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# THE SOCIALISATION OF BANKING



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# THE SOCIALISATION OF BANKING

BY

OSCAR SACHSE

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1933

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## FOREWORD

BY THE HON. SIR STAFFORD CRIPPS, K.C., M.P.

WITHIN the last few years the striking incongruity of the lavish production of every kind of necessity and luxury, accompanied by a more widespread state of unemployment than has ever been known, has more and more drawn the attention of the world to the failure of the mechanism of exchange and distribution. Many people who formerly looked upon "monetary policy" and "finance" as a subject-matter of such complexity that it had to be left exclusively to the experts are now anxious to find out for themselves why it is that with low prices and abundant supplies over thirty million persons who are anxious to work cannot be given the opportunity, but must be condemned to rely upon charity or a State dole to keep themselves and their families from starvation.

The experts, who were popularly supposed to know everything about money, its uses and its control, have disagreed widely upon every aspect of the problem, and the ordinary man is left wondering whether, after all, the experts are so wise, and, if they are, which is the wisest, and whose advice should be followed.

The great majority of these experts are steeped in those conceptions which form the basis of the existing financial and monetary system of the world, and

they hail as "cranks" all those—and there are many—who desire to bring about changes fundamental in their character. The failure of the present system to provide work and a standard of life commensurate with the increased power of production is so complete that the fear of greatly worsened conditions for the great mass of the people under an alternative system should not deter us from envisaging a change. But remedies born of despair are often more dangerous than the disease itself, and the first necessity for those who desire to make up their minds about this matter is to have a full appreciation of the existing system and a clear idea of its weaknesses and the reasons for its failure.

Every man and woman who is interested in their own welfare and the welfare of their country and of humanity as a whole will before long have to come to some decision upon this vital matter. Modern civilisation depends for its continuance upon a vast and complex system of exchange of commodities. The enormous population which has been built up upon the principle of the division of labour cannot return to primitive conditions of barter. Capitalism—to give a name to the existing system—has developed the power of production to a degree undreamt of by our forefathers, yet many people still think of the medium of exchange for the great mass of commodities produced in terms very similar to those familiar to the early Egyptians. Metallic coins have for thousands of years been used by man to effect the exchange of goods. Upon this metallic basis has been built a superstructure of paper money

and credits, till by gradual and unseen stages the great bulk of the medium of exchange has long ceased to be a metal and has become merely token ciphers entered in the books of the banks. Yet many people still cling to the idea that there must be some tangible and visible foundation for this great superstructure in the form of bars of gold hidden in the vaults of the central banks.

The question whether this country should or should not return to a gold basis for its currency is important for our existing system, but are we going to be any better off if we cling to our Capitalist conceptions, whether we are on or off the gold-standard?

There are, I believe, far more fundamental difficulties which must be tackled if ever we are to enter a period of permanent prosperity. It may well be that under Capitalism, if we desire it to linger on, we shall see boom years again ; a spirit of trade revivalism may spread at any moment throughout the world and bring with it the impetus to speculation and to purchasing, freeing the locked-up medium of exchange and accelerating its movement from hand to hand. This increased velocity of circulation—the most vital factor in increased demand—will bring with it increasing employment and increasing profits, until the tide of trade depression once again starts the world back upon a policy of saving and hoarding, with the consequent fall in prices and increasing unemployment. These so-called cycles which plunge alternate generations into privation and despair can scarcely satisfy an intelligent people, still less so when the prosperity and privation of succeeding

cycles is so unfairly distributed amongst the different classes of the community. We want not only stability in conditions, but that form of stability which gives every man and woman a fair share of wealth and opportunity.

Another factor, which has been recently brought into prominence by the discussion on war debts, is the piling up, snowball fashion, of debts internal and external. Borrowing at interest for so-called capital works is condemning future generations to pay for those works often in perpetuity. Each succeeding generation finds itself carrying a heavier and heavier burden of interest charges. During the years 1914-1918, though all the necessary work for the war was then accomplished and all that work was paid for, yet we placed upon our descendants a perpetual charge of hundreds of millions of pounds a year as their contribution to our folly. We have now reached the stage when the absurdity of this system has become self-evident. Wholesale repudiation or cancellation of international indebtedness is taking place, and when the process is completed, are we to start again, like the spendthrift bankrupt who has got his discharge, piling up fresh debts and fresh obligations until again the load becomes so great that we are forced into cancellation or repudiation?

It is surely worth our while to enquire whether the world might not get along just as well or better without this system of borrowing capital at interest whenever it wants to create some useful—or sometimes indeed useless—so-called Capitalist asset. If we want to build 100,000 houses and we have the men who

can work and we can make the materials or buy them, why should the building of the houses entail a charge upon the next generation? Is it necessary, or could it be done just as well without such a charge?

It is questions such as these that can only be answered if we appreciate just what money is, what are its true functions, and whether and how it is being misused at the present time. The author of this book in his opening chapters has given a simple and easily understood explanation of these matters, so simple, indeed, that the reader may begin to wonder whether the "Abracadabra" of the expert is, after all, anything more than an over-elaboration of the detail of the existing machinery of "money" and finance. It may well be that a minute inspection of each tree prevents our seeing the wood, while a simple bird's-eye view of the wood will best enable us to find our way out of it. Of the necessity for a change from Capitalism to Socialism I am convinced, as I can see no solution under the existing system for the problems that surround distribution. So long as the present system of profit-earning enterprise and mass usury exists, I do not think that any tinkering with the money system will do more than alter temporarily the period of the so-called trade cycle. The arguments brought forward by the deflationists, reflationists and inflationists seem to me to support this view. The necessity, stressed by the author, for a definite and precise policy upon financial and monetary matters is indeed urgent. The days are passed when "Socialism" merely denoted an Utopian goal to be reached by a vague and uncertain road; today the

electorate want to see the map with the main route clearly marked upon it, and the financial and monetary policy is a very important part of that route.

A great deal has already been done in this direction by the Labour Party, which has declared itself in favour of the national ownership and control of the central bank, the Bank of England, and of the whole credit machine through the joint stock banks, together with the setting up of a National Investment Board. Those who desire to understand this policy in its fundamentals will find much that is enlightening in this book. Mr. Sachse expresses, of course, his own personal views and not in any sense those of the Labour Party, but he works out in an interesting and thought-provoking way the monetary and financial policy which he thinks would be best adapted to Socialism in this country. It will help all those of us who are studying this problem to clarify our own ideas and will, I am certain, make us realise the importance of the subject and the necessity for a clear and definite monetary policy before the next General Election.

## PREFACE

CAPITALISM has at present obviously broken down, but when prices start to rise again and speculators, merchants and entrepreneurs see a fresh chance of making profits, everything may to many people appear to be on the road to recovery. Yet prices cannot constantly be rising, and another slump must soon occur unless the whole economic system is radically altered.

Even most Conservatives seem now to recognise that some form of Socialism is the only feasible alternative to Capitalism. The Conservatives began to call the official opposition a "Socialist" party even before it really was one. When, therefore, the electors are sufficiently tired of the results of Capitalism, they will presumably vote for an experiment in some form of Socialism.

The official opposition ought to be prepared with a complete plan. A party attaining power should be able to act at once: it is too late then to start discussing policy. It is also natural and proper that voters should demand to know what they are asked to vote for. If the vast mass of doubtful voters suspect that the plan for Socialism is not quite finished, or if they do not even know which party has charge of it, then it is not surprising if they decide to wait.

The Socialist policy with regard to land, housing,

education, armaments and other things is fairly well known, but not so the policy with regard to money. It is known that Labour is now inclined to emphasise the necessity of nationalising not only the Bank of England, but also the joint stock banks; but what is to happen then?

Labour's daily newspaper has long been advocating the abandonment of the gold-standard, but Mr. Arthur Woodburn, who has written a "Plebs Text-book" on finance, in giving evidence before the Macmillan Committee, advised its retention. Mr. J. T. Walton Newbold was actually on the Committee, supposed to represent the interests of the workers, but he too advocated the retention of gold, of which he wrote in his reservation to the General Report :

"To this latter material belongs the peculiar quality of attracting and retaining over very long periods of time a socially necessary quantum of labour substantially invariable."

The money problem is not quite simple. Mr. Pethick-Lawrence, Financial Secretary to the Treasury in the Labour Government of 1929, in his book called "This Gold Crisis," in chapter i., headed "The Mystery," wrote :

"For, like the Einstein theory, the higher flights of the problems of currency approach the present limits of human understanding."

Mr. J. M. Keynes requires about 760 pages to deal with the subject in "A Treatise on Money." Yet the problem must be solved, and perhaps, after

all, it may become fairly simple when we understand it!

Professor Frederick Soddy was once reported to have said :

“ As well ask a cat to explain the disappearance of the cream as ask financiers to account for the present poverty and distress.”

I am neither a financier nor a professional economist, being, in fact, an architect, but years ago I realised that if one really cares for architecture it is not with art or building construction that one must concern oneself, but with social problems and finance. There are plenty of capable young architects, and there would soon be more if there were anything for them to do. Such competitions as those for Liverpool Cathedral and the London County Hall were won by quite young men, and more competitions would soon bring fresh talent to light. It was the private ownership of land and the supposed need for economy, more than the lack of competent architects, that led to the building of miserable rows of badly placed houses which disfigure the towns of Britain.

The building of Liverpool Cathedral began about twenty-eight years ago and will probably continue for another twenty. Money has to be begged for, and when the whole structure is complete it will probably have cost about half the price of one “ Dreadnought,” which can be sunk in five minutes by an aeroplane.

Progress in most technical directions has been rapid enough. When one considers submarines,

poison gas, and the use to which our marvellous newspaper printing machines are often put, one could sometimes almost wish that progress in these directions had been slower. But in the mechanism of exchange there has been no progress at all.

“ And yet it is money, in its mechanical even more than its spiritual effects, which may well, having brought us to our present level, actually destroy society. Everything depends upon whether our combined and international wisdom can master the next stage of monetary science ” (Sir Josiah Stamp in a preface to “The Money Illusion,” by Professor Irving Fisher).

That financiers have dismally failed to build up a happy social structure I think most people will agree. Therefore I hope that there may be some who are willing to examine, with patience and an open mind, an architect's sketch-plan.

It is sometimes said that people who understand money do not write about it, whereas those who write about it do not understand it. My ambition is to be one of the exceptions which prove this rule.

OSCAR SACHSE.

*November, 1932.*

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## CHAPTER I

### WHAT IS MONEY?

UNTIL very recently there were numbers both of Socialists and Conservatives who had little patience with anyone who hoped to achieve anything by "monkeying with the currency." These Socialists thought that the really important thing was to raise wages so as to increase the purchasing power at home, and the Conservatives thought that the really important thing was to reduce wages so as to facilitate exports, and neither type seemed to think that these policies had much to do with the currency. Fortunately this standpoint is becoming less common, and many now agree with Sir Josiah Stamp, who wrote :

" When I have said quite seriously, as I have done on a number of occasions, that the problem of the price-level is the most important single problem of our age, I have been accused either of exaggeration or flippancy. ' What about trade depression in the basic industries, unemployment, labour unrest, class hatred, high taxation and the rest?' My answer is that the problem of the price-level is fundamental to a solution of them all " (in a preface to " This Money Maze," by Dr. Robert Eisler).\*

The Capitalist system is one which is regulated by the "laws of supply and demand," and which relies

\* See Book List, p. 138.

on the individual's hope of profit to set its machinery going. But to leave everything to the laws of supply and demand really means leaving everything to money, because only money causes effective demand. There may be a desire in England for more houses and in China for more rice, but if the desire is not backed by money, then there is none of that kind of demand which can influence supply. The expectation of profit, on which we rely for the supply of our food and clothing, also depends entirely on money, because profit is reckoned in terms of money.

In the present economic order money, therefore, really does rule the world, and one would expect the upholders of this system to be extremely critical of money and to study it very carefully. Actually we find that opinions even differ as to what money is. In "Modern Currency and the Regulation of its Value" (P. S. King and Son, Ltd., 1931), Professor Edwin Cannan says (on p. 88) :

"Within, I think, the last forty years a practice has grown up among the people who talk and write on such subjects, of regarding the amount which bankers are bound to pay to their customers on demand or at short notice as a mass of 'bank-money' or of 'credit' which must be added to the total of the currency (of notes and coin) whenever variations in the quantity of money are being thought of as influencing prices. This is one of the most obstructive of all modern monetary delusions."

But surely this bank money is, in Britain and America, the all-important factor in causing demand and in altering the price-level. In deciding whether

or not to buy a house or a new motor car, people nowadays do not look into their purses to see how much cash they have got, but into their pass-books to see whether dividends, etc., have been flowing freely into their bank. As a matter of fact it is chiefly the expectation of rising prices which leads to the decision to buy, and the expectation of falling prices which leads to the decision to refrain; but in so far as the quantity of money plays a part, it is the quantity of credit at the bank, and not the quantity of currency in the till, which affects those decisions upon which the prosperity of the nation depends. In section 45 of the General Report, signed by all the members of the Macmillan Committee, the following sentences appear :

“ Actually, in the modern world, gold plays in the main only an indirect rôle in the determination of the price-level, because the circulating media consist overwhelmingly of paper money and bank deposits; it is this volume of purchasing power which directly affects the price-level and not the amount of gold which may be held in reserve. Gold itself affects the price-level mainly through the decisions of the holders of gold reserves as to the amount of purchasing power which they will allow to be outstanding against a given holding of gold.”

So that apparently some “experts” assert that bank credits are not money and do not influence prices; others say that paper money and bank deposits are the chief circulating media which directly affect the price-level; while yet others take a middle course and call bank credits “latent” or “poten-

tial" money.<sup>x.£.</sup> For instance, Mr. Hartley Withers writes :

" . . . The money of today, in the countries with most highly developed banking systems, consists, for purposes of large transactions, of cheques drawn on deposits in banks. The right to draw these cheques arises from the possession of a deposit in the bank, and the deposits may thus be described as potential money, which are turned into actual money when they are transferred by cheque " (" Money," Benn's Sixpenny Library, No. 134, p. 76).

To me it seems obvious that in this case the Macmillan Report and Mr. Hartley Withers are right, whereas Professor Cannan, who lectured at the London School of Economics and at the University of London for about thirty years, and who is now President of the Royal Economic Society, has quite a false conception of how those prices are formed on which his whole science of economics is founded.

I think the fact is that money,<sup>£.</sup> in the last few centuries, has been in a state of transition from something concrete to something abstract. Money used to be a commodity, as, for instance, a certain weight of silver ; then part of it became token coins ; then scraps of paper representing a certain weight of metal which was in existence ; then scraps of paper representing a weight of metal which was not in existence at all. Finally the great mass of money has become nothing more than bank credit, or abstract units of account for book-keeping purposes. But bankers and statesmen, as well as the man in the street, usually lump all these things together and

call the mixture "money." If one buys a house, one may pay a deposit in paper and metal units, and the remainder by means of a cheque on a bank. But we regard the credit units as equivalent to the currency units, and make no attempt to distinguish between the different sorts of "money."

The army tanks which were placed in many public places after the war bore a brass plate with the following inscription :

"Presented by the National War Savings Committee to the Citizens of (Torquay, Falmouth, etc.) in recognition of the readiness with which they lent their money to the Country in the financial campaigns carried out by the local War Savings Committee during the Great War, 1914-1918" (followed by names of the officials of the local committee).

This "money" which we so readily lent to our country—at nearly twice the rate of interest which we should have been glad to accept had there been no war—may have been partly gold and silver, partly bank-notes and credit which had existed before the war; but it was partly fresh credit which had been created by the joint stock banks and lent to individuals to be re-lent to the Government. For all this "money" the same rate of interest is paid. Money which has been diluted with credit is still called money, just as soup into which more water has been poured is still called soup. This latter is quite reasonable, since both water and soup are liquids and can be mixed. The word money, on the other hand, is used by the Savings Committee and by all of us to denote a mixture of a small quantity of "precious"

metal with a large quantity of abstract claim to wealth. Only in the brain can such things be mixed, and the only possible result of the mixture is—muddled thought.

The truth is we mean sometimes one thing and sometimes quite another by the same word. Professor D. H. Robertson, in his book called “Money” (Cambridge Economic Handbooks), quotes a passage from “Through the Looking Glass” which is really most apposite :

“When I use a word,” Humpty Dumpty said in rather a scornful tone, “it means just what I choose it to mean—neither more nor less.”

“The question is,” said Alice, “whether you can make words mean different things.”

“The question is,” said Humpty Dumpty, “which is to be master—that’s all.”

Money originally may have been simply a commodity which was imagined to be the equivalent in value of the things for which it was exchanged. But gradually token coins and bank-notes were introduced. Finally, on a small layer of gold as a base we find ourselves with token coins of silver and other metals, also with bank-notes only partly covered by gold ; on top of which, again, is a vast superstructure of bank credit in current and in deposit accounts. At which story of this sky-scraper money ceases to be money is apparently a question on which each man is entitled to his own opinion. Money, then, seems to be rather like the atmosphere, thick at the bottom, thin on top, and ending altogether—no one knows where. A legal tender bank-note nominally backed

by a cubic yard of air would, as a matter of fact, serve as a medium of exchange just as well as a bank-note nominally backed by gold ; but air of varying density would not be a satisfactory standard of value, and neither is our present “ money.”

SUMMARY.—The answer to the question, “ What is money ? ” appears to be that nobody is justified in claiming to know. Those who study the question find that experts widely disagree ; and most people use the word for something of which no reasonable conception can be formed.

## CHAPTER II

### CONFUSION CAUSED BY MONEY

“FOR the love of money is the root of all evil” (1 Tim. vi. 10). This assertion does not necessarily imply that money is an evil. It only declares that the love of money is the root of all evil. But money has proved itself to be a stumbling-block and a curse to mankind in other senses than this. Avarice and greed can exist apart from money, but money alone is responsible for many of the pitfalls and much of the confusion into which humanity has fallen. Millions of people are thinking and talking about money on six days, if not seven, of the week, yet most of them have not really the faintest idea what they are talking about.

In a primitive state of society without money it would be obvious to every child that those who work support those who are idle, and no confusion on this point could exist. But in so-called civilised countries, owing to the habit of thinking in terms of money, disputes actually arise as to whether the rich support the poor—by providing work—or the poor support the rich.

Money is also responsible for endless confusion regarding economy and saving. Many people seem to think that economy consists in not spending money. They forget that money is the medium of exchange and its function is to circulate. When

money is spent it is not consumed, but only transferred. If wisely spent, some useful service will be performed or some wealth created as a result of each transfer.

The individual can, by saving, gain power over his fellow-men, but if everybody tried to save the only result would be general poverty.

