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A FRAUDULENT STANDARD

A FRAUDULENT STANDARD

AN EXPOSURE OF THE FRAUDULENT
CHARACTER OF OUR MONETARY STANDARD
WITH SUGGESTIONS FOR THE ESTABLISH-
MENT OF AN INVARIABLE UNIT OF VALUE

BY
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"TRADE FALLACIES," ETC.

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PREFACE

THE ideas expressed and the conclusions arrived at in this work, are the result of many years of careful thought and study, coupled with the practical and varied experience of a very busy life in connection with industrial, commercial, and financial affairs, both here and abroad.

It is now nearly a quarter of a century, since I first called attention in my book entitled *A Scientific Solution of the Money Question* (published in 1894 by the Arena Co., Boston, U.S.A.) to the fraudulent character of the so-called "Gold Standard of Value," and to the impossibility of any commodity functioning in its commodity capacity, as either a just measure or an honest expression of Exchange-values. I endeavoured at the same time, to point out a method, by which an invariable monetary unit might be established and maintained: viz., by definitely fixing the purchasing power of gold or of any other commodity, in relation to wealth generally with reference to time and place, just as the unit of length is fixed by temperature and pressure, and the unit of weight by altitude and atmospheric conditions. I showed how most of our financial authorities had confused themselves and their readers, by con-

founding money with the material with which it has hitherto been chiefly associated.

Further study and experience have served only to strengthen the conviction therein expressed, that the root of the world's economic troubles is to be traced to the false and fraudulent money and credit systems existing.

When the above work first made its appearance, the United States was in the throes of the great bi-metallic controversy, which ended in the overthrow of free silver coinage and the establishment of the gold basis—much to the openly-expressed joy and satisfaction of every usurer and money-lender in America. This measure constituted the remaining link in the chain which the financiers had been forging for thirty years previously, for controlling the industries and trade of the world under the reign of the gold standard. But although bi-metallism offered a far more honest and saner method of financing trade and enterprise than its rival, gold monometallism, both systems are relics of barbarism, which education and civilization are bound sooner or later to consign to oblivion.

The appearance of *A Solution of the Money Question*, led to several long and interesting discussions in various American journals, the chief criticism being (as expressed by the *Philadelphia Evening Bulletin*) that although "Mr. Kitson has got hold of the truth and his theory cannot be permanently subverted," its application necessitates "ideal conditions."

In the present work, I have endeavoured to show

that no higher "ideal" conditions than those now prevailing, or those which will most likely prevail after the war, are necessary to make the system practicable.

Incidentally, as illustrating the intolerance of those who benefit by the present system, I may mention that one of the unfortunate effects of that publication, was to procure the dismissal of two well-known professors of Economics from their respective Colleges, at the instigation of their chief financial supporters, for having introduced and endorsed "Kitson's heresies" in their College lectures!

The majority of books on Finance are closed to the average reader, many being only intelligible to those having a knowledge of the higher mathematics. I have striven in the present work to write so that any one at all conversant with the mere elements of trade and banking, will be able to grasp the main principles of Finance. It is high time that knowledge of this subject—hitherto confined to experts and professors—became popularized, owing to its vast importance to every member of the community. The ramifications of finance are so extensive, it would be impossible to deal with it exhaustively in one, two, or even a dozen ordinary volumes. I have therefore merely attempted to deal in a general manner with the main problem, in the hope that it may arouse the attention of the general public to a subject which, although of such vital interest, is still shrouded in mystery.

Readers of my former works may notice the

reappearance of certain passages already published. I have not hesitated to reproduce one or two illustrations and quotations contained in *Trade Fallacies*, *The Money Problem*, *An Open Letter to the Chancellor*, and other of my works, for the reason that they tend to strengthen the line of argument and serve to make the book complete to those who may not have read my former writings. I consider that Sir Edward Holden's address delivered in December, 1907, before the Liverpool Association of Bankers, on the *Depreciation of Securities in Relation to Gold*, from which I have often quoted, is one of the most luminous exposures and most damaging criticisms of the gold basis ever written, notwithstanding that the address was delivered for a very different purpose. Coming from so eminent a source—the greatest banker in the world—I know of no better evidence than Sir Edward's triangles, in the support of my contention that **the gold standard is a legalized fraud, a delusion and a snare!**

In striving to make this somewhat difficult subject quite clear, it may seem to some that I have explained various points with unnecessary prolixity, and have indulged in the literary weakness of repetition. My defence to such criticism is that in my judgment the fault of repetition is far less heinous than the sin of ambiguity, and in trying to avoid the greater I may have fallen into the lesser evil. The reiteration of a truth will harm no one. The evil to be shunned in a subject of this nature and importance is obscurity.

Just here, it may be convenient to explain what

some readers of my former books may regard as my change of attitude towards the banking question. Prior to the war I advocated both free and mutual banking. I believed that if our banks were permitted to issue their own notes freely against the wealth or securities offered them, by the industrial and commercial classes for productive purposes, subject of course to certain rules—as to the proportion of credit issued to the amount of wealth held as security, and to reasonable State supervision—the results would work out satisfactorily, and through healthy competition, the public interests would on the whole, be better served than by a State monopoly. But I also pointed out, that our present system is neither freely competitive nor even State-controlled. To use an Americanism, it is neither “fish, flesh, fowl, nor good red herring”! Competition exists, it is true, but this does not result in any particular cheapening of money or credit. It is merely a friendly rivalry to see who can secure the greatest number of depositors. Peel’s stupid Bank Charter Act, has made progress and enterprise in the banking world a very dangerous undertaking, and the only chance for growth with comparative safety, has been through the process of amalgamation. Hence we are rapidly approaching the most dangerous financial condition possible to any nation, viz., a privately owned and controlled banking monopoly. Unless Parliament interferes, the whole of our British banks will be under the control of a single board of directors within the next twenty years—if not sooner. And this

board will have no responsibilities to any but its depositors and shareholders! **I cannot imagine a more dangerous menace to the public interests!** All our trade and commerce, our industries, our economic and social well-being, rest at present with the proper, honest, and efficient administration of the banks, which provide and control the nation's currency.

To leave this entirely in the hands of men whose duty is first—if not last—to heap up profits for a few shareholders, is, from the national standpoint, almost suicidal. The question as to the future of our banking business is, whether it is to continue to be a private monopoly or become a nationalized institution? There appears to be no other alternative.

Since the midsummer of 1914, entirely new conditions have arisen. The disclosures regarding Germany's economic methods of "peaceful penetration" have opened our eyes to the fact that industrial and financial competition is no longer confined to private firms and individuals, but that the entire German nation, under the direction of the most highly efficient, most brutal and unscrupulous Government the world has ever known, is organized as a unit to destroy every branch of foreign trade and industry that either competes with those of Germany, or refuses to accept such terms as she chooses to offer. Against this solid front, the free industrial nations will have to oppose an organization of equal, if not greater strength. And in no branch of business is the truth of the adage that "Organization is strength,"

more apparent than in the banking world. Our future place in the industrial and commercial struggle that is approaching, will largely depend upon the proper organization of our financial resources.

Some readers who may agree with the following indictment against the gold standard, may possibly object to my criticisms of our Free Import Policy, and especially to Chapter XIII. I have been a Freetrader all my life, and I fought and worked for the cause when it was regarded as almost treason to do so, during a prolonged residence of some twenty years in the U.S.A. But, like thousands of others, I believed that the welfare of my own country was bound up in the welfare of all others. With Edmund Burke, I rejoiced in the prosperity of foreign States, believing that such prosperity would materially assist our own. Belief in the essential "brotherhood of all mankind," under the blissful reign of peace and prosperity seemed to have become the generally accepted creed of all civilized races. Under such conditions, Free Trade seemed the only sane and natural trade policy. The outbreak of the great war, which revealed the diabolical plottings of the Germans and their Allies to conquer the world, dispelled this beautiful dream and brought us all to a stern sense of realities. We can no longer afford to indulge in such visions as "brotherly" or "friendly" alliances and intercourse with the bloodthirsty and inhuman race of trained savages the Huns are now known to be. We cannot afford to endanger our national and political

safety for the sake of mere commercial gains. Moreover, Free Trade, like cricket, has its rules and regulations, and as our enemy has shown that he respects neither God nor man, neither treaties nor moral obligations of any nature whatsoever, any attempt to resume our former trade relations either with Germany or her Allies, or with those neutrals who have been supporting them, would be sheer madness. What would the world have said if our ancestors had offered Free Trade privileges to the Barbary pirates, who at their worst were white angels in comparison with the Huns? It will also be found that Freetraders-at-any-price are usually Pacifists-at-any-price as well as the chief supporters of the gold standard. To such people the war has taught nothing. They are simply wedded to their idols. So it is probably best to follow the Scriptural advice, and "let them alone"! I would earnestly advise those who have not time to wade through the whole fifteen chapters of this book to read carefully the first two chapters for their own as well as their country's interests. They will then learn something of the nature of the two great financial conspiracies, the first, in which, by wrecking our financial system (and for which purpose branches of the three greatest German Banks were originally established in London) the Germans hoped to keep England neutral, and the second now being planned by Cosmopolitan Financiers, which is for the purpose of doubling the values of the great War Loans at the expense of the British taxpayers as soon as peace is declared!

I desire to express my thanks and indebtedness to Mr. Harold A. Grimshaw, B.A., (B.Sc.Econ.,) of the London School of Economics, for reading the proof of this work and for having made some valuable suggestions and criticisms.

To Mr. Grimshaw I am entirely indebted for the diagrams in Chapter VI, showing the variations in the purchasing power of gold, and their effect on the conditions of bankruptcy, which he both suggested and prepared.

My object in writing the story of the "No-Money Islands" (Chapter XV of this book) was merely to illustrate the practical utility of an invariable unit of value. The monetary and banking systems mentioned in that story, were first suggested by me in 1894, in my first work on finance, already mentioned. Although this unit and the systems described were, so far as I was then aware, entirely novel and original, the well-known American Economist, Mr. M. C. Walsh, pointed out in a letter to me a few years ago, that these ideas bore a likeness to those expressed by Lowe in 1822, and G. Poulett Scrope a few years later. I have not been able to obtain copies of either Lowe's or Scrope's pamphlet, and from the rather short and vague descriptions given by the few modern writers who mention them, I am unable to find any near resemblance.

My suggestions for establishing and maintaining an invariable unit, as herein described, as well as those contained in my former works, I believe to be quite original. Certainly, I have never seen any reference to any similar ideas or

methods in any of the hundreds of books I have read on this branch of Economics. Nevertheless, it would be a great satisfaction to me to learn that other and far abler minds than mine, had discovered the same solutions to problems that have puzzled the brains of thousands of the world's greatest thinkers for centuries.

ARTHUR KITSON.

STAMFORD, LINCS,
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CHAPTER I

INTRODUCTION AND A WARNING

THE basis upon which all our industries, trade, and commerce are conducted, is the legally established "standard of value," represented by the golden sovereign or "pound," which is supposed to "measure" the values of all labour products.

As will hereinafter be shown, this "standard" is founded upon a most egregious fallacy, and although it occupies a position in the domain of trade of similar importance to that of the standards of length, weight and capacity in the manufacturing and industrial world, unlike them, it is extremely variable, and purposely made so by the great financiers of this and foreign countries, who are able to juggle with prices to an almost unlimited extent, and by so doing reap enormous fortunes from the producing classes. It has placed the fortunes of all engaged in trade and industry, wholly at the mercy of the world's money dealers. These men exercise, by means of the legal privileges accorded to gold and the banking profession, far greater influence over economic conditions than any potentate, ruler or government. They have the power to stimulate industrial prosperity, and to destroy it by increasing or

diminishing the available gold supplies as well as by the mere manipulation of credit. They are the world's real autocrats.

Just now a few of their number are contemplating the most gigantic "deal" that has probably ever been conceived, and one which if perpetrated by any other class of the community, even on a very much smaller scale, would be denounced as barefaced robbery.

And it is in regard to this projected crime particularly that I desire immediately to sound a note of warning to the British public as well as to those of all our Allies engaged in the present war. This "deal" is nothing less than doubling the national and, incidentally, all other debts by doubling the present value of our monetary units!

The object of this, is to double the value of their War Loan investments, regardless of the terribly disastrous industrial and social results which must ensue. This robbery will be accomplished, if it is not checked in time by public sentiment, in a perfectly legal manner by a complacent Chancellor under the guise of a measure for the public welfare, for the sole purpose of removing "inflation" and reducing prices which have risen mainly through the creation of the very currency and credit constituting the War Loans. The measure will aim at restoring, what the money dealers term our "good, sound, honest gold currency" by destroying the Treasury notes and reducing bank credit to its pre-war proportions. The effect will naturally be to double the purchasing power of

the pound at the expense of every wage earner, producer, merchant, manufacturer, tradesman, and taxpayer in the country.

The great banking and financial companies that have invested large sums in the War Loans, will thus, by the mere stroke of the pen, enormously add to their fortunes without any further expense or effort on their part.

If we imagine the whole of the War Debt placed in one scale of a balance, and the total volume of the money and credit which have been loaned to the Government in the other scale, what these men are plotting to do is, to tamper so with the scales as to double the weight of the money side of the balance and thus double the amount of the debt in the other scale. Nominally, of course, the amount of the War Debt will undergo no change. The figures will remain the same. The amount of the National Debt will probably be not less than £6,000,000,000, even if the war is terminated within a year, which is still doubtful. **By altering the value of the pound, which is very easily accomplished, the trick is done and the debt, although nominally £6,000,000,000, becomes in reality £12,000,000,000 in terms of the present purchasing power of money, corresponding to that of the money actually loaned!** Similarly, although the nominal rate of interest is 5 per cent., by this method of tampering with the value of the pound, these investors will actually receive 10 per cent. on their original investment. The interest charges on the actual loans together with the expenses of Government,

including the soldiers', sailors' and old-age pensions, etc., which will have to be paid out of taxation after the war, will, even if the value of the pound remains unaltered, inflict a burden upon the British taxpayers which will be almost intolerable, and will heavily handicap us in the coming economic struggle for trade supremacy, particularly as it is probable that Germany will either repudiate her war debts or fix the rate of interest at very nearly zero. **If, however, the value of money is raised as suggested, if the plotters succeed in persuading the Government to accede to their demands, it will mean either the complete enslavement of the people of this country to a soulless money despotism for ages, or compulsory repudiation of the debt.**

Now these War Loans have been subscribed in very cheap pounds. Practically all that the Government received, in the form of subscriptions, were bank cheques constituting credit entries created in the books of the banks. These credit pounds have no material existence. They are merely legal claims against firms and individuals. Moreover these are the very pounds to which the "inflation" resulting in the rise in prices, is largely due.

Now the actual value of this money when subscribed, may be readily traced by studying the daily market quotations for all kinds of commodities. The value of the pound **in wheat** at the time of the last loan, was from 2 to 3 bushels; **in potatoes**, from 50 lb. to 60 lb.; **in butter**, from 8 lb. to 10 lb.; **in eggs**, from 80 to 100; **in steel**, from

20 lb. to 30 lb. ; in **rolled brass**, from 12 lb. to 20 lb., etc. To the average mechanic, a pound to-day represents from 20 to 25 hours of labour, to the tool maker, from 10 to 15 hours, and so on. Now what the War Loan subscribers have really furnished, and what the nation has received, is the means of securing commodities and services under the above conditions and at the above prices. **Having loaned these "cheap" pounds to the nation in its crisis, certain of our financiers are expecting to be repaid their principal and interest, not in the pounds they actually subscribed, but in pre-war pounds—in dear pounds!** That is to say, having supplied the Government with one kind of pound with which to buy guns, munitions, commodities and services generally for carrying on the war, they expect their interest and loans to be repaid in another kind of pound which will buy twice the goods and services their money has furnished. **This will mean that every taxpayer will have to give at least twice the amount of his goods and labour to meet his taxes, than that which he has had to furnish under present conditions.**

A part of this plot has already been rehearsed in the published statements appearing in the Press by various financial writers, to the effect that the gold standard has not been really discarded since the war started. It is said that we are still doing business on the gold basis. If this statement is true, why do the bankers contemplate altering it after the war? And why all this talk of "inflation"? The fact is, that the present basis consists

of probably 1 per cent. gold and 99 per cent. credit. To call this basis gold is sheer deception! The object of these writers is plain enough. It is to reconcile the public to the contemplated robbery when the time arrives for making the grand coup.

Let us, however, clearly understand what this conspiracy means to our social and industrial conditions. You cannot increase the purchasing power of money without decreasing the value of all goods and services proportionately. If the moneylenders are to be granted their demands for the "dear" pound, the merchant, the manufacturer, the farmer, the wage-earner, will all be compelled to sacrifice the value of their goods and services to a similar extent.

If the gold currency is restored and prices put back to where they were four or five years ago, wages will have to go down with them.

You cannot reduce prices generally, as certain politicians are urging, and retain the same banking facilities and the same currency circulation. **Now mark what will inevitably follow such an attempt.** To reduce prices you must reduce the volume of the currency, including bank credit. This means reducing banking accommodation, over-drafts, loans, etc., and consequently curtailing trade and depressing industry. It means reducing employment and both wages and salaries. This will add to the depression by reducing still further the demand for goods, since the wage-earners are the great consuming classes, and if you reduce their wages you reduce their power of purchasing commodities—in short, **reducing prices, or**

what is the same thing, raising the value of money, means trade depression, lock-outs, strikes, emigration, starvation, pauperism, riots, with the possibility of civil war!

The crime proposed is not a novel one. It has been perpetrated in all countries usually during their most serious crises. Moreover the men who do these things are usually the pillars of society, whose names figure in the highest circles, who support many of our national charities, and after plunging hundreds of thousands into social want and misery, ease their consciences by donating a mere fraction of their ill-gotten gains to some church, hospital, or orphan asylum!

Now whilst the great financiers, the members of that mysterious circle—the real “hidden hand”—who exercise an all-powerful sway over the world’s economic conditions, are fully alive to the consequences of their financial jugglery, it is only fair to say, that the majority of their tools, the politicians and Cabinet Ministers, are wholly ignorant of these effects. Finance, under present conditions, is an extremely abstruse and difficult study, and it is hardly possible for a man whose knowledge is confined to reading the money market report in his daily paper, to obtain, any real grasp of monetary science. Most of these men would be horrified if a deputation of taxpayers were to interview the Chancellor for the purpose of urging a measure for inflating the currency, in order to lighten the burden of taxation. Whilst they are quick to see the injustice of paying the national debts in a depreciated currency, they are singularly blind to the

injustice of increasing the public burdens by paying debts in an appreciated currency.

And yet this has been the practice for the past two centuries. The bulk of the national debts created represent double and treble the actual values originally subscribed. British taxpayers are still paying interest charges on the munitions supplied to defeat Napoleon's armies a century and more ago, because of the similar trick played upon them by the financiers to that now contemplated. **And yet the nation has paid the actual cost of those wars in interest charges alone at least ten times over without seriously reducing the original debt!**

Whilst science and discovery have added little to the prolongation of human life, finance has long since solved the problem of immortality! Need one ask, "O debt! where is thy sting"? The sting of debt is usury—the author of its eternal life!

The most notable parallel to the present conspiracy, was that which followed the American Civil War. The international moneylenders bought the war-bonds issued by the United States Government at from forty to sixty cents on the dollar. They bought them during the period of inflation, and succeeded later in bribing Congressmen and Senators to vote for a "sound and honest" currency, which meant raising the value of the dollar by slaughtering the prices of all commodities. These bondholders trebled and quadrupled their wealth as if by magic. But as a Senator once told me, the American people went

through an industrial hell to satisfy the insatiable appetites of these financial cormorants!

Lest it be thought that I am using terms abusively, I would refer the reader to the terms adopted by the financial classes to describe those who have at various times in the past, seriously suggested the redemption of national obligations in **legal tender** without specifying the **kind** of legal tender.

If the repayment of the National Debt in a currency less valuable than the money originally loaned, is to be classified as robbery, is not the compulsory repayment in a more valuable currency a greater robbery, since the economic effects are far more disastrous—the evils far more widespread? But in this present instance I am pleading merely for justice. Let repayment be made in tokens of exactly the same value as those subscribed. And if the bankers are determined to bring back all the restrictions and consequent horrors which must follow the re-adoption of a gold currency, let the Government institute an honest standard and scale all debts incurred during the era of inflation, down to their proper dimensions in relation to the more valuable currency.

This would be strictly honourable in every sense of the word. The War Loans would then be represented according to the index numbers, at probably one-half of their original dimensions.

If these terms are insisted upon, the nation will soon see a considerable moderation of the present outcry against inflation and high prices.

At present the country is indignant over the disclosures regarding profiteering. But the fortunes made by all the shipowners and commodity merchants since the war started, are a mere pittance compared to the profits which the financial magnates will win by raising the value of the monetary pound.

It may be asked, "Will not the Government and Parliament particularly, watch the people's interests and protect them from this threatened financial raid?"

The answer is that neither Parliament nor the Government will move a finger to save the public, unless the public protest is made so effective as to engender fear in the minds of the majority of the members. This is not so much the result of corruption or any lack of honesty on the part of the average politician, as to his incredible inertia.

When the opening of the great conflict suddenly rent the veil which had served to hide the truth from the British public, it brought us all to the realization of our two greatest dangers, the one foreign and the other domestic.

