MONEY AND INFLATION

by

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"The objective . . . is to reduce the nation's standard of living . . ."

The Times leading article on the devaluation of the pound, 20 November 1967

1

MONEY "ON" AND "OFF" GOLD

Money is a general title to the ownership of goods. The title deeds of a house give the ownership only of a particular house; but as a medium of exchange, money (in appropriate quantities!) enables the holder to buy food, drink, clothes, cars, houses, and pretty well everything else—provided it is there to be bought.

Money has had various forms in different countries in different periods. But as civilisation and trade developed, shells and cows gradually gave place to metal coins and later on gold coins took the place of silver as the basis for the standard unit of currency. Notes came into use alongside gold coins, and other "promises to pay" (bills of exchange, etc.) were accepted as money. But the *unit of currency* remained the standard gold coin of the country: all other forms of money were expressed in terms of that gold coin, and could (in principle if not always in practice) be transformed into the corresponding number of gold coins.

That was the position in the advanced countries before the first world war—Britain had its £ sterling in the gold sovereign, a coin whose weight and fineness was laid down by law; the United States had its dollar, France its franc, Germany its mark, and so on, each embodying a certain weight of gold laid down by law. All other forms of money were expressed in these gold units, and could normally be exchanged at a bank for an equivalent number of these units.

But what was it that determined how many gold units had to be exchanged for other things? In other words, what determined the *value* of commodities made for sale in terms of the country's gold unit?

As Marx pointed out, there had to be something in common between commodities and gold if one was to be measured against the other; the only thing that they had in common

was that they were products of human labour; the comparative quantity of labour-time involved in the production of gold and of other things was therefore the basis on which they exchanged with each other.

The production of gold involved an amount of labour-time which, although not fixed, was fairly constant. It is true that the finding of new sources of supply which were easier to work, together with new methods of mining and refining gold, meant a certain reduction in the amount of labour-time required for newly-mined gold; but the quantity of newly-mined gold that came onto the market each year was only a small fraction, as a rule, of the existing gold stock in the world. This meant that the lower quantity of labour-time embodied in the newly-mined gold hardly affected the *average* amount of labour-time embodied in the gold units of currency in the world. For all practical purposes, therefore, the quantity of labour-time embodied in these gold units remained stable, and could be used at any time as a measure in exchange for other products of labour.

The exchange value of products, that is, the number of standard gold units for which they could be exchanged, was determined by the amount of labour-time used in making them, compared with the amount of labour-time used in producing the standard unit of gold. The *price* (in gold units) was therefore roughly based on this comparison, with various modifications noted by Marx.

The *price* at which anything is sold may vary from its *value*, although it is ultimately based on its value. The price may fall below its value, because there is a surplus and the seller must accept a lower price to get rid of it. If there is a shortage and demand is high, the seller gets the chance to raise the price above its value. If a monopoly is established, or a price agreement reached between manufacturers, the price of a product will be raised above its value. Or if the government imposes a tax or duty on a product, its price will naturally be raised above its value.

Nevertheless, whatever the fluctuations in price, the basis on which the fluctuations take place is always the *value* of a

product, that is, the relative amount of labour-time used in making it (including the raw materials and wear and tear of the machinery, etc.). Thus a new motor car always costs more than a pedal bicycle, a motor launch more than a rowing boat.

Purchase and sale, the exchange of products for money, developed in this way in practice, since merchants had to depend on someone using labour-time to produce what they wanted to exchange or sell. The early English economists, Adam Smith and Ricardo, examined value, and found that the real basis of value was the relative amount of labour-time used in producing things, and Marx later developed the labour theory of value in a more exact form.

The value of any product of labour depends, in Marx's view, on the "average socially necessary labour-time" embodied in it—not the labour spent by one worker on an individual product, but the average spent on that kind of product at any definite period in a country's technological development. This applies directly, of course, only to things which are products of human labour and are regularly made for sale. Other things, such as land, company shares, etc. have a derived value, based mainly on the amount of income which they are expected to bring in.

For example, the buying and selling of shares on the Stock Exchange is carried out by means of money. What exactly is it that is bought or sold in such transactions? If £100 shares in a company with a share capital of £100,000 is bought, it can be said that one-thousandth part of the property of the company has passed into the buyer's hands. But although this may be true in the legal sense, no one will exchange money for the mere ownership of something which he cannot use. What the buyer is really concerned with is a proportionate share in the future profits of the company; he hopes that in the future he will receive a dividend warrant paying him a part of the money which the company has "made" during the previous year. (In the next chapter we shall see how a company "makes" money.) What is important is that Stock Exchange operations of this kind do not have any direct reference to goods, but merely transfer from one person to another claims to future money.

The fact that claims to future money are constantly being bought and sold, and that the price for these claims is constantly changing according to the profit record and prospects of the company concerned, makes it possible for money to be used in speculation, the buying and selling of shares not with a view to drawing future profits from a company, but with the aim of selling the shares later on, at a higher price than was paid for them.

But the fact that there are shares to be bought, whether as investments bringing in money in future years or purely for speculation, is due to the fact that money has previously been used in yet another way. When a company is first formed, as a rule it offers shares to the public (public companies) or to some restricted group of people (private companies). People hand over money in exchange for those shares—which are claims to future profits, future money. The company then uses the money to buy or rent land and buildings, machinery, equipment, raw materials, etc., and to pay wages and salaries to workers needed to produce actual things. This is the real process of investment, the transformation of money into capital, into something whose use will employ labour-power to produce new things and more money, profit over and above the costs of production.

All the dealings in shares of existing companies merely transfer the claim to this profit from one person to another.

In the days when Britain was "on gold" and a £ was a gold sovereign, the general level of prices was more or less stable. The prices of individual things might go up for reasons affecting them only, such as a new tax on them, or a temporary shortage of supply in relation to demand; or if a monopoly was established; or, if they were imported, because the price on the world market went up for any reason. On the other hand, the price of any particular product might go down because of a surplus of supply over demand, or because a new method of production was introduced, involving less labour-time and therefore reducing the exchange value of the product with gold.

As for the rates of exchange between the currencies of different countries, these too were more or less stable. The £, dollar, franc, mark, each was equivalent to a specific weight

of gold, and all that was necessary was to take this, in comparison with the gold in the standard units of other countries, as the basis for the exchange rate with other currencies. If debts between countries could not be simply set off against each other, the balance on either side could be settled by a shipment of gold coins or of bullion of the same weight as the coins.

When Britain and the United States were "on gold" the standard rate of exchange was : £1 = $4.86, which registered the fact that the United States gold dollar contained rather more than one-fifth of the gold in an English sovereign. A British miller who bought wheat from a United States farmer for $486 could settle the account by sending him 100 sovereigns. But freight and insurance on a shipment of gold was costly, and it was cheaper to buy a draft for $486 from a bank in England and send it to the American farmer in payment of the bill.

How could a bank in England be in a position to give the miller a piece of paper which would be exchanged in the United States for $486? Because at the same time as the English miller was buying wheat from an American farmer, all kinds of other transactions were taking place between the people of the two countries. An American merchant, say, had bought £100 worth of whisky in Scotland, and wanted £100 to pay for it. Instead of sending $486 in gold dollars, he too would go to a bank in the United States and buy a draft for £100.

The American bank would then have $486 (paid by the American merchant for the £100 draft payable in Britain) : the English bank would have £100 (paid by the miller in Britain for the $486 draft payable in the United States). So the American bank could pay out the $486 to the farmer, and the British bank could pay out the £100 to the whisky producer, without any gold £s or $s crossing the Atlantic.

Of course such neat transactions do not take place in practice. What happens is that there is always a continuous series of purchases and sales by different firms between the two countries, and the moneys involved in these transactions are brought together through the banks and the dollars set off

against the pounds. When over a period the amount of dollars owed to the United States was greater than the equivalent in pounds owed to Britain, and the difference could not be settled by using the currency of a third country, British banks might have to send a shipment of sovereigns or of gold bullion to square the account.

Although the exchange rate of the £ with the American $ fluctuated a little from the exact equivalent in gold, the fluctuations were due to particular causes (like big shipments of cotton or wheat, for which dollars had to be paid at certain times of the year), and the exchange rate remained close to "par"—which was the relative content of gold in the standard units. So too the prices of goods that were imported remained relatively stable in £s, fluctuating in general only with prices in the world market owing to temporary shortage or over-supply.

Similarly, prices in £s for goods manufactured in Britain were relatively stable. But since the exchange value of an article depended in the first instance on the human labour embodied in it, the long-term trend in prices was downward, because new methods and new techniques of production, both of raw materials and of finished goods, meant a reduction in the amount of labour contained in particular articles. This trend can be illustrated by the fact that, taking industrial output per head in 1850 as 100, by 1900 it had risen to 197, or nearly double. The comparison, of course, only roughly illustrates the point, because of the many other factors that had changed between 1850 and 1900, but it does show the trend towards less labour being used per unit of product and therefore the trend towards lower prices.

Such were the conditions in which, before 1914, the general level of internal prices, rates of exchange with other currencies, and the balance of payments, were so relatively stable that very little attention was paid to them except by experts and foreign currency gamblers.

But from 1914 on, countries have gone "off" gold as the direct basis of their currencies, and at one time or another have "devalued" their standard unit—that is, declared that it is equivalent to a smaller quantity of gold (or of dollars) than

before. More of the standard unit is therefore needed to form the equivalent of other products of labour; which is another way of saying that the prices of these other products have gone up in terms of a devalued £ or $.

On the other hand, this upward movement of prices after devaluation is not automatic or immediate. It first shows itself in the prices of products imported from countries whose currency has not been devalued. The prices of these products to importers, say in Britain after devaluation of the £, rose at once, because more pounds were needed to pay for them, owing to the changed rate of exchange. But the prices for goods which are made and sold in Britain remain more or less unchanged for a time, until the higher prices for imports seep through industry, raising the cost of raw materials and finished goods and therefore leading by degrees to a general rise in prices.

For example, the £ was devalued in 1949, so that the exchange rate with the United States dollar, which had previously been about $4, fell to $2.80. At that time the retail price index stood at 66 (1958 = 100). By 1950 the retail price index had only risen to 68. It was not until 1954 that the retail index had risen to 85. Of course there were other factors (including the Korean war from 1950) involved in the price rises, but these figures indicate the slowness with which the 1949 devaluation worked through the economy. It is this slowness in the working of devaluation on prices of goods sold to other countries which gives the devaluing country an advantage in the competition for external markets. The costs of production remain more or less unchanged for a time, and therefore the prices of goods exported can also remain relatively low measured in pounds; but the £ itself is of lower value in the currencies of foreign countries (which have not devalued) than before.

In practice, of course, if one country competing for export markets devalues, there is a strong tendency for other countries to meet the more intense competition by devaluing their own currencies, so that the relative position remains unchanged and no one gets any advantage. This competition in devaluing the currency was one of the factors leading to the Bretton Woods international agreement fixing rates of exchange and binding

countries not to devalue their currencies except in special conditions.

However, price rises in Britain or elsewhere are not entirely due to devaluation or changing the rate of exchange with other countries. Since the second world war the £ has only been devalued once, in 1949. Yet internal prices have risen continuously in the postwar years, both before and after the 1949 devaluation. It is this which has been called *inflation*.

In past centuries, inflation has been known as the resort of bankrupt governments which either reduced the amount of gold in their standard unit, or issued notes to meet their debts in quantities which bore no relation to the production of goods in their country. The case of Germany after the first world war is well known. As a result of the general disorganisation of industry and trade in Germany at the end of the first world war, the government was unable to raise much in taxes, and was compelled as time went on to meet its debts by issuing notes. The result was a real inflation of currrency : the notes, issued week after week without any relation to what was being produced or imported, gradually lost their value for buying things, until notes of a million, billion or trillion marks could only buy a postage stamp.

That was a runaway inflation. In Britain, although prices have risen continually, there has been no real inflation in this sense of an unlimited issue of notes. The rise in prices has been gradual—a few per cent each year on the average. So it has been called "creeping inflation".

This gradual rise in prices over the postwar years has occasioned a great deal of discussion and controversy among Marxist and non-Marxist economists alike. It is constantly in the public eye, with one government after another professedly trying to end the "creeping inflation" by measures which do not seem to have much effect in stopping the rise in prices but which bear heavily on the people, on wages and on industry.

