



SIR RALPH HAWTREY, C.B.

RALPH GEORGE HAWTREY

1879–1975

I

THE increase in the number and importance of economists in government since the beginning of the Second World War is a fact which has been fully documented and widely discussed. Many of these have been academics who forsook their university posts temporarily or permanently to assist the work of various Civil Service departments through their expertise as economic advisers. This now familiar pattern was almost reversed in the career of R. G. Hawtreys—a career in the Home Civil Service lasting from 1903 to 1945 during which he used his spare time to write and publish more learned articles and books on economics than the majority of his academic contemporaries and established an international reputation for his contributions to the subject, mainly on the monetary side. As Claude Guillebaud wrote of him in 1944: ‘An essentially academic economist, [Mr. Hawtreys] is attached to no teaching university, but looks out over the world from the Olympian heights of the Treasury.’

Like many distinguished servants of the Crown, Hawtreys came into the Civil Service by way of Eton and Cambridge. The family connection with Eton was an especially strong one; its members have been associated with the college, both as pupils and masters, for over four hundred years—the first Hawtreys was recorded as a King’s Scholar at Eton in 1565.

Ralph Hawtreys’s grandfather, John William Hawtreys, was Assistant Master of the Lower School at Eton from 1842 until 1869 and a second cousin of the famous Edward Craven Hawtreys, Headmaster of Eton from 1834 to 1853 and Provost from 1853 until his death in 1862. In 1869 John Hawtreys left Eton to establish a preparatory school, St. Michael’s, at Aldin House, Slough, and later his son, George Procter Hawtreys, became assistant master there. Hence it was at Slough that Ralph was born on 22 November 1879, the third child of George Procter Hawtreys and his first wife, the former Miss Eda Strahan. The two other children of the marriage—Freda and Phyllis predeceased their brother, but Freda lived with him in his London house from the Second World War until her death in 1964.

It was not from Aldin House but from Mr. Brackenbury's school, Pinewoods, Farnborough, that Ralph Hawtrey came to Eton in 1893 as a King's Scholar, with Hugh Macnaghten, later Vice-Provost, as his classical tutor. Hawtrey's interests and abilities were not in classics but in mathematics; at that time, however, there were no mathematical specialists acting as modern tutors. A pupil of Dyer's in mathematics, Hawtrey won the Tomline Prize, Eton's highest mathematical award, in 1896. In the following year he gained a wider distinction, and even some notoriety, when his first article appeared in the *Fortnightly Review* for September 1897.¹ Entitled 'The Speed of Warships', it strongly criticized the then existing system of Admiralty steam trials as giving no accurate comparison of the capabilities of ships in the fleet, and concluded 'Certainly the present system seems anything but satisfactory and something ought to be done as soon as possible to make the trials more dependable'.

That the matter was 'one of great public interest and importance' was admitted by no less a person than Sir William Henry White, then Director of Naval Construction, in a rejoinder published in the next issue of the *Fortnightly* which amounted to an official examination and refutation of Hawtrey's charges. In the meantime it had become publicly known that the article was the work of an Eton boy and Hawtrey's father had been congratulated on his son's distinction by the aged Gladstone himself. In a somewhat ungracious postscript to his own article Sir William White declared 'Had I known the[se] facts I should have made no reply', but nevertheless conceded that 'in many ways the congratulation is deserved'.

From Eton Hawtrey went up to Cambridge in the autumn of 1898, gaining a Minor Scholarship to Trinity. There he read Mathematics and was twice a Prizeman—in his Freshman year and again in his third year. In 1901 he was nineteenth Wrangler—a result which, however creditable, disappointed his old Eton teacher, Dyer, and led another Eton mathematics master, Hurst, to hold Hawtrey up to another Eton pupil, Maynard Keynes, as 'a dreadful example of a person who has tried to do too many things'.²

Keynes, with whom Hawtrey's name and works were so often to be linked and contrasted in later years, could not bring himself to agree that Hawtrey had 'lost his soul in knowing something besides Mathematics'. With that judgement Hawtrey

¹ *Fortnightly Review*, 72 (New Series), 435-44.

² R. F. Harrod, *The Life of John Maynard Keynes* (1951), p. 41.

himself would surely have agreed; he might well have felt that he had not lost his soul but found it. As he himself wrote some seventy years later 'when I went up to Trinity, Cambridge, as an undergraduate I had the good fortune to come under the influence of G. E. Moore, who had just been elected a fellow'; and the influence of Moore's ethics upon him was profound and lasting.

Many of those who, like Keynes, came under the influence of that system of ethics at the beginning of this century later modified their views, but Hawtreys did not. The view which he learned from Moore, 'that the Good is a matter of direct judgment and is not to be explained away in terms of anything else' remained the core of his philosophy all through his long life.

With characteristic reticence, Hawtreys appears never to have written down any details of how he came to gain the interest and approval of Moore; but that he had it is unquestionable for as an undergraduate he was elected to the company of the Apostles, which then included E. M. Forster, Leonard Woolf, Desmond MacCarthy, Lytton Strachey, Roger Fry, and Saxon Sydney-Turner. Hawtreys was in fact one of the Apostles who elected Keynes to membership in 1903 and it was at this time that their long friendship began. Another friendship formed at Cambridge was with Bertrand Russell; here mathematical interests seem to have been the source and when Whitehead and Russell were writing *Principia Mathematica* in 1908, Russell was corresponding with Hawtreys concerning the proof of various theorems.

Many of Hawtreys's Cambridge friends and colleagues were later to form part of the Bloomsbury Group, and he continued his association with them when his career brought him back to London. Readers of the now extensive literature of and on Bloomsbury will thus encounter the name of Ralph Hawtreys frequently—staying in Cornwall with the young Stephens in the summer of 1905, spending Easter at Salisbury in 1908 with G. E. Moore, Lytton Strachey, Keynes, and Rupert Brooke, and from November 1914 joining the company at Lady Ottoline Morrell's Thursday evenings. That company often included the d'Aranyi sisters, all talented musicians, as befitted the great nieces of Joseph Joachim. The three sisters, of whom the youngest, Jelly d'Aranyi, was to become the best known, were then living with their mother at Beaufort Mansions, Chelsea, where Hawtreys also resided at this time. Hence it was that he met the girl who was to become his wife—Emilia d'Aranyi, second of the

three. Like her sisters Emilia had exceptional musical ability but while Adila and Jelly were noted violinists, she enjoyed a considerable reputation as a pianist.

Emilia retired from the concert platform after she and Ralph Hawtrey were married in 1915. Their devotion to each other, remarked upon by Virginia Woolf when she encountered them as newly-weds, remained unaltered down the years, although shadowed by Emilia Hawtrey's long illness which lasted over fifteen years prior to her death in 1953.

Throughout the Bloomsbury years Hawtrey, like his fellow Apostle Sydney-Turner, was an established Civil Servant at the Treasury. He said in later years that his decision to work for the Civil Service examinations arose from the fact that while he was still at Eton he had been told that in the Civil Service one could be sure of an income of £1,000 a year by the age of forty, and of a pension too. At all events the prospects were sufficiently attractive in those days to produce intense competition and at least a year's preparation was considered essential for those who attempted the examinations. It seems to have been while engaged in this preparation at Cambridge that Hawtrey received such formal teaching in economics as he ever had—mainly from G. P. Moriarty, who was then acting as Director of Studies for those Cambridge men who intended to enter the open competition for the Home and Indian Civil Services. He also attended some of Clapham's lectures but was never a pupil of Marshall's—contrary to a widespread impression which seems to have developed from later attempts to categorize his theory of the demand for money as 'in the Marshallian tradition'.