In the first addendum to the Macmillan Report, signed, amongst others, by Mr. McKenna, the following passage occurs :

“ It is supposed that if we ‘ save ’ a part of our current income and do not ‘ use up ’ these savings in capital schemes, we can in some way hoard them up for use at a later date, and that these ‘ accumulated ’ savings will gradually strengthen our ‘ financial ’ position. These ideas are probably derived from a false analogy between the position of a particular individual or firm and that of the community as a whole. For a particular firm can clearly accumulate ‘ liquid ’ resources, unembodied in any physical form so far as the firm itself is concerned and constituting realisable claims on the rest of the community. But a little reflection will show that the community as a whole cannot increase its ‘ liquid ’ resources by the various members of it building up claims against one another.”

It is also money which causes all the confusion with regard to war reparations. Were it not for money it would be a fairly simple matter for a nation to decide whether it does or does not desire to have reparations paid in the form of imports, or “ dumping,” from the late enemy.

Also money, as an attempt will later be made to show, is really the chief cause of interest or usury

which has been a stumbling-block for mankind for the last two thousand years and more.

If we were able to establish communication with the inhabitants of some other planet and were to tell them that some years ago we had a world war and destroyed a great deal of wealth, and that therefore since then we had suffered from unemployment, they would surely think that they were connected up with the lunatic asylum of the universe, and it would certainly be difficult for us to prove that it is not so.

If we have been so foolish as to make war and destroy wealth, inhabitants of a sane planet might understand that some of us now had to work who otherwise might have enjoyed leisure. But if we said that we could not work now because we had destroyed the results of our previous work, then inhabitants of any other planet would think we were pulling their legs—if they have any.

In order to prove that we were not mad, we should have to try to explain that during the war we had manufactured a lot of new claims to wealth and services, or what we call “money,” and that since the war we had been cancelling these claims again, so that now the wealth and the services had to be wasted, as no one was entitled to claim them. Whether the explanation would prove satisfactory is doubtful. Perhaps it would be better to admit at once that we had allowed our lives to be regulated by something called money, but we could not agree as to what it was and how it worked, and had got ourselves into a muddle.

Professor F. Soddy has tried to deal with some of

these money illusions in his various works on economics. In "Money versus Man"\* he writes (on p. 87):

"But those in charge of our national destiny are not short-sighted. They are blind, as Nelson was, in one eye, capable of seeing only what they wish to see. Their eminence in affairs is due solely to their single-eyed devotion to the ruling passion, the problem of how, in these fecund days of science, fast enough to convert the wealth that perishes into debts that endure and bring in interest. Two-eyed people may well tremble for the future of civilisation at their hands."

The confusion caused by money is sufficiently indicated merely by the titles of many of the books that have been published since the war, as, for example, "The Money Illusion," by Professor Irving Fisher, "This Money Maze," by Dr. Robert Eisler, and "Money in the Melting Pot," by Mr. Hartley Withers.

The Portuguese Bank Case helped to show up a little of the confusion which exists with regard to modern currency. Messrs. Waterlow and Sons, in the opinion of the Courts, failed to take sufficient precautions and enabled a swindler to obtain Portuguese paper money of the nominal value of about a million pounds. The case was tried three times in England—in all before nine British judges, who could not agree as to whether the Bank of Portugal had thereby suffered any substantial loss or not. Finally in 1932, in the House of Lords, the highest

\* See Book List, p. 138.

Court of Appeal, three of the five judges decided that the Bank was entitled to recover £610,392, whereas the other two judges thought that the Bank ought only to have received the cost of the paper and printing of the notes required to replace the spurious ones.

On the bank-notes which we carry about in our pockets, but which few of us trouble to read, the following text appears :

“ Bank of England Promise to pay the Bearer on Demand the sum of One Pound London for the Gov<sup>r</sup>. and Comp<sup>a</sup>. of the Bank of England B. G. Catterns Chief Cashier.”

The Bank promises on these bits of paper to pay us on demand. So apparently the Bank declares itself to be in our debt. Why does it not pay us interest—or, alternatively, why should the State have to pay us interest on its debts? Is not the Nation's promise to pay worth as much as Mr. Catterns' promise?

Gold is a commodity, and it may or may not be reasonable to pay rent or interest for it. But is it equally reasonable to pay interest for a scrap of paper acknowledging a liability? To distinguish between a precious metal and an IOU is not splitting hairs, neither is it a matter of purely academic interest. Whether or not there is any justification for an arrangement under which the Nation has to pay about a million pounds a day in interest for credit created by the banks is a question of the greatest practical importance to every one of us.

SUMMARY.—Money was formerly a commodity valuable in itself, but is now essentially only the token of a claim to value in other things. This gradual and generally unrecognised change is responsible for much of the confusion which exists in our social and international relationships.

## CHAPTER III

### NECESSITY FOR MONEY

SOCIALISTS and Communists believe that the people themselves should co-operatively set about organising the essential services of the nation, and money is for them of less importance.

Liberals and Conservatives think that the State—the elected representatives of the people—should interfere as little as possible in the business of the nation. To them money must remain of supreme importance because, under their system, everything depends on private initiative and enterprise, which in turn depends on the incentive of gain or the hope of profit. And in what else can this gain consist except in the acquisition of money? In what else can this profit be measured?

The Capitalist system is indirect and complicated. We need houses, and we are to live in hopes that we shall finally get them because some man will see that it would pay him to make bricks, another that it would pay him to import timber, and so on until finally someone sees that it would pay him to build the houses.

Our children need milk, and we hope that someone will find that he can secure more customers and therefore gain more profit by supplying it fairly pure. The supply is only a means to an end, and the end is profit in terms of money.

It is perhaps the curse of the present era that dominating Christian nations only half believe in their religious creed ; but, on the other hand, society has perhaps been saved from total destruction by the fact that the majority of Liberals and Conservatives only half believe in their political creed. Capitalism, in theory, is Mammonism pure and simple, but fortunately most worshippers of Mammon are not whole-hearted in their allegiance. Still, the fact remains that Capitalism does depend solely on profit and ceases to work properly whenever anything reduces the normal speed of circulation of money.

Some Socialists may think that this is the Capitalists' funeral and no concern of ours. There are, however, many reasons why the understanding of money is of great—although not supreme—importance to Socialists also.

Firstly, Socialists do not know some of the strongest arguments in their favour unless they have thoroughly appreciated the disadvantages inseparable from commodity, or concrete, money.

Secondly, even in a Socialist State as advocated by Bernard Shaw in his "Intelligent Woman's Guide" or as described by Edward Bellamy in "Looking Backward," where capital is owned collectively but income is annually shared equally, a unit of computation and a standard of value would still be wanted. Bellamy's "Dr. Leete" in Boston in the year 2000 gives the following explanation to the man who was born in 1857 :

"You observe that this card is issued for a certain number of Dollars. We have kept the old word but

not the substance. The term, as we use it, answers to no real thing, but merely serves as an algebraical symbol for comparing the values of products with one another. For this purpose they are all priced in Dollars and Cents, just as in your day. The value of what I procure is checked on this card by the clerk, who pricks out of these tiers of squares the price of what I order'' (in chapter ix.).

Bellamy, writing in 1887, recognised that money was in a state of transition from a concrete substance to an abstract unit of computation, and, apparently quite rightly, desired to see the process hastened and completed.

Even with equality of income, arrangements would have to be made to satisfy diversity of taste. Nobody suggests that in a Socialist State the same things should be dealt out to everybody. One must be allowed to spend one's income as one likes. The finest pictures and greatest works of art may probably remain public property, but it must be possible to hold something in the nature of an auction sale of pictures, curiosities and all sorts of works of art for the citizens' homes. If Bellamy's and Shaw's ideal should ever be realised, all artists would receive the right to claim wealth to the same value as everybody else from the national annual production. But this does not, of course, mean that the artists' work would have the same value. Those pictures which were to be sold at the Academy or at the National Galleries could be priced by the hanging committee or by the director. The Academy or the Galleries would then get a better return from the work of some artists than of others. But it must also be possible to determine

the value which the public attaches to these pictures, or to precious stones and such-like things, by selling them to the highest bidder. That is to say, it must be possible still to fix the price of certain things according to the demand which taste and fashion cause.

It would never be satisfactory that the prices of all things had to be fixed by committees, or according to the amount of labour required for their production. It must still be possible to find out the "value" of anything in the only way in which exchange value can be determined—namely, by finding out how much anyone is prepared to give up in exchange for it. It must be possible to determine who wants certain things most, and who normally, therefore, shall be allowed to have them, by finding out who is prepared to give up for them the largest amount of their claim to other things.

So that although we should eradicate the evils of money, or credit, there is no need to empty out the baby with the bath water.

Probably progress in Russia might have been much steadier if Lenin and his successors had understood the money problem better. In "Currency Problems and Policy of the Soviet Union" (Leonard Parsons), Professor L. N. Yurovsky, referring to the period from 1917 to 1921, writes (p. 20) :

"The Government, aiming at the complete abolition of all capitalistic relations, and generally of all relations inherent in a commodity and money economy, was endeavouring to build up an economic order in which money was to become altogether superfluous."

And again on page 30 :

“ After a period of hesitation, it finally adopted a policy which was uncompromisingly directed towards the definite abolition of money.”

But later on we find the Soviet again introducing concrete money. It is easier to destroy an old system of comparing values than it is to get a new one running smoothly. It would be a fairly simple matter to dispense with concrete forms of money in countries like England or America, that had long been accustomed to cheques and credit, but it could hardly be accomplished suddenly in a country like Russia.

It may be regrettable, but is nevertheless a fact, that we now live in a world in which only money makes the wheels go round. Money is the water which drives the Capitalist mill. We must be careful not to let money—which is confidence—evaporate until we have a new kind of motive power ready. If we are to bring about Socialism in our time, or in any other time, it is essential that we should in the meantime not die of hunger.

SUMMARY.—Capitalistic enterprise depends entirely upon money profits and prices. Socialistic enterprise would depend on totally different factors, yet a stable unit of computation for comparing values and keeping accounts would be, if not absolutely essential, at least very desirable.

## CHAPTER IV

### THE UNSUITABILITY OF METAL

PROVIDED that people who have sufficient security to offer are willing to take up loans, most economists now admit that the joint stock banks can dilute all our money and reduce the buying power of the hard-earned coins in our pockets simply by allowing overdrafts to their customers or by granting loans of new credit, according to their own sweet wills—anyhow, within the limits of what the banks themselves decide to be “ sound banking practice.” To ordinary simple souls this at first seems such a swindle that they can hardly believe it to be true ; but having realised the position, the first thought that occurs to most people probably is, Why not insist on returning to honest gold and silver money? There are very many reasons why such a course is most undesirable, even if it were not practically impossible.

The quantity of money should be regulated in such a way as to correspond with the amount of trade and the habits of the people within the area of its circulation. Those who determine the quantity of money should be in a position to issue it in such a manner that the mean level of prices neither rises nor falls. Only in this way can justice be done both to all debtors and to all creditors. Only in this way can long-term contracts and agreements be made to mean anything. Only in this way can a well-

governed country set a good example in monetary matters to the rest of the world. But how can a metal, the finding of which depends on chance, comply with these requirements? A method may, or may not, any day be discovered of extracting gold from the oceans. And as regards the gold that has already, at some time or other, been scraped together by man, its value depends upon the extent to which the hundreds of millions of human beings in all five continents covet it. If Germany or any important country that now strives to accumulate gold decided to dispense with it altogether, its value in England would decrease.

It is true that our Government in 1816 and again in 1925 fixed the price of standard gold at £3 17s. 10½d. per ounce, but this only means that when we were "on the gold-standard" the value, or purchasing power, of our currency was made to rise or fall with the value of gold. Is, then, the general level of prices and the cost of living in England to keep varying with every change of policy in China, Russia, or any other part of the world? Why should we allow our lives to be influenced by the extent to which other nations happen to covet gold?

The British Banking Reform League pointed out in 1918 or earlier that when we were supposed to be on the "gold-standard"—

1. The foreigner could obtain British gold as easily and on the same terms as a British citizen.

2. The foreigner could paralyse British trade by contracting the supply of money and credit merely by shipping gold abroad.

3. The foreigner could force a rise in our bank-rate whenever he chose, and so make it harder for us to borrow British money for British enterprise.

Gold is one of the most inert and non-essential of metals, and yet it is possible to bring very good arguments to prove that gold has been one of the chief curses of mankind during the last 2,000 years and more. This has been done most successfully, amongst others, by a German named Silvio Gesell.

The problems of production have been, or can be, easily solved. We actually suffer from what some people call "overproduction," although usually a better name for it is "underconsumption." The problem of distribution has still to be solved. Distribution is effected by means of the medium of exchange, and money, our medium of exchange, has let us down.

Gesell has traced the failure of money, as a servant of man, to those very qualities of metal money which are commonly considered to be its virtues. Fair exchange is no robbery, but the exchange of commodities for money has never been fair. Nearly all commodities tend to decay, to go out of fashion, to need storeroom, to be attacked by moths or mice, to be in danger of catching fire, or in some way to be constantly losing value or causing expense. But silver and gold are easy to store, and not even rust attacks them. Therefore the two parties have never met on equal terms.

Supply, consisting of all sorts of agricultural products and manufactured goods, is always under compulsion to go into the market, but demand, which

is money, can afford to pick and choose its time. As Gesell says on page 212 of "The Natural Economic Order":\*

"Through the choice of the money material, demand for goods was placed at the discretion of the owners of money and delivered up to be the sport of caprice, greed, speculation and chance. Nobody saw that the supply of goods, owing to its material nature, is at the mercy of this arbitrary will. Thus arose the power of money, which, transformed into financial power, exercises a crushing pressure on all producers.

"In short, our worthy experts, when considering the currency question, forgot the goods—for the exchange of which the currency exists. They improved money exclusively from the point of view of the holder, with the result that it became worthless as a medium of exchange. The purpose of money evidently did not concern them, and thus, as Proudhon put it, they forged 'a bolt instead of a key for the gates of the market.'"

Therefore Gesell worked out a scheme under which private saving would have to be accomplished in real wealth and not by a misuse of the medium of exchange.

In volume ii. of the "Cambridge Economic Handbooks,"† Professor D. H. Robertson says (in chapter vii.):

"The value of a yellow metal, originally chosen as money because it tickled the fancy of savages, is clearly a chancy and irrelevant thing on which to base the value of our money and the stability of our industrial system."

\* See Book List, p. 138.

† *Ibid.*

Most of what has been said about gold applies also to silver and other metals. The quantity of money which is needed varies constantly as custom changes. For instance, if workers were to be paid monthly instead of weekly, other things being equal, we should need more money to keep prices steady, because the speed of circulation would have been reduced. The quantity of money must be regulated to suit our lives, and not the other way round.

SUMMARY.—It is unwise to allow the volume of currency to depend on, or to be limited by, the quantity of metals which may happen to be found or to prove workable.

Metals, which are easily hoarded, are unsuitable as the medium of exchange, which should circulate and should be regulated in such a way as to keep the mean level of prices stable.

## CHAPTER V

### THE FARCE OF THE GOLD-STANDARD

EVEN when a country is "on the gold-standard" there really is no reason to be very proud about it. Professor Irving Fisher explains the position very clearly in that excellent book called "The Money Illusion."\* In chapter i. he writes :

"Our fixed-weight dollar is as poor a substitute for a really stable dollar as would be a fixed weight of copper, a fixed yardage of carpet, or a fixed number of eggs. If we were to define a dollar as a dozen eggs, thenceforth the price of eggs would necessarily and always be a dollar a dozen. Nevertheless, the supply and demand of eggs would keep on working. For instance, if the hens failed to lay, the price of eggs would not rise but the price of almost everything else would fall. One egg would buy more than before. Yet, because of the Money Illusion, we would not even suspect the hens of causing low prices and hard times.

"In what sense, then, should a dollar be fixed, if not in weight? Evidently, in buying power. We use a dollar as a unit of value, or buying power, not as a unit of weight."

The dollar is supposed to be worth 23·22 grains of gold, and the pound sterling to be worth 113 grains, when it is on the gold-standard. But the dollar and the pound are only worth these weights of gold pro-

\* See Book List, p. 138.

vided that we do not really want the gold, and provided we have confidence in the banks and the Government.

Those of us who are fortunate enough to have any "money" worth talking about do not keep it in our pockets, but usually in one of the joint stock banks "for safety." But we know that even before the war the joint stock banks and the Bank of England had not enough gold among them to meet one-tenth of the claims to gold that we were entitled to make, if we had all claimed together. The pound would have turned out to be worth less than 13 grains, instead of 113.

There was a farce called "Box and Cox," at one time very popular, in which Mrs. Bouncer, a lodging-house keeper, let the same room with the same bed to a newspaper worker who was usually out all night and to a hatter who was usually out all day, trusting optimistically that they would never come home together. But Mrs. Bouncer was a mere tyro compared with our bankers, who have succeeded in lending the same golden sovereign to about ten people at the same time, in the hope that they will not all claim it at once. Fortunately, it is a matter of little importance how much gold a pound is really worth, since it is not the gold that we want, but goods and services.

Our currency used to be linked to gold, but only by means of a thread which was bound to break whenever the least strain came upon it. People used to imagine that the value of money depended upon its gold cover, but really its value is due to the fact

that it is accepted in exchange for goods and in payment of debt. In 1916 the Swedish paper money was worth more than the weight in gold which it was supposed to represent. Money, if issued in the correct manner, requires no other cover than the goods on the market.

If money were really silver and gold, then there might be some sense in trying to keep silver or gold as our measure of value. But since "money" is now paper and abstract units of account, to try to keep gold as a measure of value only leads to confusion. We value property in "pounds sterling" and not in ounces of gold, and the value of these "pounds" depends upon quite other circumstances.

In order to realise the present situation, imagine that a pint of whisky, 30 per cent. under proof, had originally been our measure of value, and that bottles of this whisky, of different sizes, had been our medium of exchange. Suppose that we had then begun, for the sake of convenience, to leave the whisky in the vaults and use the various-sized labels from the bottles to represent the claim to same. Suppose that we had then allowed certain firms to print labels representing more whisky than existed in all the vaults, and that finally we allowed these firms, in addition, to grant loans of whisky as a medium of exchange, without even troubling to print the labels.

If we then decided to change over to a different standard of value, to whom would the real whisky now belong and how much would each pint-label really be worth?

Writing forty-five years ago, Edward Bellamy made his Dr. Leete, who was supposed to be living in the year A.D. 2000, speak as follows to the man from the nineteenth century :

“Already accustomed to accept money for commodities, the people next accepted promises for money, and ceased to look at all behind the representative for the thing represented. Money was a sign of real commodities, but credit was but the sign of a sign. There was a natural limit to gold and silver—that is, money proper—but none to credit, and the result was that the volume of credit—that is, the promises of money—ceased to bear any ascertainable proportion to the money, still less to the commodities actually in existence. Under such a system frequent and periodic crises were necessitated by a law as absolute as that which brings to the ground a structure overhanging its centre of gravity. It was one of your fictions that the government, and the banks authorised by it, alone issued money ; but everybody who gave a dollar’s credit issued money to that extent, which was as good as any to swell the circulation till the next crisis” (“Looking Backward,” chapter xxii.).

