

The Economic Club of New York

---

The World Economic Crisis

The Right Honorable Winston Churchill  
Former British Chancellor of the Exchequer

---

February 8, 1932

Hotel Astor  
New York City

(This is the text of the speech as delivered by Mr. Churchill before The Economic Club audience at the Astor. It was taken down by a shorthand reporter, and this probably accounts for the informal sentence construction in some places and for any lapses in the syntax.)

(The presiding officer at this meeting was General Samuel McRoberts, president of the Club, and Chairman of the Chatham Phenix National Bank & Trust Company, 1925-32. Because this is an account of the speech as delivered, it seems desirable to include here the audience reactions as recorded by the Shorthand reporter, such as “laughter” and “applause.”)

## Introduction

General Samuel McRoberts, President

The Right Honorable Winston S. Churchill, former British Chancellor of the Exchequer, has had one of the most spectacular political careers in the history of British statesmanship. For more than 20 years he has been known as the stormy petrel of British politics and during that time he has held almost every front rank administrative post in the British Cabinet. He has been Under-secretary for colonies, President of the Board of Trade, First Lord of the Admiralty, Minister of Munitions, Secretary of War and Air, Minister of Colonies, and Chancellor of the Exchequer, during his 25 years as a member of Parliament.

A man of independent beliefs, Mr. Churchill has changed party several times when he could not agree with some feature of a party program. In this respect he parallels the career of our own late President Theodore Roosevelt. Mr. Churchill entered Parliament as a Conservative. In 1906 he disapproved of the Balfour-Chamberlain protectionist policy, and jointed the Liberal Party.

During World War he was a member of the Coalition Cabinet under Lloyd George. After the war he returned to the Conservative Party and was Chancellor of the Exchequer in the Stanley Baldwin government. As an author, Winston Churchill is known wherever English is read and his latest work “The Unknown War” is an illuminating description of the war on the eastern front about which we know so little.

But Mr. Churchill's greatest success has been in the field of oratory where on the floor of the English House of Commons he has give and continues to give what the newspaper reporters call the ablest example of public speaking known in our time.

In his address Mr. Churchill is going to speak frankly and openly on the World Economic Crisis. There are to be questions at the end of the lecture, several have already been written and handed in. All questions must be written and handed to the secretary who will read them at the end of Mr. Churchill's address.

The Right Honorable Winston Churchill

Former British Chancellor of the Exchequer

The question which naturally interests us a good deal is why we are all so very much poorer in almost every country in the world than we were a few years ago. Peace has reigned. There have been no pestilences or unusual convulsions of nature. Bountiful harvests have rewarded the toil of man. Science and organization have advanced together hand in hand. Yet we are all much poorer. The value of our possessions has been reduced; incomes we earned have been reduced; the dividends to which we are entitled have been reduced; wages have been reduced. The consuming power of all classes (from the simplest necessities to the latest luxuries) has been reduced. Millions of men in all the great industrial countries are without employment. Many millions more are upon short-time. The only thin that has not been reduced are debts and fixed

charges of all kinds. These have relatively increased to a formidable extent. Surely, that is a very remarkable array of facts, and one worthy of the attention of thoughtful people in every country affected.

You will be told that the disease we are suffering from is over-production. We are in want because we have become too clever in making all the things we want. So much wheat has been grown that many people are nearly starving. We are stripped bare by the curse of plenty. That is the strange diagnosis of our condition.

The remedy which is proposed is even more remarkable than the disease. The disease is over-production and the remedy is to be a further reduction of the consuming power through every one drawing in his horns and spending as little as possible.

Now it seems to me we ought to find a more satisfactory explanation of our misfortunes and more satisfactory remedies for them than those I have mentioned. I will state in a nutshell at the outset what I believe to be the main cause of our troubles and then I will endeavor to illustrate and prove my thesis in various ways.

Now I do not know whether what I say will be popular or not, but I believe you will wish me to state quite frankly and sincerely what I believe to be the truth; and I hope you, in your turn, will believe that I am not pleading cause or interests of any one particular country, (not even my own

dear country.) I am simply endeavoring to survey a world economic crisis which grips all countries and is injuring all countries and is injuring all countries.