So we have to ask : what are the factors which result in this continuous rise in prices? Do these factors come into existence spontaneously, or are they the result of a policy carried out by the monopoly capitalists and the government? And are the

measures taken by successive governments really devised to counter the rise, or are there other motives?

In attempting to answer these questions we have to begin by showing the difference between being "on" gold and "off" gold. When Britain was "on" gold the prices of things were relatively stable: their fluctuations were small, they went up and down, but were not always rising. And this was due to the fact that the prices of things were expressed in terms of a gold currency unit, which made it possible to measure the value of goods on the basis of the human labour-time embodied in them and the human labour-time embodied in the gold unit.

But when we went "off" gold and adopted a paper currency, there was no automatic check on the prices of goods. Prices became divorced from any particular weight of gold embodying a particular amount of human labour-time, and were therefore free to rise without coming into conflict with the paper pound currency in which prices were quoted.

Going "off" gold did not of course immediately result in higher prices. But it created the conditions in which price rises were possible. Then other factors came into operation which were the direct *causes* of price rises.

The quantity of labour-time embodied in things still remains the basis of their relative prices—a passenger liner uses up more labour-time than say a rowing boat, a motor-car more than a saucepan. But the general price level, measured in paper pounds, has gone up and is still going up—that is, the £, divorced from gold and therefore from any direct link with labour-time, is losing its exchange value with other things. Or, in other words, the £, as an abstract unit which cannot be exchanged for a definite weight of gold, represents a falling quantity of human labour-time.

The legend on the £1 notes in use at present in Britain is "I promise to pay the Bearer on Demand the sum of One Pound", and this promise is signed by the Chief Cashier "for the Governor and Company of the Bank of England". But if we took the note to the Bank of England and asked the Chief Cashier to honour this promise, he could only give us another £1 note, bearing exactly the same promise, and not even

pretending to *be* a £, as the gold sovereign used to be. The value of a paper £, instead of being a measure of the value, and therefore of the price, of other things, as the gold sovereign was, is now *determined by* the prices of other things, and as these other things rise in price so that paper £ falls in value. So the £ of today is said to be worth only a few shillings, because the retail prices of goods have risen over three times on the average since 1939.

If however we look at the whole field of prices, we find that not all have gone up in the same proportion, compared with their prices before the £ went "off" gold. For example, motor cars, or sound radios. In such cases, technological advances have so greatly reduced the amount of labour-time that has to be used up in producing the finished article that the reduction of the labour-time embodied in these products exceeds the average fall (measured in prices) in the labour-time represented by the purchasing power of the paper £. But the lower price would not have corresponded more or less with the fall in labour-time used up had it not been for competition from other concerns in other countries making the same goods.

Although the paper £ has no direct relation to gold, the Bretton Woods agreement (1950) laid down exchange rates of all currencies with the United States dollar (for Britain, £1 = $2.80). The rate is allowed to fluctuate by 1 per cent more or less, but still (for currency exchange purposes) the £ is related to gold through the dollar.

For the great majority of articles manufactured and sold in Britain, however, prices in paper £s have risen : the progress in technology has either not affected the labour-time needed to produce them, or has affected it to a smaller extent than the reduction in the labour-time (measured in general prices) represented by the paper £.

It may seem something of a contradiction to say that, because the paper £ no longer has any direct relation to gold, its purchasing power has been able to fall *within Britain*—that is, prices have been able to rise—and yet *for foreign exchange purposes* the £ has remained stable at around £2.80, although the $ has a fixed relation to gold ($35 to an ounce of gold), so

that through the dollar the £ still has a fixed, though indirect, relation to gold.

But in fact this is what has happened. Between 1949 and 1966 the retail price index in Britain nearly doubled—from 66 to 125·6 (1958 = 100). But the exchange rate remained at £1 = $2.80. So it is necessary to find some explanation of the difference betwen the *internal purchasing power* of the £ and its *external* foreign exchange value. For it would seem that the fall in the internal purchasing power of the £ must put up the cost and the price of British products, and therefore make it difficult for British products to compete in foreign markets. It must also discourage exports, because manufacturers can make bigger profits by selling their products on the home market than by exporting.

Yet British exports have continued to grow, in spite of this evident contradiction.

Several causes have contributed to this result, probably the most important being that although internal prices have risen in Britain, so have internal prices in many other countries, so that higher prices of British exports can remain more or less competitive abroad. United Nations reports show the rise in consumer price indices (all items) for various countries: the basis is 1958 = 100:

	1948	*1967 (March)*
Britain	65	128
West Germany	92	123
Italy	78	132 (1966)
Belgium	87	122
U.S.A.	83	114

In the case of the United States, where the loss of purchasing power by the dollar is much smaller than that of the pound in Britain, many British exports to the U.S.A. are highly specialised, such as whisky, and some types of motor car. The lower level of wages in Britain than in the United States is also an important factor, especially in the case of American-owned plants in Britain whose products are exported to the U.S.A.

In the case of countries with "sterling balances" in Britain, the use of these balances is to a considerable extent restricted

to buying British-made goods. The lower import tariffs in Commonwealth countries resulting from Imperial Preference also play a part.

Somewhat similar is the exchange of goods between two countries—"we will buy this from you if you will buy that from us"—which is often sanctioned by treaties between the governments. This exchange, though usually expressed in money, is in reality a barter agreement which ties a foreign seller of produce to use the sale money to buy British goods.

For British companies, too, exports represent an addition to their turnover, so that in suitable conditions they may reduce their export prices to get the business, setting "economies of scale" in production against any lowering in their rate of profit on goods exported.

Thus there are several ways of getting round the contradiction between *internal* prices, which are in paper £s not tied to gold, and the *external* value of the £, which is tied to gold through the $. But the contradiction is still there, as is shown by frequent Bank of England intervention to support the £ on the foreign exchange market, continuous government propaganda for exports, the attempts to keep wages down, and the tax concessions to exporters which have recently been introduced.

Several factors, apart from the 1949 devaluation of the £, have contributed to the general rise in the prices of things within Britain, in paper £s. The most important of these seems to be the influence of monopoly, which because of its control of the market is able to put up prices for the goods it produces or controls. Demand exceeding supply has influenced the rise in prices of certain goods, at certain periods, especially in the case of raw materials imported from abroad. Increases in taxation and other government measures have played an important part. Ordinary capitalist greed reinforces every tendency for prices to rise.

Each of these factors is linked with one or more of the others, so that it is not possible to say how much of the general rise in prices is due to one factor alone. But some examples will illustrate how one factor or another works, and help to explain the persistence of the rise in prices since the war.

2

HOW MONEY IS "MADE"

The total quantity of money in the world is increasing year by year—or to be more accurate, over the years, since natural calamities, such as a widespread drought, or man-made calamities such as wars or economic crises, may check the increase of money and even turn it into a decline. Such calamities, however, as a rule affect particular countries or areas, while the rest of the world continues to accumulate money, that is, its claims to the ownership of things. Thus for example in the two world wars, in contrast to the destruction of things to which corresponded money (claims based on investment or purchase), the United States capitalists increased their money or claims to things, partly owing to the higher prices they got for their products, and partly to the loans made to other countries whose available money supply was being exhausted.

But the general process of increasing the total of money is the production of things. In modern society the quantity of money in a country and in the world as a whole is *directly* raised by the amount of precious metals produced each year and converted into coin. It is also *indirectly* increased by the production of all other things, on which a profit is made by the capitalist class out of the labour of their employees. If the owner of a factory whose workers have carried out a turnover of production finds himself with more money than before the turnover began, this means that he has a title to products embodying more labour-time than before. He has got this additional title because in the course of production the final product turns out to have more labour-time embodied in it than was represented by the money which he put into producing it, to pay for the wear and tear of his plant (depreciation), the raw materials and auxiliary materials used up, and the wages of the workers employed to produce it. How does this come about?

Because he has bought, as one of the items in his costs, the use of, say, 40 hours exertion of labour power in exchange for

the wages—and therefore the final product embodies "value added in the course of production" to the equivalent of 40 hours labour-time. Against this value added has to be set the cost of hiring the labour-power for 40 hours—the wages. As we have seen, the exchange value (and therefore, subject to fluctuations, the price) of things is determined by the labour-time required on an average for their production. The exchange value of a worker's labour-power for 40 hours is therefore the number of hours of labour-time required to keep him fit to do the work, that is, to provide him with the things he needs for a week, including provision for his family. But what number of hours is that? It is the number of hours of labour-time which on the average is necessary to produce the food and drink, clothing and shelter and other needs of a worker in his particular country and trade.

Of course we do not know what this number of hours is, nor are there any statistics from which we could discover it. But as money is a token for a certain number of hours of labour-time, we can say this: if the value *added* (to the value of raw materials etc.) by a worker in a 40 hour week is £20, and he receives a wage of £10, then the number of hours labour-time required to produce what he consumes in a week is 20. But he actually works for 40 hours, and his product ("value added") is worth 40 hours labour-time, or the equivalent of 20 hours more than his wages. It is this labour, over and above the labour-time required for his wages, which creates the *new* value, the profit of the employer (who usually has to share it with landlords and bankers and the State).

Therefore in each turnover of production things embodying additions to previously existing embodied labour come into existence. They are sold, and thus transformed into money, into general titles to things. Some of the new products are consumed—food and drink and other articles of consumption, and raw materials and fuel etc. for use in the next turnover of production. Other products of labour are not immediately consumed, but go to form the buildings and plant etc. which last through many turnovers of production. But in any case the money for which they are sold, less the production costs, repre-

sents an addition to the previously existing stock of money, the previously existing claims to things.

But how can a capitalist find someone with money to buy this newly-made product, when all the previously existing stock of money is fully occupied as a claim to everything which already exists? In part, some of the answer is that in addition to money in use buying things, there is a stock of money, accumulations of past profits, which is not invested in things, but is kept *as money* by financial institutions of all kinds to lend at interest to other capitalists who need it for buying things. But the main part of the answer is that at the same time as one capitalist puts his newly-made product on the market, thousands of other capitalists put *their* newly-made products on the market too. What happens is an exchange of newly-made products through the medium of credit, the titles to these products passing from one capitalist to others through mutual sales and purchases.

It is true that in an economic crisis many products cannot find a buyer except at a price below their value or even below their cost. In some instances, as during the crisis of the 1930s, goods that cannot be sold may be physically destroyed, as in the case of coffee. This leads to a temporary decline, not an increase, in the supply of money.

The money in the banks, the titles to things registered in the banks' books in the names of individuals and companies, is constantly being drawn out for buying raw materials etc. and paying wages, and as a rule returning to the bank in an increased amount, through the production of profit in the way described. This is the principal way, apart from production of gold for coinage, in which money is "made", and as a result the stock of money is constantly increasing, and some countries (or rather, some people in them) are growing richer and richer.

Another way of expanding the supply of money actually in use is the system of credit, especially loans by banks. There is a continuous lending of money, from people or institutions that have no immediate need for it, to people who need it to buy raw materials and productive equipment, to pay wages, and to pay all the other costs involved in production and dis-

tribution; and also to people who want money for investment or speculation (to say nothing of people who just need it because they are spending more than their income). But while ordinary mortals or institutions can only lend money which already exists, the banks can actually create some of the money which they lend.

A cheque from Smith to Jones can transfer Smith's title, say £100, from him to Jones; but this is simply a transfer of an existing title—money which Smith had paid into his bank and is registered by the bank as belonging to Smith. But the bank can lend Jones £100 without transferring it from Smith's or any other account. It is able to do this because not all the money deposited in a bank by its clients is wanted immediately by them, so that there is a pool of money in the bank which it can use for lending to people who have an immediate need for it. But as these in turn do not want as a rule to pay it out all at once, or pay it to other customers of the same bank, the pool is not reduced at once by the amount of the loan, so that the bank can lend far more than its existing pool of money. It can go on lending, creating more money, supplying people with titles to goods, so long as its pool of money belonging to its clients is not in fact drawn out by them. Of course there is a limit, or the bank might find itself unable to honour its obligations. This limit is only known from experience, and many banks have failed because they lent money too freely. The general principle followed by British banks was that they must have in cash 8 per cent of the loans they make, or 30 per cent in cash and quickly available money (including loans that they can call in at once).