Bellamy’s suggestion of credit cards, from which the amount of each purchase would be punched, was intended for a completely socialised nation in which everybody received such cards as title-deeds to an equal share in value of the total annual production of goods or services available for consumption or use. It would allow persons to “spend their incomes” as they wished, provided the State were both universal employer and universal provider. But it intentionally makes no provision for enabling one person to

transfer credit to another. Therefore a different plan would have to be adopted for a society in which private trading, to some extent at least, was still customary. But Bellamy, anyhow, knew that the so-called "gold-standard" even in his day had long been a farce.

Professor F. Soddy says in "Money versus Man" (p. 52):

"The gigantic interests in the private issue of money have always pretended it is the public that insist on there being something behind paper and credit money. But during the War, the change from gold coins to paper was effected without the public being in the least disturbed. In fact, it may be said that they welcomed the change. These interests are always trying to persuade the public of the unsoundness of any kind of money they have not the issue of. But to any impartial person forming a conclusion from the evidence, the present system must appear as fundamentally the worst and most unsound monetary system the world has ever known."

Under the Capitalist system, with or without the gold-standard, speculators run the prices of everything up and make fine profits, until some day for some reason some of them get a fright and start "unloading." Then everybody tries to sell and nobody wants to buy, and prices come tumbling down again. So prices go up with a boom and down with a slump, like a switchback railway.

Mr. J. M. Keynes, who tries not to be unjust even to the gold-standard, points out in his "Tract on Monetary Reform" that approximately the same level of prices ruled in or about the years 1826, 1841,

1855, 1862, 1867, 1871 and 1915. But it does not seem to me very surprising that one can find a number of points on exactly the same level, even in a switchback railway.

Before the war fewer of us knew, and took part in, the capitalistic game. Speculators were less numerous, and the traditional inertia of the masses was greater. But now for years the popular press, including the daily "Labour" paper, has been quoting the Stock Exchange prices and giving us all sorts of useful hints. The Americans showed, in their boom of 1928, what apt pupils they had become. There are millions of people now on the watch for the next rise, and since the world war we do everything on a much grander scale. If the Capitalist system is to continue, the pre-war scenic railway will in comparison, doubtless, seem a paltry affair.

SUMMARY.—True convertibility of currency into gold is now unattainable. The arbitrary "linking" of currency to gold, and of credit to currency, makes prices and prosperity dependent on speculators in every other country.

The value of gold depends upon the policy of the banks, and gold is therefore no longer a "standard of value."

## CHAPTER VI

### VALUE AND BACKING

THE most important function of money is to act as a means of comparing value, and the most essential quality of this "measure" of value is that it should remain as constant as possible. It should be as perfect a "standard" of value as the evolution of civilisation permits. As scientists use degrees Centigrade for comparing temperature and astronomers use light-years for estimating the distance of stars, so we all use money for estimating value.

In a Socialist State, and perhaps even in a Capitalist one, a tangible medium of exchange is not absolutely essential, but except in some form of Communism on Christian lines it is hardly conceivable that a standard of value, or unit of account, could ever be superfluous.

Even now a man who is known to be honest and rich can get on quite well with only a cheque-book, and there is no reason why, except for our own stupidity, we might not all be rich. In a civilised country where everybody had an unimpeachable character and an infallible memory, even ink and paper for the keeping of accounts might be dispensed with, but it would probably still be desirable to have a unit of computation and a standard of value.

The things we wish to measure are all those

material things which a man needs for a full life, and which, as far as we can see, he will continue to need. The unit of value, therefore, should be some fraction of the value of a selected basket-full or warehouse-full of things, and not merely the value of one metal which may or may not be found, and which can be more or less "cornered" by a combine of financiers in any part of the world.

The contents of the "basket-full" of goods, and their relative proportions, must be carefully chosen at the start, and can be revised from year to year if new inventions and social habits make slight changes desirable. All these matters are of secondary importance. What Professor Jevons wrote in "Money and the Mechanism of Exchange" in 1875 is still true—namely :

"Whatever methods were adopted, however, the results would be better than if we continued to accept a single metal for the standard as we do at present."

Before a boy tries to get into the Civil Service he wants to know what kind of a living his pension is likely to provide in about thirty years' time. It does not interest him to know how many grains of gold he will receive, or be able to get in exchange for his pension. And if we lend our money or credit, what we want to know is, when we get it back, will it probably buy as good a house, as much furniture, and so on, as it would today? Therefore the buying power of money should be kept as stable as possible.

The value of money nowadays does not depend on any metal backing or cover, but upon the fact of its

having been declared legal tender, or merely on the fact of its being generally accepted in exchange for wealth. Money, whether made of metal with some "intrinsic" value, of paper with hardly any "intrinsic" value, or of credit with no intrinsic value at all, is really like lottery tickets in which every ticket gains some prize, and in which the holder can choose from among a large number of prizes. If the holder is dissatisfied with the selection of prizes offered him, and if his tickets are of metal, he may decide to keep them instead of taking a prize; but this is a misuse of the lottery tickets.

Suppose the officials of the lottery, who accept all the prizes that are offered to them, do not know how many they will get, but that they can decide how many tickets are issued. It will then be their business to issue tickets in proportion to the supply of prizes.

So far the illustration is simple enough and is intended to suggest that the quantity of money should be regulated to suit the quantity of goods in the market; but here a complication enters, because the lottery tickets are used over and over again.

Drawings are taking place continuously, and the officials of the lottery cannot know how many people at any moment may happen to turn up with tickets. All that they can do is to watch and see that the ticket-holders are getting prizes of fair value—that is, of the value which they are entitled to expect, taking into consideration that which they gave up in exchange for their tickets. If the ticket-holders are not getting fair value, then the officials must vary

the issue of tickets, since they have no control over the supply of prizes.

Money depends on confidence; it is not wealth, and is not even a claim to any particular wealth, but relies upon the experience of the past and the expectation of the future that it can be exchanged for wealth.

Money is a claim to wealth, as a railway ticket is a claim to a railway journey. It would be wasteful to make railway tickets out of gold and silver, even though they were given up to the collector at the end of the journey and might be used over and over again. So, also, it is a waste to make money of gold or silver.

It is true that the railway guarantees to give one particular service for its ticket, whereas society does not contract to give any definite service for its money. Society only promises to accept its money in payment of all rates and taxes and as satisfaction for the settlement of all debts. Apart from this, money is like the lottery ticket; nobody can be quite certain of the value of the prizes from which they will be allowed to make their choice. But if money is properly issued, the prizes obtainable with it will be neither worse nor better than experience has led reasonable people to expect.

Custom and justice demand that under ordinary circumstances there should be a seat in the train for every ticket-holder. The railway company has fairly complete control both over the number of seats and over the number of tickets, so the company can regulate the seats to suit the tickets. With money it is somewhat different. The banks have no direct

influence over the supply of goods; therefore they must try to keep things in equilibrium solely by altering the quantity of money.

It is perhaps unwise to compare a badly managed currency to an elastic "yard-stick" or "measuring-rod," because this comparison may give rise to a mistaken impression that the total quantity of money should be fixed, whereas the exact opposite is the case. A currency, to be efficient, must be a managed currency, and, as a matter of fact, our currency always has been a "managed" one. The question is not whether we should "monkey" with the currency, but whether we should insist upon the currency being "monkeyed" with in a different manner to that in force at present. At the Ordinary General Meeting of the Midland Bank Ltd. in January 1932, the Right Hon. Reginald McKenna, the Chairman, said :

"The widespread impression that the gold-standard operates automatically is a complete delusion, for in fact it must always be in some degree managed so soon as bank credit plays a leading part in the business life of a community."

In a "Tract on Monetary Reform," 1923, Mr. Keynes wrote :

"And—most important of all—in the modern world of paper currency and bank credit there is no escape from a 'managed' currency, whether we wish it or not; convertibility into gold will not alter the fact that the value of gold itself depends on the policy of the Central Banks" (reprinted in "Essays in Persuasion," 1931).

Silvio Gesell says :

“No other explanation is needed of why the monetary system of today is the monetary system of 4,000 years ago. It is the same, at least, in theory ; in practice we have gone over to a paper standard—noiselessly and stealthily, it is true, since the fact must be concealed. For if our professors heard about it, their cries of alarm might work enormous damage—paper-money, money without intrinsic value, being in their opinion fundamentally impossible and therefore certain to collapse” (from “The Natural Economic Order,”\* part III., chapter 3).

If holiday-makers play on the sea-shore some game that needs counters, they can agree to count each shell as ten and each pebble as one. That some shells are big and others small need make no difference, if they choose to count them each as ten ; it is simply a matter of convention. They would have to take a certain number each and know where their counters ended, although they might agree to vary the quantity according to the number of players and other circumstances. If, however, some of the players kept secretly picking up shells and pebbles from the sea-shore, all the counters would gradually lose their value and the game would cease to have much point. So it is with our money. If we like to count a golden sovereign, a printed bank-note, and a pound credit at a bank each as one “pound sterling,” this convention need cause no disadvantage, although it may likely lead to confusion. But it is a real disadvantage that we do not know who has the right to determine the aggregate amount of pounds sterling.

\* See Book List, p. 138.

In 1931 some British bankers became rather peevish because French and American bankers did not play with the gold-standard properly according to the unwritten British rules of the game. But the fact is that the whole of our society game is unfair, greatly because we have such a rotten system of counters.

SUMMARY.—The most important function of money is to act as a standard of value. Money, if properly managed, requires no backing other than the goods and services for which it can be exchanged. Its value depends chiefly upon confidence and upon the social customs of the land where it circulates.

## CHAPTER VII

### INFLATION AND DEFLATION

SOME people may define inflation as an excessive issue of currency or credit, but an issue is only excessive if it has the result of raising the general level of prices. I therefore prefer to define inflation as a rise in the mean price-level, and deflation as a fall in the mean price-level. This seems to me the only logical definition for those who understand the dynamic nature of the money problem. Inflation may be caused by an increase in the quantity of money, but it may also be caused by increased velocity, resulting from loss of confidence or other cause.

A great inflation is easily recognised, but whether or no a slight inflation or deflation has taken place can only be proved by statistics of prices.

During the war, when the supply of foodstuffs and of raw materials was failing, it was natural and proper that the prices of these things should rise. But that inflation took place is proved by the fact that diamonds and pearls and unnecessary luxuries also rose in price. In a country with a just social system and with a properly managed currency the prices of mere luxuries should have fallen because there should have been, in times of famine, proportionately less purchasing power available for pure extravagances.

## INFLATION.

*Caused by :*

Issue of too much  
money  
or  
An increased speed  
of circulation.

*Effect :*

Decrease in the  
value of each  
money unit.

Rise in the  
price of goods.

Reduction in  
real wages.

Strikes.

Injustice to  
all creditors.

Profit to  
merchants and  
co-operative stores.

Boom in trade.

Gambling in  
foreign currencies.

Decrease in  
the burden of  
national debt.

## DEFLATION.

*Caused by :*

An insufficiency  
of money.  
or  
A reduced speed  
of circulation.

*Effect :*

Increase in the  
value of each  
money unit.

Fall in the  
price of goods.

Rise in  
real wages.

Lock-outs.

Injustice to  
all debtors.

Loss to  
merchants and  
co-operative stores.

Slump in trade.

Gambling in  
foreign currencies.

Increase in  
the burden of  
national debt.

During the war, since munitions could naturally not be obtained for love, they had to be obtained with money. The State made some money and could have made more, but that might have caused inflation. So the banks created credit, and the State borrowed it. That caused exactly the same amount of inflation, the chief difference being that by this arrangement the State pays interest on this credit to the extent of many millions of pounds each year. By this arrangement also the State is expected finally to pay back "money" for this "credit" which the banks manufactured.

After the war the value of money had changed and most people said that one must now reckon with quite a different unit. Houses and farms, factories and ships were sold at figures corresponding to the new "scale of values." On the other hand, inflation causes injustice to all those who have lent money and to all those who live on pensions or fixed salaries, and therefore there were many people with grievances which they thought could be remedied by bringing about deflation. But deflation causes fresh and even greater injustice to a different set of people.

There were many who knew the consequences of deflation and had been trying to explain them for years. But none of these were in 1918 appointed on the Cunliffe Committee, which, devoid of the imagination necessary to realise the consequences of their recommendations, advocated a return to the old (so-called) gold-standard. This started the slide down the slippery slope of deflation on which it is

difficult to stop till the mire at the bottom has been reached.

When all prices are rising, any fool can do business. He only needs to buy anything at all—even with borrowed money—to keep it awhile, to sell it again, and he will have made a profit. When all prices are rising, bankers can grant loans on any kind of security, because the cover of the loan will automatically be increasing day by day. Even if a man has one shooting-box, when prices are rising he does not mind buying another, because if he finds he does not need it he can always sell again at a profit. When prices are expected to rise, every merchant tries to stock his warehouse, and every housekeeper spends her money in order to fill her store-cupboards. Therefore, when all prices are rising, factories work at full steam, unemployment tends to disappear, and to quite a lot of people who are getting rich the Capitalist system seems to be a marvellously beneficial dispensation of Providence.

But when prices are expected to fall—and if they are universally expected to fall they will fall—everything is different. Then even expert “salesmanship” is often of no avail. Then a banker will be careful not to lend too much money, or for too long, even on the best security. Then no merchant will carry more stock than he absolutely needs. Most people love bargains, even the rich, but however cheap something is today, the more they love a bargain the less likely they are to buy, if they think it may be cheaper tomorrow. Therefore, when prices are falling, unemployment starts and spreads

in ever-widening circles. Then bankruptcies occur, factories are closed, crime increases and the dangers of planless revolution are imminent.

In such times the defenders of Capitalism decide that the State has been interfering too much with private enterprise, or that democracy has proved a failure, or that a war is necessary in order to obtain new markets or new territory to relieve "over-population."

In England, after unemployment to a scandalous extent had lasted about ten years, quite a number of bankers began to realise that deflation had been a mistake. But under this wonderful Capitalist system they were helpless to do anything.

The State could—say for the financing of slum clearance schemes—simply issue some treasury notes. But the State must not be allowed to interfere with the private enterprise of banking or of building. The banks can grant loans which create deposits, but only if the public is willing to borrow. If prices are still expected to fall, people with money do not even know how to invest what they have, so why should they borrow more, however low the bank-rate may be? Others, on the verge of bankruptcy, may desire loans, but the banks naturally prefer not to lend to them. So that no one can do anything except wait till "confidence is restored," which really means until the public is convinced that deflation has come to an end, that prices have reached "rock bottom," and that the great race to get rich quick by buying cheap and selling dear can start over again.

Several times during the last ten years some of the favourites have tried to start the race again. But if they find the field is not following them they soon have to scuttle back to the starting-post. Before the war these trade-cycle races recurred roughly about every ten years, but some of them, like former wars, were on a paltry scale. Nowadays one expects something more imposing. But after ten years of such steep deflation, and after so many false starts have been made, it is natural that the public should be rather careful not to get off the mark too soon.

In a social order founded on usury wealth always is, and always must be, unjustly distributed; but we are accustomed to this injustice, as we are accustomed to the pressure of the atmosphere on our bodies, and are usually unconscious of it. In times when the cost of living is rising, new movements of unjust redistribution, to which we are less accustomed, take place, and these therefore give rise to protest. But in times of rising prices trade is brisk, unemployment tends to diminish and the production of wealth to increase.

On the other hand, during deflation new movements of unjust and unaccustomed redistribution take place too, but now trade is sluggish and unemployment rife. Therefore very little wealth is being produced to be distributed at all, whether fairly or unfairly. For this reason it is doubtful if even those comparatively few people who are rentiers pure and simple, living solely on fixed interest bearing securities, really gain absolutely by deflation. Of course, they gain relatively to the rest of the population, but

if interest is to be paid on the national debt, money must be found for the purpose ; and doles have to be paid as an insurance against civil war. Finally, the rentiers have, in the form of rates and taxes, to provide a good deal of this money themselves.

Every man wishes the purchasing power of his money to be as high as possible : that is to say, he likes to get as much as possible for his money. Therefore it is natural that people who do not know the consequence of deflation and have not thought these things out for themselves should welcome falling prices. This is why, after the war, Labour leaders actually helped the rentiers to pull for deflation in the tug-of-war against those who knew that it is always better to aim at stabilisation. So, for instance, Lord Snowden, who was commonly supposed at that time to be a Labour leader and understand finance, wrote in 1920 in a book called " Wages and Prices " (The Faith Press, pp. 119-120) :

" If, then, the workers, in seeking an advance of wages, are following a will-of-the-wisp, what are the realities they ought to pursue? Real wages, and not nominal wages, is the thing after which they should strive. Their efforts, therefore, should be directed to a reduction of the cost of living. It is a much more difficult thing to force a reduction of wages than to secure an advance. Unless a fall of prices is accompanied by severe bad trade and widespread unemployment, wages will not decline as prices fall."

But in a nation relying on private profit as its motive power a fall of prices always is accompanied by severe bad trade and widespread unemployment, so what was the use of giving workers such advice?

Small wonder that when Mr. Snowden became Chancellor of the Exchequer he was able to do nothing against unemployment.

On May 9th, 1932, in the debate on the Finance Bill in the House of Commons, Sir Robert Horne was reported to have said :

“If only they could raise prices they would effect a complete change in the picture; they would have an expansion of business, a margin of reasonable profit, and a great increase in employment, which was the thing above all others most required.”

Later in the same debate Mr. Jack Jones was reported as saying that—

“They would not make anything better by making everything dearer” (*The Times*, May 10th, 1932).

Whether prices are high or low makes little difference to anybody, provided that wages and other costs are on the same level. But whether prices *are expected to move up or down*, under the present social order, makes all the difference in the world.

Some may consider this statement to be an exaggeration. We are not all speculators. The workers have to spend most of their wages each week whether prices are high or low. The aristocracy does not wish to have anything to do with either buying or selling; it merely wishes to live in peace on the rents of the land which it held from the Crown in fee simple and which it now claims as its own property, or else on interest from the debts of the British or foreign Governments or municipalities or any old debts that are safe. But the workers and the aris-

tocracy are not the people who now run this Commonwealth of Nations! The turning of the wheels of commerce depends on financiers, merchants and entrepreneurs. It is they who sit in the drivers' seats, and when they see rising prices coming they step on the accelerators, but when they see falling prices ahead they clamp on the brakes. And unemployment, once started, must spread.

SUMMARY.—Both inflation and deflation cause injustice. Under the Capitalist system a gentle inflation, which tends to cause booms, is not so bad as a gentle deflation, which always causes slumps and unemployment.

## CHAPTER VIII

### SPEED OF CIRCULATION

PROBABLY few people have difficulty in understanding that the value of money depends greatly on the quantity which is issued. This is true of all kinds of "money," whether tangible or intangible. If great deposits of gold or silver should be found, these metals would lose much of their "scarcity value." If too little bank credit is created in proportion to the supply of goods, then each unit of credit increases in purchasing power or "value." But it is perhaps not so obvious that the value of money depends also on its speed of circulation, and that this also is true of every kind of money. Yet it is essential that it should be understood, since many things, including the impotence of our bankers to regulate the general level of prices properly, are the result of it.

