

CHAPTER II

MONETARY MOVEMENTS IN OUR PERIOD

IN studying post-war monetary movements we should wish, if it were possible, to have free use of three sets of statistics: (1) statistics relating to the quantity of money (*a*) in the form of currency, and (*b*) in the form of bank deposits; (2) statistics relating to non-financial clearings, that is total clearings minus those chiefly concerned with Stock Exchange transactions; and (3), most important of all, but probably not moving very differently from the last, statistics of money income. Satisfactory data are not available under all these heads and we shall have to make shift with estimates.

I. THE BREATHING SPACE AND THE BOOM

For the early stage of the Breathing Space from the Armistice till January 1919 there is no information about currency in the hands of the public, *i.e.* notes and coin held outside the banks. From that month onward the Bank of England has compiled estimates which have been in part published in its monthly Statistical Summary.¹ On the basis of these estimates it appears that currency in the hands of the public rose by 8 per cent between January and April 1919. Over the year that followed — what I have called the Boom year — from April 1919 to April 1920 it, somewhat surprisingly, rose by only 1½ per cent; the explanation presumably being that a number of notes privately hoarded during the last stages of the war and the uncertainties of the Breathing Space came out into use, so that extra currency was not needed in spite

¹ Cf. Appendix, Section IV, Table I.

of rapidly rising prices. Between April 1920 and July 1920 there was a further rise, with the result that a comparison of April 1919 and July 1920, the maximum month for currency, shows a rise of 6 per cent. Even then, this is still very small compared with the Boom year's increase in deposits set out in the next paragraph.

Before January 1919 there are no monthly records of deposits. From then onwards, however, for the London clearing banks, which do some three-quarters of the business done by all the commercial banks in the United Kingdom, monthly figures are published in Appendix I to the Macmillan report on Finance and Industry. Between January 1919 and March 1919, in the latter half of the Breathing Space, they dropped about 1 per cent; to be more exact, they dropped some 3 per cent between January and February, recovering two-thirds of that over the next month. Thereafter in the course of the Boom from April 1919 to April 1920 they rose by 19 per cent. It is of interest to compare this figure with the movements recorded in the war years. For the successive Decembers of these years statistics of deposits (excluding the Bank of England) of joint-stock banks plus private banks in the United Kingdom have been extracted from the *Economist in British Finance, 1914-21*, edited by Kirkaldy. The percentage increases between the Decembers work out as follows :¹

Year	Per cent
1914-15	9
1915-16	16
1916-17	18
1917-18	16
1918-19	18

These more general figures may be presumed to have moved roughly in line with those of the London clearing

¹ *Loc. cit.* p. 74.

banks. It appears, therefore, that the percentage increase for the post-war Boom year was of the same order as — only slightly larger than — the percentages of the war years themselves. The figure of 19 per cent for the London clearing banks is very nearly the same as the percentage increase in their current accounts, what Messrs. Phelps-Brown and Shackle call the “cheque-paid non-financial circulation of these banks”.¹ After April 1920 deposits continued to expand, till in January 1921 — a dubious peak, or rather perhaps, the start of a fairly long plateau — they were 25 per cent above what they were in April 1919.

For non-financial clearings we have a fairly good index in the sum of Metropolitan, Country and Provincial Clearings, as studied by Messrs. Phelps-Brown and Shackle, from January 1919 onwards. Between that month and April 1919 there was an actual decrease of 8 per cent, but an increase of 3 per cent when correction is made for seasonal variations. Between April 1919 and April 1920 these clearings rose by 50 per cent; after which date they, along with wholesale prices, began to decline. During the war period itself, for successive years they rose as follows :²

Year	Per cent
1914-15	14
1915-16	19
1916-17	17
1917-18	22

Thus in the post-war Boom non-financial clearings expanded at a much higher rate per annum than they had done during the war itself.

The statistics of income movements, if they were available, would have been of outstanding interest. During

¹ London and Cambridge Economic Service, Memorandum No. 46.

