production and trade arrangements of the different countries of the world for them to adjust themselves and make real exchange of the products of the different countries possible. I think it is possible to have an arrangement between nations such as the British Commonwealth has among its constituent members, if those arrangements are wise, if they are wisely applied, and still have such arrangements with the rest of the world as to make intercourse possible. I trust all efforts in future, which each nation and each group of nations make, will rest not only upon national and imperial interests but will embrace the interests of the whole world.

That leads me to the last thing—almost the last thing. Underlying these specific, technical, economic questions, there is, of course, the vital condition for all stable economic prosperity—assured peace throughout the world. Whatever may be done so far as any technical problems are concerned, we can only hope for temporary bursts of prosperity unless we can be certain of avoiding another great, disastrous war. Having said that, let me say I do not believe any country, even those which seem to be far removed from the immediate dangers of a world war, can safely rely on standing outside a great war if it arose. I believe the lesson of recent history and the late war is this: no country

can escape the disastrous consequences of the probable entanglement of war and certainly cannot avoid the disastrous economic repercussions of war, unless it unites with other countries in stopping the danger of war when it threatens. In other words, after the experience of the last thirteen years, I am not the less convinced, but more convinced that it is essential that the League of Nations and the Kellogg Pact, as pooled security, is only possible if these have the support of the stable, economic life of the world.

The solution of these problems is certainly within the compass of human ability, human will and human determination. The problems from which we are suffering, grave and serious as they are, are problems from which mankind has suffered throughout history. Until recent centuries—recent years, poverty has been inescapable. Man's skill and knowledge and the resources of nature are such that there is an ample supply for the teeming millions of the world if we can reconstruct our financial and our economic structure so that increased productive capacity will be translated into increased purchasing. In that condition we have the prospect of a future that has opened to no previous generation. It appears open to us of this generation. Whether man enters into this great heritage now or in the near future or after long intervening periods of stress and strain; it is within the competence of people now living to procure for themselves such a heritage as has never been possible in any previous generation of mankind. We have this great challenge of our age to constructive intelligence and, I believe, this generation of mankind will be worthy of that challenge.

MR. CHALMERS:—Sir Arthur you have given us a brilliant address. On behalf of this audience I wish to thank you and express deep appreciation of this visit. I would like to say that we are grateful to Mr. Vincent Massey for having made it possible for you to accept the invitation. Every actor likes a good curtain and every Canadian Club President likes to retire amid a blaze of glory. We thank you.