A small quantity of money circulating quickly has the same effect in exchanging goods as a larger quantity circulating slowly. One motor-ferry crossing a river six times an hour could transport the same amount of goods as half a dozen of the same boats being rowed across once each hour. Similarly, a smaller quantity of money is sufficient to meet the needs of commerce and to keep prices steady, provided it circulates more quickly.

In order to show how a small quantity of money

circulating quickly has the same effect as a much larger quantity circulating slowly, Professor D. H. Robertson in his book called "Money" tells a little story in which three pennies changing from hand to hand are enough to pay for the contents of a whole barrel of beer. The illustration may be open to criticism, but the fact which it is intended to illustrate remains a generally acknowledged but constantly forgotten truth.

The value of money depends firstly upon the quantity available for buying goods and services. But money is not available so long as it is locked up in strong-rooms. Therefore the value of money depends secondly upon its speed of circulation. Money which is permanently hoarded does not count at all, but it begins to count as the periods of hoarding are shorter. The money which counts most is that of a hungry man, or the money which is tending to "burn a hole" in some spendthrift's pocket. The practical importance of this question of the speed of circulation cannot be over-estimated, since rising and falling prices depend chiefly upon it.

Many people seem to think that there is not enough money in the country to purchase all the goods that are produced. But actually there exists already "money" or "credit" sufficient to buy all the goods in the market, not only at normal prices, but at double those prices and more. The "money" only needs to be transferred more frequently from hand to hand, or from bank account to bank account, and it would be so transferred if a general rise in prices were universally expected.

If there were not enough trains from some village to seat all the passengers on market day, the number of trains might be increased. But the number of locomotives and coaches would not necessarily have to be correspondingly increased—in fact, one single train, going to and fro, might be ample. It is the number of trains that “go” which matters, not the number that exist. A train which does not go does not count. So it is with money. Money “counts” according to the number of times it changes hands.

Mr. Hartley Withers rightly describes credit balances in banks as “potential” money (see p. 4). But one might with almost equal justification call bank-notes in a safe or coins in a purse “potential money,” since they really only count as money when they are being transferred. It is the “runs” which build up the score at cricket, and it is the transfers of money which raise the level of prices.

As long as we have unearned incomes, workers can never enjoy the whole product of their industry. As long as the mean price-level rises and falls, booms and slumps, with consequent unemployment, will always recur. But an insufficient total quantity of purchasing power is not the chief cause of unemployment. Reduced speed of circulation resulting from a fear of loss—or a diminished hope of profit—is a much more important factor.

We must make money “go,” but we need not increase the total quantity. In fact, it will be wiser to reduce the proportionate volume of money in existence, as compared with goods and services. A vast mass of potential money lying idle is only a danger to

the nation. To have a lot of idle trains which the engine-drivers regarded as their private property, to run as and when they pleased, would also be a danger to a railway system.

In May 1931 Britain had been for more than ten years bearing the consequences of falling prices and of the calamitous mistake of the Cunliffe Committee in advocating deflation. Nevertheless, in May 1931 Mr. Mellon, then Secretary of the U.S.A. Treasury, at a luncheon in Washington, was reported to have said :

“ Prices must be revised and costs reduced to a point where demand will again be stimulated ”  
(*Liverpool Post and Mercury*, May 6th, 1931).

So that it is charitable to suppose that even then Mr. Mellon cannot have understood the results of an expectation of falling prices. The effect of his speech will have been to help to make matters worse and to retard the possibility of a recovery.

When, however, in Spring 1932 the results of deflation in America were such that millions of willing workers were not far off starvation or revolution, the American bankers tried to reverse the process of deflation, but found themselves powerless to do so. They can issue more money by buying securities, but they have no control over the speed of circulation of this money, and no means of driving it into the hands of the needy unemployed. If merchants and entrepreneurs have been once bitten by falling prices and are still fearing a further fall, then they will not spend and money will not circulate.

When prices are rising and everybody wants to

invest in houses, factories and goods, money begins to circulate quickly and soon many unemployed are absorbed into industry. But bankers do not give money to those who have no property. Therefore in times of falling prices, when circulation is sluggish, the money is held up somewhere and never reaches the hands of those whose necessities are greatest, who would immediately speed it on its way, and whose effective demand for goods would start to revive trade.

Bankers can make money, but they cannot make it circulate. They are the fathers of money, but have no control over their children. A banker may send his children out, but if they meet at every corner people shouting for economy and retrenchment they may get frightened and hide and be of no use to anybody. Sometimes a banker is afraid to send his children out, lest they should run amuck and never come back.

Bankers are unable to make money an efficient servant of man even if they desired to do so. They are unable to regulate its value as it should be regulated, because the second factor determining value is beyond their control. It was to remedy this inherent defect of money as we know it that Silvio Gesell devised his money which would be under compulsion to circulate.

According to the creed of economic Liberalism, as far as possible everything should be left to be regulated by the laws of demand and supply. But Gesell has shown that with ordinary money these laws work out most unjustly, for the very reason that money can choose its own speed of circulation. Supply consists of goods which lose weight and quality and

which must be thrown on the market. But demand consists of money which does not rust or decay. The workman, who has seldom more than just enough money for his immediate needs, is bound to bring it at once to the market to exchange for food, etc. But those who have more than enough for their immediate needs can do as they choose with the rest. They can pour it suddenly into the market for purposes of speculation, or they can withdraw it, if that seems to suit their personal interests better. During a time of depression and uncertainty they are likely to keep it out of circulation for a long time, either because unable to find safe investment or because they wish to reserve it for a feared worse time to come. Thus they are reducing the demand for goods and services and intensifying the depression.

The Capitalist system is dependent upon the circulation of money. But the producers of non-essentials, who are today in the majority, and whose lives depend on the sale of their products, have no power to cause the vast proportion of the nation's money to circulate at all.

Silvio Gesell expresses it thus in "The Natural Economic Order" (p. 279) :

"If the digestion of the 'leading' stock-jobbers was sound, and fine weather coincided with some favourable piece of intelligence, the 'tone' of the market changed, and the sellers of yesterday became the buyers of today."

Or on p. 178 :

"If profit is the condition for the appearance of demand, it is still more obvious that demand will not

appear in the market if loss awaits it. Supply is forced into the market regardless of gain or loss. Demand, if conditions are unfavourable, retires into its fortress (its fortress being its indestructibility), and quietly waits there until conditions are again suitable for a sally."

When prices are rising it is easy to make a profit, and in such times therefore the Capitalist system can more or less deliver the goods. And it is easy to cause prices to rise, because nothing in the world is easier for a Government than to cause inflation. In order to reduce unemployment, the British Government could at any time during the last ten years, instead of borrowing money, have issued some new treasury notes and used them for setting the unemployed to work on slum clearance and other schemes. The Government might have started cautiously with a comparatively small amount. We had been suffering from deflation, and the first effect of an increased money supply would have been to put a stop to that. Why need there have been any fear of inflation? Personally, I wish that the Labour Government had issued treasury notes to municipalities for slum clearance schemes. But the point at present is that a great and sudden inflation then really might have occurred, on account of an increased speed of circulation of all the money in the land.

Although the Government might have issued an insignificant amount of treasury notes, yet if our Capitalist press and our panic-stricken bankers had started to frighten the public, then a great inflation might actually have been brought about. People

would have decided to buy things, instead of leaving their money in the bank. Merchants would have been able to make profits, factories would have been full of orders. There would have been a great and effective demand for new houses, and the unemployed might have nearly all been absorbed.

It is ridiculous to pretend that such prosperity is then only illusory. When people are working and wealth is being produced the prosperity is real, although it may be unjustly shared. The trouble is that it cannot last, because prices and profits and wages cannot go on rising for ever without destroying a nation's measure of value and medium of exchange.

Nothing is easier than to increase employment by causing a slight inflation. But nothing is more difficult than to stop inflation if it once gets out of hand, because neither the Government nor the banks have any control over the speed of circulation of the vast quantity of money and credit which the public owns. Our financial authorities more or less realise these facts, and are so terrified of inflation that they have consistently advocated measures which have led to deflation and which have been the chief cause of the whole world crisis.

As the capacity of a windmill depends on the size of the sails or wings and on the number of their revolutions, so the value of money depends on its quantity and its velocity. As a windmill must be regulated to suit the amount of corn to be ground or water to be pumped, so money must be regulated to suit the quantity of goods to be exchanged.

SUMMARY.—The speed of circulation of money is at least as important as the total volume, since it is the increased number of transactions, and not the increased quantity of latent currency or credit, which has the effect of raising prices. The speed of circulation depends greatly on confidence and on the prevailing mood of the public. The Government and the banks have little direct influence over the velocity of money and are therefore unable to manage our currency properly.

## CHAPTER IX

### SILVIO GESELL

THE most reasonable and interesting scheme of monetary reform that has yet been put forward is perhaps that of Silvio Gesell, a German who was born in 1862 and died in March 1930. He was a firm believer in private enterprise and the incentive of gain, and scoffed at Karl Marx's theories and Edward Bellamy's ideals. On the other hand, his scheme is devised to eliminate interest, and includes also the abolition of private ownership of land. It was to be expected, therefore, that Capitalists should call him a Socialist, and that Socialists should call him a Capitalist, and that both should oppose him or ignore him; yet his theories are steadily gaining ground in Germany, Switzerland and other countries.

His attitude towards Socialism has made many Socialists regard Gesell as their enemy and has disinclined them to accept even those of his tenets which are good. He was, however, offered the post of Minister of Finance in one of the short-lived Governments of Bavaria in 1919. He accepted this, and, for that reason, was afterwards accused of high treason, but acquitted.

Gesell wrote several books and quantities of newspaper articles dealing with currency and economics. He advocated a new kind of legal tender money, and

although no country has yet adopted it, several associations in Germany used such money as a medium of exchange amongst their own members. But the German Reichsbank was afraid of inflation and probably also of Gesell's propaganda, and succeeded towards the end of 1931 in getting the Brüning Government, by means of an emergency ukase, to put a stop to the whole movement.

Experiments have, however, been started in Austria, and in Switzerland the movement has for years had a periodical dealing with all currency questions as they arise and advocating Gesell's solution.

Gesell's theory, briefly stated, is somewhat as follows :

Firstly, our civilisation, such as it is, depends on money. It was the introduction of money which made the division of labour feasible. The division of labour enabled men to specialise in different trades, arts and sciences ; thus to increase the common stock of knowledge and of wealth to an otherwise impossible extent. But the more our civilisation developed on these lines, the more indispensable did it become that sufficient money should circulate as the medium of exchange for the use of the community.

Secondly, there has always been a tendency for individuals to try to withdraw this money from circulation, and to keep it for their own future use. The reason for this is that whereas nearly all other commodities are liable to decay or inconvenient to store, gold and silver do not even rust, and are easy to hoard and to hide. The peasant wishes to provide for his old age, but he cannot keep his potatoes, so he

tries to turn them into money and to keep that. Similarly, the tendency is for the fisherman, the hunter, the toolmaker and all other craftsmen to try to sell immediately the product of their labour, but to keep money for future use.

In other words, the tendency is for individuals to misuse the communal medium of exchange by turning it into a private store of wealth.

Economists have usually told us that money has four functions—namely :

1. Measure of value (to determine price).
2. Standard of value (for comparing past and future prices).
3. Medium of exchange (to overcome difficulty of direct barter).
4. Store of value (to act as a means of saving).

But no economist has pointed out so clearly as Gesell that the last two functions are really quite incompatible with each other. A medium of exchange, which should circulate, can never be the best thing to lock up as a store of value. Although mechanics is so much more advanced than economics, yet even an engineer could hardly design a bicycle which was at the same time an ideal bedstead. Gesell did not attempt such a feat, but by making it impossible to use money as a store of value, he believed it possible to make it efficient as a medium of exchange and as a standard of value.

Money is used for transferring wealth much as the post is used for transmitting messages and the railway for transporting persons and goods. The circulation of the medium of exchange has become even

more necessary for the life of a modern community than the running of the trains. Because of its incomparably graver consequences it is more irrational to tolerate the use of money as a private store of wealth than it would be to tolerate the seizure of the latest railway rolling stock for hostels by hikers.

The State is ultimately responsible for money. It is the State that used to mint gold free of charge. The State (*i.e.*, the nation as a whole) keeps the police force to catch forgers and builds prisons to lock them up in. It is the authority of the State which gives its value to legal tender money, and the State would be perfectly justified in charging a small fee for the use of this money, just as a fee is charged for sending a letter or for the use of a telephone. Gesell did not want the fee payable for the use of money to be even as high in proportion as that now charged for British postal orders or for British cheques for small sums, but he wished it to be high enough to cause people to be disinclined to use money as a means of saving.

Gesell did not disapprove of saving—quite the contrary; he disapproved of our money because it impedes saving; the saving of real wealth. He wished us to retain any liberty we now have of saving our goods; there was to be no new inducement for us to turn them into money. And the recipient of money has the choice, for purposes of saving, of turning his money into any kind of wealth. But the industry of a nation must not be liable to be wasted by an interruption in the circulation of the medium of exchange.

The State builds roads for the traffic of vehicles and provides a currency for the exchange of goods. The State does not tolerate any unreasonable parking of motors in the road, and the State should not tolerate the exchange of goods being hindered by the hoarding of money. Saving must be done in the form of real wealth. The medium of exchange is not being saved, but is being wasted, when it is kept idle.

The essential feature of Gesell's scheme is that all users of currency should have to pay a small fee for its use, or that currency should be subject to a sort of negative interest or automatic shrinkage. The object of this is :

1. To force currency to circulate and thus to make it possible to keep its value stable simply by varying the quantity.

2. To make it easy to prevent inflation, since there would be an automatic tendency towards deflation, which would be prevented by the constant issue of new money to counteract the shrinkage.

3. To recompense the State for its expenses in connection with the currency, and to give it a useful source of revenue from the constant issue of this new currency.

4. To give producers of goods which are liable to depreciation the chance of negotiating on equitable terms with the holders of currency.

5. To force saving to take the form of an increase of real wealth which would finally benefit the whole community.

6. To prevent so-called "saving" from being in

effect only the delay of individuals in presenting to the community their claims to wealth or service.

7. To make it impossible for individuals to hold up the communal medium of exchange and to demand interest as their reward for releasing it.

Gesell was not particular how this automatic shrinkage of money was to be achieved, or, in other words, how this fee for the hire of currency was to be levied. In the experiments in Germany the plan was adopted of issuing the currency of the smallest denominations in the form of perforated sheets, like booklets of stamps. These stamps then also served the purpose of keeping the notes for larger amounts up to their face value, a stamp having at regular intervals to be attached to one face of the note, similarly to British health insurance cards. The dates and the value of the stamp required were printed on the notes. New notes were exchanged for old ones once a year free of charge, provided that the old notes were fully stamped.

In practice it would doubtless soon prove more convenient, instead of stamps, to use franking machines for overprinting the notes. Such machines could be available in every bank, post office, hotel, etc. Notes not fully stamped to date would be accepted, but only at the nominal value less the amount of the failing stamp or stamps.

Since money in any case is not international, any country could adopt Gesell's money. Foreign currencies would be bought and sold as they are at present. Gesell wanted every country to keep the internal purchasing power of its currency stable, in

which case the foreign exchanges would automatically remain fairly steady. But Gesell also worked out an interesting scheme for an international auxiliary currency.

Although Gesell was opposed to all forms of Communism, he recognised that currency must be removed from the influence of profit seekers and must belong to and be managed by the State. But the duty of the note issue department of the national bank would be fairly simple and not specially subject to the influence of politicians. The instructions for this department would be to watch the chosen index of prices supplied by the office of statistics, and to issue new money in such quantities as to keep the mean level of prices steady. Gesell proposed that the shrinkage of the currency should be at the rate of 5 per cent. per year. Normally, therefore, the issue department of the bank, in order to replace the shrinkage, would be able to supply the Government each year, free of charge except for printing expenses, with 5 per cent. of the total amount of currency in circulation. But Gesell estimated that owing to the greatly increased speed of circulation of his money, only about one-third of the present quantity of currency would be required.

The amount of currency that will be required can never be calculated because there are so many unknown factors. But it is also very difficult to calculate how many heat units will be required to keep the water in the central heating system of a big hotel at the proper temperature. The air outside may or may not be very cold. Some guests may

have their windows open, others may have turned off the heating in their rooms. The stoker cannot know all these facts, but neither does he need to know. He only has to watch the dial which shows the temperature of the water in the pipes, and to let more or less air through the furnace accordingly.

So also with the currency issue department. The director does not need to know which trades are doing well and how individuals are making use of the currency. He only needs to watch the index of the general level of prices and to regulate the flow of currency accordingly.

SUMMARY.—Silvio Gesell recognised that money, as it has come down to us from past ages, has more functions than it can properly perform; he therefore advocated a kind of money which nobody would attempt to use as a private store of wealth.

## CHAPTER X

### COMMENT ON GESELL'S PLAN

I HAVE tried to give an outline of Gesell's diagnosis of the world's monetary troubles and of his proposed cure, because his theories have so far been very little studied in English-speaking countries. Many books have appeared lately in England which would undoubtedly have been written differently or not at all if their authors had understood certain things which Gesell explained nearly forty years ago. But Gesell's last book has since 1929 been available in a very good English translation\* which should be obtained by readers who are interested. Even with more skill on my part it would have been impossible in a chapter or two to do justice to arguments to which Gesell himself devoted more than 360 pages.

Gesell believed in a properly managed currency. We have a managed currency now, and did have already before the war, but not a properly managed one. In his books and articles Gesell sufficiently explained why, with the present kinds of money, it is impossible to have a properly managed currency. The difficulty which America in 1932 experienced in bringing deflation to an end has once again proved the correctness of his theories.

In "The Money Illusion" (chapter vii.) Professor Irving Fisher wrote :

\* See Book List, p. 138.

“ In England and America the proportion of credit currency to gold is about seven to one ; the tail now wags the dog. Today, then, instead of saying that the paper dollar or the credit dollar derives its value from the gold dollar into which it is convertible, it would be truer to say that the gold dollar derives its value from the credit dollar into which it is convertible. And since the volume of circulating credit is controllable and controlled, we have already a managed currency in spite of ourselves. If we insure scientific management in place of hit-or-miss management, we shall thereby attain stabilisation.”

But Gesell had rightly been striving for years to make clear that for this scientific management a certain amount of control over the speed of circulation is essential, and that this control is entirely lacking with our present money. Some economists realise this, and it is no doubt the reason why, even if they know what a farce the “ gold-standard ” is, they still advise us to retain it, being unable to suggest a reliable alternative.

In “ Money in the Melting Pot ” Mr. Hartley Withers writes (p. 131) :

“ The mere task of controlling the internal price-level by control of the volume of money is a large enough order ; for who can be sure as to what the public will do with the money or how fast it will turn it over ? And variations in velocity of circulation may make a big difference to the price-level.”

