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INFLATION AND DEFLATION

at this moment reckless in their methods as well as weak, seek to direct on to a class known as 'profiteers' the popular indignation against the more obvious consequences of their vicious methods. These 'profiteers' are, broadly speaking, the entrepreneur class of capitalists, that is to say, the active and constructive element in the whole capitalist society, who in a period of rapidly rising prices cannot but get rich quick whether they wish it or desire it or not. If prices are continually rising, every trader who has purchased for stock or owns property and plant inevitably makes profits. By directing hatred against this class, therefore, the European governments are carrying a step further the fatal process which the subtle mind of Lenin had consciously conceived. The profiteers are a consequence and not a cause of rising prices. By combining a popular hatred of the class of entrepreneurs with the blow already given to social security by the violent and arbitrary disturbance of contract and of the established equilibrium of wealth which is the inevitable result of inflation, these governments are fast rendering impossible a continuance of the social and economic order of the nineteenth century. But they have no plan for replacing it.

2 SOCIAL CONSEQUENCES OF CHANGES IN THE VALUE OF MONEY (1923)

A shortened version of the first chapter of *A Tract on Monetary Reform* (1923), 'The Consequences to Society of Changes in the Value of Money'. Much of the material of this chapter originally appeared as an article published under the same title in the *Manchester Guardian Commercial Supplement, Reconstruction in Europe*, No. v, 27 July 1922.

Money is only important for what it will procure. Thus a change in the monetary unit, which is uniform in its operation and affects all transactions equally, has no consequences. If, by a change in the established standard of value, a man received and owned twice as much money as he did before in payment for all rights and for all efforts, and if he also paid out twice as much money for all acquisitions and for all satisfactions, he would be wholly unaffected.

It follows, therefore, that a change in the value of money, that is to say in the level of prices, is important to society only in so far as its incidence is unequal. Such changes have produced in the past, and are producing now, the vastest social consequences, because, as we all know, when the value of money changes, it does *not* change equally for all persons or for all purposes. A man's receipts and his outgoings are not all modified in one uniform proportion. Thus a change in prices and rewards, as measured in money, generally affects different classes unequally, transfers wealth from one to another, bestows affluence here and embarrassment there, and redistributes Fortune's favours so as to frustrate design and disappoint expectation.

The fluctuations in the value of money since 1914 have been on a scale so great as to constitute, with all that they involve, one of the most significant events in the economic history of the modern world. The fluctuation of the standard, whether

gold, silver, or paper, has not only been of unprecedented violence, but has been visited on a society of which the economic organisation is more dependent than that of any earlier epoch on the assumption that the standard of value would be moderately stable.

During the Napoleonic Wars and the period immediately succeeding them the extreme fluctuation of English prices within a single year was 22 per cent; and the highest price level reached during the first quarter of the nineteenth century, which we used to reckon the most disturbed period of our currency history, was less than double the lowest and with an interval of thirteen years. Compare with this the extraordinary movements of the past nine years. From 1914 to 1920 all countries experienced an expansion in the supply of money to spend relatively to the supply of things to purchase, that is to say *inflation*. Since 1920 those countries which have regained control of their financial situation, not content with bringing the inflation to an end, have contracted their supply of money and have experienced the fruits of *deflation*. Others have followed inflationary courses more riotously than before.

Each process, inflation and deflation alike, has inflicted great injuries. Each has an effect in altering the *distribution* of wealth between different classes, inflation in this respect being the worse of the two. Each has also an effect in overstimulating or retarding the *production* of wealth, though here deflation is the more injurious. The division of our subject thus indicated is the most convenient for us to follow—examining first the effect of changes in the value of money on the distribution of wealth with most of our attention on inflation, and next their effect on the production of wealth with most of our attention on deflation.