The former was our mortal enemy, with the organized and well-drilled hatred, ambition and unscrupulousness of his seventy million subjects under the leadership of a clever, cunning, blood-thirsty fiend utterly devoid of any moral or humane sentiment!

The other was the lofty and appalling conceit, ignorance, inefficiency and apathy of our so-called governing classes, comprising all shades of party politics. And of these two, the latter will most

probably prove to have been the more dangerous and costly in the long run.

Our national unpreparedness for war, our diplomatic failures through the supineness, the sublime innocence, simplicity and trustfulness of our Foreign Office officials, and the public indifference to the warnings given by events which were hastening the advent of the great crisis, are being paid for not only by the people throughout our Empire, but by all our Allies in the sacrifice of millions of precious lives and untold millions of wealth. The education of a nation's rulers is often a costly undertaking. But where the education has to be provided by actual object lessons, the costs are apt to be ruinous. Where advice, history and organized knowledge are disregarded, where the lessons of the past go unheeded, there remain only the methods of experience.

To teach such people the explosive effects of dynamite, half a dozen factories and warships must be blown up, together with hundreds of human lives ! To force them to realize the danger of trusting and harbouring a treacherous foe, the safety of a whole nation must be jeopardized. To make them understand the folly of opposing the diabolical cunning, ferocious cruelty and barbarism of a powerful enemy, with the strict observance of international regulations, peace-conference rules and church principles, whole nations must be sacrificed ! To get them to admit the necessity for reprisals and air defences, thousands of their own people must be starved, tor-

tured, torn, mangled, and their homes blown to atoms. And similarly to knock financial wisdom into their heavy intellects, to show them the evil results of a fraudulent money standard, the public must be cheated, robbed and starved into revolt !

In short, amongst the world's ruling classes generally speaking, the only method of instruction which is at all effective, is **the calamity method**. It required the martyrdom of thousands who suffered death by fire and suffocation, to get the governing authorities to compel theatre managers to adopt the simple fire-proof curtain. The education of such people involves a system of political vivisection. Our present great financial peril is due entirely to similar official ignorance and stupidity.

One has but to read the speeches of our Chancellors for the past few years to realize that they are all, irrespective of parties, merely the mouth-pieces of the great bankers.

The financial arrangements of this country are entirely controlled by a class whose first object is to make dividends for themselves and their shareholders.

Every politician accepting the responsibilities of the Chancellorship of the Exchequer, realizes that he dare not run counter to the rapacious demands of the financial octopus whose lair is Threadneedle and Lombard Streets. Even so pronounced a democrat as Mr. Lloyd George, had to bow the knee to Baal, so that his most enthusiastic admirer will never be able to detect the slightest trace of democracy's influence in his

dealings with the money power! And yet no one ever had greater opportunities for destroying this soulless monopoly and saving the nation untold millions of money, than our present Prime Minister.

Had he exercised the same patriotic spirit and energy, the same disregard of private monopolies and privileges which he displayed as the first Minister of Munitions, he might have nationalized the whole of the private joint stock banks of Great Britain, and obtained precisely the same credit with which the war has been and is now being financed, with but a mere fraction of the costs already incurred.

If and when the inside history of the financial methods which have been employed to carry on the war is ever published, it will probably cause widespread amazement. Possibly also the public may then begin to realize the truth of what several writers have been endeavouring to point out for many years past, viz., the terrible dangers to which our trade and industries are always exposed by the maintenance of Peel's suicidal Bank Charter Act of 1844, and especially when they learn how near to the brink of financial and industrial ruin the country was brought in 1914, through the facilities afforded our enemy for our undoing. It only required a cunning and unscrupulous nation like Germany to seize the end of the financial rope which our Bank Act has so long, so freely, and so temptingly dangled in front of her and other trade rivals, in order to tighten the noose round the throat of the British nation and, metaphorically speaking,

hang us all! **And Germany came within an ace of doing it!** We escaped by ignoring Peel's Act, just as we escaped on three former occasions and by similar means; just as we have escaped the destruction of our Empire by ignoring a similar piece of Governmental folly—the Declaration of London—although only after its authors had been taught their lesson by the terrible disasters and incredible losses which it inflicted upon the Allied cause.

The financial education of the average Briton seldom goes beyond the occasional perusal of the daily press columns of the money market, where finance is regarded as a great game of gamble. The result is that any book or pamphlet on this tremendously important branch of economics, is apt to be received with about as much warmth of interest as a treatise on Strains or Quaternions. And yet its importance to every individual can be scarcely exaggerated. The subject confronts one at every stage of life, in every occupation, in every class of society.

Finance is the arithmetic of trade and commerce, and an understanding of the subject should be generally regarded quite as essential to the average business man, as the knowledge of the science of numbers is to the accountant. It is the key to the knowledge of practically all other branches of economics. The interminable dispute between the various trade schools, which are to-day apparently as far from a settlement as ever, is largely due to the failure of both parties to consider the financial aspect of international trade.

Orthodox finance is undoubtedly both difficult and abstruse, due mainly to the unscientific and often contradictory theories which have been incorporated into it. We have been taught to believe in the essential harmony of science, and I agree with Proudhon when he says—

“ It is surely a sad symptom for a science when, in developing itself according to its own principles, it reaches its object just in time to be contradicted by another, as for example when the postulates of political economy are found to be opposed to those of morality, for I suppose morality is a science as well as political economy? What, then, is human knowledge if all its affirmations destroy each other, and on what shall we rely? ” (*System of Economical Contradictions.*)

Those who are uninitiated into the mysteries of finance, doubtless imagine that when they incur a debt, all that is necessary to fix the amount, is to obtain a written statement expressed in pounds, shillings and pence. But the financier knows better. The pound to-day can be made to equal two pounds next month or next year without the debtor knowing what has really happened! A miner in Australia or South Africa, may be the innocent cause of reducing the volume of debts throughout the world in a very sensible degree, whilst a riot or civil war in some South American republic, may have the opposite effect. In short, finance as it exists, pertains far more to the realm of mystery like astrology and to what has been called the “ Science of the Infinitely Absurd,” than to any of the exact sciences.

Imagine what confusion would ensue, if some day the secret of gravitation and some available

means for seriously affecting it were discovered, so that any unscrupulous individual possessing the secret, could at will cause all our standard weights to sensibly increase or decrease! Would not the passion of greed compel many to use such knowledge and power to enrich themselves at the expense of others? Well, there are several great financiers and groups of financiers, who hold similar power in the world of finance, so that they can raise or lower the purchasing power of money, and they use it as a means of self-enrichment at the expense of others. Now supposing this condition existing in regard to gravitation such as that suggested, what sort of a legal system of measuring the weights of bodies would that be which paid no heed to these frequent interferences with gravitation? And what would be the public attitude if the Government forced us to continue to employ our present standard weights, regardless of these continual variations in the force of gravity? Possibly those interested might procure hired writers and professors, to instruct us that such fluctuations were not of the least importance. This is somewhat analogous to our financial system as established by law.

The very term "Money Market," discloses the speculative and irrational character of our monetary system. What should we say if the Government permitted postage stamps to be issued exclusively by certain privileged firms, and a "stamp market" were established by which the prices of stamps were arbitrarily arranged from day to day and week to week, by a stamp committee

appointed by these private firms, in order to swell their dividends?

It is difficult to see anything more startling in the creation of a postage stamp "market," or a railway-ticket "market," than in the existence of a money market. A money market practically means a debt market, where debts both public and private are from time to time raised and lowered, because debts being payable in money (i.e., legal tender) naturally vary with the money unit. And since the money markets are largely controlled by the great international gold and credit dealers, the debts of both nations and individuals are similarly under the same influence. In short, no one can exactly foretell what his debts will be in terms of his own services and products at any future period! A more dangerous and unstable system upon which to build a nation's trade and industries, it is impossible to conceive. We cannot afford to continue a system that has been tried and found wanting at every crisis of our history during the last two centuries!

We are now in the midst of the greatest economic revolution that has taken place in our history for ages. Our most venerable institutions, our most cherished theories, are either being swept away or are undergoing minute scrutiny and amendment. Many have already been condemned to the scrap heap, and many more must follow. Not only our future supremacy but our very existence as a great industrial nation is at stake. We are being tried by fire, and most of our old heirlooms must go. The reign of tradition and

conservatism is over. We can no longer afford to maintain economic systems merely because they support certain private or class interests. If an institution—no matter how sacred by reason of its antiquity—blocks the path of national progress, woe betide us if we hesitate to get rid of it! The seriousness of the economic struggle ahead of us leaves no room for either apathy or false sentiment. We are living in a new world, in which new conditions are continually appearing, and we shall have to construct our political and trade methods to suit these conditions. No matter how successful policies may have been under former conditions, this is no argument in favour of retaining them under new ones.

Those who talk of “fixed principles,” as applied to political and economic systems, should remember that principles are only “fixed” so long as the conditions to which such principles are applicable are “fixed.” And as conditions are rapidly changing, it is evident our economic policy must be governed by the new conditions. We cannot solve dynamic problems by the application of static laws.

Nations and societies are organisms, and are destined to progress or perish.

Our industrial classes have long been painfully aware of the fact that the economic system under which they toil generation after generation, with but a scanty return for their labour, whilst a large and growing class of non-producers and unemployed enjoy unlimited wealth, is founded upon injustice, although they are unable to understand

the fundamental causes. But the natural effects are disastrous to their industrial morale and engender discontent and class hatred, and seriously curtail the annual amount of wealth production. It is safe to say that under a system in which labour received a just proportion of the produce, the annual output could easily be doubled, with the same number of producers.

Notwithstanding the fact that the vast majority of the people of all industrial nations are engaged directly or indirectly in what is often termed "the creation of values," to all but an extremely small circle, the science which deals with this subject, is as vague and as mysterious as the rites and theories of the Rosicrucians.

The industrial world presents to us the spectacle of millions of men and women constantly engaged in the production of commodities created for the use and enjoyment of all classes, but who are totally ignorant of what share in the general wealth their labour will entitle them to. They bargain their labour for coins and tokens, which have no fixed or certain relation to any or all of the good things they need and produce. During the process of exchange, these commodities undergo certain curious and apparently inexplicable metamorphoses, and by the time they reach their final destination—the consumers—their **values** have been transmuted into **prices**, and the producers find their remuneration will only buy a fraction of the produce their labour has created. Between the farmer and dairyman who raise corn, potatoes, butter, eggs, etc., on the one side,

and the hatter, shoemaker and tailor who manufacture hats, boots, and clothes, on the other side (each of whom needs some of the products of his fellow-producers), stands the market with its complicated system and mechanism of exchange, the chief function of which (so we are told) is to "measure" the values of all commodities. But why the mere operations of "measurement" and exchange, should result in such frequent and vast changes in the prices of commodities, and therefore in the fortunes of their makers and dealers, and why they should raise a partial barrier between the products and their producers, are problems which the average man cannot fathom. Under the old barter system where goods were exchanged directly for other goods, the producers received what they believed to be the full value for their labour. And if we were to go back to that crude system to-day, it is probable that a greater measure of satisfaction would result to the producing classes.

These operations which affect the world's markets and prices so mysteriously are, however, directly controlled by human agency, and behind the scenes there are certain individuals who can and do influence to an extraordinary degree the machinery of exchange, which determines the exchange relations of all commodities.

My personal interest in this subject, which led me to study the science, commenced more than a quarter of a century ago when, as a resident of the United States, business interests brought me in contact with certain high financial circles. The

experience and knowledge gained, led me to investigate the underlying cause of economic phenomena, with the result that I became convinced that the basis upon which the economic system of every nation has been established, is a fraudulent one.

Those who have read Thomas W. Lawson's *Frenzied Finance*, will understand the methods by which a group of men were enabled to secure millions of wealth, not a single cent of which they themselves had ever created. The history of the Copper Trust as related by Mr. Lawson, was merely an instance of scores of similar conspiracies perpetrated universally by leaders both in the financial and social world. During my own experience I have seen half a dozen men at a private dinner party plan a financial "coup" which a few days later gave to them the possession of many millions of dollars of wealth without their investing a solitary nickel piece! I was an unwilling witness of the ruin of a railway magnate who refused to sell his control of a certain railroad at the bidding of an all-powerful syndicate at the figure they offered. Whereupon the syndicate ordered the bankers to call in all their loans on the shares and bonds of this road held by them as security, with the result that a panic ensued and the securities were thrown upon the market and bought by the syndicate at half the figure they originally tendered! I have seen several firms whose assets were worth twice the amount of their debts, deliberately ruined by being thrown into the Bankruptcy Court; as they could not

obtain sufficient legal tender to meet their liabilities on demand (their creditors being their own bankers, who were hoarding large sums of money) they were forced into liquidation.

I was one of four men who bought under the hammer, an entire railway system which had been previously ruined by a financial group to prevent competition with the system they owned.

I instance these operations merely to show the almost economic omnipotence of those who control the money and credit of a community.

During Dr. Wilson's first presidential campaign he said, "The greatest monopoly in America is the 'money monopoly.'" To which the *New York Times* (which was then the organ of the late Pierrepont Morgan) gave a direct denial. The *New York World* then took up the cudgels in an article from which the following is taken:—

"The same day the *Times* ingeniously asked Governor Wilson what he meant by the 'money monopoly,' the newspapers announced that Mr. Morgan's 'Bankers' Trust Company' had bought from Mr. Morgan's Equitable Life Assurance Society its holdings in the Mercantile Trust Company, and that by this transfer the aggregate assets of the banks dominated by J. P. Morgan & Co. exceeded \$1,000,000,000. This \$1,000,000,000 is not Mr. Morgan's money, but it is in the hands of the Morgan interests, which say who *can* borrow it and who *cannot* borrow it, how it shall be used and how it shall not be used.

"When Mr. Morgan took over the Equitable Company from Thomas F. Ryan, he paid more than \$2,500,000 for stock that can legitimately earn only \$3,514 a year, but what he really bought was control over the Equitable's

\$400,000,000 of assets and \$80,000,000 of surplus. After this control was acquired, the statement was made in one of the financial newspapers, that no man could borrow \$1,000,000 in New York, *whatever the security*, if Mr. Morgan objected to his having it. No doubt this is true, for there are few independent bankers anywhere who would care to incur the hostility of the money trust that has been built up by the Morgan-Standard-Oil interests and their allies.

“The ‘money monopoly’ controls more than money and credit. It controls oil and steel and railroads and all manner of corporations, by means of interlocking directorates and a well-defined community of interest. Its political activities are as far-reaching as its financial activities, working through railroad lawyers, corporation lawyers, country bankers, and political bosses.

“In fact there has been created in Wall Street what is practically a Central Bank, more formidable than the old United States Bank ever was or could be, wholly irresponsible in its use of power except as restrained by the merely technical provisions of the banking laws, and more dangerous politically than a whole regiment of Nick Biddle¹ such as President Jackson crushed.”

Those who congratulate themselves that these powerful financial syndicates are confined to America, and therefore do not concern us, are harbouring a great delusion. They exist in all countries to a greater or less degree. And when our Chancellors and Cabinet Ministers are sometimes selected from such syndicates, the public ought to realize the gravity of the position. Sometimes these syndicates are composed of

¹ “Nick” Biddle was president of the United States Bank during President Jackson’s first term, and exercised enormous political influence. Biddle threatened to defeat Jackson for the Presidency for his second term, and Jackson replied that if he dared to corrupt the electors by promises of money, he would hang him “as high as Haman!”

citizens of the countries in which they operate. Sometimes the members are aliens in race, religion, politics and national interests, as in Italy, and Russia, whose finances were, prior to the war, controlled entirely by German Jew firms. Some years ago a friend of the writer sought the assistance of a well-known banking house in the establishment of a French industry, necessitating the employment of some millions of pounds of capital. The head of the house, having examined the scheme, pronounced it excellent, but added that he could not offer any material help, as France was out of his "sphere of influence." "The financial world," he said, "is divided among the various international and financial firms. Messrs. So and So handle France, and So and So Argentina, etc. Had your enterprise been for Egypt we could have financed you."

Now the most serious feature of this world-wide money monopoly, is the power it gives a few men to alter the purchasing power of money whenever it is to their advantage to do so. The operation is extremely simple. The business of the world is conducted chiefly upon credit by means of loans, so that the mere calling in of loans and the refusal to extend credit suffices greatly to increase the purchasing power of money. A similar result can be obtained by withdrawing gold supplies from circulation, and by reversing these processes prices can be advanced and the danger from the previous operations relieved. Hence the world's financiers have the power to acquire unlimited wealth by merely juggling with prices. And this

dangerous power, this perpetual menace to economic peace and welfare, exists at the present time mainly by reason of the legal establishment of the gold standard.

CHAPTER II

THE GREAT CRISIS

OUR ignorance and unreadiness for the stupendous struggle in which we are now engaged, has been the subject of much discussion and many heart searchings. Criticisms have been launched against our guardians and caretakers—the governing classes—for their refusal to heed the warnings which for years prior to the war, were constantly sounded, both by events and by well-informed persons.

The Empire is now paying the inevitable penalty for the listlessness and indifference of the public and its leaders to the cry of the “alarmists.” When we look back over the past nine or ten years, it seems incredible that all the sign-posts pointing to the catastrophe towards which Europe was steadily marching, could have been so completely ignored. It is a sad reflection upon human intelligence to have to admit what history teaches, viz., the general futility of warning the public against dangers which appear more or less remote. From the time that Noah commenced to build his ark until now, calamity prophets have had little return for their warnings but ridicule. Jeremiahs have never been popular. We are all

so prone to regard present conditions as permanent, particularly if they are agreeable, that we naturally resent any suggestion of impending trouble or disaster. Like other races, we are much better pupils in the school of Dame Experience than in that of General Advice. If our foresight were as good as our "hindsight," no doubt we should be a wonderful people. But although our aptitude in learning from experience is perhaps one of our saving qualities, it is obviously necessary that the lessons from experience should be quite clear and simple. Any ambiguity as to the real cause of our past failures will probably lead us to future failures. Woe betide us if the appalling dangers and disasters, which we have barely escaped during the past three years through unpreparedness, are ever forgotten or ignored. The dangers of military and naval unreadiness are now fully realized by the vast majority of the nation. The dangers from our foolish economic and financial systems are, however, not yet realized—even by a sensibly small minority. The reason for this is twofold. *First*, our experience has not yet been sufficiently severe to impress the average citizen with the perils of either food shortage, or our economic dependence upon foreign countries. And in the realm of finance we have been saved from the results of the folly of our banking laws and methods, by the action of the Government in placing the national credit at the disposal of the bankers and moneylenders.

In the *second* place, certain popular writers have given the public entirely false accounts of

the system of "peaceful penetration" by means of which the enemy was steadily undermining our economic and political independence, and of the financial crisis through which the country passed in the midsummer of 1914, i.e., both the causes which precipitated the crisis and the methods by which a most terrible panic was but narrowly averted. That it is to the interests of certain classes to revert to our pre-war methods when peace is declared, is evident. And it is perhaps only natural that they should wish to preserve these interests, even though they are, at certain times, a menace to the welfare of the nation. But as the strength and safety of the British Empire is of far greater moment than the pecuniary interests of any single class, these interests must not be allowed to obstruct the path of progress. **No greater disservice can be done to a nation than to misrepresent or disguise the real causes of its social, political or economic weakness or failures. To deliberately and intentionally falsify the obvious lessons from events, is a crime of the first magnitude.** If the Government were to assist a jerry-builder by shoring up his buildings whenever they showed signs of collapse, we might applaud its motives in trying to avoid accidents, but we should certainly consider it censurable if it permitted the culprit to continue his dangerous business without cautioning both him and the public! And whilst the Government was justified in saving the banks in 1914, it has no right to screen their weaknesses, nor allow the public to believe such

obviously untrue statements as those made on their behalf by apologists who assert that the crisis "was not brought about by any internal weakness in the English banking system."¹

Our financial experience from the moment the war cloud first appeared until to-day, is so important, the lessons to be learnt are of such incalculable value to our future safety and welfare, that the Government ought to publish an **absolutely authentic report of everything that happened** in regard to its financial transactions with the banks, and the banks' methods of dealing with their foreign and domestic clients. Whilst a good deal is already publicly known, very much is still hidden that the public ought to know. For example, why was the Bank Charter Act not immediately suspended in July, 1914, when the crisis was imminent? Who was responsible for this delay which allowed the crisis to develop? Is it true that certain banking officials failed to carry out the Chancellor's instructions immediately when issued? Why were Treasury notes issued—instead of bank notes—as on former occasions? Why was the use of the National Credit—which belongs to the British public—first offered solely to the bankers and not to the public direct? Why have the bankers been allowed to benefit by their pre-war recklessness at the public expense? Why was a Moratorium declared which the prompt suspension of the Bank Charter Act might have avoided? Why are the banks exempt from the operations of the

¹ Hartley Withers, *War and Lombard Street*.

excess profit tax? And above all, why have our authorities invariably turned a deaf ear to the advice and warnings repeatedly given them by men like Walter Bagehot, Lord Goschen, and Sir Edward Holden? Why must our Chancellors—with but few exceptions—be members of or allied to the banking profession? The public have a right to demand answers to these questions.