I think it is clear that scientific management and stabilisation will be difficult to attain as long as—

1. We do not know what money is and where it ends.

2. We do not know whether we want the gold tail to wag the credit dog, or the other way about, or whether we are prepared to cut off the tail altogether.

3. We have no control over velocity and allow large quantities of the medium of exchange to be periodically and arbitrarily withdrawn from circulation.

Gesell was surely right on the following points :

1. That the State should take over the sole ownership of, and responsibility for, the currency.

2. That the farce of the so-called gold-standard should be dropped.

3. That the currency should be regulated in accordance with an index of prices.

4. That for this purpose more control over the speed of circulation is necessary.

All Socialists will also approve of Gesell's desire gradually to get rid entirely of usury or interest. His scheme is intended to accomplish this in two ways :

Firstly, by depriving currency holders of their power to demand tribute for releasing the medium of exchange.

Secondly, by encouraging saving to take the form of real capital, so that there would soon be a sufficiency of houses, factories and machines, with a corresponding fall in rents and interest.

Gesell also knew that it would be necessary to nationalise the land because—if for no other reason—a fall in the customary rate of interest causes a rise in the price of land. If people could not get interest on their money by lending it, they would all want

to invest in land as being the safest form of security and the next easiest way of getting into a position to levy tribute from their fellow-men.

To people with little money, land may appear to be very dear, but really, as Sir Leo Chiozza Money long ago pointed out, the mean cost of land is ridiculously low. The average price of a square yard of England is lower than that of the cheapest kind of oilcloth. The land will last for ever and the oilcloth will be worn out in a few years. The explanation of this relative cheapness—to which we are accustomed but which is nevertheless strange—is that people are willing to sell "their" land because they can "live on the interest" of the money which they receive for it. But if interest on money were no longer obtainable, the price of land would start to rise and the folly of ever having allowed individuals to imagine portions of the earth to be their private property to do whatever they like with, while they are living and after they are dead, would soon become apparent.

Silvio Gesell's scheme is a great advance over that of the single taxers, but in the same way as Henry George and his disciples thought that the social problem would be sufficiently solved as soon as the private monopoly in land was broken, so Gesell's followers think that the social problem will be solved when their "Free Economy" scheme has been adopted.

Socialists cannot approve of so much importance being attached to the blind power of money. Gesell believed in private enterprise and the incentive of

gain, and apparently desired to have free play for the law of demand and supply. But he himself showed that "demand" in this sense means "money," since only money causes effective demand. And Socialists cannot consent to continue to be ruled by any kind of money, however different it might be.

Gesell's scheme was devised to do away with unearned income on the one side and unemployment with under-consumption on the other side, and no doubt it could achieve these objects. But if I understand Gesell rightly, he would have allowed the cleverest and most ambitious people to get as rich as possible. Might not some of the faults of our acquisitive society then actually be intensified? Even today people desire not only to be rich but also to appear rich. Why else should women wear pearls, when they could decorate themselves just as prettily with glass beads? But if this is so today, when we are after all aware that many poets, artists and inventors die poor, whereas many heirs of war profiteers and descendants of robber barons are born rich, how much worse might it not be if we believed that riches really were the result of virtues? Therefore I think that the ideal described by Bellamy in his books "Looking Backward" and "Equality," and advocated by Bernard Shaw in his "Intelligent Woman's Guide," is, after all, more worth striving for.

Effective demand determines how the working hours of our lives shall be spent. The question is whether we should be wise in permitting this "demand" (*i.e.*, money) to accumulate in the

greatest quantities in the hands of heavyweight champions and the world's film sweethearts. Even if we cannot see our way to share the national income equally, it might be wiser to determine in some other way the remuneration for different kinds of work.

We all know that the greatest deeds of the greatest men, even in the past, never were done for money. Why, if we hope some day to become fully civilised, should we not reckon with this fact even more than heretofore?

Silvio Gesell expected that with his money only about one-third of the existing amount of currency would be required. To me it seems probable that the public would soon find ways and means of avoiding the use of his money altogether, and this is one reason why I suggest a different scheme. In Gesell's book there are a number of other points which might be criticised, but on the whole I think it must be one of the most original works on economics that have ever been published.

**SUMMARY.**—Gesell's plan for nationalising the land and for eliminating interest was good, and his diagnosis of the defects of our inherited form of money was most valuable. His desire to continue to rely upon the acquisitiveness of individuals as the motive power in economic life cannot be shared by Socialists.

## CHAPTER XI

### EVILS OF USURY

CHILDREN at school may be quite content to have no prizes—simply to work and to play under the same conditions—but if there are prizes they will not be content to see them distributed in an unfair manner. Marks negligently given and prizes unfairly distributed do not tend to produce better work, but quite the contrary. And surely when children grow up these same sentiments must persist, even if weakened by constant contact with unjust conditions.

The greatest impediment to a fair distribution of the prizes of life in the present social order is the phenomenon of interest or usury. We may approve or not of an arrangement by which a champion boxer or a popular film comedian earns more than a Prime Minister or the most gifted surgeon. Boxers and film stars have to put up with a lot for their money and may be considered to earn it. But that is no reason why the heirs and assigns of boxers and film stars should be able to live as parasites on future generations of workers for ever and ever. Yet interest makes this feat quite easy, so long as that system survives which the majority of electors still defend or vote for.

How can we expect to be able to persuade miners that they must work longer hours or take less wages

so long as they know that some other people get along very comfortably without ever working at all? If the coal-mining industry "will not bear" shorter hours or higher wages, why should not the art of "living on interest" help to bear the burden?

The policy of political non-intervention, of leaving everything to be regulated by the laws of demand and supply, is really a policy of subjecting the working portion of our lives to the fads and fancies of the holders of money. There might be something to be said for this policy if we took care to see that money went to the competent and the deserving, but everybody knows that this is not the case. Money is sometimes gained by means of industry and talent, but just as often by inheritance, speculation and ruthlessness in profiteering. This state of things is bad enough, but surely the limit is that we should allow this money which rules our lives to accumulate automatically.

Money can be made of gold, silver, paper, or even of figures in books; but its quantity must not be unlimited. Therefore if money flows to one place it must normally be flowing away from others. And in fact, owing to interest, the tendency is for money to flow together like water colour on greasy paper, instead of being evenly spread, as human necessities are. Small wonder that the mass of purchasing power is never where the greatest needs are.

Some widows and children may hold investments, but even so they cannot in that case be those widows and children whose needs are greatest. All widows and children should be otherwise provided for. Interest, on the whole, obviously must tend always

to make purchasing power flow where it is not needed most.

Owing to our method of financing the war, this tendency has, of course, been enormously aggravated. The nation conscripted lives, but borrowed money, and the result was that the amount of the national debt increased about ten times between 1914 and 1920. The demanded rate of interest was nearly doubled, so about twice the pre-war rate was paid on about ten times the pre-war volume of debt. After the war the calamitous policy of deflation was advocated by bankers and, owing to the ignorance or indifference of the masses and the failure of Labour leaders such as Lord Snowden, was allowed to be carried through. Everything was "deflated" except the debts. The ultimate result of this is that the effective burden of the national debt and of each pound sterling of interest, as measured in real wealth, was again nearly doubled. Thus the maldistribution of buying power, from this cause alone, was enormously aggravated.

Ancient Jewish law forbade the Israelites to take interest from each other, but allowed it to be taken from strangers. But when Christ came he taught that all men are brethren, and the Christian Church was fighting against usury all through the Middle Ages and only finally capitulated in comparatively recent times. In 1150 Pope Eugenius III., in reply to an enquiry, decided that—

"Who takes more than the amount of the sum lent involves himself in the sin of usury. Anything which is added to the loan is usury."

In the twelfth and thirteenth centuries people could be excommunicated for accepting interest. In England in the ninth century King Alfred the Great forbade the taking of interest, and as late as the reign of Edward VI. another law for this purpose was passed. Martin Luther, by his time, seems no longer to have had much hope of being able to stop the practice, but he exhorted the clergy not to cease from warning the people against this evil and declared that even 5 per cent. was usury.

If interest has been pestering mankind since the days of Moses and before, by bringing men into conflict with their own consciences and leading them into temptation, it would indeed be a triumph for our generation if we were able to find the means of finally eliminating it.

Of course, nowadays little Liberals and little Conservatives are born into a world where trees grow and money bears interest, and the one thing appears to be as natural as the other. As innocent children we were made to do sums in compound interest at school with never a hint that there might be anything immoral about it. Yet interest is perhaps the greatest permanent cause of all our social unrest.

Taking interest is like telling lies; sometimes it may seem quite harmless or even a kindness to do so. But such things must be tested by the conditions which would result if they were permitted and became general. In the case of general lying, speech would become a mere waste of breath; and in the case of general usury we now only need to look around us to see the results.

The present generation is so accustomed to interest that it seems unable to imagine a world without it. Capitalism is founded on usury, and it is understandable that rentiers, knowing only the present status of workers and of the unemployed, should be terrified of losing their unearned income and of falling down to that level. They may be therefore incapable of considering the matter without prejudice. But that a man like Sir Norman Angell, for instance, should defend usury seems to me a pity. Yet in his book "The Story of Money" (Cassell and Co., Ltd.) on page 181 he writes quite sarcastically of those who considered usury immoral :

" It is a mortal sin to charge a man for the use of money. But rent—a charge for the use of a house—is entirely moral. A. needs a house. You offer to build him one at a cost of a thousand pounds and charge him eighty pounds a year rent. That would have been entirely moral in the terms of the old thought about these things. But A. says : ' I would like to build the house myself exactly as I want it. So lend me the money and I will pay you the rent as interest on the loan.' That immediately becomes usury, criminal and infamous, and under a thousand old laws would have condemned the person guilty of it to ferocious punishment, imprisonment and sometimes torture."

The rent of a house is, of course, justifiable for repairs, insurance, sinking fund, etc. But money does not need to be painted every few years, nor will it become old-fashioned or be damaged by wind and rain. Therefore, although nobody now advocates torture for usury, yet our forefathers may have been

less stupid than we suppose. Anyhow, although they had no steam sawmills or electric cranes, they were somehow able to build cathedrals which were just as beautiful as our bank buildings, and that may have been because there were more of them trying to make something useful or beautiful and fewer of them trying to live on interest.

The rate of interest charged in the Middle Ages was often exorbitant, and many people probably think that our modest rates of interest have nothing to do with the crime of usury, which may have been almost deserving of torture. But the rate of interest still charged to poor people when they borrow by the week sounds equally extortionate when reckoned out at so much per cent. per annum. Yet lending to the poor is a risky and troublesome business, and the social consequences of that kind of usury are negligible in comparison with the consequences of our wholesale methods. There need be no poor, to be forced to borrow, were it not for the risk-free interest at low rates which is charged on vast volumes of fictitious debt by our respectable and Christian society.

In the Middle Ages money itself was unimportant in comparison with today. Most families produced much of their own food and clothing, and hundreds of thousands of people could live without any money at all. But nowadays to withhold money from a man practically reduces him to beggary or slavery.

Interest permits many people to disobey the injunction "that if any would not work, neither should he eat" (2 Thess. iii. 10). Interest enables some

people to live on the debts of others, but if we all tried to do it we should all starve. Therefore there was something to be said for the attitude of the Church before it, with rare and isolated exceptions, capitulated to Mammon in theory as well as in practice.

SUMMARY.—The higher the prevailing rate of interest, and—particularly—the greater the total volume of debts, the greater will be the maldistribution of buying power. Interest is one of the main permanent causes of unemployment and of justifiable social unrest.

## CHAPTER XII

### THEORY OF INTEREST

THAT money should bear interest is not really natural at all. Golden sovereigns are neither male nor female, and by their own unaided efforts they never did nor could produce even a young threepenny bit. The products of the land have to be worked for, and nearly all other products of labour are constantly depreciating. Why, then, should money, which is supposed to be exchanged as an equivalent for goods, increase of its own accord? Many writers have attempted to explain or to justify interest, and their theories have been picked to pieces by later writers who have then ended up by advancing equally feeble theories of their own. What is the natural reward of abstinence except that one has one's cake instead of having eaten it?

Mr. Bernard Shaw in his "Intelligent Woman's Guide" (chapter lii.) explains the matter thus :

" All money that is lent is necessarily spare money, because people cannot afford to lend money until they have spent enough of it to support themselves. Now this spare money is only a sort of handy title-deed to spare things, mostly food, which will rot and perish unless they are consumed immediately. If your neighbour has a loaf left over from her week's household supply you are doing her a service in eating it for her and promising to give her a fresh loaf next

week. In fact, a woman who found herself with a tenpenny loaf on her hands over and above what her family needed to eat, might, sooner than throw the loaf into the dustbin, say to her neighbour, ' You can have this loaf if you will give me half a fresh loaf for it next week ' ; that is to say, she might offer half the loaf for the service of saving her from the total loss of it by natural decay.

" The economists call this paying negative interest. What it means is that you pay people to keep your spare money for you until you want it, instead of making them pay you for allowing them to keep it, which economists call paying positive interest. One is just as natural as the other ; and the sole reason why nobody at present will pay you to borrow from them, whereas everyone will pay you to lend to them, is that under our system of unequal division of income there are so very few of us with spare money to lend, and so very many with less than they need for immediate consumption, that there are always plenty of people offering not only to spend the spare money at once, but to replace it later on in full with fresh goods and pay the lenders for waiting into the bargain. The economists used to call this payment the reward of abstinence, which was silly, as people do not need to be rewarded for abstaining from eating a second dinner, or from wearing six suits of clothes at a time, or living in a dozen houses : on the contrary, they ought to be extremely obliged to anyone who will use these superfluities for them and pay them something as well. If instead of having a few rich amid a great many poor, we had a great many rich, the bankers would charge you a high price for keeping your money ; . . . "

Perhaps most economists had set about their examination of the usury question in the wrong way. An astronomer only needs to ask himself, " Why

does the earth go round the sun?" and not, "Ought the earth to go round the sun?" But economists might arrive at a more useful result if they were to ask not only, "Why does money bear interest?" but, "Ought it to bear interest?" They should ask the question in the spirit, not of the astronomer, but of the mechanic who asks himself: "Why do the brakes of a motor car squeak?" They might possibly then arrive at a more useful conclusion.

I have here been referring to what is called pure interest, or interest on money lent against ample security and when the risk is not greater than if the money had been kept at home. A rate of interest which is partly an insurance premium against loss or partly a share of the profits in some speculative business is to that extent a different matter.

Although we live in what might be the age of plenty, we still have the age of poverty traditions. We have been brought up in an acquisitive society, and most of us take all we can get. But if we know that we cannot get 4 per cent. interest we are willing to take 3. And if we knew that we could not get 1 per cent. interest we would give our money to branches of a national bank even without interest, because it would be safer there than in a stocking at home. There have always been people who have paid bankers for keeping their money for them—that is, people who have hired safes in strong-rooms and have shut up gold coins and other money in them.

To imagine that, without interest, nobody would save money is firstly not correct, and secondly

would be no justification for interest even if it were. It would be just as reasonable to argue that no mother would keep a Christmas pudding for a month unless she were certain that it would throw off at least a mince pie every week. Squirrels, bees and mice save, although they get no interest, and why should men be less sensible? We have all heard of spendthrifts, but have we not also heard of misers, and is the average individual not something between these two?

As long as vestiges of the Capitalistic system survive, saving by individuals may be necessary. Individual entrepreneurs and new companies cannot erect and equip modern factories out of their own incomes, and they therefore have to resort to that evil habit of borrowing out of which interest or usury has arisen. But a well-managed State or municipality or well-established co-operative society could and should meet all expenditure, including capital development, out of revenue, and would have no need to borrow from individuals. And in a Socialist State the individual who did his duty day by day would need to take "no thought for the morrow," since Christianity would be feasible under Socialism, although under Capitalism it is not.

No individual knows how long he is going to live and what the needs of his children after his death will be. Therefore everybody tries to put himself and his family on the safe side, with the result that nobody is safe at all. Neither can individuals at the present time know how much, in the interests of the community, they should spend and how much they

should save. In fact, some economists try to explain unemployment and what they call over-production by showing that there is a disproportion between investment in the means of production and spending on consumption-goods.

Money is a claim to wealth and services. By delay in the presentation of his claim an individual can keep the rest of the community in his debt. But the whole community cannot save in this way at all, and the effect of individuals doing it is simply to cause unemployment. So that if interest induces individuals to save money, the sooner it can be done away with the better.

Real saving is effected by applying labour power to the gifts of nature, and this can, in our social order, be accomplished by spending money. The important thing is to see that the spending is done by people who have the well-being of the whole community in view. We are poor at present, not because individuals do not try to save, but for the following reasons :

1. We waste our wealth and labour power in prodigious but absurd efforts to secure peace by preparing for war.

2. We have the idle rich, who claim the right to remain unemployed and have had their claim granted by law and by public consent.

3. We have the unemployed poor, who claim the right to work at a decent wage and have had their claim refused.

4. Of those who do work, some produce wealth, but many are simply pandering to the whims of the

rich, and many are merely striving to obtain part of the business or profits from their neighbours.

Each of these causes of poverty, including the danger of war, is partly the more or less direct result of the practice of usury.

SUMMARY.—Negative interest would be just as natural as positive interest. In an age in which over-production of foodstuffs is possible (even if it has not yet occurred) there is no real justification for pure interest.

## CHAPTER XIII

### PRELIMINARY CONCLUSIONS

IN the foregoing twelve chapters I tried to indicate reasons to justify the following twelve conclusions :

1. At present nobody really knows what money is, because it has long been in a state of transition from a concrete commodity to an abstract idea, and now we do not know which it is, but it cannot well be both.

2. Confusion resulting from the fact that money used to be essentially a commodity, but is now essentially only a token denoting a claim, is one of the causes of our economic chaos.

3. Money is important because the working of the present system is entirely dependent on it, and because even under Socialism a unit of account and a standard of value will be needed.

4. Metal is unsuitable for money because the quantity which may happen to be found has no connection with the quantity which may be required to maintain a stable price-level, and also because it can too easily be hoarded.

5. True convertibility of currency into gold is no longer attainable, and the arbitrary linking of credit

to gold only makes the nation's prosperity dependent on foreign speculators and upon the hoarding habits of any and every country.

6. The value of money depends on custom, confidence and the authority of the State, and its function as a standard of value is more important than its function as a tangible medium of exchange.

7. Inflation cheats all who have lent money and also all who have pensions or fixed wages, but it causes booms in trade. Deflation cheats all debtors, and leads to slumps, unemployment and war.

8. The value of money depends on its velocity as much as upon the total issued quantity. The velocity, in turn, depends upon the balance of expectations, hopes and fears of a rise or fall in prices.

9. Gesell showed that it is impossible for the Government or the bankers to manage currency properly because they have little control over the velocity, which is one of the factors that determine its value.

10. Gesell's theories regarding the inherent defects of ordinary money are correct, but his suggestions for the solution of the social problem are unacceptable.