A CHANGES IN THE VALUE OF MONEY,
AS AFFECTING DISTRIBUTION

I *The Investing Class*

Of the various purposes which money serves, some essentially depend upon the assumption that its real value is nearly constant over a period of time. The chief of these are those connected, in a wide sense, with contracts for the *investment of money*. Such contracts—namely, those which provide for the payment of fixed sums of money over a long period of time—are the characteristic of what it is convenient to call the *investment system*, as distinct from the property system generally.

Under this phase of capitalism, as developed during the nineteenth century, many arrangements were devised for separating the management of property from its ownership. These arrangements were of three leading types: (1) Those in which the proprietor, while parting with the management of his property, retained his ownership of it—i.e. of the actual land, buildings, and machinery, or of whatever else it consisted in, this mode of tenure being typified by a holding of ordinary shares in a joint-stock company; (2) those in which he parted with the property temporarily, receiving a fixed sum of *money* annually in the meantime, but regained his property eventually, as typified by a lease; and (3) those in which he parted with his real property permanently, in return either for a perpetual annuity fixed in terms of money, or for a terminable annuity and the repayment of the principal in money at the end of the term, as typified by mortgages, bonds, debentures, and preference shares. This third type represents the full development of *investment*.

Contracts to receive fixed sums of money at future dates (made without provision for possible changes in the real value of money at those dates) must have existed as long as money has been lent and borrowed. In the form of leases and mortgages, and also of permanent loans to governments and to a few private bodies, such as the East India Company, they were

already frequent in the eighteenth century. But during the nineteenth century they developed a new and increased importance, and had, by the beginning of the twentieth, divided the propertied classes into two groups—the 'business men' and the 'investors'—with partly divergent interests. The division was not sharp as between individuals; for business men might be investors also, and investors might hold ordinary shares; but the division was nevertheless real, and not the less important because it was seldom noticed.

By this system the active business class could call to the aid of their enterprises not only their own wealth but the savings of the whole community; and the professional and propertied classes, on the other hand, could find an employment for their resources, which involved them in little trouble, no responsibility, and (it was believed) small risk.

For a hundred years the system worked, throughout Europe, with an extraordinary success and facilitated the growth of wealth on an unprecedented scale. To save and to invest became at once the duty and the delight of a large class. The savings were seldom drawn on and, accumulating at compound interest, made possible the material triumphs which we now all take for granted. The morals, the politics, the literature, and the religion of the age joined in a grand conspiracy for the promotion of saving. God and Mammon were reconciled. Peace on earth to men of good means. A rich man could, after all, enter into the Kingdom of Heaven—if only he saved. A new harmony sounded from the celestial spheres. 'It is curious to observe how, through the wise and beneficent arrangement of Providence, men thus do the greatest service to the public, when they are thinking of nothing but their own gain';¹ so sang the angels.

The atmosphere thus created well harmonised the demands of expanding business and the needs of an expanding population with the growth of a comfortable non-business class. But amidst

¹ *Easy Lessons on Money Matters for the Use of Young People*, published by the Society for Promoting Christian Knowledge. Twelfth Edition, 1850.

the general enjoyment of ease and progress, the extent to which the system depended on the stability of the money to which the investing classes had committed their fortunes, was generally overlooked; and an unquestioning confidence was apparently felt that this matter would look after itself. Investments spread and multiplied, until, for the middle classes of the world, the gilt-edged bonds came to typify all that was most permanent and most secure. So rooted in our day has been the conventional belief in the stability and safety of a money contract that, according to English law, trustees have been encouraged to embark their trust funds exclusively in such transactions, and are indeed forbidden, except in the case of real estate (an exception which is itself a survival of the conditions of an earlier age), to employ them otherwise.¹

As in other respects, so also in this, the nineteenth century relied on the future permanence of its own happy experiences and disregarded the warning of past misfortunes. It chose to forget that there is no historical warrant for expecting money to be represented even by a constant quantity of a particular metal, far less by a constant purchasing power. Yet money is simply that which the State declares from time to time to be a good legal discharge of money contracts. In 1914 gold had not been the English standard for a century or the sole standard of any other country for half a century. There is no record of a prolonged war or a great social upheaval which has not been accompanied by a change in the legal tender, but an almost unbroken chronicle in every country which has a history, back to the earliest dawn of economic record, of a progressive deterioration in the real value of the successive legal tenders which have represented money.