² Calculated from the Seventy-first Statistical Abstract of the United Kingdom, p. 189.

the second war direct estimates by the Treasury for 1938 and for the subsequent years have been published in the Chancellor of the Exchequer's well-known White Papers. But for the earlier war there are no such direct estimates, and we have to depend on somewhat dubious inferences. Annual figures, for financial years ending on 31st March, were, indeed, published of income brought under review for purposes of income tax. But these figures are very unsatisfactory for our purpose, both because the bulk of wage-earners' incomes are not brought under review, and because the incomes that are so brought relate, in large part, to three-year averages. Between the year ending 5th April 1917 and that ending 5th April 1918, the rise recorded was 19 per cent. It was 27 per cent between the latter year and that ending 5th April 1919. Between that and the financial year ending 5th April 1920 it was 23 per cent.¹ This suggests a fair degree of continuity, which allows of the month's income of April 1920 being some 23 per cent more than that of April 1919.

The above figures, as I have said, are very unsatisfactory as indices of movements in total money income. Moreover, they refer to annual flows, whereas our interest is in monthly flows. There are, however, two indirect tests of change in money income which it is possible to apply. The first has to do with the statistics of non-financial clearings. There is *a posteriori* evidence that money income in other periods has moved nearly parallel to these clearings. Thus, for the years 1924-33, Mr. Colin Clark made direct estimates of national income.² In the following table these incomes, as estimated by him, and non-financial clearings are brought together in series form by dividing the income and clearings respectively of year x by the income and clearings of year $(x - 1)$ and putting down the result against the year x .

¹ *Ibid.* p. 144.

² *National Income and Outlay.*

Year	Income	Income of Year x divided by that of Year $(x-1)$	Non-financial Clearings of Year x divided by those of Year $(x-1)$
1924	4035		..
1925	4357	108	102
1926	4173	97	94
1927	4359	104	105
1928	4339	99	102
1929	4384	101	100
1930	4318	98	93
1931	3889	90	90
1932	3844	99	98
1933	3962	103	103

Between the two tables there is evidently a close parallelism. This suggests that income moved very nearly in proportion to non-financial clearings. It must be observed, however, that, since the recorded movements are small, the divergences could not in any case be large; so that the appearance of parallelism may be deceptive. Moreover, even if the parallelism as between years is a true one, it does not follow that a similar parallelism holds between the same months in successive years. None the less, since Mr. Clark's income estimates were not in any degree based on the clearings figures, this table suggests *prima facie* that, for our period, April 1919–April 1920, changes in non-financial clearings probably constituted a good index of changes in total money income; or, rather would suggest this if it were not for one fact. This fact is that the period witnessed the removal of a large number of Government controls and the re-entry into activity of many intermediary dealers who had been squeezed out during the war. This must have meant that the transaction velocity of bank deposits expanded a good deal relatively to their income velocity; which implies that money income grew in a substantially smaller proportion than non-financial clearings, *i.e.* substantially less than 50 per cent. Against this consideration is to be set our know-

ledge that in times of boom the proportionate part played by industries making capital goods tends to rise relatively to that played by those making consumption goods; while a smaller number of transactions is probably carried on the back of a pound's worth of additions to capital than on that of a pound's worth of consumption goods. This factor, if working alone, would entail that, as a boom progresses, money income will grow *more* rapidly than non-financial clearings. It seems fairly certain, however, that in 1919-20 the weight of this factor is substantially less than that of the one working in the opposite sense.

The second test has to do with the product of average money wage rates and volume of employment. There is evidence that the proportion of aggregate money income to aggregate wages bill is usually very stable, even during the course of short-period boom and slump fluctuations. Thus Mr. Colin Clark gives the following table for the percentages of home-produced income, less Government income, per annum over the period 1924-35 — a period which, of course, includes the great 1930 slump — that were earned as wages.

1924	1925	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935
42.1	40.0	40.9	42.1	42.3	41.8	40.5	42.8	42.5	42.0	41.5	40.5

There are, however, two peculiarities about the period April 1919–April 1920. The first is that there were many soldiers coming back into industry, who, in general, received there more than their army pay; which implies that rates of pay per British man of the employee class must have risen in a larger proportion than the weekly rate of wages paid in industry. The second is that, after the removal of price controls, shortages of supply gave opportunities to a number of entrepreneurs to make, for a short time, profits even higher than are usual at the peak of a boom.