I hold that root of all this evil is the attempt to pay war-reparations and war-debts across high-tariff frontiers, leading directly to the mal-distribution of gold, to sterilization of gold, to artificial enhancement in price of gold, and the simultaneous fall in the price of every other commodity.

Let me begin first of all by telling you the War Reparations story. After the war was over the victorious nations anticipated that they were going to get a large part of their expenses back out of Germany. The most ludicrous estimates were proclaimed of what Germany would be able to pay. One estimate was twelve thousand million pounds; another was twenty thousand million pounds. It was thought in those days unpatriotic even to question these absurdities. Yet, after all, a child could see that what one country can pay another is limited by hard facts. Debts of any large amount can only be paid in goods. The debtor country has to make a great quantity of goods, pack them up into bales and parcels, put them in trucks or cars or ships, and send them off to pay their creditors.

The process of the payment of reparations or debts by one country to another is essentially and actually the sending of a bale of goods across a frontier in a vehicle. There would not, of course, have been enough vehicles to carry the quantity of goods necessary to pay the absurd demands made by the victorious allies upon Germany and the other beaten powers. But overlooking this,

when these goods had arrived in the country to which they were consigned, what would have happened then?

The creditor countries, with one accord, would have declared “We do not want your goods; they will only upset our local industries and throw our own people out of employment. We refuse utterly to take payment in this form.”

So then the Germans said “Shall we send you some hundreds of thousands of our workmen to work for you for nothing and to build up the houses that have been knocked down and repair the damage done?” But then the victorious powers were still more angry, and they said “We have seen quite enough of your men in the war; we certainly do not want them in our country taking the bread out of the mouths of our own work people, whom it is hard enough to get started at work again.”

So when payment of goods on a full scale and payment by services were substantially rejected, there only remained, apart from certain trifling assets, payment in gold. But the amount of gold in the whole world was too small to pay even one-tenth of these enormous debts and reparations. As for the beaten countries, they only had a few score millions which would not even pay one-hundredth part of what was claimed from them.

All these facts were, of course, perfectly plain to intelligent people, but they made no difference whatever to the passions of parties and of parliaments. Even practical politicians, who saw the truth, had to wait until these passions cooled.

But what people said or thought, and what parliaments and international conferences decided, made very little difference to the course of events. The economic facts and tides of the world took their own course; and what has actually happened in the thirteen years since the war ended has been exactly the reverse of what the victorious nations intended. It has really been quite ludicrous. So far from being able to get vast sums of money out of the beaten nations, all that has happened is that we have, in fact, lent them a great deal more. The United States, so far from being able to collect its debts from Europe, has lent Europe further very large sums indeed. That is what has happened.

It is a definite part of my statement to vindicate main conduct of United States. So far from having been a blood-sucker of Europe since the Great War or since the United States entered the war, all that has happened, in fact, has been that a large net balance of credits and desirable commodities has flowed from West to East across the Atlantic Ocean. I am not saying that was what United States wanted to happen. But is all that has happened up to date.

The case of England is peculiar, and I must turn aside for one moment to examine it. The British Empire has possessions in every part of the world and with many tropical productions and



special manufactures, has been able, up to date, to pay the agreed interest and sinking fund of her war debt to the United States. Of course, Great Britain was, before the war, an immense holder of American securities, which could be sold besides in payment of our obligations. But even in this case you will find when you look into all the details, that this process has been largely off-set by enormous private investments by American citizens in British securities, and that the actual flow of commodities has been continually outwards from the United States and not inwards to it.

But if there is no truth in the charge that Europe has been bled white by the United States, still less is there any truth in the statement that Germany has been bled white by the victorious allies. Here again the exact opposite has, in fact, taken place.

Since the firing stopped in Germany, having already upon her shoulders war reparations on a scale utterly impossible ever to be paid, blithely borrowed enormous sums from the United States and Great Britain, as well as from other countries; and as a result of these thirteen years, so far from being made to pay an indemnity, she has had a tremendous infusion of blood in the shape of credits and commodities which she needed, which she desired, which she has used and which she is enjoying. At the same time her reparation have been successively scaled down by the Dawes Plan, the Young Plan, and in one way or another till they have been reduced to a figure which, if the general economic system of the world were wisely managed, would not necessarily be beyond her capacity to pay.