11. Interest is unceasingly at work as a maldistributor of buying power, and is one of the chief permanent causes of unemployment and poverty.

12. In a world where the problems of production have been solved, and where even over-production can occur, there is no reasonable justification or necessity at all for pure interest.

## CHAPTER XIV

### THE FUTURE

“ WEALTH consists in all things which have exchange value, and nothing has exchange value on which it is not possible to put a price.” “ The problem of prices has been rightly called the central problem in economics ” (from “ An Introduction to Economics, ” by W. Henderson Pringle).

Political economy is concerned with wealth, but price is measured in terms of money, and therefore not much can be expected from this science till we know what money is.

Personally, I have no hankering after the good old times. If “ back to the land ” is to be the cry, life in the country must be made more attractive by means of decent cottages, fair wages, television apparatus and other modern inventions, and not by returning to the hand spinning-wheel. Also, as regards money, Gesell has shown that even if it were possible, it would be a terrible mistake to go back to metal money. Surely the right thing to do is to go forward to complete as quickly as possible the transition of money, which started so long ago, from a concrete commodity to an abstract unit of account. Even Gesell called money a commodity and a ware, and seemed to wish his new money to be still so regarded. I think that we should discard this conception altogether and should only think of money as a claim,

whether represented at the moment by a concrete token or not.

To my mind one unit of money is essentially a claim to wealth or services of one unit of value. Money enables one person to transfer to another person his claim to real wealth. The value of these claims is due to the fact that the State acknowledges them. Tokens representing the claims are accepted by the State in payment of taxes. They are therefore generally coveted, and accepted by everybody in exchange for wealth and in discharge of debts. At present, some money is legal tender and most credit is not, but the State accepts either indiscriminately and therefore the public does the same.

The presentation of tokens of claim should bear a constant relationship to the goods and services available. If the claims are presented too rapidly they cannot be fully met. The value of these claims would disappear entirely if they were infinite in number, because there is always some limit to the goods and services available. Formerly the claims were more or less limited by the fact that the metal chosen for the tokens representing the claims was rare. Latterly credit, which is now the chief representative of the claims, has been more or less limited by the banks in accordance with their notions of "sound banking practice."

As people at certain games can win "points" and can afterwards exchange the abstract points into money or concrete prizes, so we accept money units because we know by experience that we can change them into goods and services. The people at play

might or might not receive tokens denoting the number of points they had earned. In the serious business of life some such tokens are essential even if they be only ciphers in books.

The difficulty of the money and price problem is, I think, mainly due to the fact that the claims to wealth are not cancelled when they have been met. The token representing the claim, whether it be bank credit or a coin, is usually not destroyed, but is available as a fresh claim by the person who has just satisfied the claim of someone else. Whoever has a key to the market is entitled to take out some goods; but if the keys are used too often the market will be emptied. This is why prices rise when money circulates more quickly. If the keys are left unused the market becomes choked and prices have to fall.

In order to avoid the complication arising out of the velocity of money one might advocate a different kind of credit, which would be cancelled after having been exchanged for real wealth. In Bellamy's "Looking Backward" the tokens denoting the claim consist of printed squares on credit cards, and these are cancelled by being punched or perforated like railway tickets. Such a change in our whole conception of credit and mechanism of banking would, even if it were desirable, lead to such interminable discussion, before it could be adopted, that it is not practicable.

Value can only be estimated, and to estimate requires experience. A new-born babe could not estimate the value of anything, and a Methuselah could only estimate in units to which he was accustomed. We are accustomed to "pounds sterling" of at

least nine-tenths pure credit, but which can be transferred from person to person and used over and over again.

We should encourage the opening of a banking account for everybody, and the payment of wages and everything else, as far as possible, by cheque. We should acknowledge at once that it is the balances at the banks which are the decisive quantity of our money and that bank-notes and coins are now only the small change. We must see that the right to manufacture money out of ordinary ink and paper is taken from the private banks and entrusted to a disinterested public authority, for, as is said in the Macmillan Report, section 31 :

“ No banker can neglect the rules of prudence and of safety, but the object of a commercial banker is to make a profit.”

It is not surprising that the Post Office compares in some ways unfavourably with the banks. The Post Office has to practise economy, to have many of its branches in some poky little private enterprise shop, to use skimpy bits of paper, and to deliver a circular in India or Australia for one half-penny. The banks, on the other hand, can often erect the only decently designed buildings in the district. They can provide marble reception halls, and strong-rooms with marvellous doors. They can afford to engage courteous gentlemen to stand behind their highly polished counters, and yet pay about 16 per cent. dividend to their shareholders. But no doubt the Post Office could make a braver show if it

also were allowed to lend, at 5 per cent. interest, new home-made money created by a stroke of the pen.

We are often told that Britain must rationalise and economise in order to be able to increase exports and to have a favourable balance of trade. Rationalisation is very desirable, but if a firm needs rationalisation one would not start by investigating the office boy's method of licking stamps; and if Britain needs rationalisation one should not start by trying to reduce coal-miners' wages. But our banking system is worthy of attention at once.

Thousands of firms have accounts at several banks in order to stand well with the managers and offend nobody. This all causes duplication of work and much unnecessary clearing. It also affords a fine opportunity for swindlers to hide any secret reserves or inconvenient debts. So that even for such reasons the banks should be nationalised and amalgamated to form the "Bank of Great Britain," with branches everywhere. The chief reason, however, is that the State must recover the sole right of making the money for which it is responsible. Then we shall be able to find out where money ends. Then the first step will have been taken to make a properly managed currency possible.

The transition from concrete money to credit has been taking place in the past without most people being aware of the fact. It should now be speeded up and achieved intentionally instead of by a kind of involuntary muddling through. There must be no sudden break in the system of banking or in the volume of credit, otherwise we should lose our

measure of value without having any conceivable substitute. If the banking system broke down, gold, as a measure of value, would also have changed entirely. The "pound sterling" is our measure of value, and it is already chiefly credit. The transition is really already practically complete, and it only remains for us to recognise the fact and to alter all our theories accordingly.

Credit at the Bank of Great Britain or at any of its branches should be declared to be legal tender. Currency or cash would only be the till money, the small change, as it really already is. Bank-notes would only be legal tender up to, say, ten pounds. Metal should perhaps not be legal tender at all, but metal coins could be sold to the public so long as they still desired to have them. For instance, twenty-three pennies might usually be obtainable at all banks and post offices for two shillings worth of credit or for two shilling notes. The halfpenny in the shilling discount would pay the State for its expenses in connection with the copper coins. They could be re-minted every year and the old ones declared invalid. (Perhaps the opportunity might be taken of changing over to the metric system.) The Bank could issue notes for one shilling and upwards to a pound, but these notes should be subject to quite a small charge on issue and renewal, somewhat like our present cheques or postal orders, in order to prevent them from being hoarded or preferred to bank credit.

If having to pay the small fee for the use of notes and coppers caused the public to find means of avoiding them altogether and of making all payments

through their banking accounts, this would not matter since it is one of the aims of the scheme. Newspapers would in any case no longer be sold by ragged boys in the streets, and bus fares could be punched out of tickets which entitle the holder to a dozen or a gross or a hundred penny rides.

Until we have dealt with the unemployment problem it is neither possible nor desirable to get rid of the waste of lives and goods which is entailed in having thousands of little shops competing with each other. The first thing obviously is to shorten hours of labour and to increase time spent on education, in order to do away with involuntary unemployment and make the world safe for democracy, which the war naturally failed to do.

When, however, unemployment has been abolished, it will be more reasonable to have large shopping centres, markets and exhibitions of arts and crafts, in which everything that is produced can be obtained or ordered. We have already hundreds of large shops in which we can buy anything from a tooth-brush to a dining-table, and in which we can take our lunch or have our hair cut. I see no reason why in such establishments all payments should not be made by punching credit out of pass-books or credit cards as suggested by Bellamy. The customer would purchase beforehand, by cheque, a credit card or pass-book containing pages with squares representing so many pounds, shillings and pence worth of credit. The shop assistant would punch the credit out of the pass-book and give a receipt printed by the cash register machine. This would be no more com-

plicated than the miniature tube railway systems which many shops have for the traffic of bank-notes and coins, in order to get "change."

The idea of credit cards should appeal especially to co-operators who wish to induce their members to buy everything in their own stores. Wages or salaries would be paid by cheque and a large part of them could immediately be spent on credit pass-books for the co-operative stores. The store would thus be paid in advance by the transfer of credit in the Bank. The customer's pass-book would not be "money"; it would only be a kind of account book showing to what extent the customer had received goods or services for which he had already paid.

A similar system is used on some railways, and could be extended. An individual, a family or a firm purchases a booklet containing, say, a thousand passenger miles, some of which are cancelled by the booking clerk or the guard in the train whenever a journey is made. Even for travelling on the Continent we have long had coupons not only for railway journeys but also for hotel accommodation.

The whole object of these suggestions is to make it possible to abolish usury, deflation and all those things which have in the past prevented a fair distribution of wealth and have always hindered, and periodically almost entirely held up, its production. Since sufficient knowledge and power for almost unlimited production are now available, poverty must no longer be tolerated and prosperity must be shared by all. Coppers will therefore not be required for

throwing into the caps of pavement artists, and perhaps all pocket money could soon be done away with.

Mr. Bernard Shaw in his "Intelligent Woman's Guide" (chapter iv.) says :

"This need for pocket money (change) is greatly reduced by Communism. In the days of turnpike roads and toll bridges every traveller had to keep a supply of money to pay tolls at every turnpike gate and bridge head. Now that the roads and bridges are communised he can travel by road from London to Aberdeen in his car without having to put his hand in his pocket once to pay for the roads, because he has already paid when taking out the communal licence for his car. If he pays his hotel bills by cheque he needs no money for his journey except for tips; and when these fall into disuse, as the old custom of making presents to judges has done, it is easy to conceive motoring trips, in the Communist future, being carried out in the greatest luxury by highly prosperous but literally penniless persons."

SUMMARY.—The final stage in the development of money from a tangible commodity to an abstract unit of account should be reached as soon as possible. The banks should be amalgamated and nationalised and credit at the Bank of Great Britain or any of its branches should be legal tender.

## CHAPTER XV

### BANK MANAGEMENT

IN order to complete the evolution of money from a commodity with "intrinsic" value to an abstract claim to wealth, the easiest way in England and America will be to continue to build up the present system of credits at banks, transferred by means of personal cheques. Cheques even for smaller sums should be made more convenient and popular. People might be encouraged to have cheques, not to exceed certain amounts, ready printed with their own signature and the number of their account, so that on this form of cheque only the amount of the sum payable would have to be filled in. The twopenny British revenue stamp would of course be abolished, and the Bank must be allowed to fix its own charges for its services. Net profits of the Bank, beyond the requirements of reserves, would go to the Treasury.

Before receiving a cheque-book it would be necessary to have a certain sum in the Bank, and there would be minima fixed, below which accounts should not be withdrawn. Anyone overdrawing his minimum balance would be liable to a fine, and, on frequent repetition, to withdrawal of the ordinary type of cheque-book. Knowingly to draw cheques for which there was no credit at the Bank would be regarded as equivalent to stealing. The Treasury

could accept responsibility for such cheques, but the culprit would be dealt with by law.

The Bank itself might perhaps charge a penny on each cheque in order to discourage unnecessarily petty transactions. Cheques would be of standard patterns in different colours and sizes to facilitate the work at the clearing offices. By means of perforations in the cheques it would be possible to do much of the sorting by machinery. Cheques would not be "money." The "money" would be at the Bank and its ownership would not be transferred till the cheque was presented at the Bank. New bank-notes, which would be given in exchange for old notes and coins, but for the use of which a small fee might be chargeable somewhat as suggested by Gesell, would be "money."

The volume of credit in the Bank would not increase in proportion to the value of the notes in existence, as happens now, but, on the contrary, would be diminished by exactly that amount. A "pound sterling" would be the same thing whether its token happened to be in somebody's pocket or in the Bank. An abstract claim to wealth—which the pound sterling essentially is—cannot be confined within dimensions of space at all, but its token would be either "at home" or "out." That is to say, a pound would either be at the Bank or in circulation. A bank-note is merely a token of credit in a form rather more substantial than that of figures in bank-books.

A Controller of Credit should be appointed whose sole duty it would be to determine how much new

credit could be created without causing inflation. All such new "money" would be credited to the Treasury. The Controller of Credit would watch the index of prices supplied to him by the Office of Statistics and would regulate the total quantity of credit accordingly. If the quantity had to be reduced this could, during the transition period to complete Socialism, be accomplished by "open market operations"—that is, by selling Government stock to the public and thus reducing the amount of "liquid" credit in the country. Later on, under complete Socialism, the Government would no longer be in debt to individuals. If the volume of credit had then to be reduced, it would probably be done by a direct cancellation of some of the Treasury's credit. The Government might then have to slightly reduce its expenditure or to slightly increase its charges for public services.

The Bank would work in close co-operation with the Post Office, but whether they should be under the same Ministry would have to be considered together with the whole question of administrative and Parliamentary reform. The Post Office would be concerned with letters, parcels, telegrams and telephones, but its savings-bank and money-order business would be gradually transferred to the Bank. All post offices could still act as agencies of the Bank. Some of the present branch bank buildings could be turned into post offices and many others would be retained as banks, and have to be enlarged. Even if the bank clerks had shorter hours than now, many of the branches could be kept open much longer than

at present so as to serve the public better and get through more work in the same buildings.

Industry would no longer be dependent in any way upon bank managers, because they would not have the power of creating new money—that is, of permitting overdrafts and granting loans of new credit. Loans would have to be obtained from people who already had credit at the Bank. But otherwise, in my opinion, the bank managers might be given at least as much responsibility and competence in managing their own business as they have at present.

In former ages, when men were poor because they had not discovered the means of producing wealth, the work which was necessary in order to be able to eat heartily and sleep warmly may have been the chief part of a man's life. But there is no longer any reason why that should be so. Signor Marconi was reported in the newspapers to have said that there was now no need for us to work at that kind of work longer than two hours daily. It may be that doctors and people in professions that need much experience will always work much longer hours for a certain portion of their lives. In a democratic nation everybody should have to work much harder in preparing themselves to take a more intelligent interest in the management of their country. But the work in a bank will be routine work and quickly learned, therefore the hours can quite well be short.

Football, golf and cricket will under Socialism no longer be professions, but they may still form the chief preoccupations of certain bank clerks. Perhaps even acting, preaching and singing may no longer be

regarded as means of earning money, but may constitute the real interest in life of people who also work a few hours in a bank. Every freedom might be allowed, provided it is consistent with the freedom of all others. But, on the other hand, although Socialists cannot approve of the training of men for mass-murder, it is not necessary to deny that there may be advantages in discipline for a few hours a day or for a period of one's life—in learning to obey and to command. And, personally, I see no reason why these things should not be learned in those hours which a man would devote to earning his right to food and shelter.

If no nation is yet prepared to share its annual income equally among its citizens, then it will probably be best to adopt more or less payment by results. It is absurd, however, for anyone to advocate payment by results and at the same time to defend the present order founded on inheritance and usury. But in the new Bank of Great Britain, if it is thought desirable, efficiency can be encouraged and rewarded to a much greater extent than it is in the banks at present.

Bank employees would have their own journal in which the chief feature would be ideas for increased efficiency and criticism of traditional methods. Good suggestions would be noted, and could be rewarded by promotion or otherwise. The public could be invited to contribute as well.

People could bank at whichever branch they like, and could perhaps have accounts in different towns, but commissions would be fixed in such a way that,

as far as possible, those who caused unnecessary work would themselves have to meet the cost of it.

Post Office Savings Bank servants are at present forbidden to disclose the particulars of any transaction (Post Office Savings Bank Information Booklet, 1932), and this regulation could apply to the Bank also. But people's "fortunes" would not be in money—that is, in claims to wealth by holding up the medium of exchange—but in real wealth, and, above all, in economic justice, social services and security. Few people should have any reason to fear disclosure of their bank transactions.

The Governor of the Bank of Great Britain would merely be the nation's head book-keeper. His business would be to see that the accounts of the nation and of each individual were kept properly.

The business of the Controller of Credit would be to regulate the total volume of credit in such a way that neither inflation nor deflation occurred. The Governor of the Bank would consult the Controller of Credit when deciding how much (if any) commission to charge on credit in the Bank, because this commission, or negative interest, if charged, would have an effect on the speed of transfer of credit and therefore on the general level of prices, in the same way as Gesell's shrinking money.

When money was made of silver and gold, obtained with great expenditure of labour, it was wasteful—anyhow in the age of poverty—to allow this money to be hoarded and to leave wealth unused. With credit-money, costing nothing to produce, it does not matter, from this standpoint, how much

credit lies idle in the banks. When forced unemployment has been done away with, the only disadvantage of having a large amount of unused credit-money in the Bank of Great Britain would be the danger of it being used spasmodically. Purchasing power applied spasmodically under the Capitalist system causes booms and slumps, and under Socialism might still influence undesirably the general price-level. However, under complete Socialism all booms and slumps would have ceased entirely, and I think that even during the transition period, if the banking system had been nationalised, speculation could easily be prevented.

Under the scheme which I have outlined, one method of regulating the average "velocity" of all credit, or the total quantity of "liquid" credit, would be by varying slightly the prescribed minima below which depositors' accounts were normally not to be withdrawn. Commission could be charged, if at all, on the amount in current account only. Under this scheme I think it is certain that the circulation of money would be sufficiently under control without having recourse to the inconveniences of Gesell's shrinking money.

It would only be necessary to prevent bank-notes from being preferred to cheques or credit. This should not be difficult, since cheques have gradually been displacing bank-notes in England in spite of the fact that cheques were subject to a fee of twopence, while bank-notes were subject to no fee at all. Bank-notes are apt to become very dirty, and they can only be issued for sums of specific denominations.

They are inconvenient for making up those odd amounts of pounds, shillings and pence which constitute the majority of payments to be made.

SUMMARY.—Payment by cheque should be in every way facilitated. Bank managers should have no power to grant overdrafts : all new credit must belong to the State and a Controller of Credit should determine its amount. A “ pound sterling ” is identical, whether in the Bank or in circulation, and is in each case essentially an abstract claim to wealth.

## CHAPTER XVI

### CONFIDENCE

MONEY at present is based on confidence. When confidence is destroyed everybody tries to buy foreign currencies (*i.e.*, to sell pounds sterling) or to exchange the money for real wealth before the money loses its value and the prices of goods soar. This is what happened in Germany between 1920 and 1923. Before England "went off the gold-standard" in 1931 we were told by Mr. MacDonald and other people that unless we saved the gold-standard it was likely to happen here. And so it might have happened. When money is passed quickly from hand to hand inflation can occur without the quantity of money having been increased. But the British people had confidence in their bank-notes and in their "money" at the banks, and sudden inflation did not occur; the money retained its value.