A somewhat similar impression prevails that because Hawtrey spent so much of his career in the Treasury he also began it there. Yet in fact when he was successful in the open competition for the Civil Service in 1903 he went first to the Admiralty—perhaps because of his early interest in matters of naval policy. But in 1904 the Treasury's Upper Establishment of twenty-five was increased by the creation of one additional First Class Clerkship. As a result of the subsequent promotions, a new Junior Clerk was needed. One of the Joint Permanent Secretaries, Sir Edward Hamilton (who had begun his career as Gladstone's private secretary) proposed that the vacancy should be filled by 'the transfer from another office of one of the successful competitors at the last examination' and his choice fell on Hawtrey. Hence it was that the latter's long association with the Treasury began in January 1904, as a Second Class

Clerk in what was then the Third Division. In 1909 Hawtreys came into the First (Finance) Division as an acting First Class Clerk, but in 1910 Lloyd George, then Chancellor of the Exchequer, appointed Hawtreys to be his Principal Private Secretary and in that capacity he assisted in the work of preparing the Budget. He became an established First Class Clerk in the summer of 1911 and remained in that grade until appointed Director of Financial Enquiries in 1919.

The Financial Enquiries Branch had been established as a special branch of the Treasury in 1915 'to collect information upon all subjects of general financial interest and to prepare reports from time to time both on its own initiative and also upon any question which may be specially referred to it by the Chancellor of the Exchequer'. The post of Director of the branch was first held by Hartley Withers, but he relinquished it in July 1916, and the position was not filled until Hawtreys was promoted to it on 1 October 1919 with the rank of Assistant Secretary.

The rest of Hawtreys's career at the Treasury was spent in the Financial Enquiries Branch, apart from a period of nine months in 1928-9 when, unusually for a Civil Servant in those days, he was given leave of absence to take up a visiting Professorship at Harvard University. It had been intended that he should retire at the end of 1939, but with the outbreak of war he continued in post until his sixty-fifth birthday in November 1944. Even then his association with the Treasury was not at an end, for he was immediately re-employed to complete the chronicle of its wartime activities on which he had been working and only relinquished his appointment finally in October 1947.

It was in these years between 1919 and 1947 that Hawtreys made his most important published contributions to the development of economics, and between 1919 and 1939 he was the only established Civil Servant in the Treasury who could be considered a professional economist. An attempt to summarize and assess his achievement over these years in the twin spheres of monetary economics and economic policy cannot easily be combined with a narrative outline of his life, and is therefore attempted separately in sections II and III of this memoir.

Hawtreys's standing as a scholar in his chosen field, already recognized by his election to Fellowship of the British Academy in 1935, received further recognition in 1939 when London University conferred on him an honorary D.Sc. (Econ.). He was elected President of the Royal Economic Society for the years

1946–8 and in 1959 his old Cambridge college, Trinity, made him an Honorary Fellow. More significant perhaps was the fact that when the late Professor A. G. B. Fisher resigned the Price Chair of International Economics at the Royal Institute of International Affairs in 1946 the Advisory Committee set up to appoint a successor decided to offer the appointment to Ralph Hawtrey, and he took it up at the beginning of the academic year 1947–8, just after he finally left the Treasury.

Hawtrey served as Price Professor at Chatham House from 1947 until 1952. His position as the holder of a research chair gave him the opportunity to produce revised editions of some of his works—a fourth edition of his best-known book, *Currency and Credit*, and a second edition of his *Economic Aspects of Sovereignty*. He also began a new work, at that time provisionally entitled *Public Spirit, or the Ethics of Social and Political Motives*, an attempt to apply the ethical system of G. E. Moore to the problems of political judgements. His duties, however, required him to act as economic adviser on all aspects of the work of the R.I.I.A. and in consequence he became involved in work on Britain's balance of payments problem and early studies of the prospects and problem of Western European Union. Both of these studies resulted in publications—*The Balance of Payments and the Standard of Living* in 1950 and *Western European Union* in 1949; but the projected book on the ethics of politics did not appear.

After his retirement from the Price Professorship in 1952 Hawtrey seems to have considered that his first task was to use his knowledge of monetary economics to endeavour through public comment to change the course of what he considered to be the basically mistaken financial policies to which successive British governments committed themselves. This he continued to do in a series of books, pamphlets, articles, and newspaper comments right up to the time of his death in 1975. All these writings were dominated, some would have said and indeed did say, vitiated, by his unswerving belief that the devaluation of the pound in 1949 had been excessive and that its consequent under-valuation was the source of most if not all of Britain's international economic problems.

His work on philosophical problems was nevertheless continued; in the long tranquil evening of his life he went on thinking about that 'something else besides mathematics' which had first caught his interest at Cambridge some seventy years earlier, and he left behind at his death the completed typescripts of two books on ethics—*Right Policy: the Place of Value Judgments in Politics*, the

final version of the study begun at Chatham House, and another more general work entitled *Thought and Things*.

Until the very end of his life Ralph Hawtreys remained active and interested in the world around him—a world which must have seemed to him almost incredibly different from the stable post-Gladstonian world of the Treasury of 1904, but which he yet looked on with more tolerance and understanding than many younger men could muster. At his Kensington home, 29 Argyll Road, W.8, where his domestic needs were well looked after by his faithful housekeeper Miss Ruse, he received hospitably many economists, making available to them his vast fund of recollections of the making of economic theory and economic policy in the first half of the twentieth century. Professor Richard Sayers who called on Sir Ralph (as he had become in 1956) to congratulate him on his ninety-fifth birthday in November 1974 noted afterwards ‘I found him in most ways still the same charming and interesting man I first met some forty-two years ago’. It was Hawtreys’s good fortune, perhaps not undeserved, to retain to the last that combination of great intellect and gentle character which impressed themselves on all who came into contact with him.

II

In the early 1960s a reviewer of one of the last in the long series of Hawtreys’s books wrote that in it ‘Sir Ralph Hawtreys does not disappoint the faithful who expect him to extol the importance first, of bank rate as an instrument of monetary policy and, secondly, of the alleged under-valuation of the pound sterling since it was devalued in 1949’. This neatly summarizes what may be said to be the current stereotype of Hawtreys’s economics—dominated in the post-Second World War years by one King Charles’s Head, the under-valuation of sterling, and in the inter-war years by another, the view that ‘the trade cycle is a purely monetary phenomenon’ which might be cured by appropriate adjustments of monetary policy in general and bank-rate policy in particular.

Like all stereotypes, this one contains an element of truth and an element of injustice. Certainly it draws attention to a central feature of Hawtreys’s economics—that it was a monetary economics and monetary economics conceived in an international context. Yet that monetary economics was far more subtle and complex than the stereotype would suggest; and while it was

certainly the major part of Hawtrey's economic thought it was not the whole; he also published ideas on the scope and method of economics and on the theory of production and distribution, the quality of which cannot fairly be judged by the neglect into which they have fallen.

A notable feature of Hawtrey's economics is its consistency. He was a contributor to the subject for a period of more than fifty-five years and many of the key ideas which he presented in his first book *Good and Bad Trade* (1913) are still to be found in his last, *Incomes and Money* (1967), as in many of the twenty other books which came between. As he himself wrote to Keynes in May 1937 'I have adhered consistently to my fundamental ideas since 1913 and in so far as they have developed and grown the process has been continuous since then. There has not been a departure followed by a relapse. I do not think this conservatism is a merit; indeed I should rather like to go in for something novel and extravagant if I could be convinced of it'.¹

To some of his contemporaries Hawtrey's ideas appeared at times both novel and extravagant, but their development was undeniably continuous and based upon one fundamental and central idea—that of the wealth value of the monetary unit. Hawtrey, the Cambridge mathematician, came to this idea somewhat in the same way as Malthus, the first Cambridge economist, came to his central idea—through arguing with his father. In the political debates at the beginning of this century George Hawtrey was apparently convinced by the arguments of the tariff reformers while his son Ralph was equally firmly on the side of free trade. The latter was thus led to study with typical thoroughness the speeches of some of the leading politicians of the time and was particularly struck by a point made by Joseph Chamberlain in 1903, to the effect that British exports had not increased over the preceding thirty years. On looking into this he realized Chamberlain's figures related to the *value* of British exports in 1872 and 1902 and that the *volume* of those exports had actually increased substantially.² Hence the significance of changes in the general level of prices came home to Hawtrey and he began to study the forces affecting it—a study which was to become a life's work.