Apart from the banks, there is an enormous number of institutions which lend money directly or indirectly. Some only lend money for special purposes, such as buying houses; others lend it for general business purposes, such as discounting bills of exchange, or for the purchase of cars or other goods. This immensely elaborate financial system, with its banks and credit institutions of all kinds, its money market and Stock Exchange, its foreign exchange and its financing of new companies, and all the rest of its apparatus and devices, has grown up mainly

to serve the needs of the owners of large amounts of property or money capital which they are using to produce profit.

In *Light On the City* (Labour Research Department Publications Ltd., 78 Blackfriars Road, London, S.E.1), Roger Simon gives an account of the extremely complex system of financial organisations centred in the City of London.

The banks, as described above, make loans at interest on the basis of money deposited with them by their clients, besides carrying out foreign exchange transactions and all kinds of other dealings in money. In Britain, unlike some other countries, banks do not as a rule hold shares in or own industrial or commercial companies, relying for their profit on the interest and commissions they draw from loans and other financial business, both at home and overseas. The Bank of England is not only the government's bank, but also the bankers' bank, and the ultimate bank of most of the other financial institutions. It has special functions as the government's banker, to control the Exchange Equalisation Account for foreign dealings in the £, and to control the supply of money in general (through the "Bank rate", holding deposits of money from the banks on government instructions, etc.).

The discount houses specialise in discounting bills of exchange. These are in effect cheques drawn not on a bank but on a commercial house by the supplier of goods, which wants time to sell the goods before paying for them; so they are not for immediate payment, but for payment at some later date (usually 3 months ahead). When "accepted" by the firm on which it is drawn, the bill goes to a discount house, which advances the money "at a discount"—that is to say, instead of making a charge for the interest on the amount when the bill falls due for payment, it deducts the interest in advance from the money which it advances, so that when the bill is paid the discount house gets back what it advanced plus the interest.

A special type of bill of exchange is the Treasury bill, through which the Government raises the money it needs from week to week, again less the discount from when it is issued until the date it falls due for payment.

It is chiefly in connection with Treasury bills or other bills

of exchange that the "Bank rate" is effective. From time to time the discount houses may find it necessary to borrow money, usually because all the money they have is tied up in bills of exchange and additional attractive business comes their way. They therefore *rediscount* some of the Treasury bills or other bills of exchange which they hold; that is, they hand them over to banks, especially the Bank of England, in exchange for cash. They get the cash, the amount of the bills, less the discount for the time these bills still have to run before falling due for payment, and the published "Bank rate" is the Bank of England's rate for re-discounting these bills. In effect, if a bill taken by a discount house is payable in three months, and after two months the discount house finds itself short of cash and rediscounts the bill, it has already taken the interest for two months, and passes on to the bank the interest for the third month (though the rate of discount deducted by the bank for the third month may be, and usually is, higher than that charged by the discount house when it first cashed the bill).

Then there are the so-called merchant banks, like Barings, Philips Hill or Lazard, in origin simply merchant houses which accumulated profits and launched out into lending money, eventually finding it more paying to handle money rather than buying and selling goods. These banks specialise in financing international trade and helping to raise money as capital for other concerns, charging interest and commission; but they also undertake other kinds of financial operations.

The big insurance companies not only carry out insurance business, but invest their enormous accumulating funds, received from premiums, in stocks and shares, Treasury bills, etc.—from all of which they draw additional profits.

Then there are investment trusts, including unit trusts, which use money subscribed by individuals or firms to buy and sell shares, drawing dividends from their holdings and also selling them from time to time when this is profitable.

There are also hire purchase finance houses, which lend money for the hire purchase of machinery and other equipment and also to finance the hire purchase of consumer goods such as cars, TV sets, refrigerators and washing machines.

This is an extremely profitable business, although those who buy things on hire purchase seldom realise the high rate of interest they are paying. The interest charged may appear to be only 5 per cent, but as the instalments are paid, the amount actually on loan falls, though the instalments remain the same, so that the apparent rate of interest has to be roughly doubled to get a true picture.

Building societies borrow money at the current rate of interest, and lend it to house buyers at a higher rate, thus making sure of continuous profits.

These are the main financial institutions, which exist mainly on borrowing money cheap and lending it dear, although they also carry out all kinds of other financial operations.

But apart from the banks, which can create, up to a point, the money which they lend, the other financial institutions can only lend money which already exists—their capital, including accumulated profits (this as a rule forms only a small proportion of the business they do); or other money, borrowed from other financial institutions or individuals; or, in the case of insurance companies, money taken as premiums but naturally not immediately paid out—sometimes never paid out, when the event insured against does not take place.

Most of these institutions have close personal and financial connections with industrial or commercial companies, and are in a position to work together with these in the sacred cause of higher profits.

What determines the rate of interest? There is no single rate of interest, but a whole series of rates according to what is the financial standing of the borrower, what the loan is for, and the financial position of the lender at the time. But the important factor for the average rate of interest at any time is the supply of money in the hands of the financial institutions, in relation to the demands for loans. The government may tell the banks to reduce their total loans, because the economy is thought to be "overheated"; this is usually done in conjunction with telling the banks to deposit with the Bank of England a part of the money in their hands which they would otherwise lend to borrowers. And the government may arrange

with the Bank of England to put up "Bank rate", which leads to a general rise in interest rates—which leads also to a flow of money from other countries to get the higher rate of interest which lenders can get in London.

But the general rate of interest must be below the current rate of profit, for it is only the *use* of money as *capital in production* that creates the new value out of which the interest on a loan is paid. Therefore the rate of interest on loans must be lower than the rate of profit, or capitalists would not borrow money to finance production. Gamblers and speculators may be prepared to borrow however high the rate of interest, but few lenders of money would be prepared to advance loans for such purposes.

The current rate of interest is an important factor in putting up the cost of living. This is particularly obvious in the case of loans for building or buying houses, and it has an immediate and lasting effect on rents. The rate of interest on loans by local authorities is a major factor in the rents charged by them. The rate of interest on loans by building societies, whatever it was when the loan was first made, is usually raised whenever Bank rate goes up (and does not always come down when Bank rate is lowered). But it is not only in these cases that interest charges play an important part in raising prices. In almost every business the interest on loans, whether temporary or long-term, forms a significant item in costs, and is therefore reflected in prices. The interest on government debt, both long-term and temporary (discount on Treasury bills), is reflected in taxation.

The following figures give an idea of the huge sums of interest paid by the "public sector", and show the increase in recent years :

Interest on debt paid by	*1950*	*1965*
Central Government	£507 million	£988 million
Local Authorities	£81 million	£502 million

There are no statistics showing the total amount of interest paid by private individuals and businesses, but it must be enormous.

Those who run the financial institutions toil not, neither do they spin, but their profits constantly increase, drawing off from industry and trade a substantial part of the surplus value created by the workers in production, and directly or indirectly raising prices, increasing the cost of living, and thus reducing real wages.

At the same time, through their increasing accumulation of money they play a constantly more significant part in controlling the development of the country's wealth and economic and political policy both at home and overseas.

3

THE INFLUENCE OF MONOPOLY

It is well known that monopolies, because of the relatively low degree of competition that they face, are in a position to put up the price of what they produce or sell above their values (measured in the labour-time spent in producing the products). They need not always put up the price of their products in order to increase their profits. Even keeping their prices unchanged, they can increase their profit by reducing the costs of production—by using more up-to-date machinery and methods, getting greater productivity per worker without increasing their wages costs, using cheaper materials, and so on. There are some monopolies which, for a time at least, keep their selling prices unchanged, although they are constantly bringing in cheaper methods of production.

But the effect of monopoly is always to raise profits, whether by putting up the prices of their products or by preventing new technological advances from bringing about a reduction in prices.

Monopolies, too, are constantly extending, swallowing up smaller capitalist firms, spreading out from one section of industry, finance or trade to another, and if there is extra profit in it, merging with rival monopolies, or together with their rivals forming new companies to monopolise new fields. In

this way larger areas of industry, trade and finance are constantly being brought under the control of fewer capitalist groups, which exert their power to "administer" prices in an upward direction, at the same time as, through takeovers and mergers, they lower production costs. According to *The Times* Business News (July 10, 1967) mergers in the United States in 1967 were expected to exceed 2,600 in number—a record. In Britain too mergers in 1967 were a record, involving some £600 million in the first half of the year (*Evening Standard*, July 5, 1967).

As the area covered by monopoly grows, so does its influence on prices of all kinds, including both means of production and articles of consumption. From time to time we get instances of this, for example in the reports of the Monopolies Commission.

The Monopolies Commission report on the supply of electrical components to the motor industry, published in December 1963, pointed out that the dominant firms in this field charged much higher prices to the public than they do to the motor manufacturers. Most of the retail prices for spare parts were between 2½ and 4 times as high as the price to motor manufacturers, and some ranged up to 12 times as high. In the case of plugs, for example, the price was 6d. to manufacturers and 5s. to the motorist.

Another example is the report (September 1966) on household detergents, bringing into the limelight Unilever and the American firm Procter and Gamble, which between them supply 88 per cent of the total detergent market. This report showed that average profit on the household detergents side of their businesses in the six years 1960-65 was : 28 per cent in the case of Unilever, 53 per cent for Procter and Gamble. In both cases 23 per cent of the retail price of their products was accounted for by the cost of selling—advertising and promotion. This item includes press and TV advertising, distribution of free samples, coupons entitling to packets, reduced price packs (3d. off, etc.), free gifts such as plastic flowers or a duster, and so on. The Monopolies Commission observed : "Our view is that competition between Unilever and Procter and Gamble tends to result in the escalation of advertising and promotion

costs and to that extent to increase the price that the public is required to pay . . . and that with their comfortable rates of profit neither company is under pressure from the other to reduce its prices" (para. 115).

The Commission found that the amounts spent on advertising by the two chief firms concerned were excessive, and recommended that advertising costs should be cut by 40 per cent, and that the Board of Trade should negotiate with the companies on the basis of an average 20 per cent cut in the prices of their products. The two companies refused to agree to cut their advertising costs or reduce the price of their existing products. Finally an agreement was reached, as announced by Mr. Jay, President of the Board of Trade, in the House of Commons (April 27, 1967). This agreement was to the effect that the firms would not reduce their present advertising costs on their old products, and would not reduce the prices of these; but that they would put on the market "an alternative range of top-quality soap powders and synthetic detergent powders at a price 20 per cent below the prices of existing products", the lower price being made possible by their not spending so much on advertising these new products.

Monopolies both work together through price agreements or an agreed division of markets, and compete with one another —though as the aim of all monopolies is to make more and more profit, the competition between them brings little relief to the consumer. On the contrary, competition is not fought out as a rule by cutting prices, but leads to higher prices.

Although the growth of monopoly in practically all fields of production and distribution has reduced the price-cutting form of competition, the fact is that competition continues in new forms which, as in advertising, *increase* instead of *reducing* prices as competition was supposed to do in the past. As Lenin wrote in 1916, in *Imperialism: the Highest State of Capitalism*, "monopoly, which has grown out of free competition, does not abolish the latter, but exists over it and alongside of it, and thereby gives rise to a number of very acute, intense antagonisms, friction and conflicts".

Competition indeed continues, both between the monopoly

firms and smaller producers in the monopolised field, and between the monopoly firms themselves, especially those in different countries. Nowadays it does not normally take the form of direct price cutting; in fact, there are usually price agreements between the monopolies in every field. But in spite of price agreements, the acute antagonisms and conflicts go on all the time, as the monopolies grow bigger and more closely associated with the machinery of their State.

Even price agreements do not completely end price competition. Such an agreement means that there is a temporary situation in which the parties to the agreement consider that, at least for the time being, they can get the maximum profit at the agreed price. But if the situation changes, if for example one company expands more rapidly than its rivals, or if there is a growing surplus of the monopolised product and total sales are falling, one or other of the partners in the agreement may break away and for a time reduce its prices (as has happened with oil, for example) below the agreed price. But such a move is rare, and only temporary.

Competition between monopolies in different countries usually brings in State help in one form or another. The United States is constantly adjusting its tariffs and import quotas to protect the interests of American monopolies against challenge from outside. And all other governments are using similar methods to protect *their* monopolies. Where the area exploited by a monopoly lies outside the country, the monopoly capitalist State may use armed intervention to protect the interests of the monopoly (as with the whole "East of Suez" policy).