Moreover, this progressive deterioration in the value of money through history is not an accident, and has had behind it two great driving forces—the impecuniosity of governments and the superior political influence of the debtor class.

¹ German trustees were not released from a similar obligation until 1923, by which date the value of trust funds invested in titles to money had entirely disappeared.

The power of taxation by currency depreciation is one which has been inherent in the state since Rome discovered it. The creation of legal tender has been and is a government's ultimate reserve; and no state or government is likely to decree its own bankruptcy or its own downfall so long as this instrument still lies at hand unused.

Besides this, as we shall see below, the benefits of a depreciating currency are not restricted to the government. Farmers and debtors and all persons liable to pay fixed money dues share in the advantage. As now in the persons of business men, so also in former ages these classes constituted the active and constructive elements in the economic scheme. Those secular changes, therefore, which in the past have depreciated money, assisted the new men and emancipated them from the dead hand; they benefited new wealth at the expense of old, and armed enterprise against accumulation. The tendency of money to depreciate has been in past times a weighty counterpoise against the cumulative results of compound interest and the inheritance of fortunes. It has been a loosening influence against the rigid distribution of old-won wealth and the separation of ownership from activity. By this means each generation can disinherit in part its predecessors' heirs; and the project of founding a perpetual fortune must be disappointed in this way, unless the community with conscious deliberation provides against it in some other way, more equitable and more expedient.

At any rate, under the influence of these two forces—the financial necessities of governments and the political influence of the debtor class—sometimes the one and sometimes the other, the progress of inflation has been *continuous*, if we consider long periods, ever since money was first devised in the sixth century B.C. Sometimes the standard of value has depreciated of itself; failing this, debasements have done the work.

Nevertheless it is easy at all times, as a result of the way we use money in daily life, to forget all this and to look on money as itself the absolute standard of value; and, when besides, the

actual events of a hundred years have not disturbed his illusions, the average man regards what has been normal for three generations as a part of the permanent social fabric.

The course of events during the nineteenth century favoured such ideas. During its first quarter, the very high prices of the Napoleonic Wars were followed by a somewhat rapid improvement in the value of money. For the next seventy years, with some temporary fluctuations, the tendency of prices continued to be downwards, the lowest point being reached in 1896. But while this was the tendency as regards direction, the remarkable feature of this long period was the relative *stability* of the price level. Approximately the *same* level of price ruled in or about the years 1826, 1841, 1855, 1862, 1867, 1871, and 1915. Prices were also level in the years 1844, 1881, and 1914.¹ If we call the index number of these latter years 100, we find that, for the period of close on a century from 1826 to the outbreak of war, the maximum fluctuation in either direction was 30 points, the index number never rising above 130 and never falling below 70. No wonder that we came to believe in the stability of money contracts over a long period. The metal *gold* might not possess all the theoretical advantages of an artificially regulated standard, but it could not be tampered with and had proved reliable in practice.

At the same time, the investor in consols in the early part of the century had done very well in three different ways. The 'security' of his investment had come to be considered as near absolute perfection as was possible. Its capital value had uniformly appreciated, partly for the reason just stated, but chiefly because the steady fall in the rate of interest increased the number of years' purchase of the annual income which represented the capital.² And the annual money income had a purchasing power which on the whole was increasing. If, for example, we consider the seventy years from 1826 to 1896 (and ignore the great improvement immediately after Waterloo), we find that the

¹ [And again, it is now possible to add, in 1931.]