With the conclusion of hostilities, we are expecting to enter into a mighty contest in another field. The enemy vows to wage against us an economic war with all his characteristic energy, ruthlessness and unscrupulousness. Are we to enter this struggle as unprepared as we were rushed into the war? Are all the warnings to be again ignored? Surely it is but mere sanity to ascertain the real facts regarding our financial and commercial methods? Are they safe? Are they warranted to carry us to victory? Are systems originally devised by certain individuals for their own enrichment, good enough for a nation when engaged in an economic struggle with a powerful industrial foe like Germany? Are we silently to submit to the re-establishment of institutions which have collapsed on every occasion when exposed to conditions which are likely to reappear from time to time?

Let us first deal with the financial question. What happened in the fateful summer of 1914? I give it in the words of one of the most strenuous apologists of our present monopolistic banking system, Mr. Hartley Withers, for whom a special post in the Treasury department was provided by

Mr. Asquith's Government. In his recent book, *War and Lombard Street*, the author says:—

“ On Friday, July 24, Austria sent its ultimatum to Serbia. On Saturday, July 25, there was something very like a panic on the London Stock Exchange and the Continental Bourses. At the beginning of the next week the foreign exchanges began a series of erratic and unprecedented movements which ended in a breakdown. On Thursday, July 30, the Bank of England's rate was raised from 3 per cent. to 4 per cent., and on July 31st it was multiplied by 2, jumping from 4 per cent. to 8 per cent. On that day, July 31, some of the other banks were refusing to pay out gold to their customers, and making them take payment in Bank of England notes. Consequently there was a long string of people wanting money for the holidays, waiting to cash notes at the Bank of England. On Saturday, August 1, the Bank rate went up to 10 per cent., and the string of people waiting to cash notes at the Bank of England was still watched by an amused crowd from the steps of the Royal Exchange. *All this happened before a shot had been fired on the Continent, and before it was even certain that England would go to war at all.* Then came Sunday and Bank Holiday, and war, and then three more days of Bank Holidays and then the general Moratorium.

“ It was an unpleasant string of surprises, *but it was not brought about by any internal weakness in the English banking system.* The fury of the tempest was such that no credit system could possibly have stood up against it. *In fact, as will be shown, the chief reason for the suddenness and fullness of the blow that fell on London was nothing else but her overwhelming strength. She was so strong and so lonely in her strength that her strength overcame her.* She held the rest of the world in fee with so mighty a grip that when she said to the rest of the world, ‘ Please pay what you owe me,’ the world could only gasp out, ‘ But how can I pay you if you don't lend me the wherewithal?’ If there had been any rival who could have taken London's mantle from her shoulders, and come forward as the provider of credit, London could then have called in her debts. But there was none. The machin-

ery of credit broke down in both hemispheres, and London as its centre had to be given time to arrange matters under the new conditions." (*Italics are the present writer's.*)

The reader who is uninitiated in the practices, phraseology, and peculiar ideas current throughout the realm of finance, may find it difficult to reconcile Mr. Withers' history of those eventful days with his conclusions. To most people it would appear that a firm that cannot pay its obligations is either bankrupt or next door to it. The London banks owed their depositors and clients very large sums of legal tender money. No doubt there were larger sums owing to the banks from foreign and domestic clients which they were unable to collect. But that was no fault of the depositors. If I entrust my money to a firm on the express condition that they are to pay me **on demand**, they must either pay on demand, or they become defaulters. **The London bankers had loaned the money belonging to their clients to people all over the world—including German firms and German bankers.** In fact, **Germany's readiness for war, was partly due to the gold and credit facilities furnished her by our cosmopolitan money-lenders!** And now when war was threatened, the British public wanted to know that its money was safe. The bankers were caught—and were unable to fulfil their obligations. Had they been ordinary merchants or manufacturers, they would have gone into liquidation amidst the denunciation of the press and public. They would have been

accused of "over-trading." Had they been private trustees—solicitors entrusted with funds belonging to clients—they would have gone to prison! But our legal code is so curious and so discriminating, that the vices of one class become the virtues of another. According to our financial experts, what is considered weakness in commercial affairs may be "strength" in banking matters. And the condition known as "bankruptcy" outside of the charmed circle of banking, is called "**overwhelming strength**" within that circle. Finding themselves in such "overwhelming strength," the bankers had to close their doors and beg the Government for help. They were compelled to acknowledge their inability to meet their obligations, and in order to save the nation from the perils into which the bankers' system of overtrading had landed them, the Chancellor was compelled to offer the immediate use of the National Credit which he provided in the shape of Treasury notes and at the same time declared a Moratorium. But this was not all. Under Peel's Bank Charter Act, for sums over two pounds, legal tender was compulsorily payable in gold. The public had deposited with the banks in round figures about £1,000,000,000—all of which was payable on demand **in gold** according to law. The banks, obligations were impossible of fulfilment, and the bankers have known this from the time they first accepted these obligations! No provision was made by Peel's Act for Wars, or panics—except **evasion of contract!** The Government was therefore

compelled to allow the banks to evade their obligations by paying out paper money instead of the gold which according to the law they should have possessed. Imagine the Government coming to the rescue of the steel, iron, coal, engineering or building trades, or any branch of industry under similar circumstances, and offering the members similar support! Not that such support would be foolish or injurious. On the contrary, if our Governments had always shown equal zeal in assisting British trade and commerce in times of depression which they have readily offered to the banking profession, much social misery and unhappiness would have been avoided.

The point to be observed is this: for their own selfish interests—for the sole purpose of making profits—our financiers are permitted to risk the public's money to any extent, with the certain knowledge that if they "over-trade" and get into deep water, the Government is bound to save them! In fact, our joint stock banks are now so powerful they are in the position of demanding the Government support whenever they need it! So that whilst the public is compelled to take all the risks, the banks are permitted to take all the profits! Is it any wonder that English banking is the envy of the money-lenders of all nations?

Again, the Treasury notes represent the National Credit, i.e., the combined credit of the British tax-payers. **That credit belongs to the people—not to the banks!** But our democratic Chancellor offers it to the bankers to loan to the

public on their own terms to whom it already belongs! Surely never was generosity so lavishly displayed! And this credit which saves the banks and the nation, which functions as currency just as well as gold, facilitating exchange and commerce, is only permitted to function during National crises—when the banks are practically insolvent! But, as we have seen, the law regards banking from an entirely privileged standpoint. **The facts as disclosed by the great crisis of 1914, as well as by former crises, prove conclusively that our banking methods are inherently weak and unstable, and quite unable to withstand any extraordinary strain which a war involves. Nothing short of the National Credit is strong enough to carry the nation safely through such a crisis.**

Now let us see how nearly the predictions and warnings of various "alarmists" have been fulfilled. In an *Open Letter to Mr. Lloyd George*, then Chancellor of the Exchequer, published in 1911 (Dent & Sons), I wrote as follows (page 10):—

"Under the fatal ban of our Legal Tender and Bank Charter Acts, all banking enterprise of an original character has been suppressed, and our joint stock banks have had to erect their vast edifices upon the narrow and unstable foundations provided by these laws! To one who has given the subject any careful thought, the marvel is that we have so long escaped the inevitable débâcle, which sooner or later must overtake us! . . .

"Our banking system is built upon a margin of bankruptcy! No provision whatever is made for any extraordinary event, such as a war or panic! Take any of our

great joint stock banks. How many of them can show at any time—even for window-dressing purposes—10 per cent. of cash available against their liabilities? . . . And one shudders to contemplate what would happen in the event of a great crisis, such as a war with Germany! . . . No bank is to-day solvent on the basis prescribed by law. Not one could begin to fulfil its obligations in the precious metals. So long as we compel the Bank of England to pay out gold on demand, so long as we maintain our free gold market (chiefly for the benefit of foreigners), so long shall we be liable to a very fluctuating bank rate, and to have our gold taken abroad. . . . It is as certain as that the sun will rise to-morrow that in a great crisis we shall be compelled to suspend our Bank Charter Act and accommodate ourselves to paper money.”

Again, in a pamphlet entitled *Is a Money Crisis Imminent?* published in November, 1910 (being the substance of a lecture delivered under the auspices of the Banking and Currency Reform League at the New Reform Club, London), the writer also said:—

“The pending invasion of this country by Germany, and the general Armageddon that is to follow, have occupied the attention of the public for the past few years. Whether the prophets who have foretold of these calamities be true or false, it does not require any profoundly prophetic gifts to foretell of the great financial crisis which sooner or later must overtake us. I cannot understand the complacency of those gentlemen who talk of war so glibly, but show no concern regarding the perils to which our commerce and trade are exposed by a system which is of our own creation, and which is maintained for the benefit of a comparatively few individuals. Certainly if war were to arise, as predicted, a very large number of our mercantile businesses would be utterly ruined! We should have a banking crisis that would eclipse anything the world has ever known, and the financial system which has been praised so often by our bankers, and those who profit by

its continuance, would be found utterly unsound and unable to stand even a fraction of the strain which such a crisis would put upon it! It would tumble like a house of cards! . . .

“ In the event of a war with Germany or a panic leading to a very considerable withdrawal of deposits, our banks would have to close their doors, for they could not pay their obligations to the extent of even ten per cent. ! . . . But apart from the danger of the withdrawal of deposits a still greater danger lies in the possibility of a sudden demand for gold abroad. It is well known that foreign banks and finance houses employ large credits in the London money-markets—credits which can be withdrawn very suddenly—and if at a time of war-panic an attempt were made to withdraw these credits in the form of gold, it is difficult to see how the Bank of England could avoid the suspension of specie payments. It should also be remembered that in a war, the enemy would be interested in damaging our credit to his fullest extent.”

So great an authority as Lord Goschen also commented on these dangers. In 1892, when as Chancellor of the Exchequer he addressed the Leeds Chamber of Commerce, he said, “ No fertile imagination could exaggerate the gravity of the position ! ” Years prior to this, Walter Bagehot had similarly and eloquently called attention to the supreme weakness of our financial system. And in very recent times our ablest and greatest banker, Sir Edward Holden, has repeatedly sounded notes of warning to his fellow-bankers and to the country generally. But the Bank of England backed by Lombard Street, has been strong enough to defeat every attempted alteration or reform. The advice and warnings have hitherto fallen on deaf ears. Bank dividends have been

regarded as of far greater importance than national safety and welfare.

If the reader has any doubt regarding the political supremacy of our financiers, let him read the various speeches on finance delivered in the House by the various Chancellors since the war started. He will then realize how completely the Bank of England—a privately owned joint stock bank—with its affiliations dominates the Government's financial policy. Our Chancellors, whether Radical like Mr. Lloyd George, Liberal like Mr. McKenna, or Conservative like Mr. Bonar Law, are merely the mouthpieces of the all-powerful money-lending interests of Threadneedle and Lombard Streets. Possessing no special or considerable knowledge of monetary science themselves, our politicians are compelled to listen to and accept the advice of those whose interests lead them to regard the public as their rightful prey, to be plucked whenever the opportunity arises. Hence when these champions of vested interests insisted that the War Loan must under no consideration compete with or depreciate their own securities, our obedient Chancellors acted as instructed, and the rate of interest on these loans was fixed accordingly.

Notwithstanding the obvious lessons of the past as to the inadequacy of our banking methods, taught us by the events both preceding and since the war, so little impression have they made upon the minds of the majority of our bankers, that they have refused to consider any change in their methods for assisting British enterprise in

its endeavours to capture the trade of the enemy !

Now let us see what happened to our gold market just prior to the war, and how far these warnings and prophecies were justified. I cannot do better than quote from Mr. Moreton Frewen's lucid article in *Overseas* for February, 1917.

“ In the fateful days of August, 1914, the cosmopolitan finance, so fashionable in the City of London, had exposed England to a danger of the most formidable kind. Already eager pens are at work counselling that after Peace we shall return to the ancient ways, and it is therefore important to submit the case of that cosmopolitan finance, without any delay at all, and ask the verdict of the Empire. Is there to be, here in London, ever and always, danger of the most imminent and sinister and concealed kind, or ‘ Never again ’ ? Confronted with these alternatives, can we question which is the reply the Empire will give ?

“ Very briefly the situation was this. During the two years before the war it had been matter for general comment on all the Bourses of Europe that Germany had been buying immense sums of gold at a premium. I mean, that Berlin was paying for the gold bullion she bought here, *more* than the price indicated by her own exchange quotations. That very fact, had it stood alone, should have convinced our financiers that Germany intended war, and that she was draining London, the only ‘ free market ’ in the world for gold, of that metal which, since 1873, is the real sinew of war. But I pass over these great gold purchases by Germans, because in that the question of ‘ exchange ’ is involved, and the exchange question few people so much as desire to understand.

“ But what was it that happened, and in what may be called the War Stores Market, between January and August, 1914 ? When that is properly investigated, as it will be, that investigation will, I am certain, sound the death-knell of all this cosmopolitan credit-mongering built up in the City of London, and synchronizing with and growing out of our ‘ Free Trade ’ experiment. How

then did Germany mobilize her finances of war during those six months? I hope I may be able to explain this in language that your varied readers—the ranchman, the fisherman, the trapper, the lumberjack, the miner, the farmer of the Empire from John o'Groats to Vancouver, from Vancouver via Sydney Heads to Cape Town—may be able to follow, for it **discloses the most wonderful tale of financial grand larceny in all the world's history—a tale too, which is certain to attract imitators.** Now this is what actually occurred. Germany, of course, needed for her impending war immense supplies of lead and spelter, copper and nickel—these are the products of Canada, Australia, Africa; also cotton from Egypt, and wool from Australia, a score of half-finished war-manufactures, too, from Great Britain. These are bought, not for cash, but with promises to pay cash three and six months after delivery, in Berlin. Such is the method of the Great International Credit System. Now mark the sequel! Germany had as against these 'scraps of paper' (politely called 'bills' in the jargon of the 'City') war munitions supplied by our Empire of a value of two hundred million sterling (the amount of the indemnity paid by France to Germany in 1871)! Germany, as I say, has had this huge war sustentation fund *from England*, and had it before ever a shot was fired at all! But I can hear the seller of lead from Broken Hill say, 'That was not the way my lead, at least, was paid for!' No! but the actual method was this. Berlin had branches of three of the greatest of her banks in London. As fast as Berlin's banks gave these promissory notes to our colonial sellers, they were sent to the London branches of the Berlin banks. These branch banks next passed on these 'bills' to the amount of two hundred millions sterling to the dozen great London discount houses, the whole length of Lombard Street. Of course, if the Berlin banks failed to meet these bills when due, all Lombard Street, the Bank of England included, must stop payments. The German Government relied chiefly on this pretty conspiracy of their financial experts in London and Berlin, to keep England out of the war altogether. The Germans said of us 'that is a nation of shopkeepers.' If the first note of the war should involve the wreck of the

Bank of England, then rely on it, her honour notwithstanding, England is going to 'stay out.' Greatly to our honour, these terrible responsibilities did not suffice to dominate a splendid ebullition of public opinion, and though the temptation was horrible, England was kicked into the war by every responsible element in her body politic, and particularly by that vast proletariat which we were told had commenced to doubt its own sense of patriotism!

"We are destined in these days at hand to hear such subsidized applause to the great national virtue of England's 'free gold market,' and of the profitable nature of British bill-broking with German bills, but I believe that the public opinion of to-morrow will challenge all these statements. Such profits go to the 'profiteers,' while the losses are saddled on the taxpayer. But think of the frightful peril of it all!—which indeed is the peril of every section of the British Empire itself! **It is inconceivable that we shall, after the conclusion of peace, permit this traitorous cosmopolitan bill system to be again built up, so that once more we may be fined two hundred millions by the enemy before ever a shot is fired!** It is quite true that the taxpayer will not ultimately be called upon to find any two hundred millions. The Bank of England, guaranteed by the Government (that is by the taxpayer), has succeeded in salvaging at least three-quarters of the whole amount in the last two years, but that fact in no wise reduces the impact of the frightful and almost mortal blow struck at the heart of the Empire in August, 1914, by the mechanism of the German banks so insolently established in London for this very purpose."

Such is Mr. Frewen's scathing indictment of a financial system which one could hardly believe to have originated outside of a lunatic asylum!

But who is really to blame? If the British people are fools enough to allow their statesmen to legislate for the benefit of a special class and of every country but their own, they must not complain if a cunning and unscrupulous Govern-

ment like Germany's, seizes the opportunity offered to enrich herself at their expense. The great trouble is that our governing class has hitherto consisted of the idle rich and titled youths in search of something to do to escape boredom; barristers, solicitors, dilettantes, novelists, arm-chair philosophers, schoolmasters and theorists—specialists in almost everything except the affairs of government. And when questions regarding trade and finance have arisen necessitating legislation, they have sought and received advice from those whose vested interests are opposed to the public interests. Hence we get our monetary and banking laws through the influence of cosmopolitan money-lenders, our foreign trade policy from paid professors, importers, and foreign traders, and our tangled web-like legal system from those who batten on it.

Commenting on our British law practice, an eminent Austrian lawyer once remarked to the writer, "Your legal system is the wonder and amusement of the whole world! A successful English barrister must be a legal artist! In every other country he is compelled to be a legal scientist."

Turn now to our foreign trade policy. How far are we prepared with a well thought-out plan for countering the enemy's intention of seizing our markets when peace is declared? Here and there certain attempts are being made to formulate a policy. Our Chambers of Commerce have suggested certain half-hearted measures. The Paris Economic Conference resulted in the appointment

of a committee which has issued a report. And there apparently the matter rests.¹ In the meantime certain organizations, such as the Cobden Club, whose members have learnt nothing from the revelations of the past three years, are actively engaged in disseminating misinformation for the purpose of allaying the public fears, in the hope of inducing us to resume trade relations with the enemy of God and man as soon as the war is over ! Certain writers are either knowingly or ignorantly deceiving their readers by denying Germany's politically aggressive intentions in her trade operations.² Blinded by their free-import prejudices to the economic dangers confronting us, they seek to lull the public into a false security. These writers and their organizations are as serious a menace to Britain's future economic welfare and safety, as the Czar's recent Court Camarilla was to the military success of Russia.

Let me say at once that not only are we at present totally unprepared to wage a successful trade war with the enemy, but, judging from the writings of certain economists and financiers, the nature of the coming contest is not even understood. The preparation necessarily involves our getting rid of numerous systems and methods which are barriers to our economic progress, and for which the greed of certain privileged classes coupled with the ignorance and superstition of the

¹ This was written in March, 1917.

² See J. A. Hobson's *New Protectionism*, containing a brazen and impudent denial of Germany's political aggressiveness in her trade methods !

people are responsible. It means the repeal of certain legislative acts and possibly the enactment of fresh laws. The lead must be given by the Government. In fact at present a sufficiently strong economic organization to meet the enemy can only proceed from the Government. Many suppose that the coming trade war is entirely an affair for the individual manufacturers, merchants and bankers to deal with. They see neither occasion nor scope for Governmental action. Certain free importers maintain that since international trade is solely an exchange between the individuals of one country and those of another, Government interference cannot help, but can and will, if invoked, hamper our trade and ought therefore to be shunned. These writers ridicule the possibility of a trade war! "How can there be warfare," they naïvely inquire, "over transactions which are mutually profitable and beneficial?" "What can Germany do beyond sending us her surplus goods in exchange for ours? And why object to enrich ourselves from the more efficient productive methods of the enemy?" But these people either forget or ignore the fact that Germany's industries are all organized for co-operative action and **collective warfare**. And just as the great American financial and industrial trusts and combines have been able to destroy such individual effort and competition as they have objected to, so a nation organized as Germany is, and backed by the solid strength of all her banking and financial institutions with the additional support of their Government, will sweep

our unorganized independent manufacturers out of the running in any industry they decide to control, unless some satisfactory measures of defence are provided. The notion that international trade is nothing more than simple barter between the individuals of one country and those of another is no longer tenable. Trade is not to-day the peaceful, civilizing system as pictured by those who are for the most part wholly ignorant of it. It is a competitive struggle—often a very demoralizing struggle—for the control of the factors of wealth production and distribution. Trade competition usually arouses the meanest and most malignant qualities in the human breast. There is nothing ennobling or civilizing in such a contest. The industrial and trade magnate seeks to control **men and markets**—not **things** merely. When Germany sends us her dyes, chemicals, electrical apparatus, machinery and other goods, it is not for the mere purpose of securing our cloth, our wool and other products, nor for any mutual advantages. **It is for the purpose of controlling our markets, of preventing us from engaging in the manufacture of similar goods to those she produces, and of making this country eventually subservient to and economically dependent upon herself.** Now, economic power is the very foundation of political power, especially in democratic countries. The man who controls industries can readily control those employed in such industries. If his wealth is considerable, he can secure the election of municipal and parliamentary candidates of his

own. Look at the political power wielded by the liquor trade in this country! Look again at that enjoyed by our bankers, landlords, lawyers, railway directors, shipowners, etc. Contrast this with the studied neglect by our legislators of our inventors as a class who, by reason of their comparative poverty are unable to assert any influence on the Government, whatever may be its complexion. Look at the position of the United States where certain financial magnates wield a power greater than that of the President himself! Look at Italy, how near she came to strangulation at the hands of the Hun bankers and commercial trusts! Look, too, at Russia, still wrestling in the toils of the "peaceful penetrators!" The very end and aim of Germany's "peaceful penetration" has been the political control of the world! And how nearly she came to gaining her end, only those who have studied this question are fully able to realize. Those who have read Professor Hauser's book, entitled *Germany's Commercial Grip on the World*, know something of the subtle, subterranean methods she practises, and how wonderfully successful they have been. Trench warfare has long been our enemy's favourite method of conducting his trade rivalry. One of the questions future historians will ponder over will be, "What hallucination led the German people deliberately to convert the world's admiration and appreciation of their industrial and organizing ability, into a fierce passion of hatred and abhorrence by their foul and fiendish conduct in the present war, just when

their peaceful methods were bringing them within sight of the object they had so patiently and persistently pursued? ” Be that as it may, the problem for us is, “ How are we to cope successfully with our foe after the war? ”

One interesting question obtrudes itself at this point. Although the moral standard prevailing in trade and commerce is nowhere particularly high or noble, it is a fact acknowledged universally, that nowhere else is the standard for honesty in business transactions as high as in Great Britain. Germany has openly and avowedly thrown over all pretence to the recognition of any moral code. Her one aim is success. As in diplomacy, so in trade, her people will observe no scruples when competing with their opponents. Will our present moral standards be successful against the ruthless and unscrupulous dealings, the bribery and corruption of the foe? And those free importers who are pleading for a resumption of our former business relations with the enemy after the war, should ask themselves, whether it is wise, safe or even decent, to deal with a nation of self-confessed bribe-givers, spies, forgerers, cheats, murderers and thieves, who show no signs of penitence, but rather glory in their infamies?