¹ Hawtrey to Keynes, May 1937; *Collected Writings of John Maynard Keynes*, xiv. 55.

² 'The Case for Tariff Reform', speech made in Glasgow by Joseph Chamberlain on 6 Oct. 1903, *Mr Chamberlain's Speeches*, edited by Charles Wood, 2 vols. (1914), ii. 145.

The basic ideas to which that study led him were outlined in *Good and Bad Trade* some ten years later and could be said to have emerged fully fledged in *Currency and Credit* (1919)—perhaps Hawtrey's most influential work and one which appeared just when he had first reached a senior level in the Treasury through his appointment as Director of Financial Enquiries.

Before examining the content of those ideas it may be useful to look briefly at their sources and the methods which Hawtrey employed in presenting them. It seems fair to say that Hawtrey arrived at the basic ideas of his system in almost complete independence from the work of other economists. In *Good and Bad Trade* there is a striking dearth of references to the contemporary literature of monetary economics—only Irving Fisher's work is actually mentioned by name. *Currency and Credit* has more references to current economic writings, but only from the rather obscure nineteenth-century work of H. D. Macleod on banking and credit does Hawtrey seem to have derived any of the ideas he put forward in the book. All of this is consistent with what Claude Guillebaud, writing with the authority of Sir Ralph himself, put on record in 1964—that 'he learnt his monetary economics as a Civil Servant in the Treasury, and cannot recollect having been influenced by Marshall; though he does acknowledge some indebtedness to Bagehot'.¹

By what means exactly Hawtrey learnt his monetary economics in the Treasury can only be surmised; but it seems likely that he was considerably influenced by Sir John (afterwards Lord) Bradbury, who became Joint Permanent Secretary in 1913 and under whom Hawtrey had served in the Finance Division ('1D') from 1909. When, in his old age, Hawtrey reminisced about the Treasury he always described Bradbury as the ablest man he ever encountered in the Civil Service and stressed the intimate knowledge of City activities and the working of the monetary system which he possessed. Given the lack of close relations between the Treasury, the Bank of England, and the City before 1914, such knowledge was unusual and it seems likely that when the young Hawtrey began to look at the monetary system from the Treasury his view was largely formed with the aid of Bradbury's experience.

Although there seems no reason to question Hawtrey's disclaimer of any influence on him from Marshall, the method which he used in his economics was curiously similar to Marshall's. An able mathematician, as Marshall was, Hawtrey

¹ *Economic Journal*, 74 (June 1964), 475.

relegated any mathematics he used in his economic writings to footnotes and appendixes, and eschewed diagrams, as Marshall did. Clear, straightforward prose was the essential medium through which he conveyed his ideas. Many of those ideas were such as to admit of statistical testing and it must seem strange to modern economists that while Hawtrey sometimes discussed the possibilities of such testing he never attempted to carry it out; unlike Irving Fisher, that other leading theorist of the price level, he was not among the pioneers of econometrics. That cannot have been because of any lack of ability to command the necessary techniques; rather it may have been, as with Marshall, the result of a recognition of the qualitative complexity of reality. Certainly, like Marshall, Hawtrey had a great respect for the historical method; Keynes in 1920 remarked on the fact that 'so pure a theorist as Mr. Hawtrey should be so interested in economic history'. It was an interest which never waned and some of the historical studies which he made in search of evidence to support or disprove his theories are major works of scholarship in themselves; *A Century of Bank Rate* (1938) is the outstanding example.

Any attempt to outline the theories which Hawtrey developed with the aid of these methods must first set out the essentials of his monetary economics. Perhaps a summary can best begin from his own words in the Preface to the fourth (1950) edition of *Currency and Credit*:

The theme of the book in its original form was the underlying unity of certain economic happenings: inflation; the cyclical alternations of activity and depression; financial crises; disturbances of the balance of payments and rates of exchange. All these were to be traced to changes in the wealth-value or purchasing power of the money unit, and changes in the wealth value of the unit, as indicated by the price level, are symptoms of changes in the consumers' income and outlay.

The foundation of the whole theory is the function of the credit system as the source of money. The banks create the means of payment by lending, and thereby are in a position to regulate the flow of money.

Hawtrey conceived the economy which he sought to analyse as composed essentially of consumers and traders—a term which he used to include not only producers, but wholesalers, retailers, and dealers—to whom the interest cost of holding stocks is of special significance. 'Consumers' income' he defined simply as the total of incomes expressed in money, 'consumers' outlay' as the total spent *out of income*—whether on consumable goods and services or on the acquisition of capital assets. Any difference

between the income and outlay of an individual consumer over an interval of time is reflected in his cash balance; the total of consumers' and traders' balances—the total of money and bank credit—Hawtreys referred to as the 'unspent margin'.

For each individual consumer the appropriate money balance will bear a determinate proportion to his income, and for each trader it will bear a determinate proportion to his turnover. Consumers and traders can release or absorb cash by altering these proportions—or as a result of increases or decreases in the supply of credit made available by the monetary authorities. Hence, to quote Hawtreys again, 'an expansion of credit is a device for causing a release of cash and a contraction of credit a device for causing an absorption of cash'. A contraction of credit, for example, will produce an absorption of cash, and a reduction of consumers' outlay. Retail sales will be reduced in consequence; retailers and wholesalers find themselves holding increased stocks and cut orders to producers who in turn reduce output and employment. Traders will seek to stimulate sales by reducing prices, and the fall of prices tends to relieve the situation but 'the process of readjustment will not be complete till wages are reduced in proportion to prices and pending that stage there is likely to be unemployment'.

Through the machinery of credit, bankers thus possess the power of regulating consumers' income and outlay, and hence the level of prices and of employment. But, Hawtreys argued, there is an inherent instability in the creation of bank credit. In the opening chapters of *Currency and Credit* Hawtreys showed with great clarity that a pure credit system would not be self-righting, but could generate cumulative falls or rises in money demand, employment, and prices because 'an increase in the supply of credit itself stimulates the demand for credit, just as a restriction in the supply of credit leads to a decline in the demand for credit'.

Pointing out that 'the expansive tendencies of credit are in perpetual conflict with the maintenance of a fixed standard of value, and a great part of our subject is taken up with the problem of how best to reconcile this conflict', Hawtreys moved to consider the case of an economy with a central bank which adheres to a gold standard and hence must be guided in its credit policy by the foreign exchanges. In these circumstances he argued that there would be a tendency for the instability of credit to take the form of a cycle. A period of expanding credit leads to rising incomes, prices, and employment, but ultimately also to a drain on the gold reserves of the banking system;

bankers are then forced to protect their reserves by contracting credit and raising rates of interest. The resultant effects on consumers' income and outlay and on traders' holding of stocks is to produce a period of falling prices and employment. Reserves are restored and ultimately bankers will seek to extend credit again at rates of interest which being below even the reduced profit rates experienced by traders serve to create a fresh expansion.

It was on this analysis that Hawtrey based his famous dictum that 'the trade cycle is a purely monetary phenomenon'. As such it could be controlled and even prevented by the use of monetary weapons, primarily Bank Rate. To the objection that rises in Bank Rate served only to over-correct an over-expansion when it had already gone too far Hawtrey always replied that this was because the Bank of England and other central banks under the gold standard were 'guided by a very tardy signal' in the state of the gold reserves. To prevent a slump it was necessary sooner to control the previous boom, through the use of a credit policy designed to stabilize consumers' income and hence general demand and the price level. Clearly no single national central bank could operate such a policy individually while adhering to the rules of the gold standard. Hence it followed that if the international gold standard system was to be preserved some form of international action to prevent variations in the wealth-value of gold was essential.