But in less drastic forms than State intervention or direct price cutting, competition takes place in advertising, in delivery dates, in design, in packaging or in the various forms of gift schemes.

Moreover, technological advances often make possible the use of substitutes for the monopolised product—aluminium instead of copper, plastics instead of metals. So the range of possible competition is very wide, and while this acts in some cases as a restriction on the arbitrary raising of prices by a monopoly, it can also have an opposite effect.

For example, a company having a monopoly or near-monopoly in any field may be able to raise its prices well above the equivalent of the labour-value of products, because its most likely rivals also want to raise their prices or at least are not interested in doing anything to keep them down. The Monopolies Commission on detergents noted that "with their comfortable rates of profit neither company is under pressure from the other to reduce its prices". And there are several motives for keeping prices high that are common to all monopolies.

One is the drive for expansion. "Expand or bust" is the unwritten slogan of every capitalist concern, and to be already big is no argument against wanting to be bigger. In fact the need for expansion applies to monopoly capitalism to an even greater extent that it did to the capitalism of a hundred years ago, because the chief competitors today are similar powerful monopoly firms at home or aboard.

In the days before monopoly was widespread, the need for modernisation and extension of plant was financed in the main by new issues of capital to the "public" (which, as Britain came nearer to the monopoly stage, included not only individuals with money to invest, but also insurance companies and other collective investors). But with the advance in size of the plants required, the amount of money needed for modernisation or new plant also grew. Today, with technological advance and competition between monopolies always growing in intensity, the amount of new capital needed by the big monopoly groups is stupendous.

The typical monopoly today is not a single firm, but a grouping of capital, including financial as well as industrial and selling concerns, with enormous financial resources. In the effort to keep up with the Joneses, each grouping needs constantly to modernise its existing plants and to bring new plants into operation, some of them behind the tariff barriers of another State so that it can compete with its rivals there on an equal basis.

Although a company may make a public issue of capital and encourage a public subscription to its shares, an important source of the finance needed for modernisation and expansion

is the accumulated profit of the company itself or of the monopoly group with which it is linked.

Giving evidence in 1957 before the United States Senate anti-trust subcommittee, Professor Galbraith said that "large firms in industry could set their prices virtually without regard to competitive forces . . . and so were able to increase their prices *in order to finance their expansion* out of retained earnings" (*The Times*, July 15, 1957).

Professor Galbraith's statement was borne out by the chairman of the Burmah Oil Company, who said: "The finance required for the expansion of the oil industry has for the most part to be generated by the industry itself, and selling prices must accordingly be allowed to remain at a level to meet this need" (*Financial Times*, May 23, 1957).

All monopolies carry out big extensions, and profits provide an important source of the finance needed for these—that part of the profits which is not paid out in dividends to shareholders, but is "retained for employment in the business", as I.C.I. reports describe it.

As the practice grows of meeting the cost of expansion out of profits, the prices of monopolised products are not brought down when technological advances make them cheaper to produce; they are more likely to be increased, in order to provide a wider margin of profit for financing vaster plans of expansion.

There have always been price increases, or prices kept at a high level in spite of cheaper costs of production, to increase the accumulation fund of a monopoly or big company; but in the period since the war this practice has spread more widely and been a more significant factor than previously in its influence on the general level of prices. This is partly because there are now more and bigger monopolies, partly because these are in fiercer competition with each other. This applies also in the case of international monopolies, or agreements for the division of the world market among the monopolies of a number of countries.

A feature of the current competition drive among monopolies is that new capital equipment is constantly being intro-

duced, not only to get *more* production, but also to get *cheaper* production. It is common knowledge that when machinery is replaced, what takes its place as a rule is not a replica of the old, but something of a newer type, something that can be used with less labour for the same or a greater output.

So it is not only the amounts of profit placed to reserve for expansion that serve a monopoly or big company as a fund for new capital equipment. There is also the amount set aside each year for depreciation of plant, before the net profit is arrived at. Chairmen of companies explain increases in the amounts set aside for depreciation as being essential in a period of rising prices, because new plant will cost more when the old has to be replaced. This is no doubt true. But because of the more intense competition between the monopolies and the faster pace of technological advance, the replacement is far more rapid today than it used to be or need be owing to the physical depreciation of the plant. The aim of this replacement is always to reduce costs and make more profit.

A hundred years ago Marx, drawing on contemporary experience, put the renewal of plant and machinery as occurring every 8 or 10 years, and he linked this with the "boom-slump" period. Today, plant and machinery depreciate "morally", though not physically, in a far shorter time than that. In the motor car industry, for example, new models involving some changes in equipment see the light every year. So while the productive capital used to be written off for depreciation say at the rate of ten per cent each year, the write-off now may have to be nearer 100 per cent. In fixing the price for his product, the factory owner has to raise the price above his actual costs by a sum sufficient to cover the physical or moral depreciation of his equipment.

So that for a monopoly it is not only a question of fixing the price in order to increase the amount of profit for the purpose of financing expansion; it is necessary to add the amount required in order to finance the more rapid technological advances of the equipment.

As all monopolies are in more or less the same boat, needing more money to cover the costs of more rapid expansion

and more rapid depreciation, the prices fixed by international agreement between monopolies as a rule take these needs into account.

In this way, the influence of monopoly on prices has become very significant in raising the general level of prices. Where monopoly is at work in a field which comes early in the productive process, as is the case with raw materials or semi-manufactures, the raising of the price at this stage stimulates price rises in the later stages of the productive process. And where these later price rises take place, the principle of "rounding off" usually carries the price for the finished product above what is necessary to cover the higher cost of the raw material or semi-manufactures, so that a profit higher than before is obtained.

Another important factor in raising prices, especially for the monopoly which needs a very wide market for its products, is the increasing cost of selling the goods that have been produced. Selling costs may involve not only a large advertising department staffed with highly paid copywriters and artists, and the cost of advertisements placed by this department in the press or distributed through the post or television, but the cost of general entertaining, visits to other countries, "gift" schemes, etc. All of these items are paid for out of the selling price of the product, and the total cost is very considerable. The total expenditure on advertising (press, TV and other) in Britain in 1960 was £455 million, according to an estimate published in *The Observer* (March 19, 1961), and quoted by Judith Todd in *The Big Sell.* This was over 2 per cent of the national income for that year. It is not possible to give any estimate for the other items on account of which the monopolies put up the prices of their products : the raising of profits to finance expansion and to finance "depreciation" which is also a part of expansion.

It is important to realise that all these extra costs, which are met out of raising the selling price of the monopoly products, are the result of the fiercer competition between the monopolies as they grow in size and influence. They are not accidental items, or items due to higher wages or other costs of produc-

tion, but are entirely due to the competition between the monopolies, for which the consumer pays in higher prices.

Nor are these the only items in the rise in prices which are due to the influence of the monopolies and their competition for a place in the sun. On their empire the sun never sets, and it is kept there by the "East of Suez" policy and the enormous and increasing costs of armaments and "small" wars. These costs, incurred in the interests of the monopolies, increase the total that is raised by the government in taxation, which in turn is reflected in higher prices.

4

"TOO MUCH MONEY. . ."

"Too much money chasing too few goods" is a time-honoured formula which is supposed to explain why the general level of prices rises. It is the central argument used by capitalists and their economists, and adopted by governments as the basis for their efforts to keep wages down. We are told that wage increases only bring inflation, and that, if repeated, these wage increases may cause a runaway depreciation of the £ similar to the depreciation of the German mark after the first world war—in any case a gross exaggeration, because the situation in Britain has had nothing in common with that in Germany after the first world war.

When it is said that too much money chasing too few goods causes prices to rise, this is true only in certain circumstances. And in order to see what are the circumstances in which it is true, we must always ask : in whose hands is the "too much money"? And what goods are there too few of?

In a capitalist society there are two groups of buyers, and they buy two types of goods. The capitalist class, besides buying food and drink and everything else in the way of consumer goods that it wants, also buys *capital* goods—factories, machinery and equipment, raw materials, and labour power. The working class also buys consumer goods, but it does not

buy capital goods. This is why we have to ask : in whose hands is the "too much money"?—what goods are there too few of?

If it is the capitalist class which has the money and is chasing too few capital goods this might be an explanation of a rise in the prices of capital goods. This was the case after the second world war, when the capitalists had accumulated profits from the war period, and also had sums put aside for depreciation and insurance money paid on losses due to the war. When this mass of money entered the market after the war to buy things which were in short supply, because their output had been very much restricted during the war, the manufacturers of machinery and plant and the providers of raw materials were able to put up their prices.

But it certainly was not "too much money" in the hands of the working class that caused this price rise, because in any case the workers do not buy capital goods.

In the case of consumption goods, however, which the working class does buy, prices too have risen. Has this rise been due to "too much money" in the hands of the workers? It is difficult to believe this. On the contrary, there are other causes for the price rises of consumer goods, causes which are quite specific and have nothing to do with the amount of money in anyone's hands.

One of these causes has been the growing influence of the monopolies—the extension of their grip on the market through takeovers and mergers based on the current high level of profits, making economies in costs of production which have not been reflected in lower prices, but in higher profits. The higher profits made as a result of takeovers and mergers, with the closing down of the less profitable plants, became a new incentive to expand, to raise prices still further to provide the means for expansion and competition with rivals.

Another specific cause has been government action. Successive governments have imposed purchase tax on many consumers' goods, and their prices have risen accordingly—often by more than the cost of the tax. Similarly, import and excise duties have been raised, directly adding to prices. The Tory Rent Act and the raising of interest rates also put up the

general level of rents, both privately owned and municipal, and opened the way to speculation, which made matters worse. Increases in postal and telephone charges, in licence costs, etc., are also due to government action.

There is also evidence that there has not been "too much money" in the hands of the workers. In spite of opportunities for consumer credit, the sale of some durable consumer goods such as refrigerators and washing machines has actually fallen in some years, showing a lack of money to buy them rather than "too much money" chasing them.

The actions of monopolies and of governments are therefore chiefly responsible for the rise in prices of consumer goods. There are other causes in particular cases, such as an increase in world market prices for some consumer goods; but here again the monopolies are responsible for these.

When prices rise for articles which are consumed by the workers, however, there naturally follows an insistent demand for a money increase in wages in order to maintain the former standard of living. And when higher wages are won, costs of production rise, as a result of which prices are raised still further, in order that the capitalists may maintain or increase *their* former standard of profits. This is the process known as the "spiral" or "vicious spiral" of wages chasing prices and prices chasing wages.

But the rising amount of wages in the hands of the workers was not the *cause*, but largely the *effect*, of policies which imposed constantly increasing prices on the earners of wages and salaries.

Graham Hutton, in a book called *Inflation and Society*, treats price rises as entirely due to an over-expansion of the supply of money. "Inflation", he says, "is a condition into which a country gets when its total of *money* income in any period rises faster than its *real* income of goods and services".

It will be noted that he presents this in a general form, without distinguishing between the two types of buyers and the two types of goods they buy—capitalists and workers, and capital goods and consumer goods. Moreover, though he is evidently trying to put the phrase "too much money chasing

too few goods" on a more scientific footing, both of the terms he uses—money income and real income of goods and services —are ambiguous and misleading. The "money income" in any period is not the only money which can come into the market to buy things. Those persons or firms with savings or already accumulated capital in any form can use it to buy "goods and services" made during the period which is being examined. These are also purchasers of goods made in Britain which are exported and sold abroad for "money incomes" not made in Britain; there are people and businesses in receipt of "money incomes" from abroad who buy "goods and services" in Britain.

Moreover, the amount of money knocking about at any time is capable of practically indefinite expansion through the system of credit. If a capitalist wants money (additional to his "money income" from existing sources) to start up some profit-making enterprise, he can easily enough borrow it. There is also the enormous item of loans for buying houses and of hire-purchase credit, which can go up without limit (apart from government squeezes) and be used to purchase things not with the buyer's present money income but with the money income of months or years ahead.

But if "money income" is misleading as a phrase to cover the money supply that can be used for buying goods and services produced in Britain in any period, the phrase "the real income of goods and services" is still more misleading when used to cover what any available money can be spent on. In addition to the "real income of goods and services" made in Britain during the period selected, goods may be in stock from the previous period, or may be provided from abroad. All kinds of things—factories, houses, cars etc.—may be available for buying, although not made in the period in question. The money income may be used to buy stocks and shares, government or local authority securities, or land in the Bahamas or Channel Islands, holidays abroad, and so on.