It is difficult for one familiar with Germany's trade organizations and methods to contemplate this country's lack of preparation for the approaching economic struggle, without becoming an alarmist! And how unprepared we are will be seen in the following pages. At present we are handicapped by our own trade methods and

banking laws, and our political leaders, or many of them, are entirely ignorant of the fact. A group of influential members of Parliament have indicated their intention of opposing any measures which may place a barrier against the enemy's free use of our markets, after peace is declared!

In view of our present knowledge of our enemy, and of his plans and purposes, is our pre-war policy a safe one? Most readers will admit that tariffs are trade barriers, and they tend to limit the total wealth which the world might enjoy if a free trade system could be safely and universally established. But this is not the point. **We are confronted with a danger, not a theory! The point is, under what system can the British Empire become free from the menace of German intrigue and political aggression?**

We may readily concede to the Free-traders-at-any-price that their panacea is effective—**under certain conditions**. If there were no Germany, if the world was one great federation of all civilized nations, then free trade would be the ideal system. If, on the other hand, our object is to protect and support our country and its colonies in a world of hostile races, to build up a great British Empire strong enough to repel all the attacks of Hunnish or other uncivilized hordes, whether white, yellow or black, then we must aim at becoming self-contained, and self-supporting, and we must refuse the freedom of our markets to all, save our own kinsmen and friends. If there is one message conveyed to us by the events of the past three years which is of

more importance than all others, it is that which warns us to make ourselves and our Empire strong and independent militarily, economically, and politically. No one can look back over these eventful years and review its pictures portraying the horrors, treachery and barbarism of the enemy, the shameful cowardice and indifference of certain neutrals, and the sublime heroism of the Allies, without realizing that henceforth the burden of maintaining civilization, chivalry and honour rests exclusively upon the shoulders of the British-speaking races and their Allies.

Our economic preparation for the future must therefore be *first*, with the view of making ourselves and our Allies strong and independent, and *second*, to prevent the enemy regaining his former strength and power until he has attained a very much higher stage of morality and civilization.

The following, which confirms much of what I have already written, is from an article in the *Sunday Observer* of December 5, 1916, by the city editor of that well-known journal:—

“ The German banking problem continues to attract attention in the City. There is a good deal of complaint as regards the delays, and the apparent stubbornness in placing obstacles in the way in some quarters, whenever any question is raised of drastic dealing with the German banking or high financial interests. Probably the real reason is that the influence of the German banks and financiers were so widespread, their power and interest so vast, and the ramifications of their business so general, that it is difficult to move and eradicate the evil without disturbances. But the evil must go. The German banks have done mischief enough. For the past years

CHAPTER III

THE WAR LOAN AND THE POUND.¹

Now that our pre-war methods of trade, industry and finance have been found to be inadequate to meet the conditions with which we shall be confronted when peace is declared, it is essential to examine most carefully and critically the foundations upon which these have been built.

The basis of all our financial and commercial transactions is the monetary "pound." What is a pound? Just now the Government is soliciting subscriptions to a loan of 2,000,000,000 "pounds." And yet no satisfactory nor up-to-date definition of a pound has been given us. What kind of a "pound" does the Government require? **And more important still, with what kind of a "pound" will the nation be called upon to repay this gigantic loan?**

These questions are of stupendous importance. The answer to the second question will determine

¹ Since this work has been in the publisher's hands I have seen a copy of Mr. Hartley Withers' book entitled *Our Money and the State*. As some of the views expressed in this chapter appear to be of a somewhat similar character to those published in Mr. Withers' book, I think it is only fair to myself to say that most of this work was written in March, 1917, whilst Mr. Withers' book was published, I understand, some time in the following July. The above-mentioned similarity is therefore a mere coincidence.—AUTHOR.

whether the British Nation is to be solvent or insolvent, whether the wealth producers are to be bond or free, whether the loan can ever be repaid or not.

Seventy odd years ago British business circles were in a ferment over the first question. The Prime Minister, Sir Robert Peel, had propounded this conundrum to the nation and then furnished the answer to his own riddle, an answer which was incorporated in our Legal Tender and Bank Charter Acts, both of which are still in force. Sir Robert Peel's definition of the pound was as follows :—

“ That which is implied in the word ‘ pound ’ is a certain definite quantity of gold with a mark upon it to determine its weight and fineness, and the engagement to pay a ‘ pound ’ means nothing, and can mean nothing else than the promise to pay the holder, when he demands, that definite quantity of gold.” This ‘ definite quantity ’ is the mass of standard gold $\frac{1}{2}$ ths fine, contained in our golden sovereign, viz., 123.7447 grains. This is at present the only legal definition of the ‘ pound ’ extant, and constitutes what is called the British ‘ standard unit measure of value ’ !

In the following chapters the utter fallacy, danger and absurdity of this definition will be demonstrated. It will be shown that the definition is contrary to both reason and facts, and that its incorporation into our laws has been the source of innumerable industrial disturbances, bankruptcies and incalculable losses. This legalized fallacy—the golden pound as the “ measure of value ”—has done more injury to our wealth producers, more to restrict our trade and commerce, than all the foreign tariffs ever raised against us ! It has made

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industry the tool, the slave of finance. It is an instrument which our foreign trade competitors have long used against us to their own advantage.

At the risk of anticipating a portion of the discussion in the succeeding chapters, it may be pointed out that the legal "pound" as enacted by Peel (and which hereafter is called the "Peel-pound") makes the present War Loan an impossibility. Two thousand million "Peel-pounds" represent in round numbers 20,000 tons of pure gold! Such an amount would, if it could be collected and brought to London, exhaust the gold supplies of the entire world! The gold in this country available as bullion does not amount to $\frac{1}{200}$ th part of the loan! Evidently, therefore, our Government cannot expect the loan, or any substantial portion of it, to be subscribed in "golden pounds."

Again, suppose we take the present one-pound and ten-shilling Treasury notes which are now legal tender. Since there are less than £150,000,000 in existence, we are still miles away from discovering the source from whence the Government expects to secure the full amount of the loan.

If we drain the banks and denude the channels of trade of all their legal-tender pounds, we shall still be unable to supply more than 10 per cent. of the loan. Where are we to find the balance? **The answer is that materially the money does not exist.** The vast loan will be subscribed by cheques consisting of orders upon bankers to pay the Government something which has, as yet, no material existence. The people

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who subscribe are giving their personal credit in exchange for the national credit. And as we shall see the national credit is merely the aggregation of the individual credit of every citizen.

The subscribed "pounds" are therefore **credit-pounds**, and are backed by legal claims upon the personal wealth and the productive capacities of the subscribers. It is this vast mountain of credit which not only supports the war, but even in times of peace carries the great bulk of the nation's trade, industries and commerce.

Since the great War Loan will consist merely of credit in the shape of bank-book entries, one is forced to ask why the Government has adopted so expensive, so circumgyratory a method of organizing it? In the first place, the Government has, with the consent of Parliament, full control of the national credit at all times. And since the national credit rests upon the taxing power of the Government—which is unlimited—it follows that the national credit logically comprises the credit of all British citizens, and is based upon the total wealth and productive powers of the people, lands, factories and capital generally. In short, the Government has had the right with the consent of Parliament to use all the credit it required since the commencement of the war with which to finance its vast obligations. But apparently it has not known how to organize or employ it, and **because of this lack of knowledge, the war will cost the taxpayers double or treble what it might otherwise have done!**

Moreover, since our bankers offer to grant loans against the national credit (which has always been regarded as "gilt edged"), why in the name of common sense could not the Government have employed this credit direct? One has heard of people "carrying coals to Newcastle," but commercial stupidity never yet descended to the level of exchanging Kent coal for Newcastle coal, and building a special double-track railway for the sole purpose of facilitating the exchange! We are all striving to discover the straight and narrow path leading to national economic success! But surely one could hardly conceive a more costly, cumbersome, inefficient method of financing the war than that chosen by the Government's financial advisers!

Does any one doubt that the credit of the British Nation is greater in volume and stronger than that of merely its banking and credit institutions combined?

During the financial crisis in August, 1914, when the bankers' credit was tottering to its fall, was it not the national credit in the shape of Treasury notes that saved the country from financial shipwreck? What shall we say then of a system which offers to exchange the national and superior credit for the bankers' inferior credit? Not only so, but the superior credit is actually sold at a discount, plus an annuity of 5 per cent.!

One has heard of a practical joker offering to sell golden sovereigns at ten shillings each, and finding no buyers. But no one ever heard of this

being suggested as a regular and serious business. And yet, such is the force of custom and the Cimmerian darkness in which all questions of public finance are purposely enveloped, that the average man regards the flotation of an interest-bearing Government loan as a perfectly natural and proper performance!

Again, most people evidently overlook the fact that **the repayment of the loan with all its interest charges must be made by themselves and their descendants**, otherwise they could not but regard the Government's terms with considerable amazement, if not amusement. All these tempting offers—a hundred pound bond at £95 with interest at 5 per cent.—every penny must be paid by themselves and their descendants. It follows that if the entire loan were subscribed within the country, and every inhabitant contributed and was taxed in proportion to his or her income, it would be cheaper for both the subscribers individually and the nation collectively to have the issue of the loan **without interest. And if the loan had to be repaid within the lifetime of the present generation, it would be far more economical for the public to donate the amount of the loan entirely and gratuitously!**

Let us suppose a nation consisting of one million citizens, where perfect equality of wealth and income existed. And suppose the Government of that nation needed £5,000,000. Let us further suppose that the Government adopted the regulation plan of inviting subscribers to the loan by

offering an annuity and that each citizen subscribed the sum of £5. Suppose also that the loan is to be repaid within five years. Then every subscriber pays first £5, and receives 5s. per annum for five years and then gets his £5 returned. He has thus received in all £6 5s. But as this comes from taxation, he has had to first pay the £6 5s. to the Government in taxes. Hence he has had to pay in subscriptions and taxation a total of £11 5s. in order to get back £6 5s. ! But this is not all. The costs of advertising and collecting subscriptions, together with the salaries of innumerable clerks and officials, all have to be paid out of taxation. So that in the end, the amount each citizen has had to pay to the Government will be found to be far more than his subscription plus the amount paid him by the Government in principal and interest ! In short, he would find eventually he had much better have donated his £5 to the Government in the very beginning.

Since in the above example the repayment must come solely from taxation, and since each subscriber would have to pay the same tax, it follows that the loan is merely a gift in disguise by the citizens to the Government, and it would be far simpler and cheaper for the citizens to give the £5,000,000 outright than to go through all this tortuous, expensive rigmarole. It would save all the bank charges together with the costs mentioned and general interference with trade.

Where, then, is the advantage of making the present War Loan interest-bearing ?

From the national standpoint I can see no

advantage whatsoever. But from the standpoint of the large investors—and particularly the banking and credit companies, the advantages are only too evident. The loan has created an enormous demand for bank credit, and one may expect to see the already large bank dividends augmented very considerably, especially if—as whispered—the banks are to be allowed to evade the excess profits tax.

The loan also furnishes the great insurance and credit companies with a safe and profitable investment for their surplus funds, and since the loan is not likely to be paid off for generations, these investments may be regarded as perpetual. It is evident, therefore, that whilst the method of issuing the loan can be of no benefit to probably 99 per cent. of the population, to the vast masses who have little or nothing to invest, nor even to the small investors, whilst it is ruinously expensive to the nation as a whole, it is extremely advantageous to the few—to the wealthy, and especially to our professional money and credit dealers. Indeed the whole policy upon which the loan is issued may be expressed in the Scriptural saying, “To him that hath shall be given, but to him that hath not shall be taken away even that which he hath,” which may be taken as the text for usury!

But let it be said at once, that although in the years to come future generations will regard this War Loan with its ruinous interest-bearing charges, the stupidly circumgyratory method of obtaining what the Government already controlled, as

the crowning act of financial folly, the present Government is not entirely to blame. "Needs must, when the devil drives," and just now the devil incarnate, in the shape of the Hun Kaiser, is driving very hard and fast. There has been no time in which to educate financially either the people or Parliament since the war started. The blame falls first upon the Government's financial advisers, and secondly upon our orthodox economists, our financial writers and others for continuing to propagate ancient fallacies—some of which are dealt with in succeeding chapters of this book. Economic science is a plant of very slow growth, and the branch known as finance is one of much slower growth: the reason being that both are mixed up with private interests, the policy of which has always been to keep these subjects shrouded in mystery. When we find economic professors teaching the same fallacies that were taught one, two, or even three centuries ago, what can we expect from their disciples and the public generally?

And this brings us to the most important question of all.

In what kind of "pound" shall the debt be paid? In the first place, let us not forget that the present rate of interest—5 per cent.—means doubling the debt every twenty years. **The British public will have paid £2,000,000,000 in interest charges alone on the present War Loan (if fully subscribed) by the year 1937, without reducing the original debt by one penny!** Our people have already paid

in interest charges the entire original cost of the Napoleonic wars ten times over, and the debt is not yet extinguished! . . . But this is not by any means the worst. Taxes are compulsorily payable in legal tender, or orders on bankers to pay legal tender. Now the only way by which the farmer, merchant, manufacturer, workman, etc., are able to procure legal tender is by selling their services or commodities. In other words, **taxpayers must first buy money with their services in order to pay their taxes.** It follows that the exchange relations of money to commodities and services are of the most vital importance. The present purchasing power of money is very low, lower than it has been for very many years.

The subscribers to the great War Loan are loaning very "cheap" pounds, i.e., cheap in relation to all the necessities of life. A taxpayer can pay his taxes to-day without very serious difficulty, because he can buy money with little labour and few commodities. The £2,000,000,000 loan will represent in labour and general wealth not more than £1,000,000,000 represented ten years ago! **With what kind of pounds will the Government repay the subscribers their interest and principal? With cheap or dear ones?** Will they be the credit and paper pounds subscribed, or golden pounds which may ultimately change to pounds of human flesh and blood? How much labour will the highly skilled mechanic, how many pounds of potatoes, how much butter, how many pairs of boots, how much wheat, etc., must our wealth producers offer in the years to

come to obtain the "pounds" with which to pay their taxes?

It is one of the conditions inherent in our variable monetary standard system, that the very creation of such vast amounts of credit cheapens purchasing power, and raises prices, whilst the redemption of the loan will have the very opposite result. Remember what happened to the United States soon after the conclusion of their Civil War. The American bonds that cost so many cheap dollars grew to be worth 100 dollars in gold because of the destruction of the people's money. The prices of commodities fell and money again became scarce. And the moneylenders and bondholders doubled and even quadrupled their wealth. Hence the American National Debt became twice and in some cases four times its original dimensions, so that the American manufacturers, farmers, and working classes generally, were forced to pay the cost of the Civil War, principal and interest, many times over, reckoned in terms of the money originally subscribed and in terms of their own labour products. This will be the great danger to the British nation when the present war terminates. **Watch the bankers! Watch the Government! The trick of doubling the National Debt can be done almost without publicity! It will be attempted as sure as the sun rises!** We shall first be told that the present high prices are ruinous, especially to the poor. Some of our half-baked Parliamentary economists will be induced to start this cry. Then we shall read that

the cause is entirely owing to "inflation," to our great credit issues and our "cheap paper money." The banks will begin to call in loans, to reduce banking facilities, whilst the Government will be requested to retire the Treasury notes and revert to our former "good, sound, honest gold currency"! And down will go prices, and up will go the purchasing power of money. Meanwhile trade will be depressed, factories will close, and unemployment become general. Every modern currency swindle has been heralded in as a "good, sound, honest system." It will simply mean a doubling of all debts or a reduction of the means for paying the debts, by 50 per cent. ! The first man, whether statesman, banker, moneylender or labour leader, who attempts to destroy the people's money—the one pound Treasury notes—should be publicly hanged as a salutary lesson: "pour encourager les autres"! Every time a Government has attempted to lower prices by increasing the value of its currency, the people have had to pay for it by experiencing all the horrors of an industrial crisis.

During the past century, money has become as essential as food and clothing—thanks to our legal-tender laws—because it is with money that one must pay for every commodity necessary for preserving life, happiness and well-being. Our Free Import economists grow highly indignant at the mere suggestion of protective tariffs because these, they declare, tend to raise the price of food. But they have never shown the slightest concern with measures calculated to enhance the cost of

money. Cobden himself commended Peel's restrictive monetary system, which compelled the poor to give far more of their labour to secure a golden pound than would have been required to earn a bank-note pound had the national credit been properly employed for the nation's currency. And the sufferings of the poor during the so-called "hungry 'forties" were due as much to financial causes—an unduly restricted currency system—as to the Corn Laws.

What is the use of having cheap food if one is unable to procure the money with which to buy the food? Suppose, for example, that the new road from Trafalgar Square to Buckingham Palace were provided with two toll-gates, so that every passenger and vehicle using the road was bound to pass through both gates. And suppose that the toll charge at each gate is 6*d.* per head. Along comes a "free-roader" who demands the abolition of one of the two gates. Public agitation is aroused, and the toll-gate proprietors bend to the storm, agreeing to get rid of one of the offending obstructions. But they manage to preserve the other, and immediately raise the tariff from 6*d.* to 1*s.* 6*d.* per head! Is not the last state of that public worse than the first? What shall it profit the British people to have cheaper food if money becomes much dearer in proportion? Are not our working classes, generally speaking, better off to-day than they have been for the past quarter of a century, in spite of food and other commodities being twice the price they were formerly? Is it not better to earn £3 or £4 per week under

the present régime of high prices than it was to receive only 25s. to 28s. four years ago when prices were much lower ?

Improving the currency means curtailing the supply of money and credit, reducing the mechanism of trade, lessening the demand for commodities, depressing trade, ending in unemployment and starvation !

I have selected the War Loan as an object lesson for illustrating the supreme importance of establishing an invariable monetary unit, because it shows up most glaringly the evils of our present system. A debt can be halved, doubled, trebled, or quadrupled without altering the figures by which the debt is represented by a single number !

CHAPTER IV

EXCHANGE VALUE AND ITS EXPRESSION

ONE of the most elementary and important duties of civilized governments is the legal establishment of just methods of physical measurements. In the establishment of such methods and the selection of standard units, the chief consideration is how to obtain uniformity and invariability. For example, the British standard unit of length called the yard is the distance between two parallel lines on gold studs sunk in a bar of bronze, at the temperature of 62 degrees Fahrenheit. The temperature is necessarily specified because of the expansiveness of metals under heat and their contraction under cold.

Atmospheric pressure is also provided for, since it is found that a difference of one inch on the barometer causes an appreciable variation in the length of the standard bar.

Similarly with regard to weight. The imperial standard of weight is called the pound, and is the earth's attraction on a certain mass of platinum placed in a vacuum at sea-level in London. Sea-level is adopted for convenience to fix the altitude, since the weights of bodies vary with their distance from the earth's centre. Moreover, since the condition of the atmosphere varies

in time and place, causing also apparent variations in weight, a vacuum is chosen as the safest plan for obtaining invariability. The enormous importance of establishing uniformity in these matters is obvious to any one possessing the faintest knowledge of applied science and the manufacturing arts.

Without these safeguards, our modern economic life and methods would be impossible. To take two extreme cases by way of illustration. One has only to imagine the results of employing a tube of mercury, without any regard to temperature, for measuring distance, or a mass of wood without regard to quality, density, or altitude, for measuring weight, to realize the confusion—to say nothing of the dishonesty—which would ensue.

Next in importance to our physical units of measurements, ranks our monetary system in terms of which the values of commodities are indicated, exchanges are effected, debts are made and paid, and property and wealth of every description is estimated. During the past century, money has assumed an economic and social importance and power greater than it has ever possessed in the world's history. It is by means of money that the annual wealth production of all industrial countries is distributed, and any serious variation in the general purchasing power of the monetary unit necessarily inflicts injustice and hardship upon nearly all classes—the producing classes more especially. The monetary unit, therefore, should be established in such a way as

to prevent its being subjected to sudden variations in supply and demand which would affect its purchasing power.