From this outline it can be seen that the theory of the trade cycle which gained so much attention from Hawtrey's contemporaries in the inter-wars years was in fact only a particular case of the general monetary model which he evolved—and a case of limited interest to him for he always insisted that the trade cycle as such had ceased to exist after 1914—the post-1918 world economy, whatever its instabilities, did not seem to him to exhibit the same regular periodicity.

The general monetary model itself might now be characterized as a fairly simple aggregate demand macro-model with near-perfect markets and a minimum of structural rigidities in it. Its originality and pioneering significance only becomes evident when it is remembered that Hawtrey developed it during the war of 1914–18 and that it was published in 1919, four years before Keynes produced his *Tract on Monetary Reform*. It is not surprising then that Keynes regarded Hawtrey as his 'grandparent in the paths of errancy'.¹

¹ J. M. Keynes, 'Alternative Theories of the Rate of Interest', *Economic*

The question of the relations between the ideas of Keynes and the ideas of Hawtrey is a fascinating one which has already been the subject of one detailed paper and may well provide material for more.¹ The two men had ample opportunities for discussion, both at Cambridge and in the Treasury, prior to 1919 and the extent and effect of those discussions can only be a matter for conjecture. Yet there seems no reason to reject the view suggested by the quotation given above, that the first influence was of Hawtrey on Keynes, rather than Keynes on Hawtrey. Here Hawtrey's lack of contact with Marshall is significant, for while Keynes had to emancipate himself from the 'classical economics' which he had learned from Marshall, Hawtrey was always independent of it. So he was able to lead the way in the transition from the quantity-theory approach to the short-period analysis of changes in income prices and employment which characterized the monetary economics of the inter-war years.

The character of the relationship between the thinking of Keynes and Hawtrey as it stood before the appearance of *A Treatise on Money* was well stated by Keynes himself in a discussion at the Royal Statistical Society in December 1929: 'There are very few writers on monetary subjects from whom one receives more stimulus and useful suggestion than from Mr. Hawtrey, and I think there are few writers on these subjects with whom I personally feel in more fundamental sympathy and agreement. The paradox is that in spite of that, I nearly always disagree in detail with what he says!'²

In the case of both the *Treatise* and the *General Theory* Keynes sent copies of the proofs to Hawtrey before publication. Hawtrey took immense pains to produce detailed criticisms, which he afterwards published,³ but in spite of the most sincere efforts to understand each others' doctrines, the differences between the approaches of the two men seemed to grow as Keynes's ideas developed from the *Treatise* to the *General Theory*. Yet it may well be, as Professor E. G. Davis has suggested, that Hawtrey was influential in setting Keynes on the path which led from one book to the other, by drawing his attention to the

Journal, 47 (June 1937), reprinted in *Collected Writings of John Maynard Keynes*, xiv. 202.

¹ E. G. Davis, 'The Role of R. G. Hawtrey in Keynesian Economics and the Economics of Keynes', *Carleton Economic Papers*, No. 77-12.

² *Collected Writings of John Maynard Keynes*, xiii. 127.

³ His critique of the *Treatise* appears in the *Art of Central Banking*, pp. 332-411, that of the *General Theory* in *Capital and Employment*, pp. 164-232.

importance of changes in output at a time when, as Sir Austin Robinson put it 'Keynes was still thinking primarily of the factors which made prices go up and down'.¹

After the *General Theory* there developed what Sir John Hicks in 1939 described as 'the great dispute about the working of monetary control—a dispute which has made most English economists either Keynesians or Hawtreys'.² Hawtreys, following out the implications of his basic model, stressed the key influence of Bank Rate on short-term interest rates generally and thus on the cost to traders of holding stocks.

Keynes did not believe in the effectiveness of this mechanism and argued that only in so far as a change in Bank Rate affected the terms on which long-term capital could be raised by industry would it affect economic activity. Hawtreys devoted a great deal of effort to a detailed examination of the historical evidence on the effects of Bank Rate on short- and long-term borrowing and it is now accepted that the case he made against Keynes's view in *A Century of Bank Rate* (1938) was conclusive.³

If Hawtreys's reaction to the *General Theory* was mainly to reaffirm his belief in the correctness of his own basic monetary model he did nevertheless introduce some modifications and innovations in his own ideas as a result of his studies not only of the work of Keynes but also of other monetary theorists such as Hayek and Harrod. Some of these changes are to be found in *Capital and Employment*, others in the fourth edition of *Currency and Credit* published in 1949. Perhaps the most notable feature of *Capital and Employment* was an analysis of the time structure of production and the physical processes of long-term investment along the lines of Jevons and Böhm-Bawerk—something which had been absent from the earlier books. It was in this context that Hawtreys introduced the useful distinction between the processes of 'capital widening' and 'capital deepening'. On it he based the argument that 'if the widening of capital equipment is insufficient to absorb the available flow of new savings, it is this favourable state of the investment market that ought to induce the deepening process and restore equilibrium'.

This conviction of the ability of the market to produce

¹ E. A. G. Robinson, 'John Maynard Keynes 1883-1946', *Economic Journal*, 57 (Mar. 1947), 39.

² J. R. Hicks, 'Mr. Hawtreys on Bank Rate and the Long-term Rate of Interest', *The Manchester School*, 10 (1939), 21.

³ For a fuller discussion of this see Sir John Hicks, 'Hawtreys', *Economic Perspectives* (1977), pp. 118-33.

equilibrium between savings and investment was probably one of the main sources of difference between Hawtreys and Keynes. But Hawtreys did modify his position on it to some extent, and in the 1949 edition of *Currency and Credit* conceded that in his earlier writings he 'took for granted too readily that money saved would be invested and that money invested would be spent'. Among his unpublished papers a piece which he had intended to use in this edition but did not suggest further concessions towards the Keynesian viewpoint—notably in these words: 'But over longer periods the fluctuations of working capital become less significant; the increments of working capital due to growth are small compared to the increments of instrumental capital. And the growth of instrumental capital is itself susceptible of wide fluctuations.'¹

It was always a corollary of Hawtreys's analysis that the economy, although lacking any automatic stabilizer, could nevertheless be effectively stabilized by the proper use of credit policy; it followed that fiscal policy in general and public works in particular constituted an unnecessary and inappropriate control mechanism. Yet Hawtreys was always prepared to admit that there could be circumstances in which no conceivable easing of credit would induce traders to borrow more and in such a case government expenditure might be the only means of increasing employment.

This possibility of such a 'credit deadlock' was admitted in all Hawtreys's writings from *Good and Bad Trade* onwards, but treated as a most unlikely exceptional case. In *Capital and Employment*, however, he admitted that 'unfortunately since 1930 it has come to plague the world, and has confronted us with problems which have threatened the fabric of civilisation with destruction'.

So indeed it had, and in the years that followed opinion, both academic and political, became increasingly convinced that the solution lay in the methods of stabilization by fiscal policy which followed from Keynes's theories rather than in those of stabilization by credit policy which followed from Hawtreys's.

To quote Sir John Hicks, 'Hawtreys would not admit that that is the end of the story';² nor is it, but it is the end of a central chapter. For during his years at the Treasury, when his official position involved him in matters of policy, Hawtreys appeared to the world primarily as a theorist. When he had left

¹ Hawtreys Papers, Churchill College, Cambridge, 6/5/17.

² Hicks, loc. cit, p. 123.

the Treasury he used his monetary theory mainly to criticize policy. Hence a discussion of his post-1949 writings, especially on the alleged under-valuation of the pound, will follow more naturally after a consideration of his role in policy during his Treasury career.

III

It was not until he was appointed Director of Financial Enquiries in 1919 that Hawtrey was sufficiently highly placed in the Treasury to be party to the inner processes of policy-making. He was already in the Treasury at the time of the financial crisis of 1907 and could recall Bradbury watching the drain of gold from the Bank of England and considering the possibility of a suspension of the Bank Act. The resolution of the crisis must have given him an early lesson in the efficacy of Bank Rate, even if only as a spectator of events. When he became private secretary to Lloyd George in 1910-11 this seems to have remained his role; although Hawtrey had been sent to America with an Inland Revenue official to collect information on United States local taxes in connection with Lloyd George's land-tax proposals he did not write a report on this and in later years he recalled how he 'sat in a corner' while Lloyd George dictated his 1911 budget speech.

