

1925

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*DÉFLATION EN PRATIQUE ET DÉFLATION POUR RIRE*

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[A letter to Professor Rist, who had kindly sent me his *La Déflation en pratique*, 1924. See above, pp. 283-5.]

January 18, 1925.

DEAR PROFESSOR RIST,—

. . . I am afraid we do not agree about 1920 any better than about 1820 (*Déflation*, p. 128, note 1). I have no doubt whatever that the slump of 1920 was caused by the stoppage of additions to the currency. The boom could have been maintained (as it was in Germany) by a continuance of the emission of additional paper: the adoption of the Cunliffe limit prevented this continuance and so killed the boom. And — and — declared that the limit could not be enforced, but there was enough expectation that it would be enforced to cause the kind of fright which used to be caused by a “drain of gold,” and to compel a rapid rise in the rate of discount.

The Treasury, consciously or unconsciously, followed up the blow by purchasing and destroying, down to March, 1923, a large quantity of Currency Notes. It has often been alleged that it was purely passive in this matter, and that the notes “came in of themselves” or came in “automatically” in consequence of the fall of prices. But, in fact, they came in because the Treasury was prepared to pay the cost of burning them. I or anyone else can burn as many Currency Notes as we like, if we are prepared to give a pound’s worth of goods for them, and the Treasury was and is no exception to the rule. The notes diminished because the Treasury got them in, whether by raising taxes