Let me make it clear to you, therefore, that in economic argument I am submitting to you tonight, there is no room either for false indignation against the United States, or for false pity for Germany.

There remains, of course, an immense account written up on the slate against Germany in favor of the Allies, and against Europe in favor of the United States. It is this terrific amount which everyone is now trying to get settled. All I can say is that I shall watch with very great interest how this process works out in the next few days, bearing in mind what has happened in the last thirteen. I can only record my belief that unless payment is accepted by the creditor nations in goods, or unless there is a great rise in prices, which will make the debts of the past comparatively small, the war-creditor nations will not be very successful in their efforts to extract payment from their debtors.

Let us discard illusions, but do not let us give way to despair. Some say, “Let the Debtor Nations default. Let them repudiate to their shame.” But that is going to the other extreme, and is a very dangerous doctrine for creditors. Great Britain and the United States of America are the greatest creditor nations. We cannot afford to countenance repudiation, still less encourage a situation in which it will occur, by slapdash phrases. With care and patience many frozen assets may be thawed and many values re-created. I am not prepared to accept the idea that Germany can never pay anything for war damage. I am sure she cannot pay anything now, and I do not see why at

this moment we are called upon to go further than that. But all this story of reparations leads us very comfortable to the second and far more practically important part of my argument.

I will, therefore, now begin at what seems to be an entirely new point and show you how it follows irresistibly upon the reparations story, and fits in with it.

Socialists and other subversives are accustomed to inveigh against what they call The Capitalist System. The Capitalist System is, in the main, merely the observance of contracts between individuals for a considerable period of time. Upon this foundation there grew up the great gift which the Capitalist system has to bestow upon mankind; namely – the manufacture of credit which multiplies by 10 or even 20 fold the scale of human transactions and the scope of human plans, while allowing freedom of choice to the individual.

But nothing more damaging to Capitalist System than continued process of deflation or curtailment and annihilation of Credit as has been in progress for the last two years. This continued writing down of values and consequent destruction of all credit instruments strikes a deadly blow at the Capitalist system and the freedom and civilization founded upon it.

This evil has come upon us very quickly. So quickly that Statesmen and financiers have in many cases been incapable of adjusting their minds to the vast transformation of values and of economic facts which is occurring.

We now see ourselves forced (as the framers of the United States Constitution enjoined) to recur frequently to first principles. The cause of this deflation is to be found in the movements of gold. What is gold/ God for the purpose which we are considering is simply a measure of value. It enables us to measure the exertions of a Chinese coolie against those of a Brazilian coffee-grower, or a London cabman, or an American steel worker. It does more – it enables us to measure the exertions of today against those of yesterday, or of this day twelve months or of fifty years ago. Gold is not wealth; it is not money; it is not credit; it is rarely even coinage. It is a measure. Now it is above all things important that a measure should be stable. If the measure moves about in value, now up, now down, to any noticeable extent, all contracts are vitiated.

When, as Chancellor of the Exchequer five years ago, it fell to my lot to take the final steps of returning to the gold standard in Great Britain, I justified that act primarily upon the ground that we should be anchoring ourselves to reality and stability. But since then, and far more in the last two years, the value of gold has altered to a surprising extent. As gold is the measure to which all commodities and services are referred, if gold goes up in price, commodities go down, and vice versa. To say that gold has appreciated is the same thing as saying that all other commodities have depreciated.

Now let us see what has happened to gold during the last two or three years. In my day at the Exchequer, it was already observed that many countries were using gold for all kinds of purposes; apart from its supreme function of being the measure.

Countries, small and large, were gathering it for national pride or military security. The possession of a hoard of gold in the Central Bank of any country (except Great Britain, which did the greatest trade of all) was looked upon as a sign of wealth and power. Before the Great War, countries had not worried so much about these aspects of gold. There was a sufficient amount of free gold in the world which flowed from country to country to correct any temporary over-trading and balanced the delicately-poised exchanges. But now, since the Great War, gold has been more and more considered a thing to collar and corner and amass, like warships or rifles, or high explosives. Thus, it has been continually failing to discharge its function of being an impartial impassive measure of human effort as between one country and another, and as between the present and the past.