After his promotion to First Class Clerk and move to '1D' in the summer of 1911 Hawtrey began to be assigned to work of greater significance; thus he assisted Basil Blakett in the preparation of the Memorandum on Gold Reserves in May 1914, which the Chancellor had called for following the bankers' request for a Royal Commission to examine the whole question of the size and control of gold reserves in London.¹ In the more famous crisis of August 1914 Hawtrey worked with Bradbury and admired his swift appreciation of the need for a special issue of currency notes; in the formulation of the necessary policy and its implementation '1D' played a significant part and Hawtrey gained valuable experience as a member of that small team. No doubt that experience grew as the Treasury's functions in economic management expanded during 1914-18, but in the story of those years Hawtrey's name does not figure prominently—certainly not as prominently as that of Keynes, for whom the special 'A Division' was carved out of the Finance Division in 1917.

¹ See R. S. Sayers, *The Bank of England 1891-1944*, i. 65 and iii. 3-30.

Nevertheless it was the First World War which led to the creation of the Financial Enquiries Branch and it was his appointment as Director of this branch which gave Hawtreys the opportunity to comment on and sometimes to participate in policy-making in the inter-war years. Under the very broad remit which was given to the branch Hawtreys drew up many and varied reports and memoranda on economic and financial matters which are now to be found among the papers of senior Treasury officials of that period, but the impression prevails that they did not often receive much attention, and that the Financial Enquiries Branch under Hawtreys was something of a backwater. Churchill's jocular demand that 'the learned man should be released from the dungeon in which we were said to have immured him, have his chains struck off and the straw brushed from his hair and clothes, and be admitted to the light and warmth of an argument in the Treasury Boardroom' has been more than once quoted.¹ Sir Warren Fisher's explanation to the Public Accounts Committee in 1936 of the work of the Financial Enquiries Branch was rather in the same genre: he felt that the Committee probably knew of Hawtreys, 'who works away on metaphysics and writes learned books and concerns himself primarily with the theory of higher finance . . . he is really continually examining into the theoretical side (at least as it seems to me the theoretical side), and we pull a stop out when we want something from him'.²

In the Treasury of the twenties and thirties Hawtreys was no doubt a rather unusual figure, perhaps almost the first of the 'back-room boys'. It would be a mistake to think that as such he was unimportant. Sir Warren Fisher did go on to tell the Public Accounts Committee that 'supposing some rather delicate exchange issue comes along to the Under-Secretary . . . he would get hold of Hawtreys and say "you ought to know all about this" and he would advise'; and Churchill's sally can be read as a criticism of his officials for not making sufficient use of the special expertise which Hawtreys could provide.

In fact the advice which Hawtreys gave always followed logically from his conviction that the central objective of policy, national and international, must be to stabilize the wealth-value of the monetary unit. Consequently the extent to which it was acceptable to his administrative and political superiors inevitably

¹ P. J. Grigg, *Prejudice and Judgment* (1948), p. 82.

² Minutes of Evidence taken before the Committee of Public Accounts, 30 Apr. 1936; *House of Commons Papers 1935/36*, 131-48, p. 399.

varied. When Hawtrey took up his position as Director of Financial Enquiries in the autumn of 1919 the movement towards a dearer money policy was beginning and that winter the Cabinet accepted the recommendations of the Cunliffe Committee favouring financial retrenchment in preparation for a return to the gold standard at the pre-war parity. On the whole Hawtrey agreed with these recommendations at this time and in March 1920 he advised the Chancellor (Austen Chamberlain) in favour of an increase in the Treasury bill rate which would allow a rise in Bank Rate to 7 per cent. This was in line with his credit theory, according to which the prospect of dear money should serve to change expectations of a further rise in the price level. But, unlike Keynes, who was disposed to advocate a prolonged period of dear money, Hawtrey felt that high rates of interest should continue only for a short time and by the beginning of 1921 he was advocating a reduction. In April 1921 he was writing to Blakett that 'the drastic deflation effected, here and in America, since last spring [is a] most remarkable confirmation of the theory of control of credit through the discount rate' and later he advocated a return to pre-war practice of frequent changes in Bank Rate.

The problem, however, was that a return to the gold standard at the old parity seemed to require continued deflation. Hawtrey accepted that 'the justification for struggling back through all the admitted difficulties to our pre-war pound of 113 gr. of fine gold is that this parity would command confidence in a way that no other could. . . . The risk of a crisis arises chiefly from a too rapid reduction of prices. The best safeguard against it is to make the deflation slow.' In addition, Hawtrey did not consider that struggling back to the old parity necessarily meant restoring all the other features of the pre-1914 gold standard. His preference, stated in a paper to Section F of the British Association in 1919, was for a gold exchange standard with international agreements on uncovered paper issues and control of credit, with a view to keeping the gold value of commodities (measured by an index number) more or less constant.

An opportunity to have this plan, or at least something approaching it, carried into effect seemed to offer when an International Economic Conference was called by the Supreme Council of the Allies at Genoa in April 1922. Hawtrey was a member of the British Delegation and his participation in framing the resolutions on monetary policy and central banking

adopted by the Conference was perhaps the highest point of his influence in economic policy-making; certainly the Genoa Resolutions always remained for him the most important guidelines in international economic co-operation. This was because they enshrined the principle of joint action by central banks to regulate credit 'not only with a view to maintaining the currencies at par with one another, but also with a view to preventing undue fluctuations in the purchasing power of gold'. To Hawtreys this was the key to stabilization not merely of prices, but of incomes and employment: the wealth-value of the money unit must be kept steady and there must be international action to achieve it.

In preparing his proposals for Genoa Hawtreys had discussions with Montagu Norman, with whom he had begun to build up contacts after his appointment as Director of Financial Enquiries gave him greater freedom to act in this way. The Board of Trade attempted to water down Hawtreys's proposals but with Blackett's support he contrived to have the full version brought forward at Genoa and adopted by the Conference.

Hawtreys himself recognized that 'in one respect the Genoa Resolutions are really unsatisfactory. It is impossible to point to any particular time at which effect can be given to them.' The twelfth Resolution did indeed request the Bank of England to call a meeting of central banks 'as soon as possible' and Norman sent out invitations with a view to a meeting in September 1922. Many felt that it should be postponed pending a political settlement of war debts with the result that 'there was never after 1922 any practical approach, and co-operation was left to develop in concerted attacks on particular problems rather than in general assembly round a single table'.¹

At this time, however, Hawtreys still thought that a return to gold would afford a basis for developing international price stabilization along the lines of the Genoa Resolutions and that it might be achieved without rapid or serious deflation. To this end he pinned his hopes on a rise in the American price level and in 1923 he was writing memoranda in favour of an export of gold to the United States, ostensibly as part of debt repayment, but with the objective of provoking a rise in American prices. This proposal 'emanated from the Bank' but it is not surprising that Hawtreys gave it warm support at the Treasury for he had advocated something of the kind as early as 1920. For a time it was seriously discussed, but a fresh weakness of the pound in

¹ Sayers, *The Bank of England 1891-1944*, p. 162.

May 1923 put it out of court. Despite the opposition of Hawtrey and Niemeyer at the Treasury, who still favoured the gold shipment plan, Norman succeeded in having Bank Rate raised in July 1923 and the path to parity via orthodox deflation was resumed. Nevertheless even in March 1924 Hawtrey was arguing that 'it is still open to us to bring about an inflation of dollar prices and improve the exchange market without causing any set back to prices here'.

So in the debate which raged during 1924 concerning the priorities as between price stabilization and the return to gold there can be little doubt as to where Hawtrey's sympathies lay. Yet when the question of restoring the gold standard became practical politics in 1925 the answer which he gave to Churchill's well-known 'examination paper' was to the effect that it was 'both a British and world-wide interest that the pre-war system should be restored . . . exchange stability cannot be obtained at present by any other method than the gold standard'. However, he added that no active measures should be necessary before the end of the year; it was to be hoped that the exchange would come to par of itself and even if it did not credit contraction would still be undesirable.