² If, for example, the rate of interest falls from 4½ per cent to 3 per cent, 3 per cent Consols rise in value from 66 to 100.

capital value of consols rose steadily, with only temporary setbacks, from 79 to 109 (in spite of Goschen's conversion from a 3 per cent rate to a $2\frac{3}{4}$ per cent rate in 1889 and a $2\frac{1}{2}$ per cent rate effective in 1903), while the purchasing power of the annual dividends, even after allowing for the reduced rates of interest, had increased 50 per cent. But consols, too, had added the virtue of stability to that of improvement. Except in years of crisis consols never fell below 90 during the reign of Queen Victoria; and even in 1848, when thrones were crumbling, the mean price of the year fell but 5 points. Ninety when she ascended the throne, they reached their maximum with her in the year of Diamond Jubilee. What wonder that our parents thought consols a good investment!

Thus there grew up during the nineteenth century a large, powerful, and greatly respected class of persons, well-to-do individually and very wealthy in the aggregate, who owned neither buildings, nor land, nor businesses, nor precious metals, but titles to an annual income in legal-tender money. In particular, that peculiar creation and pride of the nineteenth century, the savings of the middle class, had been mainly thus embarked. Custom and favourable experience had acquired for such investments an unimpeachable reputation for security.

Before the war these medium fortunes had already begun to suffer some loss (as compared with the summit of their prosperity in the middle nineties) from the rise in prices and also in the rate of interest. But the monetary events which have accompanied and have followed the war have taken from them about one-half of their real value in England, seven-eighths in France, eleven-twelfths in Italy, and virtually the whole in Germany and in the succession states of Austria-Hungary and Russia.

Thus the effect of the war, and of the monetary policy which has accompanied and followed it, has been to take away a large part of the real value of the possessions of the investing class. The loss has been so rapid and so intermixed in the time of its occurrence with other worse losses that its full measure is not

yet separately apprehended. But it has effected, nevertheless, a far-reaching change in the relative position of different classes. Throughout the Continent the pre-war savings of the middle class, so far as they were invested in bonds, mortgages, or bank deposits, have been largely or entirely wiped out. Nor can it be doubted that this experience must modify social psychology towards the practice of saving and investment. What was deemed most secure has proved least so. He who neither spent nor 'speculated,' who made 'proper provision for his family,' who sang hymns to security and observed most straitly the morals of the edified and the respectable injunctions of the worldly-wise—he, indeed, who gave fewest pledges to Fortune has yet suffered her heaviest visitations.

What moral for our present purpose should we draw from this? Chiefly, I think, that it is not safe or fair to combine the social organisation developed during the nineteenth century (and still retained) with a *laissez-faire* policy towards the value of money. It is not true that our former arrangements have worked well. If we are to continue to draw the voluntary savings of the community into 'investments,' we must make it a prime object of deliberate State policy that the standard of value, in terms of which they are expressed, should be kept stable; adjusting in other ways (calculated to touch all forms of wealth equally and not concentrated on the relatively helpless 'investors') the redistribution of the national wealth, if, in course of time, the laws of inheritance and the rate of accumulation have drained too great a proportion of the income of the active classes into the spending control of the inactive.

II *The Business Class*

It has long been recognised, by the business world and by economists alike, that a period of rising prices acts as a stimulus to enterprise and is beneficial to business men.

In the first place there is the advantage which is the counterpart of the loss to the investing class which we have just examined.

When the value of money falls, it is evident that those persons who have engaged to pay fixed sums of money yearly out of the profits of active business must benefit, since their fixed money outgoings will bear a smaller proportion than formerly to their money turnover. This benefit persists not only during the transitional period of change, but also, so far as old loans are concerned, when prices have settled down at their new and higher level. For example, the farmers throughout Europe, who had raised by mortgage the funds to purchase the land they farmed, now find themselves almost freed from the burden at the expense of the mortgages.