But the climax and culmination have been reached in the last lamentable two years, when an attempt has been made to use what gold there is in the world, not merely for national vain glory or supposed security, but for the payment across political frontiers of international debts. To see why and how matters have come so grimly to a head it is necessary to look back a little into the past.

Before the war England was the only great world creditor. She lent money to new countries and received the interest back in the shape of goods through her free trade ports. When the loans fell due for repayment she, in most cases, lent them over again. At no moment could she, any more than any other creditor, have ever been paid what was owing to her. But every year she saw great new countries developing, and values in which she was interested, rising tier upon tier, saw herself doing business upon an ever larger scale.

Then came the war. England ceased to be the only great creditor nation. The United States, with its mighty force and power, disputed, and in many ways obtained the primacy in world finance. The war also brought with it the hideous novelty of war debts and reparations upon a gigantic scale. That is to say, as I have described, the attempted payment across frontiers of immense annual sums without any of that previous building up of values to sustain them which is the case with wise and far-seeing investments.

From these war debts and reparations, the United States and France were almost the sole beneficiaries. In addition, the United States, by its exports – by its marvelous possessions of wheat and cotton and other prime commodities, had a large favorable balance of export trade. Lastly, the United States was inveterately wedded to high and ever heightening protection. In consequence, it was only partially and with very great difficulty that any payments of the interest fairly due to the United States could be made across the exchanges by goods.

But all this process was masked and was withheld from our eyes by the fact that up till 1929 the United States re-lent to Europe and the world upon the most lavish and most generous scale. In fact, they re-lent all that was due to them in war debts and reparations, all that was due to them in return for their exports and all that was due to them in the compound interest and profit upon their great foreign holdings. Then came the Stock Exchange crash of October, 1929, about which I shall have something to say in a few moments.

The enormous fall in the value of American securities took place. There was a sense of deep impoverishment throughout the land. The process of re-lending to Europe and other foreign countries came naturally to an abrupt conclusion, and instantly the already slender supply of world gold began to flow across the Atlantic in payment of war debts. Now let us see what this meant. Compared to what was and is owing to the United States, the spare gold of the world was of course only a trifle. But as it was drawn into the vaults of the Federal Reserve Bank what was left in the world became scarcer. As it became scarcer it became dearer. As it became dearer the value of all other commodities measured by it became cheaper. A similar process has been consciously set on foot by France for Military and Political reasons, and by some other countries. In consequence, the price of gold throughout the world has risen in the last two years by nearly 40%, or, in other words, the value of all other commodities and services in terms of gold have fallen by the same amount.

This is the terrible event, this is the hideous process of deflation which has written down and is every day writing down the value of all our possessions and exertions, not only in the countries which lack gold, but in those which have it in super abundance. This is the process which has flung millions of men out of employment in every land; has stilled the traffic upon the railways, has quenched the blast furnaces; has dried up the springs of human action, and has threatened every country and every institution successively with insolvency. This process has only to be continued long enough, and not so very long at that, to isolate the nations one from the other, as they were in medieval times, to destroy international trade, to lead to a general repudiation of debts through obvious inability to pay by debtors and by debtor countries of all kinds, and to reduce this fair modern world with all its knowledge and science and measureless possibilities to the barbarism and barter of the dark ages.

Happily, the remedy is in our hands. There is still time to arrest and reverse this hateful process, to restore a fair standard of values throughout the world, and to bring back again the sunshine which has been darkened by clouds of human folly.

Let me remind you of the existing distribution of gold throughout the world. Out of eleven and a half billion dollars of gold, France and the United States together possess seven billions. That is to say two countries hold nearly two-thirds of the entire world supply, leaving the forty-five other countries of the world, comprising more than nine-tenths of its population, and perhaps four-fifths of its wealth, a little more than one-third.



During the last three years the gold of the two gold holding countries has increased by leaps and bounds, while the gold of the rest of the world has decreased until it has been tied up by the Governments.

Thus, while policy of the thirteen years since the war has been singularly ineffectual in paying off the debts of Europe to the United States, or of Germany to the victorious Allies, the process of reparation and war debt payments in the last two years have whisked away from the rest of the world a very large proportion of its remaining gold and concentrated it in the hands of the United States and France.

But that is only half the story. If, when the gold had arrived in New York and Paris it had been permitted to play its part as the foundation of a greatly expanded credit, and if all the gold in the world, no matter where stored, were playing its part as a measure of human effort, an important natural reaction would have followed.