Naturally Hawtrey was deeply disappointed and worried by the actual course of events which followed. Once he realized that the gambles on which the return to gold in 1925 had been based had not come off he moved into the position which he occupied at least until 1928, if not 1931, that of a persistent critic of British monetary policy and a persistent admirer of the American Federal Reserve. It was scarcely a popular stance for a Treasury official to take in those years; it placed Hawtrey in opposition to Norman and the Bank of England and sometimes to his own superiors as well, but he was fearless in his defence of it. When Bank Rate was raised to 5 per cent at the end of 1925 he characterized the move as 'nothing less than a national disaster' and he regarded its continuance as a major cause of falling prices not only in Britain but also in the United States. 'It is still true', he wrote in a Treasury memo at the end of 1927, 'that the Bank of England and the Federal Reserve Banks are pulling in opposite directions, the former contracting credit and the latter expanding. But whereas till last summer the Bank of England had prevailed and world prices had been falling now New York has the upper hand and world prices are either stationary or rising. From the point of view of this country that is a highly desirable state of affairs. . . .' Hawtrey had always a

high admiration for the way in which Benjamin Strong had handled the credit policy of the Federal Reserve in the 1920s and considered that Strong's death in 1928 was a major misfortune for international monetary relations.

It could be said that Strong's task in these years was easy by comparison with Norman's; if the \$4.86 parity was to be maintained how could it be done without the pressure of a high Bank Rate? One suggestion which Hawtreys put forward in 1927, when the amalgamation of the Bank of England and Treasury note issues was under consideration, was the abandonment of the principle of fixed fiduciary issue and indeed of any legal regulation of gold reserves—'there is no real need for the legislature to give any directions to the Bank of Issue except to maintain convertibility into gold'. It was a far-sighted proposal, but it drew from Niemeyer the comment, 'Far too theoretical, and dangerous for the Bank', and no more was heard of it.¹

In fact Hawtreys was always prepared to be unorthodox within the terms of his own credit theory, but not beyond it. In 1929 the Liberal proposals for a major public works programme to reduce unemployment, supported by Keynes and Henderson, met with a bleak official response in the White Paper *Memoranda on Certain Proposals relating to Unemployment*. It was widely believed that Hawtreys had some responsibility for this 'Treasury view' of the inefficacy of public works to generate employment; certainly he saw no virtue in the public works proposals as such, but he was as eager as Keynes to see the level of unemployment reduced. The memoranda which he wrote on this subject in June 1929, only weeks after his return from Harvard, show him translating the Liberal proposals into his own terms:

The virtue of Mr Keynes's plan, as advocated by the Liberal Party, is that the extensive schemes of capital outlay by the Government would affect the balance of payments by diverting part of the country's savings from external to internal investment. That would make possible an increase in the consumers' income, without which additional employment in one direction is bound to be offset by reduced employment in others

. . . But there is another device which would likewise serve the purpose. Suppose the British government issues a loan on the London market and applies the proceeds to paying off Treasury Bills. . . . With fewer Treasury Bills the banks would seek other short-term commercial bills or advances. In so far as this occurs the government will have applied the resources diverted from external investment to provide additional working capital for industry and trade. . . . The fall of prices

¹ See *ibid.*, p. 288.

and the unemployment are precisely the effects which ought theoretically to be expected from the policy of high discount rates which has prevailed since 1924. In so far as the funding of Treasury Bills stimulated short term lending . . . this disastrous tendency will be checked and, it is to be hoped, will be reversed.

Thus was Keynesian unorthodoxy translated into Hawtreyan unorthodoxy, but no hint of it appeared within the covers of the White Paper. As has been indicated above, Hawtreys attitude towards the theoretical possibilities of increasing employment through public works underwent some modification in the thirties, but he nevertheless remained profoundly sceptical of their value in practice: in a 'Memorandum on Fiscal Policy during the Depression' prepared for the League of Nations in 1937 he compared British and American experience and concluded: 'The facts give no support to the theories of those experts who are inclined to assume that budget policy is the decisive factor in increasing or decreasing economic activity.'

These were not fashionable words even in 1937 and perhaps they give some indication of the reasons for the comparative decline of Hawtreys influence in matters of policy which seems to have occurred in the thirties. For he held firmly to his basic monetary theories in a world where circumstances were changing rapidly and new advisers were growing up to interpret them in different ways.

In the evidence which he gave before the Macmillan Committee in 1930 Hawtreys was still arguing for international price stabilization along Genoa lines and urging that the Bank of England could and should give a lead in this respect by abandoning dear money. But by the spring of 1931 he had recognized that devaluation or depreciation of sterling was inevitable and was refusing to write memoranda in support of maintaining the \$4.86 parity.¹

After Britain had left the gold standard in September 1931 he was among those who produced memoranda on exchange-rate policy; his advice was to peg the pound at a new rate of £1 = \$3.40, a 30 per cent devaluation, and subsequently to raise or lower the rate in line with movements of the world price level. Hawtreys reasons for choosing a 30 per cent devaluation were typical—30 per cent was the extent of the fall in world prices since 1925, at which date he was prepared to assume that wages and prices had been in 'tolerable equilibrium'. At this time at

¹ Moggridge, *British Monetary Policy, 1924-1931*, p. 228.

least it seems that Hawtreys views about the appropriate valuation of sterling and the concept of managing it in relation to world prices were in line with those of Keynes and of his Treasury superiors, although H. D. Henderson felt that the \$3.40 valuation was too low.¹

Henderson at this time was Joint Secretary of the Economic Advisory Council, of which Keynes was a member, and in 1932 its Committee on Economic Information gave its backing to what has come to be known as the 'Keynes-Henderson plan' for an international note issue, as part of the proposals to raise world prices and revive trade to be submitted to the World Economic Conference in 1933. Initially Hawtreys, when asked to comment, was decidedly sceptical; despite his growing anxieties about the 'credit deadlock' he still felt that central banks could if they chose do all that was necessary for revival through open market operations. Nevertheless he went on to concede that 'if it *did* become a practical proposition, I should say by all means press it for all it is worth. . . . It would require very careful handling to avoid landing the world in a fresh series of monetary fluctuations, and that careful handling would certainly not be forthcoming, but this danger seems to me less serious than a continuance of existing conditions.'

On the whole, however, the Treasury reaction to the Keynes-Henderson plan was that it was not a practical proposition to put forward to an international conference. In the search for a simpler and less ambitious plan Hawtreys was involved with Sir Frederick Phillips, Sir Otto Niemeyer (now at the Bank of England), and Sir Cecil Kisch, Secretary to the Financial Department of the India Office. The result, the 'Kisch plan', called for a redistribution of existing gold stocks through an International Credit Institute, probably controlled by the Bank for International Settlements. Although it seemed unlikely that this plan would ever secure American official support, the Treasury still hoped to bring it forward at the conference. In the event, before this could be done the World Economic Conference was effectively broken up by Roosevelt's 'bombshell' declaration that stabilization was not a matter for governments and that he could not obligate the United States to approve the export of gold.

Earlier in 1933 Hawtreys had predicted that Roosevelt 'will make a great effort to avoid devaluing the dollar'. In spite of

¹ See Howson and Winch, *The Economic Advisory Council 1930-1939*, pp. 102-5.

this and of the blow to international co-operation which Roosevelt's later actions involved, Hawtrey was inclined to be sympathetic when Roosevelt adopted the so-called 'Warren Plan' and raised the domestic price of gold in September of the same year. Despairing of seeing effective international co-operation to raise and stabilize the world price level, Hawtrey now envisaged exchange depreciation as the only way in which a country like the United States could 'break the credit deadlock by making some branches of economic activity remunerative'. Not unnaturally there were those, like Per Jacobsson of the Bank for International Settlements, who found it hard to reconcile this apparent enthusiasm for exchange depreciation with Hawtrey's previous support for international stabilization schemes. To them his reply was 'the difference between what I now advocate and the programme of monetary stability is the difference between measures for treating a disease and measures for maintaining health when re-established. It is no use trying to stabilise a price level which leaves industry under-employed and working at a loss and makes half the debtors bankrupt.' Here, as always, Hawtrey was faithful to the logic of his system, which implied that if international central bank co-operation could not be achieved, each individual central bank must be free to pursue its own credit policy, without the constraint of fixed exchange rates.