So the idea that "money income" must be spent on "goods and services" made in Britain in any period is completely unsound. To attempt to explain the rise in prices on this basis is doubly unsound, yet it is this pseudo-scientific argument which

is used to bolster up the theory that wages must be held down to stop inflation.

Another argument used by the supporters of the "too much money" view is that, in addition to the current turnover of capital in production—buying materials and labour power—the Government has been raising money on credit and buying things with it, thus raising the total demand for goods and enabling manufacturers to put up prices.

Government expenditure based on money drawn from loans of idle money may certainly increase the demand for goods of a particular type, or even for goods of all types, and this may lead to an increase in prices through the ordinary working of demand and supply. But this is entirely different from inflation. A Government loan merely draws into itself a certain number of claims to goods which the banks or other financial institutions or persons are not in fact using to buy goods, but are lending (at interest) to others to use in this way.

It is only when—as is usually the case during wars—the banks *create* money (claims to goods) to be lent to governments that the loan has an inflationary effect. During a war period, a large part of the loans raised by governments comes from the banks, which either themselves subscribe to the loans, creating money in the way described in Chapter 2, or lend to individuals or companies for them in turn to lend to the government. This unreal money—unreal in the sense that it has not come into existence through the production and sale of things—constitutes a war inflation when it comes into the market to buy goods. It brings in a new source of demand, over and above those sources which existed before; additional claims to goods come into existence, without any addition to the existing supply of goods. If these additional claims are continuously increased week by week, the inflation is not only continuous, but increases, soon becoming a "runaway" inflation. This was the case in Germany after the first world war, where the "unreal" money was created through the continuous printing and issuing by the government of notes with which to pay its debts.

But in so far as governments meet their financial needs through taxation and loans of *existing* money, this is not infla-

tion, and although it may lead to higher prices through raising the *actual* demand for certain types of goods, existing claims to goods are simply transferred from others to the government.

It is sometimes said that the price increases are due to the inflation of currency—the rise in the amounts of notes issued by the Bank of England. It is true that the amount of notes issued has very greatly increased since before the war: the currency in circulation with the public rose from £454 million in 1939 to £1,255 million in 1945.

But since the end of the war the rise in the notes issued and "in circulation with the public" (this excludes notes technically "issued" but retained by the banks as reserves) has been very gradual, and has been due to the increasing needs of currency for circulation because of rising prices rather than being an independent factor causing prices to rise.

The amount of currency which is needed for the circulation of goods and services is influenced both by the quantity of these goods and services, by the rapidity with which they sell, but especially by the movement of prices. As prices (especially retail prices, for which coins or notes are required) rise, more notes are needed to prevent any check to trade, and therefore more notes are issued.

From 1947 to 1966 the amount of notes in circulation with the public rose by 95 per cent. In the same period the rise in the retail prices index was 108 per cent. The increasing note issues seem, therefore, to be an *effect*, not a *cause*, of the rise in prices.

So that while prices in the war years may have risen partly under the influence of the expanding supply of currency notes put into circulation, from about 1947 the supply of notes rose in response to the greater need of currency for circulation because of the rising prices.

Some economists reject the theory of "too much money chasing too few goods" as the cause of rising prices, arguing that excessive *demand* is not the cause, but that inflation is due to rising *costs* of production. Their conclusion, however, is the same as that of the "excess demand" economists—wages must be kept down.

In so far as wage increases are due to rising costs of maintaining the workers' standard of living due to rising prices, the demand to keep wages down is simply a demand to cut real wages and reduce the workers' standard of living. And in so far as wage increases represent gains won by the workers in their real wages and standard of living, it must be borne in mind that increases in productivity have enormously increased profits; the policy of keeping wages down means that all the benefit of increased productivity would be kept by the capitalists.

What this would involve can be seen from a report in the *Morning Star* (December 28, 1966) of a claim for higher wages of Ford workers. This was based on the facts that between 1962 and 1965 the annual production of vehicles per worker rose from 11·7 to 15·6—a productivity increase of 32 per cent. Sales per worker rose from £6,200 to £9,200—a rise of 48 per cent. But hourly wages had risen by only 15·5 per cent for grade 1 workers, and 14 per cent for grade 2 workers. During these years the company had been able to put over £35 million out of gross profits into reserves.

The increase in *real* wages won by some sections of the workers, although it may be used by the employers as an argument to justify higher prices for their products, has been due very largely to greater productivity, which reduces costs of production and makes it possible to pay higher wages without increasing prices.

A final comment on the "too much wages" theory may be quoted from *The Times* of June 26, 1967. Arguing for growth and an expansionist policy, *The Times* concludes that "the key to this expanding environment must ultimately be steadily expanding demand"—the very opposite of the policy of holding wages down. Holding wages down and measures which check the growth of the economy also hold back industry and lead to higher costs per unit of product and therefore higher prices : an expansionist policy leads to cheaper production per unit and makes possible stable prices and rising wages.

5

TAXES AND PRICES

In 1938, the current expenditure of the central government and the local authorities amounted to £1,357 million. By 1946 it had risen to £3,979 million, and by 1965 £10,685 million on current account, plus £2,673 million on capital account.

How was this vast sum of money raised by the government and the local authorities?

The local authorities had to raise what they needed by putting up the local rates; by getting larger grants from the central government; and by borrowing, either from the government or the moneylending institutions, or from the public through an issue of stock.

So in the main it was the central government which had to finance the additional needs. The few productive enterprises owned by the government brought in little profit: the nationalised industries, mainly because of the burden of compensation stock interest and repayment, had to get money *from* the government to cover losses, pay what was due on compensation stock, or to finance capital extensions or modernisation.

The government had therefore to find the necessary money by raising taxation, and by borrowing—issuing loans to the public, and getting the discount houses to take Treasury bills for cash. The persistent rise in prices resulted in higher incomes, so that existing taxes brought in more year by year; but this and the general rise in incomes due to rising prices brought into the tax net new groups of workers who were previously exempt, besides pushing other taxpayers into higher ranges of tax. Thus the government increased not only its money revenue, keeping pace with the rise in prices: it took more of the national income in real terms. But the increased revenue from income tax and other taxes was not enough to cover the constantly rising needs, and in addition to raising the rates of existing taxes, new kinds of tax were invented and levied.

By these means successive governments were able to raise the money they needed, and even to have surpluses on current

account. (The Budget was divided into two parts, the "current account", income and expenditure on current transactions, and the account related mainly to capital transactions. The latter, after the surplus on current account was exhausted, had to be financed by borrowing, either by issuing loans to the public, or by discounting Treasury bills with the discount houses or other financial institutions. The terms used by Chancellors in introducing the Budget are "above the line" for current transactions, and "below the line" for mainly capital transactions.)

What is significant in the growth of taxation since the war is the continual shifting of the burden of taxes from the capitalists to the workers. The item given in the official statistics as "taxes on expenditure" is composed of indirect taxes of various kinds, which fall mainly on working people for the same reason as white sheep have more wool than black sheep—because there are more of them. This item of indirect taxes even before the war was £622 million in 1938; by 1965 it had risen to £4,996 million : the amount taken from the people through indirect taxes had risen *8 times*. On the other hand, the income tax on companies' profits in 1938 was £256 million; by 1965 it had risen to £1,545 million, or *only 6 times*.

In 1948 the income tax taken from companies was £987 million, on a profit total of £2,372 million, or roughly 41 per cent. In 1965 it was £1,545 million, on a profit total of £7,418 million—treble the profit, but the tax collected worked out at only 21 per cent, or roughly half the percentage of 1948.

On the other hand, "taxes on expenditure" took £2,023 million from the people in 1948; in 1965 they took £4,996 million —over double.

Among the new taxes was purchase tax, which now seems to be permanent; and the previously existing taxes on expenditure, such as those on drink and smokes, were raised considerably. The duty on tobacco, which in 1938 was 9s. 6d. per lb., was £4 7s. 4½d. per lb. in 1966. On beer it was 2·1 pence per pint in 1938, and 10·2 pence in 1966.

In addition to these "taxes on expenditure", paid by all sections of the people but falling mainly on working-class households, there are other items which have to come out of wages,

but which are not treated as taxation in the official statistics. There are the national insurance contributions, which (adult male) were 3s. 2d. a week in 1938, but 31s. 10d. a week in 1966-67. There is also the raising of the standard rate of income tax (from 5s. 6d. in 1938-39 to 10s. in 1941-42) which since the war has fallen a little, but has been maintained at a high level (8s. 3d. in 1967). Then there is the Selective Employment Tax, which many employers pass on to the public in higher prices.

All of this additional direct and indirect taxation reduced the real value of wages, or to put it another way, put up the cost of living for the workers, although the effect of it is only partially shown in the official "cost of living" or "retail prices" index, which also, of course, partially reflects the price rises due to other causes, such as monopoly or sheer capitalist greed.

Wages are the *price* at which the capitalists buy labour power, and differ from the *value* of labour power according to circumstances. According to Marxist theory, the *value* of labour power, like the value of material products, is the amount of labour-time used up in producing it—that is, the labour-time used to produce the food, shelter, and other necessaries and amenities which the workers require to maintain themselves and their families, at the standard which historical and social factors have made necessary. The value of labour power is not what is literally a subsistence wage, which means only the cost of physically keeping alive. It is not a fixed quantity, but rises with the growing requirements of education and training as technology advances, including the amenities won by working-class struggle.

Actual wages—the *price* of labour power—do not fully reflect the increasing value of labour power, because the current wages level represents a compromise resulting from pressure or struggle between organised workers and organised employers, as a rule with the State backing the employers. In its details, this standard of living is affected by technical changes, such as the TV set replacing the piano, and by gains won by workers or employers in the course of the class struggle.

But whether you accept or do not accept the Marxist theory of wages, as a matter of practical experience it will be realised

that any reduction in real wages—in what the money wage will buy, and therefore in the standard of living reached at the time—is bitterly resisted by the workers, who then strive to recover their previous standard by securing a corresponding increase in money wages. As Professor Galbraith wrote (*The Affluent Society*, 1958, page 172): "Living costs rise, eroding the last wage gains and stimulating efforts to recoup. . . ."

It is this that gives plausibility to the view that wage rises are the cause of price rises. As Professor Galbraith also shows, if a price rise follows a wage rise, the conditions for a price rise must already exist before the wage rise, and the wage rise is only put forward as a pretext for the price rise. For various reasons, including public reaction, the opportunity for the price rise has not been taken by the employers, but when a wage rise is won by the workers, "in the appropriate industries the unexploited opportunity for price increases can now be seized".

Professor Galbraith also draws attention to another aspect of the employers' price policy: "In steel and other industries", he wrote, "there is now a well-established policy of making the occasion of a wage increase the opportunity for a rather larger increase in prices and company records". He thus puts the cart in its right position behind the horse, and at the same time brings out the normal practice among capitalist firms of raising prices above the level that the increased wages—the alleged cause of the rise in prices—would account for, thus raising the level of profits.

The practice of raising prices so that they bring in more than the capitalist loses from a wage or tax increase is so widespread that it has become a settled policy. In the House of Commons on March 11, 1964, Mr. James Callaghan, then in opposition, gave instances of the proportion of wages to total costs in various sections of engineering. In general engineering the proportion was 33 per cent; in motor vehicles, 16 per cent. But, he said, following on a recent 5 per cent rise in engineering wages, employers had raised the prices of engineering products by 4 to 8 per cent, thus making big increases in profits on the pretext of the higher wages they had to pay.

The Government's manipulation of the cost of living for the

workers has taken different forms. In the war years, the aim was to keep down the cost of living in order to avoid trouble. This was done by giving subsidies to keep down food prices, which were tending to rise because largely of higher world prices due to the war. As the war drew to a close and in the following years, however, the government began to adopt what was called a more "realistic" price policy; the subsidies were reduced or altogether stopped, and the consequent rise in prices directly raised the cost of living.

After the war, the basis of continuing subsidies was no longer to cheapen food to the consumer, but to help farmers to continue producing in spite of imports of relatively low-priced foods.

At the same time as prices of food and other articles of consumption were being allowed to rise, various forms of indirect taxes were increased, so that money wages lost their former purchasing power, and the existing standard of living was undermined.

