

*The Times*, Monday, October 17, 1932 (p.13)\*

**Private Spending  
Money for Productive Investment  
A Comment by Economists  
To the Editor of *The Times***

Sir,— On October 10 you gave prominence in your columns to a letter inviting the opinion of economists on the problem of private spending. There are a large number of economists in this country, and nobody can claim to speak for all of them. The signatories of this letter have, however, in various capacities, devoted many years to the consideration of economic problems. We do not think that many of our colleagues would disagree with what we are about to say.

In the period of the War it was a patriotic duty for private citizens to cut their expenditure on the purchase of consumable goods and services to the limit of their power. Some sorts of private economy were, indeed, more in the national interest than others. But, in some degree, all sorts of economy set free resources—man-power, machine-power, shipping-power—for use by the Government directly or indirectly in the conduct of the War. Private economy implied the handing over of these resources for a vital national purpose. At the present time, the conditions are entirely different. If a person with an income of £1,000, the whole of which he would normally spend, decides instead to save £500 of it, the labour and capital that he sets free are not passed over to an insatiable war machine. Nor is there any assurance that they will find their way into investment in new capital construction by public or private concerns. In certain cases, of course, they will do this. A landowner who spends £500 less than usual in festivities and devotes the £500 to building a barn or a cottage, or a business man who stints himself of luxuries so that he can put new machinery into his mill, is simply transferring productive resources from one use to another. But, when a man economizes in consumption, and lets the fruit of his economy pile up in bank balances or even in the purchase of existing securities, the released real resources do not find a new home waiting for them. In the present conditions their entry into investment is blocked by lack

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\* Thanks to Rachel Copley for retyping these letters from the originals.

of confidence. Moreover, private economy intensifies the block. For it further discourages all those forms of investment—factories, machinery, and so on—whose ultimate purpose is to make consumption goods. Consequently, in present conditions, private economy does not transfer from consumption to investment part of an unchanged national real income. On the contrary, it cuts down the national income by nearly as much as it cuts down consumption. Instead of enabling labour-power, machine-power, and shipping-power to be turned to a different and more important use, it throws them into idleness.

Conduct in the matter of economy, as of most other things, is governed by a complex of motives. Some people, no doubt, are stinting their consumption because their incomes have diminished and they cannot spend so much as usual; others because their incomes are expected to diminish and they dare not do so. What it is in any individual's private interest to do and what weight he ought to assign to that private interest as against the public interest, when the two conflict, it is not for us to judge. But one thing is, in our opinion, clear. The public interest in present conditions does not point towards private economy; to spend less money than we should like to do is not patriotic.

Moreover, what is true of individuals acting singly is equally true of groups of individuals acting through local authorities. If the citizens of a town wish to build a swimming-bath, or a library, or a museum, they will not, by refraining from doing this, promote a wider national interest. They will be "martyrs by mistake" and, in their martyrdom, will be injuring others as well as themselves. Through their misdirected good will the mounting wave of unemployment will be lifted still higher.

We are your obedient servants,

D. H. MACGREGOR (Professor of Political Economy in the University of Oxford),

A. C. PIGOU (Professor of Political Economy in the University of Cambridge),

J. M. KEYNES,

WALTER LAYTON,

ARTHUR SALTER,

J. C. STAMP

The reply was published two days later:

*The Times*, Wednesday, October 19, 1932 (p.10)

**Spending and Saving  
Public Works from Rates  
To the Editor of *The Times***

Sir,— The question whether to save or whether to spend, which has been raised in your columns, is not unambiguous. It involves three separate issues:—(1) Whether to use money or whether to hoard it; (2) whether to spend money or whether to invest it; (3) whether Government investment is on all fours with investment by private individuals. While we do not wish to over-stress the nature of our differences with those of our professional colleagues who have already written to you on these subjects, yet on certain points that difference is sufficiently great to make the expression of an alternative view desirable.

(1) On the first issue—whether to use one’s money or whether to hoard it—there is no important difference between us. It is agreed that hoarding money, whether in cash or in idle balances, is deflationary in its effects. No one thinks that deflation is in itself desirable.

(2) On the question of whether to spend or whether to invest our position is different from that of the signatories of the letter which appeared in your columns on Monday. They appear to hold that it is a matter of indifference as regards the prospects of revival whether money is spent on consumption or on real investment. We, on the contrary, believe that one of the main difficulties of the world to-day is a deficiency of investment—a depression of the industries making for capital extension, &c., rather than of the industries making directly for consumption. Hence we regard a revival of investment as particularly desirable. The signatories of the letter referred to, however, appear to deprecate the purchase of existing securities on the ground that there is no guarantee that money will find its way into real investment. We cannot endorse this view. Under modern conditions the security markets are an indispensable part of the mechanism of investment. A rise in the value of old securities is an indispensable preliminary to the flotation of new issues. The

existence of a lag between the revival in old securities and revival elsewhere is not questioned. But we should regard it as little short of a disaster if the public should infer from what has been said that the purchase of existing securities and the placing of deposits in building societies, &c., were at the present time contrary to public interest or that the sale of securities or the withdrawal of such deposits would assist the coming of recovery. It is perilous in the extreme to say anything which may still further weaken the habit of private saving.

But it is perhaps on the third question—the question whether this is an appropriate time for State and municipal authorities to extend their expenditure—that our differences with the signatories of the letter is most acute. On this point we find ourselves in agreement with your leading article on Monday. We are of the opinion that many of the troubles of the world at the present time are due to imprudent borrowing and spending on the part of the public authorities. We do not desire to see a renewal of such practices. At best they mortgage the Budgets of the future, and they tend to drive up the rate of interest—a process which is surely particularly undesirable at this juncture when the revival of the supply of capital to private industry is an admittedly urgent necessity. The depression has abundantly shown that the existence of public debt on a large scale imposes frictions and obstacles to readjustment very much greater than the frictions and obstacles imposed by the existence of private debt. Hence we cannot agree with the signatories of the letter that this is a time for new municipal swimming baths, &c., merely because people “feel they want” such amenities.

If the Government wish to help revival, the right way for them to proceed is, not expenditure, but to abolish those restrictions on trade and the free movement of capital (including restrictions on new issues) which are at present impeding even the beginning of recovery.

We are, Sir, your obedient servants,

T.E. GREGORY, Cassel Professor of Economics,  
F. A. VON HAYEK, Tooke Professor of Economic Science and  
Statistics,  
ARNOLD PLANT, Cassel Professor of Commerce,  
LIONEL ROBBINS, Professor of Economics

University of London, Oct. 18