Both these considerations indicate that the proportionate rise in aggregate money income is likely in our period to have been larger than that in the product of quantity of labour at work multiplied by rate of money wages. This product between the Mays (which, as will be seen in the next chapter, give more reliable figures than the Aprils) of 1919 and 1920 rose by something over 23 per cent. Hence money income must have risen substantially more than 20 per cent.

On the joint evidence of these two tests I conclude that, between April 1919 and April 1920, aggregate money income in this country per month probably rose by something between 25 and 35 per cent. I do not think we can safely attempt a closer estimate than that; and this estimate, or more strictly, this guess, may itself very well be wrong.

II. THE SLUMP

Since we have not in this period to make comparisons with what happened during the war years, and since such comment as was required on the character of the available data has already been made in the preceding pages, the facts to be set out now can be summarised very briefly.

Currency in the hands of the public fell from its maximum in July 1920 by some 22 per cent to a minimum in February 1923. In December 1922 it was 14 per cent less than in April 1920.

Deposits did not turn down seriously till the middle of 1922, when they were as high as in April 1920 and some 20 per cent higher than in April 1919. They never again fell nearly to the April 1919 level. In December 1922 they were 2 per cent less than in April 1920.

Non-financial clearings began to fall in April 1920 at the same time as wholesale prices, and thereafter fell, losing 40 per cent by July 1921. They then attained a wavering

stability. In July 1921 they were at about three-fifths of their maximum and about 10 per cent below their level in April 1919. In December 1922 they were, when seasonally corrected, very much the same as — some 3 per cent higher than — in July 1921.

For the period of the Slump the reasons set out on pp. 156-7 suggesting that money income was probably moving less markedly than non-financial clearings are no longer applicable. It is, therefore, *prima facie* to be expected that the collapse of these clearings by July 1921 to 40 per cent below their level in April 1920 corresponded to a more or less parallel collapse in aggregate money income. This suggestion is, however, very much out of line with the facts about rates of money wages. These, in July 1921, were actually higher by some 8 per cent than in April 1920, and, though employment was some 16 per cent worse, this only gives a reduction in employment multiplied by money wage rates, between April 1920 and July 1921, of about 10 per cent.¹ It is quite impossible, in spite of the evidence in other periods of high stability in the proportionate share of total income accruing to labour, that this proportionate share in July 1921 can have been as large as in April 1920; but we have no means of knowing how much smaller it was. Thus the extent to which money income fell in this part of the Slump, like the extent to which it grew during the Boom, cannot be estimated at all accurately: the best we can do is to fix for it widely-spread limits. If, however, we compare May 1920 with the end of 1922, when the wage fall was over, we get more coherent results. Non-financial clearings (seasonally

¹ Annual income assessed for income tax was 2 per cent more in the financial year ending April 1921 than in the preceding year; in that ending April 1922, 8 per cent less than in 1920-21; in that ending April 1923, 4 per cent less than in 1921-2; in that ending April 1924, 2 per cent less than in 1922-3. These figures being based on three-year averages are practically useless as indices of the relation between income immediately before and immediately after a down-turn.

corrected) had fallen by 36 per cent and employment multiplied by money wage rates by 30 per cent. This suggests that money income, by the time stability was roughly attained, had fallen to some two-thirds of what it was near the peak of the post-war Boom.

III. THE DOLDRUMS

From the beginning of 1923 to the end of 1925 the Bank of England's estimates for notes and coin in the hands of the public in Great Britain and Ireland show no substantial variation. Deposits, despite a slight wobbling, remained sensibly constant till the end of 1924. Afterward, for the next few months, they tended slightly downward. Non-financial clearings also wobbled slightly, but, when seasonally corrected, were only a little higher at the time the Gold Standard was restored, in April 1925, than they had been in January 1923. Thus, so far as monetary indices go, in calling this period the Doldrums I have chosen an appropriate name. It was a period of relative quiescence, during which none of the indices of monetary change made any large movement. None the less, the "wobbles" in non-financial clearings ought not to be ignored. There was no significant trend of movement during 1923, but from January 1924 till the middle of that year there was a rise, when corrections are made for seasonal fluctuations, of some 7 per cent. After that till the end of our period the figure was fairly stable.