It is noteworthy, in view of more recent events, that in order to prevent the trade unions from following their usual practice of demanding money wage increases to compensate for their loss in real wages as a result of rising prices, the Attlee Government, through Sir Stafford Cripps, brought in a form of wage freeze; but this policy could not withstand the pressure for wage increases, and had to abandoned.

What was the object of increasing the indirect taxation falling largely on the workers, and thus reducing their existing standard of living? In the first place, of course, the aim was to raise more money for the Government's needs.

But this was not the only aim : more than two birds were to be killed by the indirect tax stone. One of these aims was to reduce the proportion of the *real* national income going to the working class in money wages; another was to make the working class pay a larger share of what the government needed.

It is obvious that if *real* wages are reduced even temporarily, as they have been by each dose of indirect taxation, less of the *real* national income remains for the workers, and more is left for the capitalists. The shifting of the main burden of taxation from the capitalists to the workers is shown by the fact that

the total income of companies rose between 1951 and 1963 by £2,776 million, or 88 per cent, while the direct taxation on them rose by only £173 million, or 12 per cent.

In the same period indirect taxes on the people (what the official statistics describe as "taxes on expenditure") rose from £2,274 million in 1951 to £4,048 million in 1963, an increase of £1,774 million—ten times the amount of the increased taxation that fell on companies.

Of course the policy of successive governments could not have been successful if each increase in monopoly prices or in indirect taxation had been countered at once by increased money wages to compensate. Therefore an essential part of the policy of shifting the burden of armaments and of imperialist aims in general from the capitalist class to the working people is to prevent money wages from rising. This has been the reason for the various forms of wage freeze, from Stafford Cripps to Selwyn Lloyd, ending up with the Wilson Government's still colder freeze with compulsory powers to delay wage advances or prohibit them altogether.

Even a delayed wage advance, in conditions when prices are rising, gives a period during which the working class gets a smaller, and the capitalist class a larger, share of the *real* national income.

How this additional real income of the capitalists is distributed among the various sections of the capitalist class is another matter. Certainly the reduction of real wages through higher rents benefits the landlords who own or let houses—not to mention the speculators. Higher rates of interest, directly and indirectly affecting real wages, give another part of the additional capitalist surplus to the moneylenders, banks and other financial institutions. The remaining part of the additional capitalist surplus comes, through the government, in the form of remission of taxes, the result of which we have seen illustrated above, to the industrial and commercial capitalists, in addition to what they can themselves extort by doing their bit in raising prices.

Therefore, if we look at the process as a whole without picking out and arguing on some particular stage of it, it is

clear that the policy of increasing indirect taxation carried out by Tory and Labour governments alike has played a very important part in *causing* higher wages, and to that extent putting up costs and prices of all manufactures and services.

Of course it has not been the *only* cause of the continuous reduction in real wages caused by higher prices, in compensation for which the workers have struggled for, and until the wage freeze became more or less effective have obtained, higher money wages. The influence of monopoly in raising prices has already been shown, and also of sheer capitalist greed. Higher rents—also made possible by government legislation—and higher rates of interest have played their part. The devaluation of the £ in 1949, and the rise in world prices in the 1950's owing to the Korean war and the armaments drive of NATO etc. bear a share of the responsibility. It should be noted, too, that the improved "terms of trade" with the underdeveloped countries—which means that the prices of their products fell in relation to the prices of British products sold to them—were not reflected in lowering the prices of cocoa and other colonial products in Britain.

All of these, and probably other, causes have been at work in raising prices in Britain and thus have tended to reduce real wages. But the deliberate action of governments in *causing* price and consequently wage increases through indirect taxation and other measures has been a continuous factor for the whole period since the war. Usually the government's plea when it raises indirect taxation and thus directly raises prices is that it is fighting against inflation—in other words, it is fighting against price increases by raising prices!

It is true, of course, that wage increases are demanded by the trade unions not *only* because a rise in prices of consumer goods has reduced real wages. Trade union demands are not limited to seeking an increase in money wages to compensate for a higher cost of living. As a rule they aim at *more* than this, in the way of raising the standard of living of the workers concerned, raising the industry's place in the wage table, shortening hours of work, compensation for higher productivity, improved fringe benefits, and so on. And the strength of

the trade union movement since the war has been able to win real gains in these respects. The gains from the social services since the war, whatever their shortcomings, have also improved the general standard of living of the working class.

But the weekly wage is far the most important source for maintaining whatever standard of living has been won, and taxation, monopoly or anything else that causes a rise in prices, undermining the current purchasing power of the money wage, is to that extent a cut in real wages, in the existing standard of living.

The Organisation for European Economic Co-operation published in 1959 a report on "the Problem of Rising Prices", which stated that "almost invariably arbitrators appear to have taken price rises into account before going on to consider other elements". One of the features of government directives to the Prices and Incomes Board is that, in considering wage claims, it should not give such weight as previously to price increases. This, coupled with the 10 per cent addition in Purchase Tax and in duties on petrol and beer, shows that the aim of government policy is not only to hold back wage increases, but to reduce real wages.

In an article in *Pravda* in 1913, Lenin wrote : "Put no faith in phrase-mongering, it is better to see who stands to gain". The phrase-mongering about inflation, with its "too much money chasing too few goods", "saving the £", "wage freeze or unemployment", and all the rest of it, can best be understood by seeing who stands to gain. And as has been shown, those who stand to gain from rising prices are not the working people, but the landlords, financiers and monopolists.

All the phrase-mongering in the world cannot get over this fact.

6

TOO LITTLE MONEY?

One of the monetary troubles that has been much discussed in recent years is the "problem of international liquidity"; or,

to put it in plainer terms, how can a country pay for imports, or pay for goods and services which it needs in other countries —for example, overseas military expenses—if it has too little gold or internationally accepted currency?

This has been Britain's position more or less continuously since the second world war, and naturally the problem of international liquidity has been raised by Britain in all kinds of schemes put to the managers of the International Monetary Fund. However, the American and other representatives on the governing body of the I.M.F. in the past have not seen eye to eye with Britain on this question, and although there have been many discussions and conferences on it, and the American view has changed since the U.S. developed a deficit balance of payments, the main problem remains unsolved.

Liquidity in the montetary sense simply means that people have money to pay for things, and when financiers say there is a shortage of international liquidity and propose ways of overcoming this, their proposals all boil down to *lending* countries the money either to pay their debts with, or to run up new debts to other countries in spite of their continued lack of gold or internationally acceptable currency. The trouble is that no one has yet thought of a method of doing this which would be satisfactory to both debtor and creditor and would enable an incorrigible debtor to pay his debts.

The representatives of the British viewpoint call attention to the fact that Britain has immense resources in its investments in all parts of the world, and that therefore Britain can be given credit with safety for the lender. The Bank of England has produced calculations of Britain's wealth, showing that its assets comfortably outweigh its liabilities.

This argument might be all right *in the long run*, if Britain had to make a forced sale of its assets abroad. But the problem is the short run : how to carry on in spite of the fact that debts and difficulties are mounting *now*, and foreign banks and governments are becoming less inclined to gamble on Britain's future repayment of loans when they fall due to be repaid.

The problem of international liquidity, however, is not only Britain's. It is particularly important for the newly indepen-

dent ex-colonies, whose main sources of wealth are in the hands of foreign monopolies, but who need enormous sums to enable them to develop their countries industrially and thus make themselves really independent of foreign control.

The methods so far followed by Britain of overcoming the shortage of internationally acceptable money at her disposal have been :

(1) devaluation, as in 1949, which it was hoped would result in an increase of exports that would fill the gap between imports and exports. But so many other countries also devalued their currencies at that time that the former relative position remained more or less unchanged, and Britain's devaluation brought hardly any relief.

(2) borrowing from the International Monetary Fund or the Central Banks of other countries to pay off Britain's debts abroad. Borrowing from Peter to pay Paul is a long-established method of putting off the evil day, providing that Peter is willing to make the loan. But in the case of international loans, the rate of interest and other (usually unpublished) terms, including the period allowed for repayment, may be almost prohibitive, and in any case Peter may become unwilling to continue lending as the debt rises.

(3) selling shares or other securities, owned by the British Government or companies or individuals, which have an international market, and using the proceeds to pay off debts. But obviously the sale of these securities leaves Britain with smaller reserves for the future.

(4) without actually selling such securities, making "swap" arrangements with foreign financial institutions.

(5) using some of Britain's gold and dollar reserves to pay off debts; but this not only leaves less in reserve for future emergencies, it means that speculators see their chance to run down Britain's reserves further and perhaps to force davaluation of the £.

(6) taking measures to reduce imports, such as the 15 per cent import surcharge, or restriction of import licences, combined with other measures to slow down the economy (the "stop" phase of "stop-go").

These have been some of the means used by Britain to ease the immediate pressure of external debts. But although the balance of payments has improved very much from what it was in 1964, it is by no means secure, and the loans will have to be repaid. So Britain is making constant efforts to find some more lasting way of settling debts or even preventing them from arising, without changing the policy which is responsible for the deficit in the balance of payments.

That is the significance of Britain's search for some method of getting more "international liquidity". Sydney E. Rolfe, in *Gold and World Power*, says :

> "In a very basic sense, it is the inequality between demand and supply for currencies . . . that creates the balance of payments problem" (p. 38).

He argues that if the rate of exchange between the currencies of different countries were really flexible, the international value of the currency of a debtor country would fall to the level that reflected the amount of the deficit in the balance of payments between it and another country, "and at the new price the markets are cleared. . . . There is always some price at which the foreign exchange markets are cleared. If the exchange rates are truly free to vary, the right price will be attained" (p. 40).

There are two things that are wrong with this argument, which explain why the "flexible exchange rates" system has not been adopted. The first is that, just as in an economic crisis the mere lowering of prices is no guarantee that a buyer will be found for goods in over-supply, so however much the exchange rate between the pound and the dollar may fall, there is no guarantee that Americans will want £s instead of $s.

The second weakness of the argument is that even if Americans were prepared to exchange $s for £s, there is no guarantee that British exporters would send goods to America in exchange for fewer dollars.

The fact is that "flexible exchange rates" are all very well if the deficit between countries is small and the "flexibility" needed to adjust the balance is also small. But when the deficit

is large and continuous, the exchange rate would sink to a figure which would be unpractical. In the days before the first world war, when payments balances were much smaller than today and as a rule not continuously in one direction, the "flexible exchange rates" system was workable, although even then it sometimes got out of hand and had to be put right by special operations such as big loans or devaluations. But in present conditions it is unworkable from the start, because the payments deficits are so large and continuous.

The international agreement reached at Bretton Woods in 1944, and amended later to take account of devaluations in a number of countries, in effect allowed "flexible exchange rates" to cover small payments deficits, but not large ones; any significant alteration in the exchange rate of any country had to have the approval of the governing body of the International Monetary Fund. The agreement provides for standard rates of exchange between different currencies and the dollar (and through the dollar with each other). But it allowed fluctuations in the actual rate of exchange at any time, by not more than one per cent of the standard rate. Thus for example the £ and $ standard rate is now £1 = $2.80, but it is allowed to vary from around $2.78 up to $2.82, according to the demand and supply on either side.

In a fully flexible exchange rate system, however, the £ might well fall to $1 or less; but because the flexibility is limited by the Bretton Woods agreement, Britain has to use other means of getting over a big payments deficit, such as raising loans abroad or using reserves of gold or dollars.

Britain's current reserves, however, are small in relation to the volume of her transactions with other countries, and her credit is not inexhaustible: so some other method of finding "liquidity" is eagerly sought.

The International Monetary Fund, when set up at Bretton Woods in 1944, was intended to provide a means of replacing the system based on gold which had operated more or less automatically before the first world war. The rates of exchange between the U.S. dollar and other currencies were fixed within close limits, as explained above. Secondly, a fund was to be

built up of contributions from I.M.F. members, to be used to lend money to member countries which showed balance of payments difficulties that might otherwise have compelled devaluation. There were special provisions governing the right of members to get such loans and the conditions of the loan. And there was also an escape clause to the effect that if a country's balance of payments was "in fundamental disequilibrium", its standard rate of exchange with the dollar could be altered with the consent of three-quarters of the Fund's members.