Thus, both in France and the United States it was found necessary and I admit the necessity, to sterilize a large proportion of their gold. What do I mean by that? I mean that this sterilized gold was put into vaults and lay there idle, without drawing interest, sustaining credit, or playing any part whatever in the world's economy. There are at this moment billions of dollars of gold in Paris and New York which are as much withdrawn from world currency and affairs as though it

had never been extracted from virgin rocks of the Rand. Anyhow, an amount of gold has been sterilized which more than equals the entire out-put of the Rand mines for the last fifteen years.

Now that is what has happened to gold, and that is what has distorted it as a measure of value; and that is what has rendered it incapable of discharging its primary function.

Let us now see what has been going on in the United States. When I was here a little more than two years ago, the securities listed on the New York Stock Exchange, including the Curb and Bond markets, were valued at nearly ninety billion dollars. Today, they are valued at about thirty. I am not going to deny or palliate for a moment that excessive speculation and wild forcing-up of values which characterized the earlier part of 1929. Undoubtedly in this and other countries, we over-ran the piper, and a period of severe correction and adjusting was at hand for all. This would have been hard to bear in any case. It would have meant an enormous amount of suffering to many classes in many lands. But what has made this period of correction unendurable and possibly even fatal (for the tale is not yet told) has been the fact that, in addition to the correction and writing-down of wild speculation, there has been this horrible deflation due to the automatic sequestration and hoarding of gold.

We have to account for the loss of 60 billions in the nominal values of American securities. Even if you assign a half of this to the necessary process of self-correction, it leaves a deflation of 30 billions in the stocks of a single country which, as I contend and submit for your good judgment,

is mainly due to artificial enhancement of the price of gold by 40%, or, in other words, the depreciation of possessions and services in the same degree.

In the face of figures such as these, almost astronomical in their character, can you wonder that most prudently conducted institutions have felt their foundations trembling? In the face of figures such as these, do not war debts and reparations assume their proper proportions? Do we not see them as an element in world trade, puny in size, though potent in mischief? Is it not for our rulers and governors, without the loss of another day, to discern and proclaim the true facts to the world, and the proportions of each set of facts to the other?

I am not one of those who regard what happened in the United States in 1929 merely as an orgy of speculation, for which you are now suffering a just punishment. On the contrary, I believe that, apart from the admixture of human error which distorted your action, as it distorts all our actions, the United States in 1928 at any rate, was more near to solving the great problem which had baffled the world since its foundation -- the great problem in material sphere, namely -- the bridging of the gap between consuming and producing power. Here you had the breadwinners of twenty-five million homes, engaged in the production either of food or raw material, or of four or five hundred standardized articles, by the most scientific methods and on a gigantic scale. Here you had these same breadwinners buying these articles with the wages they received for making them, using them in their said homes, and investing their surplus in the shares of the various

companies for which they worked. You had reached, in my judgment, nearer to the harmonious circle of human transactions than any community has ever done in the whole history of mankind.

You had almost reconciled the interests of capital and labor, and we saw the days when employers were eager to maintain a high level of wages so that their workmen could by the things they made, and to shorten hours of labor so that their workmen should have time to use and enjoy these things. You had labor itself consciously interested in the efficiency of production, from which it felt itself a direct beneficiary. You had, in my opinion, your elbows on the ledge of the greatest advance that has ever been made in human economics. Unhappily, through excess, through errors, through faults which everyone is now very ready to stigmatize, the great effort was broken. You were forced off the ledge. You fell down to the bottom of the crag where we all lie together in misfortune today; and where the first thing we have to do is not to kick each other.

But the way to world prosperity has been shown and other attempts will be made to follow it.

Many a brave ship tried in vain to cross the Atlantic Ocean before Columbus discovered the New World that was waiting all the time to reward success.

Someone said to me we had forgotten grim laws of supply and demand, as if these laws were absolute constant, limiting factors forever beyond the reach of human control. Do not believe it.