A monetary system may be regarded as a scale upon which variations in the values of commodities are registered, and **the first requisite for such a scale is invariability.** When choosing a material for a thermometer or barometer scale, scientists were governed by the necessity for providing a scale that would be unaffected by ordinary temperatures and atmospheric conditions, otherwise the registration of atmospheric temperature and moisture by mercury would have been extremely unreliable. The same applies to the subject of money and values. Now our monetary unit—the pound—is also termed the “standard of value,” a term which is scientifically misleading, as I shall presently show. This “standard” as established by British law is the golden pound (or sovereign) containing 113 grains of pure gold. But no provision has ever been made by any Government for the purpose of furnishing its citizens with a sufficiency of gold in order that the supply should be always proportional to the demand.

The sole conditions which determine the commercial value of the standard, viz., supply and demand, were seldom—if ever—discussed.

It will be seen, therefore, that in establishing our monetary unit by which exchange and commercial dealings are regulated, our legislators failed to be guided by the same rules which have governed the world's scientists universally in their

work of establishing the standard units of weight, length and capacity. **Invariability apparently was not even considered.** By selecting a **commodity** as the monetary unit, or "standard of value," our law makers established a system by which speculators and financiers have been permitted to rob the industrial and trading classes to an incredible degree, whilst our entire industrial and commercial system has been placed upon a speculative and unstable basis resulting in innumerable economic evils and losses.

Any intelligent discussion regarding the "standard of value," however, necessitates some knowledge of the science of value. What is "value" in the sense in which it is used? Our modern economic schools have divided the subject into several classes, such as use-value, exchange-value, esteem-value, cost-value, etc. But the particular kind of value which is referred to in discussing the "standard," is exchange-value. Now all economists practically agree in regarding exchange-value as a relation. Jevons was particularly careful in defining this term. He says:—

"Value in exchange expresses nothing but a ratio, and the term should not be used in any other sense. . . . Every act of exchange thus presents itself to us in the form of a ratio between two numbers. The word 'value' is commonly used, and if at the current rates, one ton of copper exchanges for ten tons of bar iron, it is usual to say that the value of copper is ten times that of iron, weight for weight" (*The Mechanism of Exchange*).

Macleod in his *Theory of Credit* also defines exchange-value as a ratio. In another place Jevons says:—

“ Value, like utility, is no intrinsic quality of a thing, it is an extrinsic accident or relation.” “ Bearing in mind that value is only the ratio of quantities exchanged, it is certain that no substance permanently bears exactly the same value relatively to another commodity ”

which should have been sufficient to warn statesmen against choosing a “ substance ” as a “ standard measure of value.” He continues :—

“ A student of Economics has no hope of ever being clear and correct in his ideas of the science if he thinks of value as at all a *thing* or an *object*, or even as anything which lies in a thing or an object. People are thus led to speak of such a nonentity as ‘ intrinsic value.’ . . . ”

Here we have a definite statement from one who was, and is still, universally recognized among the greatest authorities on this subject, to the effect that **value is not intrinsic**, and the term “ intrinsic value ” is nonsense. And yet our monetary standard, the legal “ measure of value ” established by Parliament, was deliberately chosen because of its “ intrinsic value.” Sir Robert Peel in his speech of May 6, 1844, quoted approvingly and authoritatively from a pamphlet written by a Mr. Harris, an officer of the Mint, as follows :—

“ All payments abroad are regulated by the course of exchange, and that is founded upon the *intrinsic value* and not on the mere names of coins.”

In spite of the clear definitions already quoted, both Jevons and Macleod apparently forgot all about them as soon as they attempted to deal with the subject of a standard.

With regard to the latter Jevons wrote:—

“ Since money has to be exchanged for valuable goods, it should itself *possess* value, and it must therefore *have* utility as the basis of value. . . . It is essential in the first place to decide clearly what we mean by a standard unit of value. This must consist of a fixed quantity of some concrete substance defined by reference to the units of weight or space. . . .”

But if value is an “accident,” a “relation,” a “ratio,” or, as defined by Macleod, “an affection of the mind,” what sense is there in the term “standard of value,” or in attempting to establish a “standard unit” of an “accident” or a “relation,” or a “ratio” by “some concrete substance defined by reference to the units of weight and space”? Surely there is something radically wrong with these definitions of value or with the term “standard” as applied to value! To write of a standard of “ratio,” or a standard of “accident,” or a standard “affection of the mind” is to write nonsense.

The cause of this confusion has been due to economists failing to distinguish between different kinds of value. This confusion has been clearly exposed by Mr. C. Moylan Walsh in his able work entitled *The Fundamental Problem in Monetary Science*. When discussing one phase of the subject, writers refer to one aspect of value, such as esteem-value, and when discussing another phase they sometimes refer to another kind, such as cost-value, the result being that they often fail to arrive at any satisfactory or scientific conclusions. A further cause may be traced to the evident desire of certain economists

to invent theories which shall agree with and justify existing institutions. This has been particularly the case with regard to the subject of interest on loans, to justify which, hundreds of volumes have been written and published during the past three centuries.

So far as our subject is concerned, it is generally agreed that the particular form of value with which money as the mechanism of exchange has to deal is exchange-value. Now exchange-values are merely the quantitative relations established among commodities by their buyers and sellers during the process of exchange, and they are known and expressed by numbers representing the quantities in which they are regarded as exchange equivalents.

For example, supposing 1 oz. gold to be exchangeable for 12 gallons wine, this can be stated as follows: 1 oz. gold = 12 gallons wine.

The sign of equality used to express exchange relations means "will exchange for." It also implies that each party to the transaction obtains equal economic satisfaction. There is nothing physically equal in these commodities. But there is a means by which variations in exchange can be expressed, and it is something common to all commodities. What is it? Certainly not substance. There is nothing materially common between gold and wine. But these are dealt in and exchanged in **definite quantities**, and quantity is the only thing common to all. **Common to both commodities are quantities represented by numbers, and the values are and**

can only be expressed by these numbers 1 and 12. The exchange relations of gold in ounces to wine in gallons are 1 : 12. Now, supposing that later this relation changes so that 1 oz. gold = 16 gallons wine, and another time becomes 2 ozs. gold = 16 gallons wine. It is obvious that the **variations in exchange values are indicated by corresponding variations in quantities and quantities only**. No other changes in the expressions occur, save in the numbers indicating quantities.

Gold and silver coins function as the expressions of values merely as counters, by the numbers of such coins in use, and so long as the number is preserved it matters not whether these counters are made of silver, gold, ivory, paper or cardboard. **In short exchange-values are quantitative**, and therefore their expression is the expression of quantities.

There is no common physical standard of measurement applicable to a penknife and a cubic foot of illuminating gas. There is no single standard for measuring a horse and a musical performance. And yet we can say that 1 penknife = 1,000 cubic feet of City gas, and 1 horse = 50 stall seats at an Albert Hall concert.

Now the first part of our problem in attempting to find a method of **expressing values** is to discover a common denominator for all exchange-values. Suppose we collect all these commodities and exchangeable things and divide them into equal exchange proportions.

A clue to the solution of our problem may be

found in the obvious truth that **all commodities are of equal exchange-value in certain quantities at certain times and places.**

It would be possible to tabulate all commodities on a scale of equal exchange power by adjusting them quantitatively. Thus 1 horse = 50 concert stalls = 6 ozs. gold = 72 gallons wine = 150 penknives = 150,000 cubic feet gas and so on at a given time and place. It is evident that the only thing common to all this odd assortment of exchangeable articles is **quantity**, and the only thing that varies in obedience to the change in their values is their quantities.

CHAPTER V

WHAT DETERMINES THE VALUES OF COMMODITIES?

HITHERTO we have dealt merely with the methods of expressing or registering the exchange values of commodities without inquiring into the cause of these values. It may be asked why a certain quantity of one commodity should be regarded as the exact exchange equivalent of so much of another, and why these relative quantities vary from time to time? What determines the values of commodities? Although properly speaking this is not within the scope of this inquiry, a few observations may serve to throw some light upon what is probably the most complicated problem in the sphere of economics. Between what **should be** and what **is**, a great gulf has hitherto been fixed, consisting of laws, privileges, customs, superstition and ignorance. The basis of every economic system should be justice, the reign of which has not yet commenced, and the meaning of which is little understood in spite of our much vaunted civilization.

It may be well to understand, however, that without justice, without fair exchange, no satisfactory system of economics can exist.

Dealing principally with human actions, econo-

mics is necessarily related to and should be considered a branch of the science of ethics.

But what constitutes a fair exchange? This problem has afforded a mental diversion to economists for ages, but the only serious attempt to solve it on a strictly ethical basis was when Socialism offered as the true measure of exchange values of commodities, the "socially-necessary labour-time" required to produce them. This solution, however, has one serious flaw—it offers a premium for slackness instead of industry, for the minimum rather than the maximum output. The smaller the product in a given time the higher the value per unit, reckoned by the labour standard. Competition in slackness is not a desirable condition to offer as an incentive to production.

To be valuable, a commodity must first be useful or desirable, and secondly it must be relatively scarce. We do not pay for things which are useless, nor for things we do not desire, nor for things which are so abundant they may be had for the asking or for the trouble of picking up. If bread were rained daily like manna from heaven, it would cease to be valuable in the economic sense.

When a patent medicine firm desire to make some speciality valuable, they first protect it either by making the ingredients a secret or by patenting the formula or registering a trade-mark. The object of this is to enable them to control the supply, i.e., make it relatively scarce. The second step is to advertise it extensively and

create a public demand for it, i.e., get the public to believe in its utility and desirability. The greater the relative supply (relative to the demand) of any article the less its value and vice versa. Conversely, the greater the relative demand (relative to the supply) the greater the value and vice versa.

Hence values are said to be the result of the operations of the two forces of supply and demand. Where both vary simultaneously and in exactly the same proportion, values remain unchanged. If demand grows more than the supply, values increase; and if supply grows faster than the demand, values fall.

Demand is sometimes called the parent of supply. Certainly no one would undertake to produce or manufacture an article without knowing or believing there would be a demand (i.e., a sale) for it.

But demand in our economic system does not mean the **natural** demand. It refers solely to the **effective** demand, viz., demand backed by purchasing power, i.e., money or credit. Thousands of hungry people may be clamouring for food, but the demand, serious enough in all conscience, does not raise the market value of the loaf one farthing, unless the starving multitude can offer money in exchange.

We may, therefore, consider these two forces in the following interesting light. Supply, which is the product of all the necessary factors of production, the land, labour, machinery—in short, the whole industrial

world—operates in the direction of reducing and destroying scarcity, which is the enemy of mankind ; whilst demand, represented by money and credit, works in the direction of maintaining scarcity.

This contrast throws a flood of light upon the relation of finance to industry and explains the true cause of the eternal conflict between labour and capital. Finance, which controls capital, is essentially the opponent of labour, since each is working to destroy the object which the other desires. Labour desires such an abundance of wealth that all may enjoy the good things of life “without money and without price.” Finance desires relative scarcity so that money shall be all-powerful in controlling both wealth and labour.

The manufacturer and the general business man, who are compelled by conditions to stand between the interests of labour on the one hand and those of the financier on the other, are thus between “the Devil and the deep sea,” and are made to suffer accordingly.

Neither employers nor employees have hitherto been able to see that their interests, although fundamentally mutual, are made antagonistic by the sinister influence of finance which acts as an “agent provocateur.”

In my youthful days there was a certain kind of pyrotechnics highly appreciated by schoolboys called “the Devil among the tailors.” Its appellation is said to have been received from the

following legend. In his journeyings up and down the world, the Devil once chanced upon a merry company of tailors intent upon their daily tasks. Determining to put an end to their sociability, he boxed the ears of one, tweaked the nose of another, pulled the hair of a third, pinched the leg of a fourth, and so on, with the result that within a few seconds the tailors were flying at each other's throats, and their merriment soon ended in a riot. The moral of this legend will be found in a comparison of the industrial conditions existing in all countries during the past century with those which prevailed prior to the birth of what is now known as "cosmopolitan finance" and its colleague the gold standard.

Although the causes of labour unrest are apparently numerous and varied, the fundamental cause can invariably be traced to disputes regarding money.

The industrial world is engaged in the creation of VALUES, whilst the financial world occupies itself with the control of the instrument which determines PRICES, and between the two we have a perpetual conflict.

To this cause may also be traced what is known as "trade warfare."

To this cause chiefly the refusal of most nations to embark upon the policy of Free Trade may also be ascribed.

A scarcity of money means a scarcity of demand for goods and labour. Hence we find trade and business depression side by side with all the essential factors for industrial prosperity, viz., an

abundance of available labour, land and capital, together with a vast and unsatisfied public demand. But the dearth of currency, an insufficiency of monetary tokens, will suffice to convert prosperous into hard times, industry into idleness, a condition of plenty into one of poverty.

The increased volume of credit and legal tender now in circulation, which the financiers denounce as "inflation," coupled with the general increase in wages, has resulted in an era of prosperity which the working classes have never before experienced in this country. And if the nation were only employed in producing the **munitions of life** instead of the **instruments of destruction**, this prosperity might continue indefinitely (provided the bankers and moneylenders were prevented from contracting the currency), and the nation would be growing in wealth at a rate hitherto undreamt of. If instead of raining explosive shells for the purpose of destroying towns, villages and trenches in France, our armies were engaged in tearing down and rebuilding our own dirty, slovenly towns like certain parts of London, Birmingham, Sheffield, Leeds, Glasgow, and all our unsightly industrial centres, if they were building new railways to connect our towns more directly with each other, replacing the disgraceful cattle-sheds and barns which we politely call "railway stations," opening up and improving our canals, constructing a decent system of underground telegraph and telephone wires, opening up new ports and widening and improving our present ones, building larger and better

railway cars, carriages and locomotives, in fact doing the very opposite to what they are now doing, in place of a **National Debt** we should soon see a vast mine of **National Wealth**; instead of burdening our citizens with taxes, the Government would soon be able to free us of them entirely, and our industries, our trade and commerce would grow by leaps and bounds! **Will our statesmen have the intelligence to see this, and exercise the same zeal and courage in employing all the national resources towards creating wealth and enriching the Empire when the war is over which they have shown in the vast work of destruction?**

To return to the subject of values, cost of production is necessarily one of the prime factors in determining these. Here again the question of money and credit figure in the result. The rate of interest on money has a marked result on the cost of production. A nation enjoying the advantages of a cheap credit-currency system—other things being equal—will have no difficulty in competing in neutral markets with a nation like ourselves, whose variable and high bank rate is a serious hindrance to industrial success. Monopoly has also a serious effect upon values. The high prices fixed for diamonds are entirely the result of a rigid monopoly. Had the mines of Kimberley been worked competitively, the output of these precious stones would have reduced their values to a fraction of what they have been hitherto. The same is true of petroleum and its products. Indeed there are few commodities

to-day that may be said to be the product of free conditions.

Again, values may be greatly affected by law. The Defence of the Realm Act, forbidding the lighting of public thoroughfares and the exposure of household lights, created a huge demand for electric hand-torches, heavy window-blinds and lamp-shades. Similarly, as already pointed out, the present value of gold is due first to nature's limited supply and secondly to the legal tender laws of all nations, which have created an unlimited market for coinage purposes. These legislative acts not only affect the public demand for such commodities, but they direct the industrial activities of a portion of the producing classes into economically unprofitable channels, causing the production of goods which, in the absence of such laws, would probably never be manufactured, or to a much smaller extent.

Such measures sometimes seriously affect the whole of our industrial life.

Freedom of contract is supposed to be one of the necessary conditions under which production is maintained in all industrial and civilized countries. But it would be difficult to point out where such freedom really exists, save to a limited degree. Our modern social and economic conditions give the average wage-earner and salaried employee about the same economic freedom that the chain gives to the chained house-dog. It is the sort of freedom enjoyed by the Belgian and French enslaved populations under the Huns, who offer their victims the choice between making

munitions to destroy their Allies and starvation ! “ You work for us on our terms or you starve ” has been the condition of the average “ free citizen ” in all industrial countries to a greater or less degree for generations. With the State-accorded privileges, private land ownership, monopolies, special banking Acts, such as the Bank of England Charter and legal tender laws, all the conditions which are necessary to enable the industrial classes to freely contract for their labour and products are to-day mainly non-existent. Hence exchange-values are not the result of either free or fair conditions. They are the result of economic necessities under unjust conditions.

CHAPTER VI

THE VARIABILITY OF GOLD

COMMODITY values vary both in time and place. The purchasing power of gold, like that of all other commodities, is affected by supply and demand. The discovery of a new gold mine could reduce the purchasing power of the sovereign very considerably, whilst the sudden demand for gold for some new purpose would greatly enhance it.

It is also affected by the supply of and demand for substitutes, such as credit notes, bills, bank-notes, etc. Just as the price of beef is affected by that of its substitutes, so gold may rise and fall in purchasing power merely by the manipulation of bank or national credit. The results—which are painfully apparent to those who have had experience in financing industries and have given consideration to this important subject—may be seen in the innumerable financial troubles and disturbances with which trade and industry have been so constantly and universally afflicted for the past century. The economic, social, and political supremacy of the financial classes universally, may be traced very largely to their ability both to create as well as to employ fluctua-

tions in the monetary unit to their own advantage and enrichment.

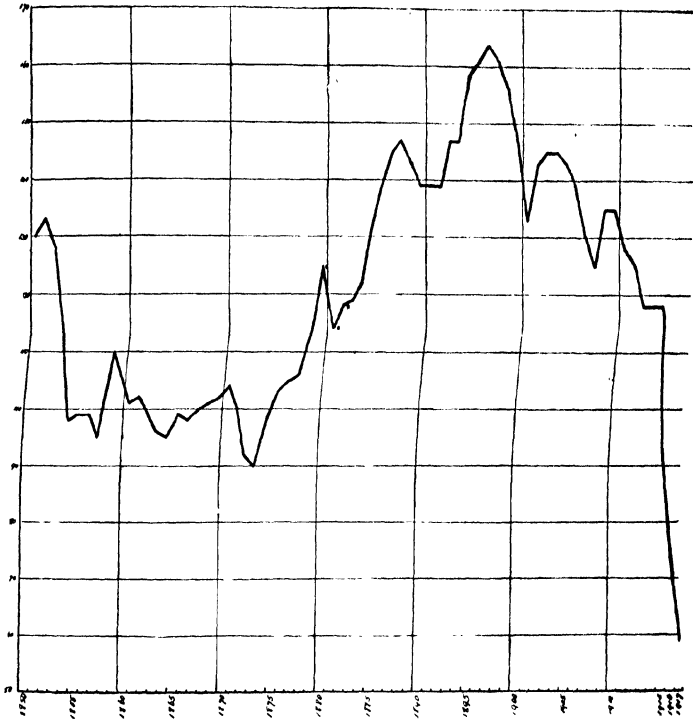
Let us take an analogy. Supposing our yardsticks consisted of certain pieces of elastic rubber, which unscrupulous dealers were permitted to use as they saw fit, so that when purchasing goods they were allowed to stretch their yard measure to cover forty-eight inches, and when selling, to reduce it to thirty inches. Naturally such methods would, whilst ensuring the enrichment of the *dealers, cause endless losses, confusion and discontent in the trade.*

Now the gold standard is a very elastic one, particularly since the great bullion dealers and financial speculators of the world have the power to control the gold supplies to a very great extent. In addition to this we have large volumes of credit in circulation performing all the functions of money and affecting the monetary unit to an incredible degree. And very much of this credit is, as previously stated, controlled by a few men who can manipulate it in their own particular interests.

Witness, for example, the United States panic known as "Black Friday," which a clique of New York gamblers engineered by the simple act of cornering the gold supplies of New York for a few days—a performance which broke no State law and was therefore legally permissible.

A similar trick was practised on the American public in 1893 by a number of bankers who, by presenting national bank-notes for redemption, were permitted to raid the Treasury at Washing-

FIG. A. HOW GOLD HAS VARIED IN VALUE, 1850-1917.



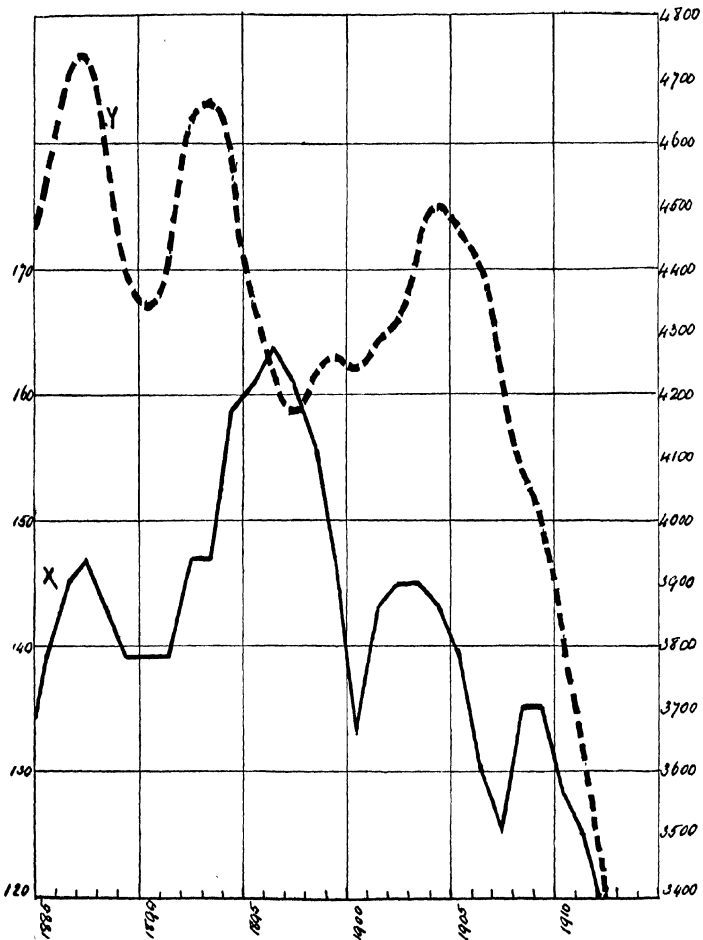
The heavy line indicates variations in the value of gold as measured by commodities generally.