But the liquidity given by rights to borrow from the I.M.F. was in fact very limited in relation to trading conditions today. Although members' quotas to the I.M.F., and consequently their drawing rights, were increased in later years, the I.M.F. cannot, as now regulated, meet the needs of persistently deficit countries. The Fund has adopted various measures to increase its funds for lending, and has made arrangements with the "Group of Ten" central banks. It was the "Group of Ten" that came to the rescue of the £ in 1964 with a loan of £1,000 million; this was supplemented by an additional credit of £280 million from the I.M.F., and there were smaller credits later. But as Sydney E. Rolfe observes with regard to these loans:

> "Temporarily rescued from the vicious cycle of balance of payments deficits to reserve crisis to 'stop' policies . . . the basic British problem remains to be solved. . . . The task is thus temporarily eased, but in the long run is enlarged." (*Gold and World Power*, 1966, p. 89.)

Therefore, whatever government is in office, Britain remains keen on some "reform" of the international monetary system adopted at Bretton Woods—some reform which would create more liquidity particularly for Britain, but which would also help the recently liberated countries striving to find resources to tackle their problems of industrial expansion.

When the Bretton Woods conference was under discussion, Keynes proposed that a new international currency unit (the bancor) should be created, which member nations of the I.M.F.

would agree to accept in payment of what was owed to them by other countries. All countries in the scheme would start with a quota of "bancors", and if they ran out of these they could be given credit from the Fund up to a certain limit, after which they would have to use their reserves as guarantee. These proposals would have increased "international liquidity" all round, but only up to a certain point. In any case the creation of a new international unit was rejected, although some aspects of Keynes' proposals were embodied in the final Bretton Woods decisions.

Later British proposals for increasing international liquidity have met the same fate, as they provided for some similar supply of money or credit to be available for countries with a deficit balance of payments.

The French have not only put forward proposals for a return to the gold standard, but have been buying gold, chiefly from the U.S.A., to increase their reserves. On their scheme, each country's standard unit would be convertible into gold at a fixed price, and international deficits would have to be settled in gold. The theory is that to use gold to settle a country's balance of payments would automatically reduce that country's internal supply of credit money, which would be based on gold as before 1914. Interest rates would rise; foreign money would flow in to get the higher interest rates; and the deficit balance of payments would soon be righted, just as it used to be in the good old days before 1914.

However justified the argument may be, the proposal of a return to the gold standard does not offer much hope to a country whose trouble is that it has not enough internationally acceptable money or gold to pay for what it considers it needs. Such a country wants its supply of internationally acceptable money increased, and is therefore favourable to the idea that the *price* of gold should be raised, say from the present $35 to the ounce to $70. This would automatically double the exchange value of every country's gold reserve, thus providing at least a temporary addition to the country's "liquidity".

Christopher McMahon (*Sterling in the Sixties,* Chatham House Essays, 1964 p. 92) puts it in this way :

"All that is necessary is that the United States should announce that in future it will buy and sell gold not at $35 an ounce, but at say $70. By this means, there would be ample liquidity for a long time to come."

He argues that at the end of 1962 the quantity of gold in the reserves of all countries was about two-thirds of the total $58,000 million reserves, or roughly $38,000 million : so that to double the dollar price of gold would add $38,000 million to international liquidity. But he does not raise the question : in the hands of which countries? It would not, for example, be in the hands of the underdeveloped countries; nor would much of it be in Britain's hands. So it would not solve the real problem.

In April 1967 there was a joint meeting of the "Group of Ten" and the International Monetary Fund to discuss once again "the problem of international liquidity". According to Peter Jay (the economic correspondent of *The Times*) the U.S.A., Britain, the EFTA countries and most of the less developed countries, that is, the (non-Communist) world, "is running short of cash and if something is not done, world trade could be strangled". France and Belguim, on the other hand, see the opposite danger, "world inflation generated by too much international money". The result was that no agreement was reached, except to continue the discussions. So the problem remains unsolved, although there is new talk of a plan for creating supplementary international reserves.

Britain's need of more international liquidity arises not because Britain has no resources, but because of the policy followed by successive governments of using an important part of these resources in military "commitments" overseas as a kind of first charge which has to be paid regardless of the consequences for the balance of payments, or for the future of the British people.

But the underdeveloped countries have little in the way of resources needed to build up their industry in order to raise the living standards of their peoples and make themselves really independent. There are already voices in the "West" expressing

extra alarm at the possibility of any measure that would help these countries to get by without absolute dependence on the rich nations. A curious argument advanced at the January 1967 meeting of the Socialist International by the Italian Defence Minister, who is also a professor of economics, was reported in the *Financial Times* of January 6, 1967. "Professor Tremelloni is understod to have stressed the dangerously inflationary effects the creation of new international liquidity might well have if it were assigned to the developing nations, as has been suggested." Don't give money to countries that really need it—this might have dangerously inflationary effects! So the doctrine that "too much money" is the cause of inflation is used in support of the policy of inadequate loans and saddling poor countries with heavy interest and other conditions imposed by "Western" imperialists.

But the fact is that the need for "international liquidity" by an imperialist power does not arise from any difficulty in carrying on ordinary trade. The need, for example by Britain, arises in the first place from the imperialist policy of maintaining armed forces abroad, and conducting "small" wars as in Aden; and secondly from the equally imperialist policy of exporting capital and investing it in enterprises or property abroad. It is these policies which use up the products of British labour for purposes which are prejudicial to the interests of the British people and lead to the continuous difficulties over the balance of payments. More "international liquidity" for Britain would simply put Britain more deeply in debt to the International Monetary Fund or other financial institutions abroad, with all the consequences in subordinating Britain to heavier foreign pressure.

What is really needed is the abandonment of ruinous policies, not a scheme of "international liquidity" that would enable Britain to continue these policies painlessly.

On the other hand, the "developing" (they used to be called "underdeveloped") countries really are in need of international help. They have not the resources to develop their own industrial growth, without which the conditions of their people cannot be much improved. But it is not much use to them to

get imperialist countries to invest money to develop their resources *for the benefit of the imperialists.* What they need is development *for their own benefit.*

This is the principle on which the socialist states work : they make loans to such countries and put up plants (and provide other requirements, of which the Aswan dam is an example) which are owned by the States concerned, and whose use is for the benefit of the country itself.

This is the practical solution of the problem of "international liquidity" for the developing nations, as opposed to imperialist international or national loans carrying a high rate of interest and a short period of repayment which put an intolerable burden on them, apart from the political implications of these loans. But it is utopian to expect imperialist banks and other financial institutions to follow the socialist example, unless they are forced to do so.

7

THE BASIC CAUSES OF INFLATION

The progress made in science and technology since the second world war, by reducing the quantity of labour-time used in producing both means of production and articles of consumption, should have reduced the costs of production and therefore lowered prices. But for the great majority of products prices, instead of falling, have risen continuously, not only in Britain but in the capitalist world as a whole.

What are the factors which have operated to prevent the technological progress from being effective in lowering prices?

Certainly, the abandonment of the gold standard of currency has been important. The standard unit of currency, detached from gold, was also detached from any fixed quantity of labour-time, so that prices in paper notes no longer directly measured, as prices in gold units had formerly done, the labour-time used in the production of things.

Many countries also devalued their standard unit of currency, cutting its value in exchange with gold or the American

dollar and standard units of other currencies, and therefore driving home prices up. But the relative stability in the exchange values of currencies brought about by the Bretton Woods agreement has prevented frequent devaluation, and the direct effects of devaluation on prices have been shortlived, while the rise in prices has been continuous both before and after devaluation.

We have seen that the main theory advanced by capitalist economists to explain this continuous rise in prices is that it is due to an excess of demand, or an increase in costs of production, particularly arising from wage advances : this is the alleged basis for the various attempts by governments to hold wages down. But in fact demands for higher wages have been largely a *result*, not a *cause*, of higher prices. In so far as wage increases have represented real gains for the workers in their standard of living, these have been mainly due to higher productivity (as in motors or agriculture) which lowered costs per unit and more than covered the increased wages. The origin and continuation of the price rises have been due to two principal causes—the influence of the monopolies striving to increase their profits, and the actions of governments in raising the cost of living through increasing indirect taxation and other measures.

There were other causes, of course, but these were, relatively, of less importance. The military expenditure of some £2,000 million a year may well have affected prices : everyone knows that arms contracts are extremely profitable—certainly the cases of Ferranti, Bristol Siddeley and Hawker Siddeley illustrate this. The devaluation in 1949 caused price increases, first on imports and then on home-produced goods of all kinds. The Korean war, and later the war in Vietnam, caused price increases in raw materials and shipping freights. State expenditure on social services enlarged the market and may have had some effect on prices. But these factors were not of the same significance as monopoly policy and government action in raising the general level of prices of consumer goods.

The direct influence of monopoly in raising the cost of living through higher prices is generally recognised : some examples

have been given from the reports of the Monopolies Commission. Whether a monopoly produces means of production or articles of consumption, it raises the *selling price* of its products considerably above their *value*, that is, the labour-time used up in producing them. This policy is stimulated by the intense competition betwen the monopolies for the market—the struggle for the sale of their products in competition with other monopolies, the struggle to expand as the basis for increased profits.

This struggle is far more intense than it was before the war. The areas exploited by the monopolies have shrunk owing to the spread of socialism. The national liberation movement of the former colonial countries, in spite of the continued grip of imperialist capital, is a serious threat to monopoly interests. The immense accumulations of profits in the hands of the monopolies, the mergers in all capitalist countries which are concentrating more and more wealth and power in fewer and fewer hands, intensify the competitive struggle as well as the drive for expansion through war, especially to recover from socialism and the national liberation movement the ground that has been lost. This brings heavy increases in State expenditure and therefore in taxation.

The need to expand profits still further becomes more and more imperative for the monopolies. Profits depend on the exploitation of labour. But the post-war relation of class forces in the world, with the growing industrial and political strength of the working class in Britain which brought about the so-called "Welfare State" and is staking its claim for further progress, makes it politically difficult for the monopolies to attempt a direct attack on wages which might yield the extra profit that they want. The 1925 policy of Baldwin—"the wages of all workers must come down"—is no longer practicable.

So the monopolies have been compelled to fall back, in conjunction with the State machine controlled by them, on an *indirect* attack on wages—to attempt to reduce real wages through the raising of prices. And successive governments have been only too easily influenced by the arguments of the monopolists, their economists and the Treasury.

The Italian Marxist journal *Critica Marxista* (May-June 1964) published an article by the economist Amedeo Grano, "Inflation as an economic policy". This article presents the post-war inflation as a policy carried out by the monopolists with the assistance of their governments. The author points out that the cyclical movement of the economy, which in Marx's day led to crisis and unemployment, gave the employers the opportunity to cut down in the crisis the wage increases won in the period of boom and full employment. But the cyclical movement was no longer operating to the same extent as previously. Since the war the accumulation of profits has been practically continuous, and this has provided the resources —new capital—for the technological progress that has been seen in the capitalist world generally. This continuous accumulation and its application in technological advance has helped to maintain relatively full employment, submerging to a great extent the cyclical movement of the economy, although it cannot altogether eliminate it.

What was the new element in the economy which led to the continuous accumulation of capital, with only minor fluctuations, since the war? In Amedeo Grano's view the element which has changed the cyclical movement of the capitalist economy has been the monopoly power of control over the market, backed up by the policy of the monopoly capitalist State. The manipulation of prices, giving effect to a policy of inflation, makes it possible to curb wages indirectly, through the upward movement of prices of commodities and services. It curtails the advance of real wages, and enlarges profit and accumulation.

The extent to which government action has been responsible for the general rise of prices in Britain is partly shown in the *Ministry of Labour Gazette* monthly record of changes in what used to be called the "Cost of Living index" and is now known as the "retail prices index".

The October 1939 record shows the first war-jump in the index, which was partly due to the fact that the Budget had increased the taxes on sugar and on tobacco and cigarettes. Similar explanations are given in many of the later months in

which the retail prices index rose. Purchase tax was introduced, affecting many items covered by the retail prices index, and although there have been changes in rate and in the articles affected, in 1965 it still brought in £141 million on clothing alone. After the war, food subsidies were gradually abolished, and increases in prices of food were authorised. Bread prices were raised, and the size of the standard loaf reduced. On several occasions the tax on petrol was raised, from 9d. per gallon in 1938 to 3s. 3d. per gallon in 1966, and this had the result of raising bus fares. There were also increases in the tax on tobacco, wines and spirits; postage and telephone charges were raised, also licences for radio and TV.

