PRIVATE SPENDING
The Times, Oct. 17, 1932 p.13
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. 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 one income of £1,000, the whole of which he would normally spend, decides instead to spend only £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, this is what he spends £500 less than usual in festivities and devotes the £500 to building a barn or a cottage, or a business man who finds himself unable to work because of the 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 resources do not find a new home waiting for them. In present conditions their entry into investment is blocked by a lack of confidence. Moreover, private economy intensifies the block. It further discourages all those forms of investment—factories, machinery, and so on—whose ultimate purpose is to meet the increased demands for consumption. Consequently, in present conditions, private economy does not transfer from consumption to investment part of the increased national 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.

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. But, it is in an 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 an individual 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, but, on the contrary, 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,
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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 difference 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 mortgaged 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, to revert to their old habits of lavish expenditure, but to abolish those restrictions on trade and on the free movement of capital (including restrictions on the taking of life assurance) which are at present impeding even the beginning of recovery.

We are, Sir, your obedient servants,
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F. A. VON HAYEK, Tooke Professor of Economic Science and Statistics.
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J. H. D. HICKS, Professor of Economics.
University of London, Oct. 18.