So that money is based on confidence—but confidence in what? If it is in the belief that the "money" at the bank can be changed into notes and the notes in their turn into gold, then confidence is quite misplaced, since at least nine people out of ten could not even obtain bank-notes for their credit at the bank. If, on the other hand, the confidence consists in the belief that the purchasing power of the money will be kept steady, then confidence is again misplaced because apparently there is still a

danger that the pound sterling might once more be linked to gold. In that case all prices in England might again start to go up or down with every rumour that some other country was going to adopt or abolish the gold-standard.

The money of the future should no longer make pretence of having metal backing or cover. It would be based on confidence, as money already is, but the confidence would be founded on reason, which at present it is not. Confidence would consist in the belief that the purchasing power of British money in Britain was to be kept as steady as possible. And confidence would be justified because the Government would have entrusted the regulation of credit to an impartial department with that sole aim in view.

Of course, value cannot really be measured ; it can at most be estimated. One man may throw an old postage stamp into the ashbin and another be prepared to pay ten shillings for it. There may be no harm in using such words as "intrinsic value" occasionally, provided that we understand that actually there is no such thing. Dates are worth infinitely more than pearls to a starving man in the desert. Value depends on time and place, custom and fashion, and thousands of other things. But although we cannot define value, we usually know more or less what we mean by it. And the important thing with regard to our money is that the value of the pound should permanently remain as steady as possible, judged from the standpoint of the average man.

If the present social system were going to be

maintained, a permanent slight inflation would be advisable instead of stability, because the production-for-profit system only functions tolerably during periods of rising prices. But under Socialism stability can be aimed at, because wages can rise and yet the price of materials fall (owing to true rationalisation) without bringing the whole machinery of production to a standstill. One of the many reasons why Capitalism never can be made to work properly is that attempts at rationalisation tend to reduce the amount distributed in wages, and thus also the buying power of the public, so that rationalisation defeats its own end.

Those who have been accustomed to think of gold as the "measuring rod" for value often cannot understand how without gold or silver the value of goods could be measured at all. But value is something abstract and cannot be "measured" by, or compared with, something concrete. We never really estimated value by a weight of gold, but by comparison with the intensity of our desire to possess this weight of gold. Air has no "value" because we do not covet it, having already got enough. Water has, or has not, value according to time and place. Money has value because customs and laws have in the past enabled us by its means to obtain all those things which we really need or covet, and because we have confidence that these conventions will persist.

Money may be, and most of our money has long been, merely represented by figures in books. The sooner we acknowledge it to be something purely abstract—sometimes represented by concrete tokens

and sometimes not—the sooner shall we rid ourselves of that confusion of thought which has led to such unreasonable actions and conditions. Our conventions really have already changed money from a concrete commodity to an abstract unit of account, and, since it is absurd to use the same word for both things, it would be advisable to discard the old meaning entirely and adopt the new one. Or one might drop the word “money” altogether and speak only of “credit,” describing bank-notes as “credit tokens.” In practice, of course, the words “pound” and “shilling” would continue to be used, and every effort would be made to keep the value of these units at a stable level.

Some people may be afraid of relying on such abstract ideas as credit, confidence and index numbers. But things which are unseen are often more permanent and reliable than those which are seen. Sir Oliver Lodge, in a lecture at Liverpool, once illustrated this by saying that if our earth stood on a pedestal we should all be anxious about its solidarity, but that, since the earth is flying through space with no visible support at all, we are quite unconcerned. And our money will be safer if it is based on knowledge and well-founded confidence than if it is, in a quite illogical way, supposed to be “linked” to a certain weight of some metal.

The captain of a ship relies upon calculations to find his position in the ocean. The sun, the chronometer and the compass are all moving things, yet he uses them to determine his position and to regulate his course. So also money, which is in constant

motion, must be regulated according to a number of other moving things, and only in that way can its course be kept steady.

When a ship slows down too much it can no longer be steered. It is not always easy to pilot a vessel, but it can be done; it is, however, beyond the power of most captains to sink their ships in the ocean and then to come up again, where and whenever they like.

If our credit banking ceased, our control over prices would be lost. To manage currency is no child's play, but neither is it beyond the capacity of man, provided that we keep our currency "under way" and do not swamp our banks with credit.

Such analogies may sound far-fetched and ridiculous, but comparing money to a "yard stick" has become very popular, and yet may be rather misleading when applied to those "pounds sterling" of managed currency mingled with bank credit, which are now our measure of value.

A man sitting facing the moon in the stern of a boat rowed by a blind oarsman can steer a fairly straight course across a lake at night by holding the prow of the boat in the centre of the moonbeam. But if he took forty winks he might awake to find himself in quite a different part of the lake, but with a moonbeam, of course, also there. So it would be with socialised credit. The price-level could be kept steady provided that the Controller of Credit did not go to sleep. The official entrusted with the issue of credit would keep his eye on the index of general prices, and on the first sign of any deviation from

stability would be prepared to order an expansion or a contraction of credit. Speculative booms, and the consequent slumps, would cease because people would know that it was useless to expect a general rise in prices.

To a certain extent Sweden and other countries have already shown how money can and should be managed in accordance with a carefully chosen index of prices.

SUMMARY.—Money is based on confidence, and the wisest thing to do would be to give this confidence a reasonable foundation. Value is an abstract idea and can only be measured by, or compared with, other intangible things.

## CHAPTER XVII

### INTERNATIONALISM

INTERNATIONAL agreement is, of course, most desirable, but, in the case of monetary reform as in that of Socialism itself, nothing could be more conducive to pessimism and futility than the idea that these things must be either done internationally or not at all. Money is not international. We have been accustomed to buy and sell foreign currency, prices being quoted daily in most newspapers, and this custom can continue. So long as other countries mismanage their currency as we have done till now, and cause inflation or deflation, it is much better that exchanges should not be "linked" by means of gold or "pegged" in any other way.

All imports must in the long run be paid for by exports, and the value of these imports and exports can be calculated in terms of any currency one likes to choose. The unit of computation of that land which succeeds in maintaining the most stable standard of value may often be chosen even by other countries for their foreign trade or long term contracts. There will be nothing to prevent anybody from buying gold at its market price and exporting or importing it, in exchange for other goods, if they wish to do so.

We should encourage the exchange of products, foreign travel, international study-conferences, and above all should expedite the introduction of Esper-

anto as the international language for the whole world. We now continually send to conferences people who have no single language in common. If, instead of an almost useless smattering of several difficult languages, children in all countries learned Esperanto properly, the rising generation would at least be able to understand each other. If Britain suggested introducing Esperanto into all schools, the other nations would probably agree, and within a few years these quite superfluous difficulties could be removed.

But international money, of the old sort at least, would be one of the most dangerous things that we could possibly have. Money has been national and has had to halt at the frontiers. Only with fetters of gold did international finance link the nations together. It would no doubt suit international financiers to re-introduce the "gold-standard," to have the whole world as their chess-board and the nations as their pawns. But nationalism and protection, with their tariff walls, have erected fairly substantial barriers between the peoples, and for the present it will be advisable for us to take advantage of these frontiers to retain the sole management of our own currency.

Although it seems to me inadvisable to introduce international money, an international central bank is probably desirable. If the Bank of International Settlements at Basle develops into such a central bank, accounts might be kept in Swiss francs. As a concession to old-fashioned people, even some gold might be kept in a vault there. This gold could be

bought and sold and "ear-marked" for the various national banks. But so far as Great Britain is concerned it would have to be made clear that the gold was an ordinary commodity and that its price in sterling would be liable to vary.

Our aim should be to get rid of indebtedness of every kind, both personal and international. But so long as international loans exist, these loans might be arranged through, or vested in, the Bank of International Settlements. Instead of transferring the ownership of gold from nation to nation by "ear-marking" it in a cellar, one might then transfer amounts of these international securities. Alternatively, one might transfer blocks of "Bank of International Settlement Bonds."

If, or when, international indebtedness is done away with, one could still make temporary adjustments in the international balance of trade and of payments by transferring—or "ear-marking"—amounts of the International Bank's own capital and of the stock of any big international corporation.

Switzerland, however, is a very small country, and its price-level and currency—which are, of course, mutually interdependent—may be rather susceptible to outside influences and also to disturbances owing to short-sighted protective tariff policies on the part of the Swiss Government. If, therefore, foreigners have confidence that the buying power of the pound sterling will be kept steady, they might prefer all accounts at Basle to be kept in terms of British money, although there would be no British money there.

There is no reason why the Bank of Great Britain

itself should not attempt to inspire the whole world with confidence and to act as the central international bank. In that case all countries would strive to keep a credit balance of pounds sterling in London. They might be charged a small commission on their deposits, and there would therefore be no fear of these credits, at the disposal of foreigners, becoming vast enough to be a source of danger for Britain.

Arrangements would have to be made for the gradual liquidation of all the debts with which the Capitalist system has saddled us. Much of this debt is due to past wars and to preparations for future wars, war being the natural result, on an international scale, of the Capitalist faith in competition and of the "incentive of gain" mentality. But the fact should never be lost sight of that on this earth, where Nature is so generous, debts are really quite unnecessary. Exports should simply be given in exchange for imports, whether directly or by means of triangular foreign trade.

In a Capitalist State, if the export industries fail to make a profit they soon cease to work at all. The workers then become unemployed and the home market is thus spoiled too, because unemployment always causes unemployment and spreads in ever-widening circles. Therefore a Capitalistic State is absolutely at the mercy of world conditions.

But although a Socialist State would always be ready to exchange products with any other country, it would try first of all to make the best of its own. Nobody who wanted work would be left unemployed, and therefore a surplus of many sorts of goods could

soon be produced. It would then be strange if this Socialist State could not find some other countries willing to sell to it at some price or other those things which it could not produce itself. These other countries would receive credit in exchange for their goods. But this credit would not leave the Socialist country; it would only give the traders from the other countries the right to buy what goods they wanted from the Socialist land.

Thus a Socialist country would really be far less dependent on other countries than a Capitalist country is. Russia had special difficulties because it was the first country to try to introduce Socialism and had been so backward before, and also because it repudiated the debts of its former rulers. But Russia is not afraid of dumped goods because it has no need to fear unemployment. The cheaper that Russia can get its imports, the better it will be pleased. Terror of getting a good bargain is something which can overcome only those whose nerves have been shattered by Capitalism. A Socialist State would try to help the workers of other countries to obtain better conditions, but not for any selfish reason or from any fear of dumping. As a matter of fact, the best way for workers in any one country to help all others is to introduce real Socialism in their own country and to demonstrate its advantages to all the world.

Socialists do not see the advantage of having dozens of little shops in the same street competing with each other in the sale of bananas and newspapers. But there can be no objection to the kind of competition which makes each city wish to have

the most beautiful streets and the best public services. Competition between nations to find the simplest and most efficient methods of keeping the accounts of their citizens can do no harm either. Sweden, Denmark, Switzerland and other small countries are in some respects ahead of the big ones, and certainly for the present it is better that all such experiments should continue. It will then be easy for other countries to adopt the best ideas.

So long as the human race believes that war can bring advantages to the winning side, even if it is obvious that it can never settle questions of justice, so long is there danger of war and so long may it appear to be an advantage to belong to as big and powerful a State as possible. But when not only the bestiality but also the absolute futility of war has been sufficiently realised, and the danger abolished, it may come to be considered an advantage to belong to a smaller State. Obviously the individual would have more chance of influencing his own destiny. There would be safety in numbers: States might then trade freely with each other like private firms inside the different countries do now.

SUMMARY.—The internal purchasing power of money should be kept stable, and if—or so long as—other countries mismanage their currencies, the foreign exchange rates must be allowed to vary. No attempt should be made to introduce international money at present; but an international central bank would be useful, and the Bank of Great Britain could endeavour to qualify for this position.

## CHAPTER XVIII

### POSTAL CHEQUE SYSTEM

IN Austria, Germany, Switzerland and other countries a skeleton system of socialised banking exists in the postal cheque system. In any one of these countries a Socialist Government coming to power and knowing its own mind on these questions could extend the existing post-office machinery till it sufficed for the whole monetary and banking requirements of the country. Most business firms and many private individuals have a current account at the post office, and by signing slips of paper they transfer credit from one account to another in any part of the country without using any tangible money at all for this purpose.

In the small country of Switzerland the total turnover in postal cheque business in 1931 was 28,420,721,678 Swiss francs (somewhere between one and two thousand million of pounds sterling, according to the rate of exchange). Each customer is required to keep a minimum credit balance of 50 frs. in his account. The credit balance actually kept by customers in 1931 worked out at an average of 2,641 frs. One can pay money in, in cash, at any post office, and a customer can sign orders for any number of amounts to be paid out at post offices in all parts of the country. For paying in and for paying out a small charge is made, but for transferring

sums from one account to another there is no charge at all. Switzerland is divided into 25 districts, each with one clearing office, in which a total number of about 730 clerks are able to deal with more than 65 million transactions in a year. Depositors are notified free of charge twice a month regarding the state of their balance. If they wish to be notified oftener, even up to twice daily by telephone, small charges are made. In the ten years from 1921 to 1930 the number of customers just about doubled and the number of transactions was more than doubled.

The post office therefore performs a very useful service, but, as elsewhere, private enterprise has so far managed to keep the really profitable part of the business for itself. The creation of new credit, and charging interest for it, is in the hands of the banks. Switzerland and other countries have made a very good practical start, and only the theoretical basis of the whole thing is wrong. The nation, represented by the post office, does a lot of work for nothing because it thinks it has to be grateful to its customers for lending it their credit, which the banks have made. Really the banks have, unobserved and little by little, stolen the nation's credit, and now not only have the cheek to demand interest on the whole swag, but actually get away with it! They have, by their united efforts, been gradually increasing the total volume of credit, or claims to wealth, as the banks in England did during the war. They lend this "money" to customers at say 5 per cent. True, when other customers bring it back again, they offer these customers perhaps 3 per cent. for it, thus

keeping up the illusion that that which they or their banking colleagues have supplied is real money. Personally, I am not concerned to deny that it is real money, since it is just as useful for buying a house with as are Swiss bank-notes or gold coins. But I do not think that profit-seeking bankers are the most suitable people to retain this privilege of manufacturing, out of the contents of their private inkpots, the claims to the products of all Swiss national industry.

In Switzerland there is also the skeleton of a Socialistic banking service in the banks of the various Cantons, which already occupy a much more important position than the few British municipal banks yet do. But these banks are very far from having a monopoly, which, in the interests of rationalisation and still more for the sake of undivided responsibility, is absolutely essential for the proper control of money. Neither have they any special connection with the postal cheque system nor any more correct conception than other people as to what money really is.

Most of the countries on the Continent of Europe and also Japan have introduced the postal cheque system, and credit can be transferred from a customer in any of the countries to a customer in any of the others for very reasonable fees. The amount to be transferred from one account to the other may be stated either in terms of the payer's currency or in that of the payee, and the post office makes the exchange calculation at the prevailing market rate of the day. Actually no money needs to leave any

country, even if usually total remittances and total receipts do not quite balance.

In a book called "How to Pay for the War," published in 1916 by the Fabian Society and edited by Mr. Sidney Webb (now Lord Passfield), there is a chapter on "The Development of the Post Office." There are a few pages dealing with the postal cheque system, showing what had been done in other countries and advocating its extension in England. In this chapter the following passage occurs :

"All these obvious improvements, which any business man would suggest, and many others of similar nature, involve a certain amount of capital outlay, which any capitalist undertaking of like magnitude and potentialities would not hesitate to incur for the sake of future increase of profit. The British Post Office appears always to have been hampered in such matters by the practice of the Treasury of insisting that—apart from the telegraph and telephone purchase, and the construction of the new London 'Tube'—all improvements (not being lands purchased or the erection of buildings) should be paid for out of the Post Office receipts of the year ; and then of offering resistance to any project which involves a diminution in the Post Office receipts of the year ! No business would advance if it could not make outlays on capital account, without regard to the immediate effect on net revenue. A wise adventurous expenditure on capital account is indispensable if the British Post Office is to become even as profitable to the Chancellor of the Exchequer, let alone as useful to the public as it might be."

It is right that the Treasury should be criticised for " offering resistance to any project which involves

a diminution in the Post Office net revenue for the year." But it is wrong to criticise the Treasury for insisting that all improvements "should be paid for out of the Post Office receipts of the year," since the Treasury officials are in that case acting as good Socialists. One of the greatest advantages of Socialistic undertakings is that they can and should meet all expenditure out of revenue, which private individuals and mushroom companies cannot do. This refusing to borrow is the best means of freeing the world from the bondage of usury, which should be one of the first aims of all Socialists. In the above book it is also recommended that the Post Office Savings Bank should increase its rate of interest in order to compete better with the banks. But it would be better to induce the public to make its savings in the form of real wealth and not in the medium of exchange, and it would be better to deprive the banks of their ability to pay any interest at all.

Since this Fabian book was written the banks have given many new demonstrations of their inability to control finance in the interests of the nation as a whole, and the time is ripe for their nationalisation. It will therefore be better not to waste time in developing the banking business of the Post Office. It is absolutely essential that the responsibility for the issuing of credit and for measures to control its speed of transfer should not be divided. One of the troubles of our monetary system now is that when it fails nobody knows who is responsible. The public blames the banks, the banks blame the politicians, and the politicians blame the foreigners. The banks cannot

make the system work and the Government is not allowed to do anything except to come to the rescue of Messrs. Montagu Norman and Co., Limited (misleadingly called the Bank of England), each time there is danger, as in 1931, of the fact being universally realised that the firm has long been bankrupt—judged anyhow by its own “gold-standard” theories.

SUMMARY.—In Great Britain the joint stock banks afford the best material out of which to construct a socialised banking apparatus, but in other countries the same aim might be attained by developing the existing postal cheque system.

## CHAPTER XIX

### ELIMINATION OF INTEREST

SILVIO GESELL explains interest as a sort of tribute which a holder of money is able to levy before he will release the money for its proper purpose of a medium of exchange. The power to do this arises from the fact that money, which can be hoarded and used as a private store of wealth, has too many functions, some of which are incompatible with each other.

Whatever theory one may favour, it seems to me clear that interest only arises as the result of borrowing, and that in proportion as borrowing ceases the aggregate of interest payable must diminish. We have got into the habit of borrowing for every conceivable purpose, from the building of a cottage to the waging of a world war.

War is made possible by the extra exertions and abstentions of some of those who are living at the time, and no financial juggling can alter this fact. Borrowing is only a device for allowing some people to get off scot-free financially, while the lives of others are being sacrificed. By oppressing subjugated nations, by believing in war and preparing for war, by neglecting to organise or support international courts of justice, by tolerating a maldistribution of wealth which ignorance attributes to overpopulation and to the need for new colonies or markets or

tariffs, a living generation allows war to "break out." This generation cannot then borrow gas masks and steel helmets from an unborn generation, but by financial juggling it can make the unborn generation pay.

The claims to wealth which law and custom have granted to the wealthy of a living generation are retained by them for themselves and their heirs, while the cost of the waste is carried forward to be deducted from the claims of the manual and intellectual workers of future generations. The borrowing of money—that is, of claims to wealth—therefore enables a living generation to make future generations pay for a war which its negligence has brought about. And interest bearing loans enable a living generation to make future generations pay for the same war over and over again.