The list of rises in the cost of living due entirely to action by the government continues up to and including Wilson's period of office. In November 1964 there were new increases in the price of petrol, "following an increase in the rate of duty". In April 1965, when the retail prices index rose over 2 per cent in the course of a month, prices of beer, spirits and wine, cigarettes and tobacco, "were raised following increases in excise and customs duties". Later radio and TV licences were raised.

In 1966, according to the National Institute *Economic Review*, indirect taxation increases accounted for about 1½ per cent in the rise of the retail prices index by 3·8 per cent. And there was something like an all-round price increase when the Selective Employment Tax came into operation, as employers passed it on to the public. Then there are the repeated increases in social service contributions, of which no account is taken in the retail prices index, but which cut down current real wages just like any other price rise.

It seems therefore to be a settled policy of post-war governments, operated through the Treasury and all who come under its influence, Labour or Tory, to use the method of indirect taxation to reduce real wages, and to do their utmost to prevent money wages from rising to compensate.

In *The British Economy* (1963) Sir Roy Harrod wrote of the Treasury: "To judge from its little monthly bulletin and the speeches that it allows successive Chancellors to make, it

appears to continue to be guided by patterns of thought long since obsolete" (pp. 185-6).

But it is difficult to believe that the policy of increasing prices through indirect taxation, and following this up by using legislation to prevent money wages from increasing, is the result merely of obsolete patterns of thought. Obsolete patterns of thought occur in *the propaganda for the policy.* But what the ruling class puts out to the workers, and especially trade union leaders, is one thing; the reasons which prompted it to adopt the policy of raising indirect taxation at the same time as it does its utmost to keep wages down, are a different thing altogether. The result of this policy is so clearly to the advantage of the capitalist class that it cannot but be the object of the exercise.

The trade unions reacted to the lowering of real wages in the way they have always done—by demanding higher wages to compensate for the rise in prices, which would at least maintain the current standard of living of their members. So capitalist propaganda presented the inflation devil as the communist, shop steward or other militant workers who led or supported the struggle for higher wages.

But the trade union movement at the grass roots was too strong and too clear in its outlook to drop the struggle for higher money wages, in spite of the attempts to split the movement through anti-communism, and to win over the trade union leadership with propaganda about the economy and the £, the need to expand exports, the threat of mass unemployment and runaway inflation, and all the rest of it. Increases in money wages were fought for and won, but as a rule only after a considerable delay during which the workers' *real* wages were reduced and profits were increasing. The increase in money wages that was finally won had hardly restored something like the former standard of living when prices rose again, and new demands were raised for money wage increases to compensate.

The reduction of real wages was therefore only of temporary advantage to the monopolists. What they wanted was a permanent lowering of the working class standard of living which

would give them more profit, and further increasing profit as the policy worked. For this purpose it was necessary to end the position in which wage rises inevitably followed price increases.

Hence appeared the various forms of the wage freeze, from Stafford Cripps under the first post-war Labour Government, through the propaganda efforts of the "three wise men", to Selwyn Lloyd's handling of workers in State employ, and on to the sweeping legislation of the Prices and Incomes Act under Harold Wilson's Government.

That arguments are produced for holding back wage advances while prices rise is not surprising. In *The Three Sources and Three Components of Marxism* (1915) Lenin wrote :

> "People always were and always will be the stupid victims of deceit and self-deceit in politics until they learn to discover the *interests* of some class behind all moral, religious, political and social phrases, declarations and promises."

Progressively-minded people do not accept the "moral, religious, political and social phrases, declarations and promises" put out by Johnson and the Pentagon—and repeated by Wilson and Brown—about the war in Vietnam. Behind all these we see the *interests* of the United States monopolies in a brutal war of aggression which gives them big contracts and immense profits *now* and, they hope, will in the future give them the opportunity for massive exploitation of the South-East Asian peoples and a foothold for further expansion.

In the same way we should not accept the "phrases, declarations and promises" about inflation and alleged attempts to end it, but we should try to see what are the interests that stand to gain from inflation. Certainly not the interests of working people. But a rising cost of living, combined with a wage freeze, serves the interests of the employing class, and first and foremost the monopolies. That is why the monopolists and the governments they influence have put up the cost of living for the workers, and are doing everything they can, from intensified propaganda to legislation, to prevent money wages from being raised to compensate for the price increases.

Inflation, therefore, is due neither to the workers' struggle for higher wages nor to some natural economic law with which it is beyond the power of man to interfere. Inflation is a man-made phenomenon, and it is made by the class in whose interest it works.

That the detailed operation of this inflation policy is different in different monopoly-dominated countries is only natural, because of the different backgrounds and conditions in which it is being applied. But in all these countries the aim of the inflation policy, and its actual result, is the same.

Of course such a policy of inflation has met with obstacles. Every capitalist policy meets with obstacles, because it is not in the interests of the economy or of the people. It conflicts with the expansion of the economy, and in Britain particularly with the attempts to maintain the exchange value of the £. It has to be altered or modified in its application when the obstacles prove too difficult to overcome. The "stop-go" tactics are an example of this. As for measures whose alleged purpose is to check the rise in prices, these operate almost entirely against wages. In this respect they are a continuation by other means of the inflation profit aims of the monopolists. Raising the rate of interest and restricting credit, creating unemployment to weaken the trade unions, increasing indirect taxation, go hand in hand with preventing money wages from rising while prices continue to rise unchecked.

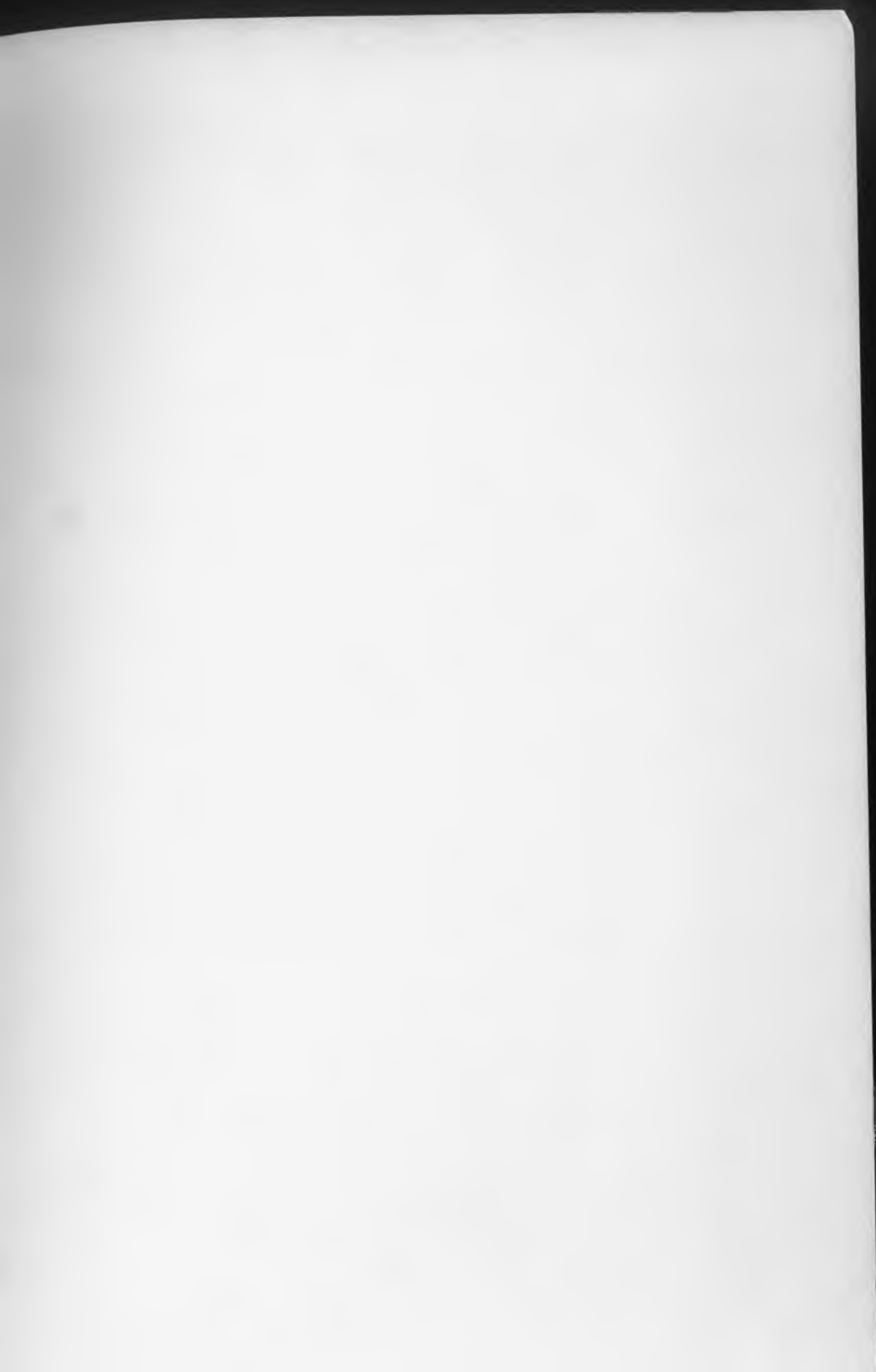
In every country the most powerful resistance to the inflation policy comes from the workers and their organisations. This resistance is not confined merely to insisting on increases in money wages to compensate for higher prices, but aims to raise the standard of living. In some sections of industry this has been achieved, though partly by increased productivity, working overtime and through more members of the family working.

The effect of the measures whose aim is alleged to be to check inflation has been disastrous for the economy. The rise in unemployment and closing down of factories have lowered production and demand, but prices are still rising. The expenditure of some £2,000 million a year on "defence" continues to absorb

much of Britain's human and material resources, and "small" wars are waged against peoples struggling for independence. This criminal "defence" policy benefits only the imperialists, while Britain abandons the defence of her own independence in return for loans from foreign financiers. For the British people the whole policy which is carried out in the name of "defence" means more taxation, the abandonment of progressive aims, and an increasing threat to the expansion and even the character of the social services. New capital is largely exported instead of being used to expand and modernise Britain's productive resources.

If inflation is really to be fought, the balance of payments righted, and the interests of the British economy served, a complete change of policy is needed. "Defence" expenditure must be ended overseas, and drastically reduced at home. Workers now engaged on armaments must be released for civilian work, to modernise and expand Britain's industrial production. There would be no lack of demand. Both the raising of wages and salaries, as also the expansion of the social services, would mean a steadily increasing demand; the ending of restrictions on trade with the socialist countries, and real aid to the developing countries to build up their industries and raise their standard of living, would ensure a continuous rise in exports. The private ownership of the monopolies must be ended, and working-class control of the State achieved, so that production and distribution are organised to serve the interests of the people. The export of private capital must be ended, and available capital used for the development of British industry and to help the industrial growth of the developing countries. Indirect taxation must be cut down, and direct taxation of the rich increased.

On the basis of such a policy the British national income can be enlarged, wages and salaries raised, social services expanded, and the £ restored to stability both abroad and at home.



EMILE BURNS is one of the leading Marxist theoreticians of the English-speaking world. He was editor of the famous *Handbook of Marxism* published in the thirties and his *Introduction to Marxism* has sold in tens of thousands of copies and continues in heavy demand.

In *Money and Inflation* he deals with one of the most persistent problems of today: "What are the factors which result in continuous rise of prices?" And answers: "We should try to see what are the interests that stand to gain from inflation. Certainly not the interests of working people. But a rising cost of living, combined with a wage freeze, serves the interests of the employing class, and first and foremost the monopolies. That is why the monopolists and governments have put up the cost of living for the workers, and are doing everything they can, from intensified propaganda to legislation, to prevent money wages from being raised to compensate for the price increases. . . . Inflation is a man-made phenomenon, and it is made by the class in whose interests it works."

Setting out in clear, simple and convincing terms the classical economic theories of Marxism, this little book cuts right through all the economic jargon of professors and politicians. Emile Burns shows very clearly that the basic causes of priee increases are the activities of monopolies and governments, and that the remedy lies in a socialist political policy to curb the monopolies.

This is at once an instructive and a challenging book about one of the chief issues facing the working-class movement.

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