(Computed from the Index Figures of Sauerbeck and "The Statist." Figure for 1917 is for 5 months only: the final calculation will show a smaller result, since prices are still rising.)

Taking average wholesale prices (Sauerbeck's) for 1867-77 to equal 100, the figures on the left indicate the relative amounts of commodities required to purchase a given quantity of gold in any year from 1850 to 1917. E.g. gold (i.e. money or credit in gold standard countries) borrowed in 1873 and repaid in 1896 would represent in goods 90 in the former year, but 164 in the latter.

The War Loans of 1915-6-7 represent a small quantity of commodities ("cheap money") but when they come to be repaid they may represent several times that quantity, if the gold standard is maintained and the present "inflated" currency is withdrawn, as bankers and financiers will wish. That is, producers will probably have to produce, in order that the Loans may be repaid, several times the quantity of goods represented by the same Loans at the present moment.

FIG. B. DIAGRAM SHOWING THE RELATION BETWEEN VARIATIONS IN THE VALUE OF GOLD AND THE NUMBER OF BANKRUPTCIES



X. Curve showing variations in the value of gold—part of curve given in Fig. A. Units marked on left side.

Y. Hand-drafted curve (four-yearly averages) showing variation in the number of bankruptcies : figures on right from Annual Reports (Bankruptcy) of Board of Trade.

ton and withdraw stocks of gold ; and by withdrawing a large volume of legal tender notes from circulation and curtailing bank credit, brought on the great panic of that year.

Again, in 1907 a similar conspiracy resulted in the currency panic which affected the markets and industries of the whole civilized world.

In each case the purchasing power of money rose enormously.

Jevons also tells us that the value of gold fell 46 per cent. between 1789 and 1809 (a period of only twenty years), that from 1809 to 1849 it appreciated 145 per cent., whilst between 1849 and 1874 it fell over 20 per cent.

During the past ten years it has fallen nearly 50 per cent. !

The accompanying diagrams, drafted by Mr. Harold A. Grimshaw, of the London School of Economics, graphically illustrate how violent have been the fluctuations of gold during the past sixty-seven years, that is from 1850 up to the fifth month of this year. The second diagram shows how these fluctuations correspond with the variations in the number of bankruptcies.

To talk of a standard subject to such violent changes is the height of absurdity. "So palpable is this objection," says Francis A. Walker, the well-known American authority, "that some writers who still cling to the term "measure" of value abandon that of a "standard of value."

Professor Irving Fisher, of Yale, U.S.A., has suggested a method of overcoming the difficulty of variability by changing the weight of gold in

the standard unit from time to time. He proposes to vary the weight in order to maintain a "fixed value."

The suggestion is ingenious, but more feasible in theory than in practice. It would be analogous to the legal establishment of a mercury-tube as our yard-stick, exposed to atmospheric influences which would involve an alteration in every yard measure and every foot-rule in the Kingdom whenever there was a change of temperature!

In spite of more than a century's experience in which panics and disasters have demonstrated the utter unscientific character and fraudulent nature of our legal monetary standard, and during which private fortunes have been dishonestly amassed—stolen from the producing classes by the instigators of such panics—no statesman in any country has yet appeared with a proposal for establishing a really scientific system which would be immune from private manipulation and free from fluctuations! Why is this? Certainly no greater public service could be rendered and no wiser legislative Act could be proposed for the public welfare.

Is such a system possible?

Before answering this question let us see how the present one came to be legalized, and the reasons given by its principal author.

CHAPTER VII

THE GREAT PEEL FALLACY

SIR ROBERT PEEL, to whom we owe our present banking laws, attempted to deal with the whole subject of a standard of value in his speech delivered in the House of Commons, May 6, 1844, prior to his introduction of the famous Bank Charter Act.

“ My first question,” said Sir Robert Peel, “ is, what constitutes this measure of value ? What is the significance of the word ‘ pound ’ ? Unless we are agreed on the answer to these questions, it is in vain we attempt to legislate on the subject. If a ‘ pound ’ is a mere visionary abstraction, a something which does not exist either in law or practice, in that case one class of measures relating to paper currency may be adopted, but if the word ‘ pound,’ the common denomination of value, signifies something more than mere fiction—if a ‘ pound ’ means a quantity of the precious metals of certain weight and certain fineness—if that be the definition of a ‘ pound,’ in that case another class of measures relating to paper currency will be requisite. Now, the whole foundation of the proposal I am about to make, rests upon the assumption that according to practice, according to law, according to the ancient monetary policy of this country, that which is implied by the word ‘ pound ’ is a certain definite quantity of gold with a mark upon it to determine its weight and fineness, and that the engagement to pay a ‘ pound ’ means nothing, and can mean nothing else, than the promise to pay the holder, when he demands, that definite quantity of gold. What is the meaning of the ‘ pound ’ according to the ancient monetary policy of this country ?

“The origin of the term was this: In the reign of William the Conqueror a pound weight of silver was also the pound of account. The ‘pound’ represented both the weight of metal and the denomination of money.

“By subsequent debasement of the currency a great alteration was made, not in the name, but in the intrinsic value of the pound sterling, and it was not until a later period of the reign of Queen Elizabeth that silver, being then the standard of value, received that determinate weight which is retained without variation, with constant refusals to debase the standard of silver, until the year 1816, when gold became the exclusive standard of value.”

By this definition of the monetary pound, which forms the basis of our Legal Tender and Bank Charter Acts, Sir Robert Peel forged a chain which has hampered our trade and industries and has shackled the feet of labour and capital for the past seventy years. **Moreover the definition is one of the greatest fallacies ever uttered!** It will be observed that Peel claimed that his definition agreed with “practice,” “law” and “history.” Here we get a glimpse of the official mind of the average British statesman. Neither reason nor lessons from experience are permitted to interfere with tradition. Sir Robert Peel treated the pound, not as an invention—the mechanism of exchange—which like all inventions is capable of improvement from time to time,—but as though it were some subject of natural history. The barbarism and ignorance of mediæval times must be handed down century after century, and perpetuated by Acts of Parliament in order to conform to tradition!

One has only to put the definition of a “pound” to a practical test to see how absurd it is. Accord-

ing to Peel, the promise to pay a pound in English money means "the promise to pay a definite weight of gold with a mark upon it to determine its weight and fineness." Is this true? Put it to the test. Ask any tradesman, manufacturer, wage-earner or professional man—in fact any person outside of the banking, bullion or money-lending profession—the weight of gold in a sovereign, and there is not one in a thousand, probably not one in ten thousand, who could answer without referring to a text-book or a banker. Peel actually led himself to believe that when a mechanic or tradesman offered his services or goods for the sum of £3 17s. 10½d., he was not stipulating for so much purchasing power with which to purchase so much food, clothing and comforts, but one troy ounce of gold! Nobody outside of a bullionist's or money changer's office ever thinks of or employs money in terms of its weight. To tell the average man that a *Dreadnought* costs between twenty and thirty tons of gold would convey no intelligible idea. He would have first to convert tons into grains and grains into sovereigns to grasp the meaning of such an equation. **Peel's definition is untrue on the face of it. It has never been true since coinage was generally adopted. It was no truer in Peel's time that it is to-day.** This is proven by the fact that in the very Act which he later introduced and foreshadowed in his speech from which I have quoted, **he provided that the Bank of England could issue £11,000,000 in notes against the National**

Debt without keeping an ounce of gold in reserve for their redemption !

If Peel's definition and statements were correct, the issue of these notes was nothing less than a legalized fraud ! Within two years after the Bank Charter Act became law the complete refutation of Peel's financial theories was demonstrated by the panic of 1847, which was stopped by suspending gold payments and permitting the Bank to issue inconvertible notes ! The same thing occurred in 1857, and again in 1866. So long as the public could draw bank-notes with which to pay their private debts and taxes they cared little or nothing for gold. The notes did their work as the medium of exchange and saved the nation on each and every occasion. Moreover, since August, 1914, every inhabitant of Great Britain has witnessed the daily refutation of Peel's definition of the "pound."

What was the cause of Peel's failure to grasp the true meaning of money ? Apparently he had been greatly influenced by Lord Overstone, the chairman of Lloyds Bank, and by various foreign traders. Sir Robert confined his attentions exclusively to the value of the pound in the **foreign exchanges**, where trade is barter pure and simple and money, properly speaking, does not function.

Unintentionally, no doubt, his legislation was solely for the benefit of the bankers and foreign traders. Sir Robert's chief object appears to

have been to make the British pound valuable abroad where its legal tender functions disappear, and the commodity alone counts.

By doing this, he not only robbed his country of the use of its credit (associated with legal tender) but exposed British industry and trade to the ravages of foreign merchants who could exercise adverse influence upon our markets. They could send their commodities and take our gold in exchange, reducing our currency and credit facilities and thereby crippling our home trade, whilst increasing the credit facilities in their own country.

The fundamental error into which our statesmen fell was through confounding gold with its legal tender powers—in failing to distinguish between the metal and the functions legally conferred upon it. **It is too often forgotten that gold owes its universal economic supremacy entirely to the laws and customs of nations which have made it compulsorily the debt-paying instrument. Any other metal would acquire the same power and value by similar legalization provided its supply could always be controlled within similar bounds.**

Legal tender is as much an invention—a mere contrivance for effecting certain ends—as the telephone or the sewing machine. If we take a sovereign and examine it we find it consists of a certain mass of gold alloyed with copper, shaped as a circular disk with milled edges, and bearing certain images and inscriptions. Now, in what part of the coin does the money reside?

Suppose we take a hammer and carefully deface the inscriptions, or suppose we melt it and reduce it to a mere mass of alloy. **Evidently we have destroyed the money!** No one would take it as a piece of money. **Its monetary functions have vanished, and they can only be restored at the Government Mint by recoinage.** Although the commodity remains as before so far as weight and quality of metal are concerned, the legal tender functions conferred originally by the State having been destroyed, can only be reconferred similarly by the State. And if after melting the sovereign the coinage laws should be repealed and the Mint closed to the free coinage of gold, we should find the legal tender functions of the defaced sovereign had been destroyed for ever. Examples of this were given during the great silver agitation in the United States twenty years ago, after the silver coinage laws were repealed. Silver dollars were worth the same as paper dollars, and five silver dollars were exchangeable for a five-dollar gold coin. But when a silver dollar was melted, its value as money was entirely destroyed, whilst the silver of which it was composed was worth only its commodity price, viz., **one half of the dollar.** In short, **the doctrine which certain British and American economists had hitherto preached, viz. that "money is a commodity, and its value depends entirely upon the material of which it is made," was demonstrated to be utterly false!**

In spite of these object lessons, there are still

many writers who have the temerity to propound the same stupid theory.

Legal tender functions conferred by the Government upon the precious metals can and do add to the commodity-values of these metals by increasing the demand for them. But the value of these metals in the arts can never increase their legal tender value. If, for example, gold is worth more as a commodity than as money, it would immediately be withdrawn from circulation. Consequently gold coins owe their purchasing power wholly to their legal tender privileges.

It has been claimed by certain Socialist writers that the gold standard is virtually a labour standard. They assert that the high esteem in which the so-called precious metals are held, is really due to the labour expended in producing them, and consequently gold represents "frozen labour." There is, of course, no truth in the assertion, as a moment's consideration will show. The gold nuggets found by accident, requiring practically no labour, have the same purchasing power as that produced after years of search and toil. There is no difference in the value of the gold produced by the cheap cyanide process and that from the more expensive roasting treatment of arsenical pyrites. A considerable amount of the gold in use was produced by cheap Chinese and even slave and convict labour. Is this the sort of labour such writers would wish to establish as a "standard"? To get over this difficulty, some writers claim that we must take the **average** labour expended. But what is the average between

free and slave labour? And how is one to average the cost and productiveness of labour expended 1,000 years ago and that of to-day?

The world's supplies, we must remember, are the accumulations of many centuries. Some authorities have tried to prove that the real cost of our gold supplies is far in excess of its present value. If we include the oppression, the suffering and misery the use of this metal has inflicted upon humanity as part of the costs, there can be no doubt as to the truth of this claim.

Evidently, therefore, labour cannot be either the cause or the "measure" of the value of the precious metals.

It must be evident to any one who gives the subject the slightest consideration that the monetary "pound" cannot possibly be a certain weight or mass of a certain metal. To reduce the definition to common sense, one must regard the "pound" merely as **the purchasing power of the legal tender unit**. It would be just as rational to define the standard of length as the **weight** of the bronze bar and gold studs which fixes the British yard measure, as to define the monetary pound in terms of so many grains of gold. Let us take another illustration.

According to Peel's definition, it would be utterly impossible to express or calculate the wealth of nations or communities in monetary terms with any approximation to truth. Take the wealth of Great Britain, which is variously estimated at from £15,000,000,000 to £20,000,000,000. What is the meaning of

these figures? According to Peel, they mean 15,000,000,000 to 20,000,000,000 **golden sovereigns**—or more correctly, somewhere between 150,000 and 200,000 tons of pure gold! This amount is probably from four to five times more than all the gold that has ever been produced! Moreover, if it were suddenly produced, it would be worth less than the gold already existing, which is one of the many paradoxes with which this science abounds! For such a vast augmentation of the supply would be likely to create panic and lead to its demonetization. Evidently old Euclid had not studied the laws of value when he wrote his famous axiom that “the whole is greater than a part.” In short, Peel’s definition makes all financial calculations and expressions of large sums meaningless. What every one means by these figures is **not so much weight of gold, but 15,000,000,000 times the present purchasing power of one pound!**

Between these definitions, viz., **a certain weight of gold** and the **purchasing power of that gold when coined**, there is all the difference in the world. A monetary system based on the former definition involves an exclusively gold currency. If a pound is what Sir Robert Peel defined it, then it must be regarded as fraudulent for the Government to authorize the use of any currency other than gold.

Peel’s definition makes the tender of Bank of England notes and Government notes issued against the national credit, a fraud on the public, unless every single note representing a pound is

backed by its legal weight in gold ! On the other hand, if the pound is merely the **purchasing power of so much gold**, it can be expressed and issued in any convenient form—paper, or any other method—so long as it enables the holder to purchase the equivalent of so much gold. Further, **the pound is only the purchasing power of so much gold, so long as the mints remain open to its coinage at the present ratio.** If the mints were ever closed, if the governments of the world were to treat gold as they treated silver, it would soon be discovered that the present purchasing power of gold is due to the legal privilege granted it as the debt-paying instrument. These laws prevent the metal from falling below the purchasing power of the gold coins defined as monetary units.

The variability of the purchasing power of gold, which must have been known to Sir Robert Peel and his associates, ought to have suggested to our legislators the necessity of defining the standard unit, **not** with reference merely to a certain weight or mass of gold, but **to its purchasing power at a given time and place.** If one promises to pay a given number of pounds at any future time, both debtor and creditor ought to be assured that the pound is not going to vary in relation to the whole realm of commodities generally, by the time the payment is due, because money is accepted in settlement of debts not for obtaining possession of gold or silver coins, but for obtaining the means of purchasing such goods as are needed and desirable.

If Sir Robert Peel had defined the "standard of value" as the **purchasing power of 113 grains of pure gold**, he would have been nearer to truth and common sense than when he defined it by **weight** of metal. **But this definition alone would not establish invariability**, which is the very essence of a standard. Just as the standard of length and weight are fixed in relation to temperature and pressure, so any commodity employed in connection with a unit of purchasing power, should be similarly **fixed in relation to time and place**. Thus, supposing Peel had announced that the purchasing power of the pound **at noon, January 1, 1845**, would thereafter constitute the standard monetary unit throughout Great Britain, he might have established a scientific system which would have ushered in a new era for trade and production. The pound would then have represented a certain fraction of the total national wealth as it existed at that date.

Of course such a system would have necessitated a properly regulated currency, i.e., where the currency supply would have been arranged to keep pace with the demand, which would have maintained its general purchasing power at a constant level. Neither gold nor any other commodity-currency, would have functioned under such conditions. Paper money—which is the money of civilization—would have proved the only rational system.

The relation of money to commodities has often been likened to a balance, one scale of which

contains all the money in circulation, and the other scale the commodities sold for money. Now at any given instant of time, the money scale must balance the commodity scale. And if Peel's theories were practicable and rigidly enforced, the money scale would always contain gold and nothing else. But gold is conspicuous by its absence in the vast majority of exchanges. Its place is taken by credit consisting of promises to pay gold, which performs the same exchange functions as gold, and is in fact its most active partner. Gold may be regarded as the silent partner of credit. If these **promises** are borrowed from our banks and credit dealers, they cost the borrower just as much as gold itself.

Now the great trouble is this. In the money side of the scale, these credits—these promises to do the impossible, viz., redeem debts in gold **on demand**—balance just as many commodities, and therefore weigh as much as the gold they promise to pay. And as such promises are quickly and inexpensively created, and may be as quickly cancelled, they necessarily produce rapid and sometimes violent oscillations of the balance. And owing to the legal tender Act which makes gold the basis of debt-settlement, all this credit, this mountain of paper, gives to its owners the same power of purchasing goods, of booming and depressing trade, as if they owned a similar quantity of gold. **The scale is therefore fraudulent.** It gives the public the impression, that for all the goods they send to market, there exists somewhere—in those mysterious bank vaults or in the

safes and tills of the money merchants, or some other hiding places—untold millions of bullion or golden sovereigns, the right to which is transferred to them by cheques and bills and other credit instruments. Only in the realms of Finance and Christian Science does confidence work miracles. There alone is the mere promise of a thing regarded as equivalent to the possession of the thing itself.

Peel's law made the banker and financier so powerful, that they could say to trade, to commerce, and industry, "Except ye believe in us and in our ability to perform our promises, ye shall all perish"! And it is this ability of credit to function as gold, that causes such enormous fluctuations in prices and in the conditions of trade and industry.

This illustration of the balance shows why a general rise and fall in prices is possible. It is merely a movement of the balance in one or other direction. It means that whatever one side loses in value, the other side must gain.

Any change in the purchasing power of money eventually affects **all** commodities. Although the pound may have increased in value, the number of legal tender pounds in circulation are so disproportionate to the goods they exchange, that this increase in the value of the money is a mere fraction of the decrease created in all other goods. In an exchange of £3,000,000,000, it has been estimated that the total sums of money employed did not exceed £75,000,000. For this reason a nation can increase its material wealth, whilst apparently becoming financially poorer!

If for every sale of goods, Peel's pounds were used, if all commodities exchanged were exactly balanced by an equivalent in gold, this paradox of an increase of wealth being represented by a decrease in the money value of such wealth, could not occur. For the reason that whatever commodities lost, the money material (gold) would gain in value and vice versa, and the balance would then be maintained.

Now by getting rid of commodity money, by employing credit money merely as the representative of wealth, instead of falsely assuming that money *per se* is a part of wealth, we get rid of our price scale as a thing apart and distinct from the scale of values, and money would then constitute the common denominator of the values of all commodities, including gold and silver, in the truest sense. Values and prices would thus become synonymous terms. **The logical conclusion to which we are inevitably driven is one that will no doubt arouse considerable astonishment. In order that it may satisfactorily perform its necessary functions—particularly that of a value denominator and accurately register the variations in the exchange values of commodities—money must be essentially a valueless token, similar to a railway or theatre ticket. The one pound Treasury note, of course, meets this definition, provided its issue is not restricted by such absurdities as gold-redemption, and so long as the supply is sufficient to meet all the demands of trade, industry and commerce.**

CHAPTER VIII

THE FUNCTIONS OF MONEY

It is evident that before we can outline a scientific monetary system we must first determine what are the essential functions which money must perform. As necessity is the mother of invention, and as money is purely an invention, we must first ascertain what necessity led to its discovery.

In tracing the origin and evolution of money, most treatises go back to primitive times and people and show how trade commenced with simple barter. Fish was exchanged for game, skins for feathers, corn for cattle and so on. The system naturally involved many difficulties, one of which was the lack of divisibility of certain goods offered and desired. A cattle raiser who wanted a few apples or fish and had only cattle to barter with found difficulty in getting change. Sometimes it would happen that a trader who wanted corn had nothing which the corn grower desired as an equivalent. In such cases the corn grower might be willing to trust the trader until at some future time he could pay for the corn in some commodity the corn grower desired. But he required some guarantee or at least some

evidence of the debt to reassure him that such payment would be made. Now, according to certain writers, some one, or perhaps many people, hit upon the idea of employing a commodity which was valuable, imperishable, and capable of being subdivided into the smallest possible parts. The commodities best answering to these requirements were gold, silver, and copper.

This is the usual explanation of how these metals came to be so universally employed as the money metals.

Arguing from this data, economists came to define the necessary functions of money as follows. They said money is (1) a standard measure of values, (2) a standard of deferred payments, and (3) a store of value. And although this invention is probably older than the art of writing, no substantial improvement or alteration in the functions or character of what they term "good" money has been recognized by the orthodox schools of economics since it was first established. Whilst in practically every department and branch of individual, social and national life, invention and discovery have raised humanity from a condition little above that of the animal kingdom to its present condition of comparative health, welfare and comfort, we are still bound to the old barbaric method of having to barter all our products for gold or its representatives.