The lessons of the breakdown of international economic co-operation during the thirties had much to do with what Sir David Waley described as 'A curiosity of history', the fact that 'during a Total War in which unexampled efforts and sacrifices had to be made to avert defeat . . . a large proportion of the time and energy of the Treasury was devoted to the elaboration of post-war Utopias'.¹ Again, as in the First World War, Hawtrey was not involved in the major policy decisions to the extent which Keynes was—much of his time in the later years of the war was devoted to compiling his detailed chronicle of the evolving activities of the Treasury since 1939—but he saw and wrote comments on most of the plans for the post-war economy which circulated within government. Some of the papers in his files from this period show him, as so often before and afterwards, swimming against the tide of received opinion—for at a time when most economists were concerned with the problems of

¹ Waley, 'The Treasury during World War II', *Oxford Economic Papers*, Supplement to vol. v (1953), p. 47; quoted in Henderson, *The Inter-War Years* (ed. H. Clay), Introduction, p. xxvii.

maintaining full employment after the war and expressing fears of renewed deflation, Hawtreys was warning of the dangers of inflation which the post-war world would face.

In these papers can be seen the first hints of ideas which Hawtreys published and kept on developing and presenting in later years. When plans for international monetary co-operation had finally taken shape in the International Monetary Fund he gave them a very qualified welcome in *Bretton Woods for Better or Worse* (1946). 'It is no part of my purpose to find fault with the plan itself', he wrote. 'Given effective safeguards against undue variations in the wealth-value of the principal money units, whether upwards or downwards, the Bretton Woods plan might be a useful instrument of international co-operation. But without such safeguards it is likely only to complicate and aggravate the resulting troubles. Especially is the much-vaunted "expansionist" policy likely to end in disaster. If depression is to be staved off by uninterrupted monetary expansion, the time is bound to come when the continuance of expansion is found intolerable.'

In the years immediately after the end of the Second World War it seemed to Hawtreys that the lessons of deflation, which he had so often had to explain in the twenties, had now been too well learned. Not surprisingly, he was critical of the continuance of cheap money and the neglect of bank rate. 'The demand is for a vehicle without a brake', he wrote in the Preface to the fourth edition of *Currency and Credit*, dated June 1949. 'Due regulation of the flow of money requires means not only of expansion but of contraction. For contraction Bank Rate remains the indispensable instrument.'

By 1949 it seemed to Hawtreys that in Britain 'redundant money and easy credit' had created a state of over-employment through demand inflation, but not an inflation of wage costs. In this situation as he saw it the devaluation of the pound was a policy mistake of the same order of magnitude as the return to the pre-1914 parity had been in 1925. 'Whatever the illusions in Government circles in 1949 as to the state of costs in the export industries, there was never any pretence that the devaluation from \$4.03 to \$2.80 was not far greater than any supposed disparity of costs could have justified', he wrote in 1955. 'The idea that wages and costs could be prevented from adjusting themselves to the rate of exchange thus reduced was quite chimerical. The rate of exchange set a standard for wages and prices, which in course of time they were bound to reach. If five years have passed without their attaining it, this is because

the standard itself has been continually receding: it has risen higher and higher, as American wages and prices have been raised.¹

This was the essence of the message which Hawtrey continued to preach in books, articles, and letters to the press all through the fifties and sixties. In those years, when 2 or 3 per cent per annum inflation seemed a very small price to pay for full employment, it was not a message which many people cared to hear. There were some economists, like Harry Johnson, who recognized 'the suggestive value of an independent approach to the problem of sterling, which attempts to view it from a broader angle than that of the immediate state of the international reserves'. But to the great majority of the profession Hawtrey seemed to be a venerable figure incorrigibly attempting to apply the ideas of the past to the problems of the present; and as he went on reiterating his message they tended to become embarrassed and inattentive.

Yet Hawtrey's thesis was not without foundation; the authors of a recent carefully researched account of inflation in Britain argue that it is 'quite plausible to assume that in 1954 sterling was still undervalued following the excessive devaluation of 1949' and indeed find evidence for the persistence of undervaluation into the mid 1960s.² The authors of this particular study make no reference to Hawtrey's theories, but other aspects of his work have gained fresh recognition in recent years. Thus modern exponents of the monetary approach to the balance of payments, who stress that an excess supply of money will be reflected in all the other accounts of the balance of payments, recognize that this theory is to be found in *Currency and Credit* and was applied by Hawtrey in many of his factual studies.³

It is not hard to see the reasons for such a revival of interest in Hawtrey's work, nor to predict how far it may go. The more economists are convinced that 'money does matter' the more they are likely to be impressed by Hawtrey's analysis. For some thirty years after the publication of the *General Theory* they became and remained on the whole convinced that it did not matter, or at least not much, and Hawtrey's reputation declined. In the last ten or twelve years more and more of them have

¹ *Cross-Purposes in Wage Policy*, p. 71.

² R. J. Ball and J. Burns, 'The Inflationary Mechanism in the U.K. Economy', *American Economic Review*, 66 (1976), 475-6.

³ Cf. J. A. Frenkel and H. G. Johnson, *The Monetary Approach to the Balance of Payments*, pp. 34 and 37.

become convinced afresh that money does matter and while this continues Hawtreys reputation may well rise again. Economics is a very fashion-ridden subject and Hawtreys made few concessions to fashion. To him what he had thought to be true in 1913 still seemed true in 1973—in a money economy changes in the wealth-value of the monetary unit have consequences, which can be understood, but not escaped.

IV

The contributions to monetary theory and policy which have been discussed in the two preceding sections are numerous and distinguished. Whatever Hawtreys reputation may now be or become it has never been disputed that in its day his monetary work was on a par with that of Keynes, Robertson, and other leading thinkers in that field. Consequently this tends to be seen as the whole of his achievement; but the fact is that if every one of his publications on monetary economics were deleted from it the list of his writings would still exceed in quantity and quality that of many of his contemporaries. For it would include books such as *The Economic Problem*, *Economic Aspects of Sovereignty*, *Economic Destiny*, *Economic Rebirth*, and articles such as his Presidential Address to the Royal Economic Society on 'The Need for Faith' and his 1960 paper on 'Production Functions and Land—a New Approach'.

In *Economic Destiny* (1944) Hawtreys identified two 'vital matters' besides the monetary in which he held that economics 'has failed to base guidance on conviction—it offers no accepted theory of profit . . . and . . . it has not taken sufficient account of power as a continuing and dominant object of economic policy'. Much of his own thinking and writing in the books and papers already mentioned was devoted to these problems. On them he formulated ideas of his own which, typically, were both unorthodox and durable. They have attracted little attention, but Hawtreys would himself have regarded them as ultimately of more significance than his better-known monetary work and an understanding of them is fundamental to any complete appreciation of his economic thought.

It seems to have been as a result of his emphasis on the place of traders in the economy that Hawtreys arrived at his concept of profit. He stressed that profit must be seen not merely as a margin between selling price and costs but also as a proportion of turnover, to which profit income is proportional. Profits

depend on selling power—the skill, efforts, and opportunities of traders—and not on uncertainty, for without uncertainty there could still be great inequality in the amounts which different traders sell. ‘Free competition’, Hawtrey argued, ‘tends to establish a common standard between incomes derived on the one hand from salaries and on the other from profit on a very modest turnover. Beyond that free competition has *no* tendency to keep down the incomes derived from profit.’ Hence profit is ‘quite definitely an exception to the general principle of the equalisation of rates of remuneration through the labour market. There is here a congenital malformation of the individualist economic system.’