Borrowing is really a mean way of meeting any kind of national expense. We have surely inherited enough wealth, experience and inventions from the past, and might do our bit in keeping the world going, without trying to make posterity pay for our share of the work.

When the State borrows money it does at least intend to pay it back, and therefore to cease paying interest some time or other. But when a capitalist enterprise borrows from its shareholders, it hopes to remain in debt to them and to continue paying interest, as well as profits, for ever. In fact, that is the reason for its existence; a service of some kind or other to the public is only a means to an end. Such enterprises, including banks and insurance

companies, intentionally and quite unnecessarily increase their liabilities by watering their capital, naturally at the expense of their potential services to the public.

All this borrowing, actual and fictitious, increases the volume of interest payable. It therefore increases the maldistribution of purchasing power, and produces idle rich at one end and unemployed poor at the other.

One of the objects of Socialism is gradually to get rid of all this borrowing, because the State, municipalities and well-established co-operative enterprises could and should meet all expenditure, including further capital development, out of revenue. If a municipality or public utility corporation still has to borrow, then the Treasury should lend, free of interest, and only fix the terms of repayment. Parliamentary powers to borrow might be obtained in a way somewhat similar to, but less complicated than, at present.

If the custom of borrowing credit at interest were discontinued the price of existing long-dated Government and other interest bearing securities would rise, and holders would gain an unfair advantage at the expense of the rest of the community, as would the holders of land if it had not been nationalised. It would therefore be simplest and fairest to take this unearned increment in capital value, resulting from the actions of a Socialist Government, for the State.

Gesell's scheme was intended gradually to abolish interest altogether. He proposed to nationalise the land and to compensate the former landowners by

giving them Government bonds of fixed nominal parity value. That is to say, the Government would receive all the rent of the land, and out of this would pay interest on the bonds given to the former landowners. At first the total interest on the bonds would equal the total rent received. But the interest on these bonds would vary and would tend to diminish as a result of monetary reform. (Interest on Treasury bills varies now, but in a somewhat different way.) When the rate of interest obtainable for bank credit fell, the rate payable on the bonds would fall automatically. The landowners would soon derive very little unearned income from their sums received as compensation, and would finally have to spend the capital sums themselves. The State would be receiving from the land a revenue which it could distribute as a dividend to all mothers or use for financing slum clearance schemes and for building new garden cities or systems of satellite towns and for relieving taxation.

It might be advisable for a Socialist Government to convert all Government loans into a single consolidated national debt, upon which interest might be payable at a gradually diminishing rate. Landowners would then receive compensation in the same form as the holders of Government stock. It would, however, lead too far to discuss here the whole question of the transition to Socialism.

In the meantime a National Investment Board might be set up to regulate all classes of business now done on the Stock Exchange and by company promoters. The Board would decide on the order of

national importance of the concerns which desired to borrow, and might sanction or refuse appeals accordingly. The Board might also advise the Treasury as to which applicants should be granted interest-free loans, or even gifts, of credit.

For private enterprises entailing risk to the shareholders the Board might approve, or otherwise, the terms of the prospectus issued to the public. For loans to municipalities and others of a like nature, entailing no risk, the Board might have power to add its own guarantee in order to obtain private credit from subscribers free of interest or at the lowest possible rate. The Board would thus supervise the collection and transference of surplus bank credits from people who temporarily did not wish to use them to those who did.

The National Investment Board would act as a sort of labour exchange for unemployed bank balances. It would provide a reservoir in which surplus credits could be left till called for. From this reservoir credit would flow out in the form of loans and back in the form of repayments, but the reservoir would also receive gratis supplies of new credit whenever it was possible to create such without causing inflation.

The Treasury would only grant loans for approved purposes. So long as vestiges of the Capitalist system survived, private persons would also be able to borrow, but only from other individuals or companies who had unused credits at the Bank. The negotiation of such loans would be a suitable transitional profession for the old members of the stockbroking

fraternity. For everybody who was willing to work there would be choice enough of useful occupations. England would expect every man to do his duty, and every man would, without fear of disappointment, expect England to provide him with an honourable and useful duty to do.

If Britain, by means of the socialisation of credit, could emancipate itself from usury, other countries would soon follow. All countries would then be able gradually to free themselves from debt, and international loans should seldom be necessary. In the meantime, however, approved loans to dominions or foreign States, with or without interest, would be subscribed for in the same way as at present. That is, people with credits at the Bank would be invited to subscribe to the loan for so many years. These credits would then, of course, not "leave the country," but would be transferred to the agents of the dominion or foreign country that had taken up the loan. All this would be much as it is at present—minus the confusion that now exists. The loans would actually take the form of exports of machinery, coal, shipping services and so on, which would afterwards be repaid by imports such as cotton, coffee and tobacco, either from the borrowing country direct or by means of triangular foreign trade.

The chief difference between the future and the past in connection with all loans would be that neither the Bank nor anybody else would be able to create new "money" merely for the purpose of lending. The only person who could create new money would be the Controller of Credit, whose

function would be to keep its buying power stable. Loans would no longer have the effect of increasing the aggregate of bank deposits, nor would the repayment of loans diminish this quantity. Loans would simply transfer claims to wealth from one person to another. But the whole system of borrowing for every conceivable purpose would be discarded as speedily as possible. Thus would the ancient problem of usury solve itself.

With socialised banking there would be no attempt to suppress interest by law ; it would simply become impossible for anyone to obtain interest for surplus credit in cases where ample security was offered. The Bank would pay no interest on deposits, but would probably charge a small percentage for managing the "money" and keeping the accounts. That is, the credit in the banks might be subject to a slight negative interest. This would induce people to invest their savings in real wealth. They might, for instance, build houses for letting purposes and be content with rents high enough to cover maintenance and amortisation. But instead of building the houses themselves they could also avoid the Bank's commission on their money by lending it free of interest to the National Investment Board or on mortgage to co-operative housing societies.

All the money that is paid out now as interest on national debt, municipal debt, sound debenture stock and properly secured mortgages—that is to say, pure interest into which no element of risk or of "payment by results" enters—would become available for wages and salaries. It would be easy for anyone

to earn and to save enough to build his own house on such land as may, according to the regional plan, be leasable for this purpose. But nobody would be encouraged to borrow for building or anything else. There would be good houses available, at rents low in comparison to wages, and the elaborate hire-purchase systems for houses as well as for bicycles and pianos would have been left behind with the age of financially produced poverty.

SUMMARY.—The simplest solution of the ancient problem of usury is to cease borrowing. The State, municipalities and well-established co-operative undertakings should be encouraged to prepare their budgets in such a way that revenue sufficed for all expenditure, including that in capital development. All new credit should belong to the State, and free loans, or even gifts, of credit could be granted by the Treasury, on the recommendation of the National Investment Board.

## CHAPTER XX

### THE APPROACH TO SOCIALISM

THE monetary scheme sketched in the foregoing chapters is not intended to make Socialism unnecessary, but merely to make a reasonable form of Socialism possible. So long as usury persists—and in Russia it still does—the dangers of Capitalism have not been fully overcome.

If the chief function of money is to act as a standard of value or permanent unit of account, then money must be managed in such a way as to keep its buying power steady. In other words, we must so regulate money that the price of our selected basketful, or trainload, of goods neither rises nor falls. If, then, the cost of living remains the same, how will the public benefit by socialisation, which is true rationalisation on the largest scale?

The prices of many things will rise and the prices of others fall: it is only the mean price-level of a selected and constantly slightly revised list of goods which is to be kept stable. Compared with our present standards, coal will probably become very dear and electricity very cheap. Agricultural products may rise in value and the rent of houses fall. Labour power will be dear in comparison with the cost of materials. Thus wages can be high while goods are cheap.

Milk may remain the same price, but be pure

instead of dirty. A five-roomed flat might have the same rent, but a very different outlook from its windows. The things in life which are most worth having have no price at all, and those are the things we should chiefly gain by Socialism. Nevertheless, each time any saving was made by the introduction of new machinery or a fuller use of the old, the profit would automatically go into wages and salaries.

If it should turn out that people with pensions arranged many years beforehand were only receiving what they had stipulated for and expected to get, while wages and the general standard of living were rising fast, there would be nothing to prevent those people from airing their grievances and perhaps obtaining a bonus on a sort of sliding scale. The fact that we hope prosperity will increase is no reason for abandoning the attempt to maintain, as far as such a thing is possible, a stable standard of value.

Money may be called a "medium of exchange," but it cannot move the goods about; we must do that ourselves. Money can only enable us to keep reasonable accounts with each other, so that when we make promises to pay something at some future date we can form a reasonable estimate of what we are letting ourselves in for. This is why money's most important function is really that of a "standard of value."

In future any new credit which can be created without causing inflation would belong to the State and could be directed straight into the hands of consumers. It could be used for wages, old age pensions, children's allowances, or whatever was con-

sidered best for the nation. But to create new credit at present is not the way to attain Socialism or any kind of social reform. The banks have in the past created more than enough latent money, or claims to wealth, and the essential thing is to see that these claims circulate through the hands of those who need the wealth. The claims will not even then be destroyed or cancelled, but will be in the hands of those who have supplied some wealth, and now create fresh demand.

The best way to abolish poverty is to set the unemployed to work at producing wealth, and to see that all producers of wealth receive all the claims to that wealth, except the proportion which is retained by the State for social purposes. Those people who believe so implicitly in the "incentive of gain" should be especially anxious to see that the producers of wealth receive the claims to it. Usury has the effect of diverting the claims from those who have produced to those who have not, and thus destroys the incentive to production.

We need not produce more than we want, but those who want should be allowed to produce. We must not attempt to enable the unemployed in a primitive way to produce all they require; that would mean ignoring and wasting all the technical progress which we have inherited from our forefathers. We must allow them to produce something which *we* desire in order that they can buy what *they* require. If, however, there is a spark of Christianity, patriotism or common decency in us, then what we shall desire first will be a clean bed in a healthy home for

every child in the land. Afterwards we may demand new gadgets for our motor cars, and sixpence off our income-tax.

Private enterprise for personal profit has, as was to be expected, failed miserably to make the best of the gifts of Nature and the labour power of the nation. The Government should therefore insist that all municipalities and other public bodies now take this work in hand.

The joint stock banks must be taken over by the nation itself because they contain the records of the greatest part of the nation's purchasing power. Credit is the stuff that wages are made of. If we destroy the Humpty Dumpty of existing credit we shall find ourselves unable to put it together again. We must move it gently but firmly.

It is advisable and just that there should be equality of sacrifice among rentiers or capitalists, and that therefore bank shareholders should be compensated, but the lower the compensation necessary the better for the nation as a whole. It would therefore be a good thing if the price of bank shares were to begin to fall. People who have bought in lately could start selling out again before they lost too much.

Those who have held bank shares long have had a very good run indeed for their money, and would have no cause to complain if the shares now went back to their original value. But even those who bought more recently, put their money into bank shares instead of into the Post Office Savings Bank or into British Consols because they wanted to try to get more profit, and were prepared to take the

necessary speculative risk. If one finds one has not backed a winner it is rather undignified to squeal, as the English investors in French Rentes did through the mouth of Lord Snowden after France had decided to link her currency at a new parity to gold. But in any case few, if any, holders of bank shares have all their eggs in one basket, and it will not be necessary to shed too many tears over the partial loss of a few small basketfuls. One can't make omelets without breaking eggs, and one can't get Socialism without supplanting Capitalism. Compassionate allowances can always be made, and the "means test" can always be applied!

It would be presumptuous on my part to hope that this little book would have the effect of frightening a single shareholder, and thus of starting to bring the shares down again. If Socialism is the only feasible alternative to Capitalism there ought to be a Socialist Shadow Cabinet in existence now, and this Cabinet ought to work out and declare exactly what it intends to do. By the time the Cabinet is in power the shares might then have reached a figure at which it would be reasonable to take them over, and things could begin to improve at once. Otherwise the trouble may start as soon as Labour comes to office.

The value of bank shares, like the value of money, depends on confidence. In the case of bank shares, confidence consists in the belief that the people will continue to allow the banks to create credit, and to make the State borrow it at interest, either directly or through the public. A Socialist Shadow Cabinet should immediately start to undermine this confi-

dence. On the other hand, confidence in money consists in the belief that its buying power will remain the same. The Shadow Cabinet should make it known at once that it will do everything in its power to maintain the "pound sterling" at the level at which it finds it on coming to office. It will therefore make confidence in the pound sterling, under a Socialist Government, well founded.

The workers of Britain have been unwise enough to support the Capitalistic press, and thus to give enormous influence to their opponents' propaganda. Socialists cannot preserve confidence in credit if the press succeeds in destroying confidence in a Socialist Government and thus in the credit of the nation as well. In that case our measure of value will be destroyed and more or less chaos will ensue. There might then be no other alternative for the Socialist Government than a kind of dictatorship, or a sort of Soviet System. But justice and order can be attained far quicker if confidence in British credit is not destroyed, if our measure of value is retained, and prices, salaries, pensions and budgets still have some meaning.

If the press will refrain from scares and assist a Socialist Government to maintain confidence in British credit, then the Government could guarantee the avoidance of inflation or deflation. But it must be made clear that, as Professor Soddy once wrote :

"Money must serve the needs of life, not life the palpable absurdities of paper finance."

The Socialist Government would, of course, be

determined to provide good schools for children, work for every man, good houses and healthy food for everybody, whatever might happen to money. Money would, as during the war, again become a secondary consideration. But everything will be very much easier if our unit of account has not been destroyed. There is one sentence in the Macmillan Report with which probably everybody can agree :

“ The fact that a motor car is not well adapted for getting itself out of a ditch once it has fallen in does not prove that it is beyond the powers of good driving to keep it in the middle of the road ” (section 212).

Let us carefully study the map, agree on a road, and then drive as fast as we safely can, but let us keep out of the ditch.

A really Socialist Government could afford to be generous because, when financial hindrances have been removed, wealth in almost unlimited quantity could be produced. Therefore, even if a Socialist Government comes immediately into power before the market value of bank shares has fallen, it might, if certain of a fair opportunity to carry out its programme, compensate the shareholders in a way which even Conservatives would have to admit was fair or actually generous. If, however, shareholders are given an interest bearing Government stock in exchange for their shares, then it must only be a very short-dated security. Never for a moment should Socialists forget that one of the most important aims of Socialism must be to get rid of interest altogether as quickly as possible. So long as interest persists,

even a capital levy would be of little use. The day after the levy a man may, by winning a sweepstake or other means, come into a fortune, and even at 4 per cent. compound interest such fortune will double itself in eighteen years and quadruple itself in thirty-six. Therefore, as long as we have interest, it seems to me that an annual tax, for which we already have the machinery, is much better than starting quarrels about a capital levy. But it would be a far better thing to prevent this money from ever flowing to those who have not earned it and who do not need it most. Then one would avoid altogether the necessity of getting it back again, which is for everyone concerned a troublesome and vexatious job.

SUMMARY.—Socialists should make it clear that, although confidence in bank shares is not well founded, confidence in British credit will, under a Socialist Government, at last be thoroughly justified.

To create fresh credit at the present time is not the way to achieve any social reform. More than enough bank credit, which we must continue to recognise, exists, but part of it must be made to flow through the hands of the needy unemployed.

A Socialist Government backed by a Socialist nation could afford to be generous, but not to condemn future generations to carry burdens of usury.

## CHAPTER XXI

### FINAL CONCLUSIONS

1. THE Bank of England and joint stock banks should be nationalised and amalgamated to form the Bank of Great Britain.

2. The British monetary unit must remain the "pound sterling," although it no longer consists of a pound in weight of sterling silver or of any special weight in gold.

3. Existing credits in the banks must be acknowledged to be equivalent to money, but henceforth no private person should be able to create new credit.

4. Metal coins should no longer be legal tender except for sums up to a shilling, but they might still be bought and used by people who desired to have them.

5. Bank-notes should be valid for limited periods and subject to small fees for their use or renewal, somewhat as suggested by Silvio Gesell.

6. Credit at the Bank of Great Britain should be legal tender, and the total volume of British "money" should be the sum of credits in the Bank and its branches *plus* circulating bank-notes.

7. Everything should be done to simplify the transfer of credit from one account to another in the Bank by means of various kinds of cheques.

8. A Controller of Credit should be appointed whose sole duty it would be to regulate the volume of credit and to use his influence over its speed of circulation in such a way as to avoid both inflation and deflation.

9. All new credit which could be created without causing inflation would go to the Treasury.

10. "A National Investment Board should be appointed to exercise control over all new public issues on the capital market" (Labour Party Policy Report, July, 1932).

11. The Bank itself should grant no loans at all, but the Treasury could grant loans, free of interest, out of its credit at the Bank, for purposes advocated by the National Investment Board.

12. Individuals could obtain loans, directly or through the mediation of agents, but only from other persons who had surplus credits at the Bank. No form of borrowing would be encouraged.

13. The Bank should neither give nor demand pure interest, but should cover its expenses by means of the sale of cheque-books, by fees for all special services, and perhaps by means of a small percentage commission on all deposits.

## RECOMMENDED BOOKS

### FROM WHICH SOME OF THE QUOTATIONS IN THE FOREGOING CHAPTERS HAVE BEEN TAKEN

- Silvio Gesell: All quotations from Gesell are out of "The Natural Economic Order," by Silvio Gesell, translated from the sixth German edition by Philip Pye, M.A. The publishers are "Stirn Verlag," Hochheim, Kreis Erfurt, Germany, but the book can be obtained from Hendersons, 66, Charing Cross Road, London. Price 12s.
- Irving Fisher, Professor of Economics at Yale University: "The Money Illusion." George Allen and Unwin, Ltd. Price 7s. 6d.
- Hartley Withers: "Money in the Melting Pot." 1932. Sidgwick and Jackson, Ltd. Price 3s. 6d.
- Professor D. H. Robertson: "Money." Cambridge Economic Handbooks. General Editor: J. M. Keynes, C.B., M.A. Nisbet and Co. and Cambridge University Press. Price 5s.
- Frederick Soddy, M.A., F.R.S., Professor of Chemistry, University of Oxford: "Money versus Man." Elkin Mathews and Marrot. Price 3s. 6d.
- Macmillan Report: "Committee on Finance and Industry Report." Cmd. 3897. His Majesty's Stationery Office. Price 5s.
- Dr. Robert Eisler: "This Money Maze." The Search Publishing Co., Ltd. Price 1s.
- W. Henderson Pringle, M.A., LL.B.: "An Introduction to Economics." Benn's Sixpenny Library, No. 120. Ernest Benn, Ltd. Price 6d.
- Bernard Shaw: "The Intelligent Woman's Guide to Socialism and Capitalism." Constable and Co., Ltd. Price 5s.
- Edward Bellamy: "Looking Backward." W. Foulsham and Co., Ltd. Price 2s.

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