There is no limit to human demand, and there is no limit to the power of mankind to meet that

demand. For hundreds of years, in the dark and middle ages, the laws of supply and demand were stationary. Everything worked, year after year, at a uniformly low level, and all the populations lived miserable. Then all of a sudden, wages began to rise, enterprise began to quicken, all kinds of new articles and utensils appeared in the cottages or dwellings of the working people. All kinds of new luxuries and comforts opened to the rich and the middle classes. The laws of supply and demand suddenly began to work on a much larger and expanding scale. What had happened? A few small ships had come back from across the Atlantic Ocean full of gold and silver, and a gradual, subtle process of inflation had set in. It is no use telling me that it was the trade of the new world which had refreshed the old. These poor little ships could only bring spoonfuls of merchandise, and every voyage took over half a year. No! What they brought was the precious metals which altered, in the sense of expanding, the standards of value throughout the world, and made in those generations expansions in the good living of the human race, which have never been lost again.

You will say to me supposing we agree with you in your conclusion that gold has ceased to be a true, fair or even a possible measure of value at the present time, what will you put in its place? How would you set about it? What remedy would you suggest we should apply to these evils you have described to us? I might reply, I think not unfairly, it is not for me, an individual, and a private person, to undertake this stupendous task of making positive recommendations. I am entitled to marshal facts and to present them in their proper proportion. It is for governments and

persons in authority, possessing the resources of authority, to frame the necessary program of positive action. I have done my part, let them do theirs.

I will, however, venture to say that it is for the statesmen and rulers of great countries and those who set themselves up, or are chosen as the guides of the people, to discern and point out the objects which we ought to seek; and that then it is the duty of the experts, whom the governments of countries have at their command, to explain and devise the best way in which those objectives can be obtained. There is, I think, a broad division of labor. The government is the master and the expert is the servant. “Expert knowledge,” said Mr. Gladstone “is limited knowledge.” Experts cannot be expected to decide great questions or even to agree upon great questions; in fact, they invariably differ; and upon no question do they differ more than upon this tangled question of currency. It is necessary that the decision upon which the experts begin to work should come to them from above, from the broad practical authority of the rulers of nations.

In my opinion, it would be sufficient at this stage if two or three of the principal governments of the world were to proclaim their intention of re-valuating commodities and services upon, let us say, the 1927 or 1928 level; and then if sufficient financial experts were selected and told to devise steps by which this should be done, and the form of international currency that would be required to keep a stable standard of value thereafter, I do not think you would be setting them an impossible task. I expect they would find that there were several ways of accomplishing this

purpose once it was clearly defined and authoritatively set forth. Neither do I think that there would be great difficulty in procuring the agreement of a sufficient number of powerful nations to a workable plan.

I expect that if once the English speaking peoples made up their minds and were agreed between themselves upon a practical plan, there would not be very great difficulty in getting one or two of the others to come in too. In fact, it seems to me there would be an ugly rush to join the Board. At any rate, there is where I would begin.

I would like to see the Governments of the United States and Great Britain, through their agents, the Federal Reserve and the Bank of England, come to the definite conclusion that commodities must be re-valuated up to the 1927 or 1928 level, and that thereafter sufficient currency must be available to provide a stable measure for prices.

You cannot waste time going around to persuade everybody. If these two were agreed it would not be long before the Bank of France would wish to be included in their consortium. But, anyhow, our two nations in accord would be quite powerful enough to restore to human society the enormous benefits of which it is now deprived.

These are surely the times when the English speaking peoples should keep closely together. On the whole they mean the same thing. Why then do we not act together more, make more plans in

common? Why do we stand gaping at one another? Why are we afraid, almost ashamed of working together? If the world is to escape its miseries there must be some strong central nucleus of agreed and recognized authority at the Council Board of Nations to which, while it acts unselfishly, due deference is shown.

There is, remember, another world force, international communism, centered, armed and arming strength of Russia. Is it not the duty, nay, the appointed task of the English speaking people to stand between Europe and Asia and the new tyranny? To raise again the standards of personal liberty, of enlightened liberalism, of family, home, faith in God upon which the glory of mankind has been erected. If so, the task is surely not beyond our united strength. Above all, let us have good courage. Do not add to monetary deflation the further hideous deflation of panic and despair.

My confidence in the British Empire is only equaled by my confidence in the United States. All the world looks to the English speaking peoples for example, guidance, valued leadership. They must not look in vain. Let us be unconquerable. Remember “The Earth is a generous mother.”