Profits thus appeared to Hawtrey as the principal source of inequality under what he called ‘competitivism’, but he recognized that they were essential to it both as an incentive to enterprise and a source of accumulation. Within an economy this implied that a division of the product of industry between wage-earners and profit-makers which preserved the incentive to enterprise on the one hand without exploiting the workers on the other was of the greatest importance, but Hawtrey was extremely doubtful of the capacity of the collective bargaining process to achieve this because ‘there is no independent and generally recognised standard of what is fair in wage agreements. What the defects of the profit-making and wage-fixing systems together could lead to in a market economy he saw clearly enough: ‘If the existence of a level of profits no more than sufficient to provide the requisite stimulus to enterprise for maintaining full employment, is seized upon as a signal for demands for higher wages, the result can only be chronic unemployment combined with a progressive depreciation of the wealth value of the monetary unit, the worst of both worlds.’

On the other hand, Hawtrey attached much importance to the links between accumulation out of profits and the pursuit of power, both by the individual and the state. Wealth gave power to ‘men of substance’ who would seek to use it to influence public policy in their own interests. At the same time it afforded a source of power on which the state could draw through taxation and borrowing especially in time of war. Hawtrey also emphasized the relationships between accumulation, the export of capital, and imperialism. He was under no illusions as to the persistence of mercantilism in practice if not in theory, and while he expounded the benefits of international investment he also showed how it could be used as an instrument of power.

The pursuit of power by nation states could involve war or the threat of war and so contribute to what he often described, in a phrase borrowed from Lowes Dickinson, as 'the International Anarchy'.

This exposition of the defects of the competitive system might seem to be powerful enough to amount to an indictment of it—an indictment which would lead on naturally, as it did for many, to an acceptance of collectivism as a preferable alternative. Hawtreys did indeed devote much space in several of his books to a careful appraisal of collectivism, but he never accorded it unqualified approval. His condemnation of totalitarianism, whether fascist or communist, was unreserved; but he considered that democratic socialism was a possibility. The major problem it would present would be the establishment of an effective economic discipline to take the place of the profit motive, and Hawtreys predicted that 'in fact the reconciliation of liberty with economic discipline may turn out to be the greatest problem of our economic destiny'. Neither in competitiveness nor in collectivism did he envisage an easy solution of it.

The reasons for this seemingly ambivalent attitude must be sought in Hawtreys's view of the relation between economics and ethics. 'Economics', he wrote in 1928, 'cannot be dissociated from ethics' and there is no evidence that he ever departed from this position. It was a position almost diametrically opposed to that which was adopted, or was coming to be adopted, by most economists at that period: they were increasingly becoming uncomfortable with the propositions about utility which formed the basis of welfare economics as presented by Pigou and endeavouring to give their subject a strictly positive character. Hawtreys had no desire, however, to bring back the utilitarian ethics into economics. In fact he specifically attacked Pigou's conception of economic welfare as consisting of such satisfactions as are amenable to the measuring-rod of money. Hawtreys contested this identification of welfare with satisfaction, arguing that 'the consumer's preferences have a very slight relation to the real good of the things he chooses'. Hence it followed that 'the aggregate of satisfactions is not an aggregate of welfare at all. It represents good satisfactions which are welfare and bad satisfactions which are the reverse.'

Now this clearly implies an ability to define and distinguish good and bad satisfactions which most economists would have denied that, *as economists*, they possessed. They sought to narrow the scope of the subject by excluding all ethical considerations

from it: Hawtrey sought to widen it by specifically importing into it a non-utilitarian system of ethics—the ethics of G. E. Moore. As has already been stressed in section I, Moore's view of an inherently valid Good was always the core of Hawtrey's philosophy. Hence while to most economists what is good would be subjective, to Hawtrey it was objective.

It was thus, as he explained to his colleagues of the Royal Economic Society in his Presidential Address in 1946, that he accounted for economists' lack of authority in public affairs: 'The answer, I believe, is to be found in a dissociation of their reasoning from any accepted ethical background.' Hence they did indeed fail to base guidance on conviction: yet 'if the economists' conclusions are to command faith, they must be directed to right ends. And surely a fundamental condition of any faith is that there *are* right ends.'

Hawtrey himself had no doubt that there are right ends, and also false ends. 'By a false end', he wrote in *The Economic Problem*, 'we mean something which is so generally and almost certainly valuable as a means, that people seek it without considering for what end it is to be used.' The cult of money-making and the cult of national-power he characterized as the pursuit of false ends. Both communism and individualism, he considered, shared the view that wealth was 'the part that matters' in welfare, and he did not share it with them.

Hawtrey's union of ethics with economics enabled him to bring within it many topics which those who treat the subject as a strictly positive science would regard as excluded from it. Hence today when positive economics is somewhat out of fashion and economists permit, and admit to making, value judgements Hawtrey's ideas in this field are also beginning to be noticed again¹ and may be more attended to in future.

Whatever may be thought of Moore's system of ethics, there can be no doubt of its profound influence on Hawtrey's thinking over seventy years. That influence can be seen indirectly in many of his economic writings, but it was only in the unpublished works *Right Policy: the Place of Value Judgments in Politics and Thought and Things*, left behind at his death, that he endeavoured to set out his philosophy fully and directly. In the first of these works he sought to apply 'the ultimate criterion of the Good' not merely to economic problems but to political issues, both national and international. Part of his argument was that the study of value judgements was not dependent on philosophy,

¹ See, for example, Scitovsky, *The Joyless Economy* (1976).

but in his last book, *Thought and Things*, he turned to philosophical speculation itself, seeking in particular to develop his 'theory of Aspects', a theory of aesthetic perception which he had first presented at a meeting of Virginia Woolf's Friday Club in 1910, so that it could provide a means of reconciling the existence of differences about ends and means with the concept of an inherently valid Good.

V

Throughout this account of Hawtreys life and work a certain element of paradox has been evident. A mathematician and a philosopher, he chose to spend his working life dealing with practical problems. An adviser on economic policy, he made a world reputation as an economic theorist. In debates on matters of economic theory in the twenties and thirties his name was most frequently linked with the name of Keynes and in a sense his career was almost the inverse of that of Keynes: for although it may be true, as Professor Patinkin has recently said, that 'the major revolution effected by the *General Theory* was in the field of theory, not of policy'¹ it is nevertheless the case that Keynes, who operated from an academic base, had an enormous influence on policy, and notably on Treasury policy in the Second World War. By comparison Hawtreys, who worked from an official base, had more influence on academic thought than ever he had on Treasury policy, although ultimately his influence was less than that of Keynes in both areas.

It may be suggested that Keynes's ideas were better adapted to the circumstances of his time than were Hawtreys; the full reasons for Keynes's comparative success and Hawtreys comparative failure remain to be investigated and assessed by historians of economic thought and policy. In that assessment, some part should be allowed to character and temperament. All those who knew him concur in the view that Ralph Hawtreys was truly a gentle man. He had the qualities of the pedagogue rather than the propagandist and consequently it was natural that he should have had more success in academic circles than in the corridors of power.

Writing about C. P. Sanger in 1930, Lowes Dickinson described him as belonging to 'a certain type' of Cambridge

¹ D. Patinkin, 'Keynes' Monetary Thought', *History of Political Economy*, 8 (1976), 19.

man: it seems fair to suggest that Hawtrey was another of that same type:

It is a type unworldly without being saintly, unambitious without being inactive, warm-hearted without being sentimental. Through good report and ill such men work on, following the light of truth as they see it; able to be sceptical without being paralysed; content to know what is knowable and to reserve judgement on what is not. The world could never be driven by such men, for the springs of action lie deep in ignorance and madness. But it is they who are the beacon in the tempest, and they are more, not less, needed now than ever before. May their succession never fail!¹

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