But during the period of change, while prices are rising month by month, the business man has a further and greater source of windfall. Whether he is a merchant or a manufacturer, he will generally buy before he sells, and on at least a part of his stock he will run the risk of price changes. If, therefore, month after month his stock appreciates on his hands, he is always selling at a better price than he expected and securing a windfall profit upon which he had not calculated. In such a period the business of trade becomes unduly easy. Any one who can borrow money and is not exceptionally unlucky must make a profit, which he may have done little to deserve. Thus, when prices are rising, the business man who borrows money is able to repay the lender with what, in terms of real value, not only represents no interest, but is even less than the capital originally advanced.

But if the depreciation of money is a source of gain to the business man, it is also the occasion of opprobrium. To the consumer the business man's exceptional profits appear as the cause (instead of the consequence) of the hated rise of prices. Amidst the rapid fluctuations of his fortunes he himself loses his conservative instincts, and begins to think more of the large gains of the moment than of the lesser, but permanent, profits of normal business. The welfare of his enterprise in the relatively distant future weighs less with him than before, and thoughts

are excited of a quick fortune and clearing out. His excessive gains have come to him unsought and without fault or design on his part, but once acquired he does not lightly surrender them, and will struggle to retain his booty. With such impulses and so placed, the business man is himself not free from a suppressed uneasiness. In his heart he loses his former self-confidence in his relation to society, in his utility and necessity in the economic scheme. He fears the future of his business and his class, and the less secure he feels his fortune to be the tighter he clings to it. The business man, the prop of society and the builder of the future, to whose activities and rewards there had been accorded, not long ago, an almost religious sanction, he of all men and classes most respectable, praiseworthy, and necessary, with whom interference was not only disastrous but almost impious, was now to suffer sidelong glances, to feel himself suspected and attacked, the victim of unjust and injurious laws—to become, and know himself half guilty, a profiteer.

No man of spirit will consent to remain poor if he believes his betters to have gained their goods by lucky gambling. To convert the business man into the profiteer is to strike a blow at capitalism, because it destroys the psychological equilibrium which permits the perpetuance of unequal rewards. The economic doctrine of normal profits, vaguely apprehended by every one, is a necessary condition for the justification of capitalism. The business man is only tolerable so long as his gains can be held to bear some relation to what, roughly and in some sense, his activities have contributed to society.

This, then, is the second disturbance to the existing economic order for which the depreciation of money is responsible. If the fall in the value of money discourages investment, it also discredits enterprise.

Not that the business man was allowed, even during the period of boom, to retain the whole of his exceptional profits. A host of popular remedies vainly attempted to cure the evils of the day; which remedies themselves—subsidies, price and

rent fixing, profiteer hunting, and excess profits duties—eventually became not the least part of the evils.

In due course came the depression, with falling prices, which operate on those who hold stocks in a manner exactly opposite to rising prices. Excessive losses, bearing no relation to the efficiency of the business, took the place of windfall gains; and the effort of every one to hold as small stocks as possible brought industry to a standstill, just as previously their efforts to accumulate stocks had over-stimulated it. Unemployment succeeded profiteering as the problem of the hour.

III *The Earner*

It has been a commonplace of economic textbooks that wages tend to lag behind prices, with the result that the real earnings of the wage earner are diminished during a period of rising prices. This has often been true in the past, and may be true even now of certain classes of labour which are ill-placed or ill-organised for improving their position. But in Great Britain, at any rate, and in the United States also, some important sections of labour were able to take advantage of the situation not only to obtain money wages equivalent in purchasing power to what they had before, but to secure a real improvement, to combine this with a diminution in their hours of work (and, so far, of the work done), and to accomplish this (in the case of Great Britain) at a time when the total wealth of the community as a whole had suffered a decrease. This reversal of the usual course has not been due to an accident and is traceable to definite causes.

The organisation of certain classes of labour—railwaymen, miners, dockers, and others—for the purpose of securing wage increases is better than it was. Life in the army, perhaps for the first time in the history of wars, raised in many respects the conventional standard of requirements—the soldier was better clothed, better shod, and often better fed than the labourer, and his wife, adding in wartime a separation allowance to new opportunities to earn, had also enlarged her ideas.