Let us carefully investigate these so-called essential functions of money.

(1) As to **the measure or expression of values**. We have already seen in a previous

chapter in what manner the exchange values of goods are expressed, viz., by numbers representing quantitative exchange equivalents.

Some system of estimating and expressing values must have existed among all races even where barter was practised. So much or so many fish would be exchanged for so much corn or for so many skins. Hence the values would be registered by the quantities, weights, volumes, etc., in which the goods were exchanged. These values would naturally vary from time to time and from place to place according to variations in conditions, such as weather, scarcity or abundance of products, amount of effort expended in securing the product, etc.

But the mere use of numbers for registering exchange equivalents would not suffice without their association with some unit or common denominator of exchange-values or of purchasing power. In using a certain commodity like gold, this difficulty was thought to be solved. Commodities were then appraised in terms of so many grains, ounces, or pieces of gold. The gold became merely the common denominator, and the numbers indicating the numbers of gold units were the expression of commodity values.

But experience has taught us that the unit need not be associated with any particular commodity. On the contrary, the fluctuations in the values of all commodities show us that no just or satisfactory system of measuring or expressing values generally, can possibly be established by employing a commodity unit,

A just monetary system ought merely to express the exchange-values of goods, as it finds them without intruding upon the scale any special value of its own. It must therefore be strictly neutral, passive and not active. It ought to be merely the neutral and invariable scale upon which commodity values are registered. If it is more than this, if we select a kind of money like one of the precious metals which compels it to obtrude its own varying values from time to time, and thus fraudulently interfere in the equations of commodity exchange, it must necessarily work injustice.

The adoption of a unit or denominator, should be dictated with the main object of securing something or some system which will result in invariability in the unit chosen. And here we come to the so-called second function. (2) **A standard of deferred payments.** It is evident that when a debt is incurred, justice demands that payment must be made in something or in some manner which shall be a just equivalent. Here we come to the root of the money problem. For ages a war has been waged over this question. In recent years attempts have been made to deal with it in a scientific manner instead of from the standpoint of personal or class interests. Here also we find the inevitable conflict of the two opposing interests, labour and capital, production and finance. Whilst finance desires a unit which will expand with the growth and development of invention and industrial progress, so that debts shall expand proportionally, labour and industry

are anxious to escape the bondage of debt, and are interested in the establishment of a unit which corresponds merely to the original amount of the debt.

As to the claim of the champions of financial interests for a progressive unit, little need be said. The claim is not based upon any just or valid argument. It is said that industrial progress is the result of financial assistance given to industry, and hence money is one of the essential factors of production, and therefore its dealers are entitled to share in any increase in productive methods during the period of the loan.

The reply to this is that since loans are made interest-bearing, such interest payments are ample compensation for the use of such loans. Moreover since moneylenders would refuse to share in any losses which the industrial borrower might suffer during the same period, there is no just reason why they should be allowed to share the gains.

But, as we shall see later, the controlling influence of money in the field of production is due wholly to special laws which, if abolished, would enable producers speedily to establish a currency system of their own which would be non-interest bearing and would enable them to escape the present tyranny of the money power. In short, the present position of finance as a necessary factor in production, is an artificial one imposed by Parliamentary laws.

Now the producers' side of this controversy is as follows.

When one incurs a debt by borrowing or buying on credit, he buys or borrows commodities or

labour services or something which holds a certain value relation to all other goods at the time the debt was made. If we take the whole realm of commodities and wealth in the community to be represented by x units, any debt must be represented by $y \times \frac{1}{x}$ units, y being the number of units of goods or wealth bought or borrowed. For example, if one borrows from a bank £1,000 to-day, what is the real amount of his debt? Let us suppose our total national wealth to be represented by £15,000,000,000. Then the amount of the debt is $\frac{1000}{15,000,000,000}$ th = $\frac{1}{15,000,000}$ th part of the national wealth at the time the money was borrowed.

The practical application of this method to a monetary system will be shown later. It affords a means of establishing a fixed and invariable unit corresponding to a definite fraction of the total wealth of a community or nation at a given instant of time.

(3) It is also claimed that money is a store of value.

No doubt in times and countries where society and law were scarcely established, and where such a thing as credit and security were unknown, all exchanges had to be made on a barter basis of value for value at the time the exchange was made. But this system was still a system of barter even where gold was used. In short, gold was then used not as money as we understand it, but as a commodity pure and simple.

The "store of value" function, belongs to an age of barbarism and semi-civilization and was considered essential for safety. But in our modern and highly organized social system, credit has superseded the gold barter method almost entirely. As little as still exists, is due to our legal tender laws—to compulsion!

In place of a "store of value," all one requires of money nowadays, is an assurance that one will be able to pay one's debts with it or exchange it for what one needs, at any future time at its face value, which value should represent a certain fraction of all exchangeable wealth at the time the money is paid.

The American greenbacks up until the time they were dishonoured by their own Government, and our present Treasury notes, would represent such units provided their supply was made contingent upon the legitimate trade demand.

Those who have been taught to regard value as something material and tangible, may have some difficulty in understanding how an immaterial and intangible unit can function as the basis of a monetary system. Such units would be ideal. It is not necessary that these units should correspond to any fixed amount of any given commodity. On the contrary since they must express the values of all other commodities, they must be free from such association.

Ideal units of value are not a recent discovery.

Some years ago the chief of an American tribe of Indians was invited to address a society of which I was a member, on the economic system

of the aboriginal Indians. He stated that units of value were known among his race, and a currency system was in use long prior to the advent of the white settlers. This currency consisted of small pieces of tree branches which were notched with a knife in certain ways to designate the amounts of personal debts incurred by members of the tribe. Each debtor cut his own sticks and notched and handed them to his creditors, each notch representing an ideal unit of value. These constituted a sort of I O U and circulated among the members of the various tribes, and were finally redeemed by the debtors in game, fish, skins, feathers, etc., as required.

As showing that honesty is an essential basis for any sound currency system, this Indian chief explained that whilst this aboriginal system worked satisfactorily among his people in early times, he doubted whether it would succeed now since the intercourse between the white and coloured races was so intimate.

He added quite seriously, "You see, you Christians have taught us many things we never knew. And unlike us barbarians, you Christians cannot trust each other."

John Stuart Mill also records the fact, that certain African tribes were known to employ a method of expressing these exchange relations in terms of an ideal unit called the "macute." They say this is worth so many macutes, and that so many, and in this way they estimate the respective values of all exchangeable goods in terms of the macute. He adds that "there is

no such thing as a macute." It is merely an ideal unit created for this special purpose. Such a unit would when properly issued, entirely fulfil the functions of money in expressing the values of commodities, without intruding any commodity value of its own.

Now the world's monetary systems, established by law under the advice and influence of money dealers, are founded upon a different theory.

Money created by law is a commodity and is generally regarded as the king of all other commodities. It is held to be valuable not merely for its utility as the medium of exchange, but chiefly because of the material of which it is made. Instead of merely expressing the values of other things and functioning as their servant, it obtrudes its own value and insists upon vaunting its brazen qualities in the face of its infinitely more useful brethren.

Gold money is the Hun among commodities. It is the barbarian that has broken all its treaties and promises, and undertaken the conquest of the world by force and fraud.

Instead of exchanging desirable commodities directly for each other as in primitive times, we are compelled, under this barbaric system, to exchange our useful commodities for the comparatively useless metal, gold itself, or its supposed representative.

It is much as though the Cabinet had been entrusted to provide our King with a private secretary, and had selected a man of such inordinate ambition and self-importance, that soon after

his appointment, he had, with the approval of the Cabinet, dethroned the King and placed the crown upon his own head! And most of our economists and financial experts, have been engaged ever since in the impudent task of trying to make the people believe that this usurper is their rightful king!

The association of a commodity with the currency, prevents it from honestly functioning as the language of values. One might as well employ as an interpreter for people of various nationalities, a man who can speak but one language. Gold, whether as a coin or as a commodity, may function as a measure of other pieces of gold. But it cannot safely nor justly express the values of other commodities. It knows no language but its own. And since it could not continue to function as currency solely on its own merits, it has been forced upon the world by legal tender laws. The public use of a desirable commodity does not require the force of law. No government has enacted laws compelling its people to eat cheese, or drink beer, or smoke tobacco.

Money is said to be "a measure and a store of value!" And it is this "store of value" which, functioning as a commodity, prevents money from honestly representing the exchange values of other commodities. Hence commodities must change their native tongue! (Again how like the Hun!) Originally, commodities were socially related by their exchange-values, a relation expressed by numbers, and it was these and these only that

the invention of money should express. But the boorish Prussian commodity-money, insisted upon their all speaking his barbarous tongue! Hence the language of commodities became no longer numbers expressing values, but weights of gold representing prices—which is a very different story!

In his well-known work entitled *The Fundamental Problem in Monetary Science*, Mr. C. Moylan Walsh commences his first chapter with the following remarks:—"In monetary science at the present stage of its development, the fundamental problem is to determine what is in good money the quality that constitutes its goodness, etc." Further on he says, "We are obliged therefore to seek further below the surface and to inquire, what kind of value is it that money measures and stores and should possess in a stable manner? This is the fundamental problem in monetary science." He then devotes the bulk of his work to a critical historical survey of all the theories which have been advanced by economists for the past three centuries. The conclusion of this writer, which is the general opinion prevailing among economists, is that money must be a commodity, and in order to "measure" the values of other commodities it must itself possess "a store of value," i.e., those qualities which give value to the goods it "measures."

It would thus appear that since some commodities, like paintings, owe their worth to the high esteem in which they are publicly held, and others are valued according to their labour cost of pro-

duction, and others again for their utility and comparative scarcity, money must possess every kind of value in order to function as a "standard."

Now it would be utterly impossible for a single commodity to be endowed with such a varied assortment of values. Moreover, even if such a phenomenon were possible, it would not solve the difficulty which presents itself, of discovering some just and simple method of expressing the exchange relations of commodities in terms of some common denominator.

Most economists imagine that it is necessary to select as a standard of value a commodity possessing all those qualities which make commodities valuable. This would be analogous to selecting one steam boiler as a standard for measuring the steam pressures of all other boilers, or of trying to measure the electric currents of a dozen or more dynamos by taking one of their number as a standard.

What would be the use of such attempts, when the steam power of the standard boiler and the current of the standard dynamo are themselves both unknown?

You cannot **measure** either the use-value, cost-value, esteem-value, or even the exchange-value of one commodity by placing another—not even a piece of gold—beside it, any more than you can measure the steam pressure of a boiler by coupling it up to another boiler and raising steam in both.

To measure steam pressure, the pressure gauge was invented, in which the force of the steam is

made to balance the tension of a spring or raise a weight of known dimensions on a graduated scale.

Similarly with the electric current.

Now **the main problem in monetary science is not the selection of a suitable commodity possessing value, stability, ductility, divisibility and other physical qualities which economists assert are essential in a standard. The fundamental problem is to discover—not a commodity, but—a method which will enable us to (1) accurately express at all times the exchange-values of commodities in terms of some common denominator regardless of why such values exist or how they have arisen, and (2) to issue tokens as evidences of debt and credit, in terms of some invariable unit representing some proportional part of the general wealth of the community at a given time.**

Now the exchange-values of commodities, whether gold or pig-iron, are determined, not by their physical qualities, but by their quantities available in relation to the public demand for them. We are dealing now exclusively with objective exchange-value, and all the other kinds of value pertaining to cost-value, labour-value, use-value, monopoly-value, esteem-value, etc., have no more to do with the problem than the question of the particular fuel has to do with the measurement of steam pressure or electro-motive force.

What we want is a simple method analogous to a steam gauge, in which the resultant of the opposing forces of supply and demand which control exchange-values, can be registered.

Taking the steam boiler once more as our analogy, if the problem were merely to compare a given number and range them in the order of their steam pressures, we might take a number of similar pressure gauges all similarly graduated, and place one on each boiler, and range them according to the numbers corresponding to the pointers on their dials. In this case we should not even require to know the meaning of each graduation in terms of any known force. Each graduation might equal a pound weight, a hundredweight, a horse-power or X. If the problem is merely to determine the relative steam pressures of the boilers in question, we should simply read the numbers and take these as indicating the relative pressures. Thus if boiler A registered 10, boiler B 20, boiler C 30, and boiler D 40, we should know that the steam pressure in D was four times that in A, twice that in B, and $1\frac{2}{3}$ times that in C.

Now this is precisely what we require, and all that is involved in the so-called problem of "measuring" values. **It is a comparison of commodities one with another in order to ascertain their relative importance in the estimation of the public under the conditions prevailing.**

A further illustration of the confusion arising in the minds of most writers on this subject, is the contradiction between the commodity and quality theory of money, and what is known as the quantitative theory.

The latter theory has been definitely established

and accepted by every up-to-date economist. In general terms, the theory is, that the value of money, other things remaining the same, varies inversely with the quantity in circulation. That qualifying phrase "other things remaining the same" includes velocity of currency circulation, quantity of goods offered for sale, etc.

Now if the value of the money commodity depends merely on its physical qualities, its non-corrosiveness, divisibility and all the other attractive features enumerated by the gold standard theorists, it matters not how much nor how little gold there is, these physical qualities are not affected in the slightest degree. And yet we know perfectly well that if chemistry should discover the secret of the transmutation of baser metals into gold at a very slight expense, or if some mining operations should result in making gold as plentiful as pig-iron, its value would fall to a fraction of its present value, and every government would immediately demonetize it. In short, its present position as the standard of value is due to circumstances: *first*, popular superstition and ignorance; *secondly*, its comparative scarcity; and, *thirdly*, legal-tender laws.

The third is the consequence of the other two causes.

The value of gold, like those of all other commodities, is determined by supply and demand. It behaves and is subject to the same laws as legal tender paper money.

A century or more ago, both economists and merchants had a far better and more intelligent

conception of the medium of exchange than they have to-day. At that time, money was defined as "a ticket," "a token," "a counter," "the evidence of debt," etc. People accustomed to the currency throughout the Napoleonic wars, knew that the medium of exchange need not be burdened with "a store of value" to properly fulfil its trade functions. It is true that the paper money of those and other times was often issued on the unfortunate theory, that nothing more was required than the enactment of a law to confer upon money **in any quantity**, a certain fixed power of purchasing commodities. Those writers who are so fond of picturing the evils of so-called inconvertible paper money, by citing the depreciation which the French and American notes suffered, should tell us how else Napoleon could have financed his wars, the American Colonies their War of Independence, and later their Civil War, and England her campaigns which ended in the conquest of Napoleon, save by the use of the national credit in the form of legal-tender notes?

How else could we have avoided the most terrible panic in British history in August, 1914, after London had been denuded of gold by the German bankers, through the combined avarice of our money dealers and the folly of our free gold market, but for the issue of our **inconvertible** Treasury notes? I underscore "inconvertible" because, up to the present time, they have been inconvertible in spite of the efforts of certain bankers and statesmen to make it appear otherwise. The mere ear-marking of £25,000,000 of gold

against £150,000,000 of notes is a long, long way from convertibility.

There is still another view of the functions of money to be considered. When goods were directly exchanged for goods, each party secured directly the goods he needed. Mutual satisfaction was the result. But with the introduction of money, one first exchanges goods for money, and then money for goods, so that where the trader obtained satisfaction under the barter system in one operation, it requires two transactions under our monetary system. Hence the exchange of goods for money is termed a demi-exchange or half-a-transaction. The trader accepts the money, not because money can satisfy his wants (he cannot eat it, or wear it, or obtain any satisfaction from its consumption), but because he knows he can exchange it for the goods which he needs.

Now this function of money—the medium of exchange—is merely a **utility**. The power here required, is merely purchasing power, which can be conferred upon any valueless token by the agreement of Society and its members, or by law. Commodity-money advocates insist that this purchasing power must necessarily be associated with some commodity for which the demand is always sufficient to secure its circulation. And they select gold as the one commodity which answers this condition. But they fail to explain why it has required the power of the State to ensure this demand. One thing, however, we do know, and that is that the demand for legal tender is a constantly increasing and universal

one, and enormously greater than the industrial demand for gold, for purposes such as jewellery, ornaments, dentistry, etc. And we also know from the results which the partial demonetization of silver had upon the value of that metal, that if gold were universally demonetized, every gold-mining operation in the world would cease within twenty-four hours, and the value of gold would fall to a fraction of its present value!

There is enough gold held for coinage purposes to supply the Arts for a century.

It is sheer nonsense to talk of gold owing its present value, importance and stability, to its utility in the Arts. The use of gold in the jewellery trade, is largely due to love of ostentation, to its being an expensive and somewhat rare metal. And this is the result of its legal importance as the debt-paying commodity.

Gold has the advantage of being the subject of legal tender laws the world over, whereas no paper money can be legal tender beyond the confines of the country or empire in which it is issued. Gold coins are just as much "fiat money" as American greenbacks ever were. To deny it is to deny the law of supply and demand, to deny that the war has affected the values of copper, brass, steel, cotton and other commodities! Indeed, if the value of gold were due wholly or chiefly to its commodity uses in the Arts, it would long ago have gone out of circulation. It has had to circulate side by side with millions of "cheap" paper money notes, which have performed the same currency functions, and yet the

industrial demand for it in the Arts was altogether insufficient to draw it out of, or seriously affect its circulation. In short, according to the well-known Gresham Law, gold is just as much "bad money" as cheap paper, because "bad" money always drives out "good" money. Ergo, any money not driven out by "bad" money must be equally "bad."

Legal tender, which is the legal debt-paying instrument, is included in the term money, although money should comprise whatever performs the money functions. . . .

Is the legal settlement of debt an essential function of money? Under our vast and highly specialized industrial and commercial system, no doubt some uniform method of settling or transferring debts is necessary.

Legal tender notes are as simple and satisfactory as any form that could possibly be devised. Their function should be, to transfer personal claims against the nation from debtors to creditors. Now this is precisely what golden sovereigns do. **So long as they remain sovereigns they function in transferring credit from one person to another.**

A sovereign doesn't really settle a debt in the economic sense, until it is exchanged for some desirable commodity or service. If one takes it for the gold in it, he must destroy the money—the sovereign—by melting it, in order to utilize it in the Arts. But since this use of the sovereign is the exception, it is correct to say that gold sovereigns are of no greater

utility in the settlement of debts, than the one pound inconvertible legal-tender notes.

Like other branches of finance, the nature of debt and credit is not generally nor fully understood. The settlement of debts is usually set forth as one of the most important functions of money. The term "legal-tender" is derived from the laws which in all countries specify the particular instrument or method by which creditors can demand payment from their debtors.

Now from the economic standpoint, there are only two ways of settling debts, and these are, first, by the payment of an equivalent in goods, and second, by the payment of an equivalent in services. Economically speaking, debts can only balance credits by equivalent satisfaction. Now the payment of legal tender, whether it be paper money or gold coins, is, as we have seen, only half-a-transaction, because the receiver cannot get economic satisfaction from the legal tender until he exchanges it for the goods he needs. **Then and only then is the debt settled as far as he is concerned. So that the payment of legal tender does not finally settle a debt. It merely transfers it.** If I pay to my creditors ten pounds—in notes or sovereigns—to settle an account, I do two things: first, I get rid of the personal debt by transferring it to the nation; and secondly, I transfer to my creditor my claim against the nation for ten pounds' worth of satisfaction (in goods or services).

When persons, banks and governments issue respectively promissory, bank, and legal-tender

notes, these notes may function in trade and exchange as transfer agents to an indefinite extent, transferring claims from one set of persons to another set, but they can only finally be redeemed and cancelled when they return to the issuers in exchange for their goods, services, or in payment of taxes. Our Government might, for example, issue £100,000,000 in notes in anticipation of the taxes due and collectible some time later. These would function as money and be finally redeemed as soon as they were returned to the Government in payment of the said taxes. Much nonsense has been written and taught as to the necessity for the convertibility of paper money. It is asserted that paper money is either dangerous or worthless unless either the Government or the banks agree to exchange such notes for gold on demand. Beyond limiting the number of such notes which can be issued, convertibility is a waste of both time and material, and it adds nothing whatever to the utility of a paper currency. How much better off is the average man after he has exchanged his legal-tender notes for gold? What more can he obtain with the sovereigns than he could with the notes? The objection to convertibility is first that it is based upon deception and fraud. In no country has convertibility been arranged so that for every note issued a corresponding weight of gold is provided. The Bank of England has come nearer to an honest performance of this obligation than any other institution in the world. But even this venerable institution has been compelled to admit its failure

during critical periods. "Convertibility" in practice, is analogous to the over-issue of tickets for certain performances without any regard to the seating capacity of the theatre. If 10,000 tickets are sold and there are only 500 seats, either the majority of purchasers must be content to wait their turn, or miss the performance. It would be a case of first come, first served. Convertibility, however, means gold payment on demand—a possibility only so long as the public generally refrain from presenting their claims. In the case of a theatre or any similar business, such promises would be regarded as fraudulent.

Convertibility may be illustrated by the story of the farmer and his horse.