But these influences, while they would have supplied the motive, might have lacked the means to the result if it had not been for another factor—the windfalls of the profiteer. The fact that the business man had been gaining, and gaining notoriously, considerable windfall profits in excess of the normal profits of trade, laid him open to pressure, not only from his employees but from public opinion generally; and enabled him to meet this pressure without financial difficulty. In fact, it was worth his while to pay ransom, and to share with his workmen the good fortune of the day.

Thus the working classes improved their *relative* position in the years following the war, as against all other classes except that of the 'profiteers'. In some important cases they improved their absolute position—that is to say, account being taken of shorter hours, increased money wages, and higher prices, some sections of the working classes secured for themselves a higher real remuneration for each unit of effort or work done. But we cannot estimate the *stability* of this state of affairs, as contrasted with its desirability, unless we know the source from which the increased reward of the working classes was drawn. Was it due to a permanent modification of the economic factors which determine the distribution of the national product between different classes? Or was it due to some temporary and exhaustible influence connected with inflation and with the resulting disturbance in the standard of value?

The period of depression has exacted its penalty from the working classes more in the form of unemployment than by a lowering of real wages, and state assistance to the unemployed has greatly moderated even this penalty. Money wages have followed prices downwards. But the depression of 1921-2 did not reverse or even greatly diminish the relative advantage gained by the working classes over the middle class during the previous years. In 1923 British wage rates stood at an appreciably higher level above the pre-war rates than did the cost of living, if allowance is made for the shorter hours worked.

B CHANGES IN THE VALUE OF MONEY,
AS AFFECTING PRODUCTION

If, for any reason right or wrong, the business world *expects* that prices will fall, the processes of production tend to be inhibited; and if it expects that prices will rise, they tend to be over-stimulated. A fluctuation in the measuring-rod of value does not alter in the least the wealth of the world, the needs of the world, or the productive capacity of the world. It ought not, therefore, to affect the character or the volume of what is produced. A movement of *relative* prices, that is to say of the comparative prices of different commodities, *ought* to influence the character of production, because it is an indication that various commodities are not being produced in the exactly right proportions. But this is not true of a change, as such, in the *general* price level.

The fact that the expectation of changes in the *general* price level affects the processes of production, is deeply rooted in the peculiarities of the existing economic organisation of society. We have already seen that a change in the general level of prices, that is to say a change in the measuring-rod, which fixes the obligation of the borrowers of money (who make the decisions which set production in motion) to the lenders (who are inactive once they have lent their money), effects a redistribution of real wealth between the two groups. Furthermore, the active group can, if they foresee such a change, alter their action in advance in such a way as to minimise their losses to the other group or to increase their gains from it, if and when the expected change in the value of money occurs. If they expect a fall, it may pay them, as a group, to damp production down, although such enforced idleness impoverishes society as a whole. If they expect a rise, it may pay them to increase their borrowings and to swell production beyond the point where the real return is just sufficient to recompense society as a whole for the effort made. Sometimes, of course, a change in the measuring-rod, especially

if it is unforeseen, may benefit one group at the expense of the other disproportionately to any influence it exerts on the volume of production; but the tendency, in so far as the active group anticipate a change, will be as I have described it. This is simply to say that the intensity of production is largely governed in existing conditions by the anticipated real profit of the entrepreneur. Yet this criterion is the right one for the community as a whole only when the delicate adjustment of interests is not upset by fluctuations in the standard of value.

There is also a considerable risk directly arising out of instability in the value of money. During the lengthy process of production the business world is incurring outgoings in terms of *money*—paying out in money for wages and other expenses of production—in the expectation of recouping this outlay by disposing of the product for *money* at a later date. That is to say, the business world as a whole must always be in a position where it stands to gain by a rise of price and to lose by a fall of price. Whether it likes it or not, the technique of production under a régime of money-contract forces the business world always to carry a big speculative position; and if it is reluctant to carry this position, the productive process must be slackened. The argument is not affected by the fact that there is some degree of specialisation of function within the business world, in so far as the professional speculator comes to the assistance of the producer proper by taking over from him a part of his risk.

Now it follows from this, not merely that the *actual occurrence* of price changes profits some classes and injures others (which has been the theme of the first section of this chapter), but that a *general fear* of falling prices may inhibit the productive process altogether. For if prices are expected to fall, not enough risk-takers can be found who are willing to carry a speculative 'bull' position, and this means that entrepreneurs will be reluctant to embark on lengthy productive processes involving a money outlay long in advance of money recoupment—whence unemployment. The *fact* of falling prices injures entrepreneurs;

consequently the *fear* of falling prices causes them to protect themselves by curtailing their operations; yet it is upon the aggregate of their individual estimations of the risk, and their willingness to run the risk, that the activity of production and of employment mainly depends.

There is a further aggravation of the case, in that an expectation about the course of prices tends, if it is widely held, to be cumulative in its results up to a certain point. If prices are expected to rise and the business world acts on this expectation, that very fact causes them to rise for a time and, by verifying the expectation, reinforces it; and similarly, if it expects them to fall. Thus a comparatively weak initial impetus may be adequate to produce a considerable fluctuation.

The best way to cure this mortal disease of individualism must be to provide that there shall never exist any confident expectation either that prices generally are going to fall or that they are going to rise; and also that there shall be no serious risk that a movement, if it does occur, will be a big one. If, unexpectedly and accidentally, a moderate movement were to occur, wealth, though it might be redistributed, would not be diminished thereby.

To procure this result by removing all possible influences towards an initial movement would seem to be a hopeless enterprise. The remedy would lie, rather, in so controlling the standard of value that whenever something occurred which, left to itself, would create an expectation of a change in the general level of prices, the controlling authority should take steps to counteract this expectation by setting in motion some factor of a contrary tendency. Even if such a policy were not wholly successful, either in counteracting expectations or in avoiding actual movements, it would be an improvement on the policy of sitting quietly by whilst a standard of value, governed by chance causes and deliberately removed from central control, produces expectations which paralyse or intoxicate the government of production.

We see, therefore, that rising prices and falling prices each have their characteristic disadvantage. The inflation which causes the former means injustice to individuals and to classes—particularly to rentiers; and is therefore unfavourable to saving. The deflation which causes falling prices means impoverishment to labour and to enterprise by leading entrepreneurs to restrict production, in their endeavour to avoid loss to themselves; and is therefore disastrous to employment. The counterparts are, of course, also true—namely that deflation means injustice to borrowers, and that inflation leads to the over-stimulation of industrial activity. But these results are not so marked as those emphasised above, because borrowers are in a better position to protect themselves from the worst effects of deflation than lenders are to protect themselves from those of inflation, and because labour is in a better position to protect itself from over-exertion in good times than from under-employment in bad times.

Thus inflation is unjust and deflation is inexpedient. Of the two perhaps deflation is, if we rule out exaggerated inflations such as that of Germany, the worse; because it is worse, in an impoverished world, to provoke unemployment than to disappoint the rentier. But it is not necessary that we should weigh one evil against the other. It is easier to agree that both are evils to be shunned. The individualistic capitalism of today, precisely because it entrusts saving to the individual investor and production to the individual employer, *presumes* a stable measuring-rod of value, and cannot be efficient—perhaps cannot survive—without one.

For these grave causes we must free ourselves from the deep distrust which exists against allowing the regulation of the standard of value to be the subject of *deliberate decision*. We can no longer afford to leave it in the category of which the distinguishing characteristics are possessed in different degrees by the weather, the birth-rate, and the Constitution—matters which are settled by natural causes, or are the resultant of the separate action of many individuals acting independently, or require a revolution to change them.