The story says, that the farmer sold his horse to a man who wanted to use it only one afternoon a week, and the man agreed to allow the farmer to use it for the six and a half days on condition that he cared for it. Soon after, another client called, and asked the farmer if he could sell him a horse, and the farmer promptly sold him the same one, as the new client only required the horse for a similar period of time, viz., one half-day per week. At last the farmer managed to sell the horse fourteen times over, so that it was engaged for every half-day during the week. The transaction was highly profitable to the farmer, and everything worked satisfactorily, until one day these fourteen men met and were discussing the relative merits of their horses, each man supposing that he was the owner of a separate horse. At last they agreed to compare them in

action, and the farmer was requested to bring the fourteen horses for trial, the result being that these gentlemen discovered they were all owners of the same horse ! This is exactly analogous to our gold-basis monetary and banking system. For every golden sovereign that exists, there are a hundred claimants, and business is only able to proceed by our remaining in blissful ignorance and accepting from each other and being satisfied with mere promises to pay sovereigns. Let me say at once that this position is not exactly the fault of the bankers. The fault lies with our stupid laws which have restricted banking operations, and prohibited the issuance of bank-notes (except by the Bank of England), and these laws make it impossible for banks to maintain their integrity and solvency except by periodically destroying many industries and bankrupting members of the mercantile community, whenever trouble arises !

The second objection is, that convertibility necessarily limits paper issues to the amount of gold available, regardless of the needs of trade. No economist or philosopher, has ever yet been able to prove, that Nature intended to furnish gold proportional to the currency and exchange needs of mankind, in all stages of human progress. Are we then to regulate the world's progress by the accidental discoveries of gold or by the intelligence of mankind ? If by the former, an exclusive gold currency would be the proper method. If by the latter, convertibility is about as useful to society as crystal-gazing ! In every trading

community there must necessarily be at all times an enormous volume of floating debts and credits. Hence it may be said that credit and debt are merely two aspects of the same thing. If I buy a hat and promise to pay next month, I have incurred a debt and the hatter has given me credit. My debt represents his credit. If I give a promissory note for the value of the hat, the note is a credit note to the hatter, and a debit note to me. There is a constant demand for this floating credit in all trade circles, for it is by this that the bulk of the world's commerce is carried on. The credit is redeemed from time to time as required, but as fast as one lot is redeemed, fresh credits are created. And in a progressive community where trade and population are advancing, the volume of floating credit will necessarily expand year after year. Indeed, this growth of credit is essential for the growth and prosperity of a nation. To suggest that all this, or in fact any portion of such credit should be supplanted with a costly commodity like gold, is to suggest not merely unnecessary extravagance, but the ruin of thousands of businesses. Further, credit is not only a claim on present wealth, but upon future production. And this function is one which financial writers often overlook. They write of the dangers of "inflation," of "redundancy," etc. But they forget that the spur to production is effective demand, and demand can only be effective when backed by purchasing power.

A dearth of credit and currency leads to industrial stagnation.

Industrial growth and prosperity necessitate a constant increase of credit.

It should also be noticed that the terms "over-issue" and "inflation" are employed in banking circles to denote the limitations of our banking system. They do not mean that there is necessarily more currency than business requires, but that there is more money circulating than the bankers think good or safe for *their* business, which consists in selling credit and making dividends.

The bank theory of trade is, that both trade and industry must be limited to "safe" banking operations. If trade conditions tend to outrun the bankers' facilities, the bankers say "credit is growing unduly." In short, it is the case of the "tail wagging the dog." Instead of enlarging their facilities to keep pace with the industrial growth of the nation, the bankers are compelled to hold conditions down to their own level and limitations, and thus we come to a complete inversion of the logical and natural order of things.

Money and banking have become the autocrats of commerce, instead of functioning as the mechanism of trade and as the servants of industry.

The essential functions of money are therefore (1) to express the exchange-values of commodities, (2) to facilitate the exchange of commodities, (3) to register debts in terms of some invariable denominator, and (4) to transfer private debts to the community, and credits from one person to another.

CHAPTER IX

AN INVARIABLE MONETARY UNIT

ALTHOUGH the question of an invariable monetary unit or standard, has of late received the more serious attention of economists than formerly, it is still regarded by the majority as practically unattainable. And yet it is self-evident that no honest or equitable currency system can be established, without the discovery and adoption of some such unit. So long as economists cling to the popular superstition which regards value as a physical property of commodities, like porosity and ductility, so long will they be justified in regarding the pursuit of an invariable unit of purchasing power, as an *ignis-fatuus*.

Although the problem at first sight, appears far more difficult than that which our earlier scientists were called upon to solve in discovering the conditions necessary to obtain invariable units of physical measurement, like those of length and weight, there are certain data which lead us to believe that the problem can be solved.

We have already seen that exchange-values are the relations which commodities hold to each other as expressed by the relative quantities in which they become exchange-equivalents. We

know also that all commodities are of equal exchange-value when arranged in certain quantities at any given time, and that the values of these commodities per unit of quantity are inversely proportional to the numbers representing these quantities.

We know further that the wealth of any nation or community must be a certain—although probably unknown—multiple of the purchasing power of any single commodity composing such wealth at any given instant of time. It is also a mathematical fact, as stated by Mr. C. Moylan Walsh in his *Fundamental Problem in Monetary Science*, that the total exchange-values of all things in given quantities together are constant, and the general exchange-values of any one commodity or of money is to be estimated only by reference to the total of other commodities.

We also know from the quantitative theory of money that exchange-values remain invariable so long as the two forces of supply and demand remain equal.

With the above data we ought to succeed in solving this problem of all the ages.

The key to this solution has already been given in Chapter V.

We start with the assumption that all wealth consists of a certain but unknown number of parts of equal exchange-value at any given instant of time. These parts are necessarily of different dimensions, weights, quantities, etc., but they constitute exchange-equivalents at a given instant of time.

The total number of these parts we call X. This number depends upon the magnitude of each division.

We might, for example, divide the wealth of the United Kingdom into ten million imaginary parts all of equal value at a given time and call the value of each division a "pound," a "rouble," a "King," or a "Briton," or simply γ . Such a unit would represent a definite fraction, viz., $\frac{1}{10,000,000}$ th part of the national wealth at the time when the system started.

Fortunately, for convenience' sake, we don't have to adopt anything quite so novel nor so revolutionary. Our national wealth is already expressed in terms of pounds, shillings and pence, so that we do not have to invent any other monetary denomination. All we have to do is to make the pound an invariable unit, which can be done by attaching it permanently to the exchange value of the golden sovereign or one pound note at a given time and **holding it there**, so that whatever tricks gold may play in the future, will not affect the general purchasing power of the one pound monetary unit. We could start the system say at noon January 1st, 1918, by representing all our national wealth as equivalent in value to X pounds. Hence the pound unit would represent the value of $\frac{1}{X}$ th of the national wealth at that particular time. Since this wealth is naturally changing in volume every second of time, it

follows that the fraction $\frac{1}{X}$ applies only to the time we commence.

For example, suppose we start at noon, as stated, January 1, 1918. Our wealth is then X pounds. Suppose by noon, January 1, 1919, our wealth has increased 10 per cent., then our total wealth = $(X + \frac{1}{10}X)$ pounds and the pound which equalled $\frac{1}{X}$ th of the national wealth,

January 1, 1918—becomes $\frac{1}{X + \frac{1}{10}X}$ th of the national wealth in January, 1919.

Reduced to actual figures it would appear as follows. Suppose our national wealth to be equal to £12,000,000,000 in January, 1918, and to increase 10 per cent. by January, 1919. Our

pound at first is $\frac{1}{12,000,000,000}$ th part of £12,000,000,000, and in 1919 it is $\frac{1}{13,200,000,000}$ th

part of £13,200,000,000, which shows that the pound remains invariable in relation to the national wealth when the system was started. So much for the theoretical side of the problem. But what of the practical side? What of the monetary system? How can we hold the pound to its original dimensions? This depends entirely upon keeping the supply of currency units proportional to the demand. In other words the issue of money, whether credit or legal tender, must be maintained at all times equal to the

demand in order to preserve the invariability of the value of the pound. . . . As we have seen, the material of which the pound is made doesn't affect its value unless it affects the number of pounds issued, and so affects the supply.

The question of an invariable unit or standard therefore depends wholly upon our banking and legal-tender laws as they affect the money supply.

The next part of the problem is, by what means can the supply be kept proportional to the demand? The answer to this will be found by ascertaining what causes the monetary unit to vary under present conditions.

Money becomes more valuable whenever wealth is offered in exchange for it in a greater proportion than that which the prevailing money prices represent. For example, supposing in a given trading community the volume of money—including both legal tender and credit—is represented by £100,000,000, which at a given velocity of currency circulation effects an annual turn-over of £1,000,000,000. Supposing some financial syndicate to succeed in withdrawing £50,000,000 of this currency, and the producing and trading classes continue to send the same quantity of goods to market as previously, it is evident that the amount of the turn-over (supposing, of course, that the velocity of currency circulation remains the same) will now be represented by £500,000,000—instead of £1,000,000,000, notwithstanding that the quantity of goods sold is the same as the year previous.

By the mere act of refusing banking accommoda-

tion and so reducing the currency by one-half, according to the quantitative theory prices would be reduced to a similar proportion, viz., 50 per cent., whilst the monetary unit would gain in purchasing power 100 per cent. Evidently, therefore, the solution of this question is to be found in establishing a banking system which shall furnish sufficient currency at all times to satisfy the effective demands of trade and industry. This could be safely achieved by issuing credit against wealth in a safe proportion, say from 50 per cent. to 75 per cent. of its legally appraised value.

It will be seen that the money unit here suggested cannot be defined in any fixed commodity terms like the golden pound, and it would have no material existence except as the representative of so much purchasing power, the realization of which would occur whenever it was exchanged for goods or services. Its actual purchasing power would be known by consulting the daily market reports. And whilst the values of commodities would vary from time to time by reason of variations in the supply of and demand for them, the unit would, under the conditions above described, maintain a definite and invariable relation to the quantity of wealth which existed at the particular time the system was initiated.

Although I have suggested continuing the use of the one pound as our denominator and monetary unit, it will be understood that this unit is merely the purchasing power of the pound taken at a given instant of time. The purchasing power of any other commodity, such as a bushel of wheat,

a ton of pig iron, etc., might be similarly used if its relations to all other commodities are known when the system is started.

How vast a difference there is between employing a "commodity monetary unit" and an "ideal unit" as I have suggested, the following will show. An example of the former is Peel's pound, viz., the golden sovereign, whilst the present one pound Treasury note, which represents merely the **purchasing power** of the sovereign, may be cited as an example of the ideal unit. Provided that the supply is so regulated and maintained that it preserves the uniformity of an invariable index number, the one pound Treasury note would approach the standard of physical measurement so far as reliability and honesty are concerned. Let us imagine a small and isolated community with its own free market where goods are exchanged. This illustration will explain precisely what happens almost continually in the world's markets. For convenience we will imagine that the only goods brought to this closed exchange circle are the following: 10,000 oranges, 20,000 apples, 30,000 bananas, 400 golden sovereigns. We will further suppose that these groups of commodities are all of equal exchange power in the respective quantities mentioned. Then 10,000 oranges = 20,000 apples = 30,000 bananas = 400 sovereigns. Now it follows that so long as exchanges occur within and are confined to this circle, the wealth which consists of these combined groups of commodities must be represented by a **constant number**, no matter how the exchange

relations vary within the circle. For whatever exchange power one group of commodities may lose, a corresponding gain must naturally be acquired by the other groups with which it is exchanged. Indeed this is what we mean when we speak of goods going up and down in price. If bread advances 50 per cent., money becomes cheaper to a similar degree in relation to bread. A simple analogy will make this clearer. Suppose we have a vessel divided into three watertight compartments, A, B, and C (Fig. 1). And

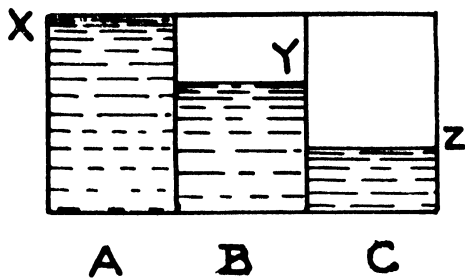


FIG 1

suppose we pour water into each compartment so that the level in A is X, the level in B is Y, and in C, Z. And suppose again that the amount of water in A is 3 gallons, that in B is 2 gallons and that in C equals 1 gallon. Then the total amount of water in the vessel equals 6 gallons. Now it is evident that so long as no water escapes from the vessel, we may alter the respective levels in each compartment without affecting the total volume. We might run a gallon from A into B, or into C, or we might bore holes in the partitions and reduce the water to the same level in all three

compartments, but this will not alter the original quantity. If we take the quantities in each compartment respectively as a , b , and c , we can say that a plus b plus $c = 6$ gallons, no matter how a , b , and c may vary with each other. This principle must hold good regarding values for any closed and independent commodity exchange circle such as the combined markets of the world.

To return to our imaginary exchange circle. Let us first use the commodity unit which I have termed **Peel's pound**.

Then we have :—

EXAMPLE I.

| | | | | |
|----------------|---|-----|-----|---------------|
| 10,000 oranges | = | £ | 400 | (Peel-pounds) |
| 20,000 apples | = | 400 | „ | „ |
| 30,000 bananas | = | 400 | „ | „ |
| 400 sovereigns | = | 400 | „ | „ |

The total exchange-values of these goods, viz., oranges, apples, bananas, and sovereigns = £1,600 (Peel-pounds).

| | | £ | s. | d. |
|-------------------|---|---|----|----|
| Hence 100 oranges | = | 4 | 0 | 0 |
| 100 apples | = | 2 | 0 | 0 |
| 100 bananas | = | 1 | 6 | 8 |
| 1 sovereign | = | 1 | 0 | 0 |

Now let us suppose, soon after establishing our market, an alteration occurs in the exchange relations of these commodities, so that 200 oranges = 100 apples = 400 bananas = £3 (Peel-pounds). Now it is evident that no matter how these exchange-values alter among themselves, the total value of all must be constant, unless the unit

itself is fraudulent. Then our total wealth expressed in Peel-pounds has varied as follows :—

EXAMPLE 2.

| | | | |
|----------------|---|-------|---------------|
| 10,000 oranges | = | £ 150 | (Peel-pounds) |
| 20,000 apples | = | 600 | „ „ |
| 30,000 bananas | = | 225 | „ „ |
| 400 sovereigns | = | 400 | „ „ |
| | | 1,375 | „ „ |

Our exchange circle has apparently lost £225 by a mere variation in the exchange relations of the commodities with which we started ! Although we have lost not one solitary portion of our material wealth, not a single sovereign, not an apple, orange or banana, that which was originally represented as equivalent to £1,600 has suddenly fallen to £1,375 ! Surely this is a palpable absurdity ! And yet it is precisely what is happening daily throughout the markets of the world owing to the use of a fraudulent monetary standard. If the Government or the bankers suddenly withdrew from circulation a large proportion of bank credit or legal tender, our national wealth might shrink in terms of money to one-half or less of its present amount, whilst by suddenly increasing the supply of money it would be possible to double our wealth per saltum, i.e., £20,000,000,000 can be made to represent £10,000,000,000, or £40,000,000,000 by the mere manipulation of the money or credit supply which would affect the value of the monetary unit.

Now let us take the ideal unit, viz., the pur-

chasing power of the sovereign at the time our imaginary market commenced. We start with the same kind and quantities of commodities as before, sovereigns and all. But our unit is now **not the golden sovereign per se**, but merely its **purchasing power** at the time we started. We have as before a total of 1,600 units of wealth, and this figure must be constant so long as the commodities remain qualitatively and quantitatively the same under any and all variations within our circle. If, then, the exchange relations alter as before, viz., 200 oranges = 100 apples = 400 bananas = £3, we find our commodities represented as follows:—

EXAMPLE 3.

| | £ | s. | d. | | |
|----------------|---|--------|----|----|--------------|
| 10,000 oranges | = | 174 | 11 | 0 | Ideal units. |
| 20,000 apples | = | 698 | 3 | 6½ | „ „ |
| 30,000 bananas | = | 261 | 16 | 4½ | „ „ |
| 400 sovereigns | = | 465 | 9 | 1 | „ „ |
| | | <hr/> | | | |
| | | £1,600 | 0 | 0 | „ „ |

Here it will be seen how seriously the general purchasing power of the sovereign has changed during the variations in the exchange relations of the other commodities which the sovereign is supposed to measure. By taking the purchasing power of the sovereign at a **given time**, i.e., the time our market first opened, we are thus able to express the **variations in the value of gold itself**, which is quite impossible where the gold standard is used. In the last illustration our 400 sovereigns, which originally represented 400 units

of purchasing power, have grown to represent 465 $\frac{5}{11}$ th units, that is, each sovereign is worth nearly 16 $\frac{1}{2}$ per cent. more than when we started, **in relation to all these other commodities!**

The serious difference between these two results may be readily seen.

WITH THE PEEL-POUND.

WITH THE IDEAL POUND.

| | £ | s. | d. | | £ | s. | d. |
|------------------|---|----|----|-------------------------------|-----|----|-----------------|
| 100 oranges = | 1 | 10 | 0 | 100 oranges = | 1 | 14 | 11 |
| 100 apples = | 3 | 0 | 0 | 100 apples = | 3 | 9 | 9 $\frac{3}{4}$ |
| 100 bananas = | 0 | 15 | 0 | 100 bananas = | 0 | 17 | 5 $\frac{1}{4}$ |
| 100 gold | | | | ¹ 100 sovereigns = | 116 | 7 | 3 $\frac{1}{4}$ |
| sovereigns = 100 | 0 | 0 | | | | | |

The illustration just given is worthy of careful study, for it exposes the character of the fraud which any commodity-money standard—and particularly the gold standard—perpetrates upon the industrial and trading classes universally. We started our imaginary market by assuming that the whole of our marketable wealth consisted of 1,600 divisions or groups of commodities of equal exchange value. The number of these divisions is determined by the particular unit adopted. In this instance we adopted the gold sovereign. These 1,600 groups are made up as follows:—

EXAMPLE 4.

| | | | |
|-----------------------|------------|---|--------|
| 400 groups of oranges | of 25 each | = | 10,000 |
| 400 „ „ apples | „ 50 „ | = | 20,000 |
| 400 „ „ bananas | „ 75 „ | = | 30,000 |
| 400 sovereigns | „ 1 „ | = | 400 |

Total 1,600 groups or divisions.

¹ Hence one sovereign equals £1 3s. 3 $\frac{1}{4}$ d. ideal units under the altered exchange relations.

Now let us see what happens to these groups after their exchange-values have altered as described in Example 2. Here again the grouping and number of divisions depend upon our standard unit. If we keep our original golden-sovereign-unit after the change in values, the following are the results of dividing our original wealth into groups of equal exchange-value corresponding to that of the sovereign viz. :—

EXAMPLE 5.

| | | | | |
|-------|-------------------|-------------------|---|--------|
| 150 | groups of oranges | of 66·6 each | = | 10,000 |
| 600 | „ „ | apples „ 33·3 „ | = | 20,000 |
| 225 | „ „ | bananas „ 133·3 „ | = | 30,000 |
| 400 | „ „ | sovereigns 1 „ | = | 400 |
| <hr/> | | | | |

Total 1,375 groups.

Here it will be seen that although we have not lost a single commodity we have somehow lost 225 groups of commodities equal to £225. And this is due to our using the commodity gold unit and assuming that it remains unchanged, although the values of all the other groups have varied! This assumption is equivalent to the belief that in a vessel containing water and fitted with compartments as in Fig. 1, but perforated with holes near the bottom so that the water has a free passage to each compartment, it is possible to force down the level of the water in one compartment without raising the level in all the others!

Just here it should be pointed out that when we speak of gold or the golden sovereign as a unit, we mean its **variable** purchasing power as it varies from time to time. As we have already

shown, neither gold nor any other commodity can function as a unit of value or purchasing power. But the purchasing power of a given commodity can so function, and since this is continually fluctuating, it creates all the economic evils in trade that a variable standard of length would create in our manufacturing industries.

Now let us examine the case where our unit is equivalent to the purchasing power of the sovereign at the time when our market first opened. The invariability of this unit is shown by our ability to maintain the same number of groups or divisions into which our wealth was originally divided, each of which was the equivalent of the sovereign, in spite of any changes in the exchange relations of these commodities. It maintains an invariable value relation to the total quantity of goods within the circle.

After the alteration in the exchange relations, we get the following grouping by maintaining the same number of divisions (Example 3) :—

EXAMPLE 6.

| | | | |
|--------------------|----------------------|---------------|----------|
| 174 $\frac{1}{2}$ | divisions of oranges | at 57.25 each | = 10,000 |
| 698 $\frac{3}{4}$ | „ „ apples | „ 28.64 „ | = 20,000 |
| 261 $\frac{1}{2}$ | „ „ bananas | „ 115 „ | = 30,000 |
| 465 $\frac{9}{10}$ | „ „ sovereigns | „ .86 „ | = 400 |

Total 1600 divisions.

It will of course be understood that these groupings are imaginary and need not be realized in practice. Here we find our unit remaining invariable with its original value after the change

in the values of our various groups has occurred. That is to say it represents precisely what it did at first, viz., 1/1600th part of the total wealth of our exchange circle. During the change in values the sovereign gained about 16½ per cent. in purchasing power. It will be seen that this number of divisions is a purely arbitrary matter, and it would make no difference to the results whether we made our unit 1/1600th part or 1/800th part or 1/100th. **The main thing is to preserve the relation of the unit to the whole of our marketable wealth at the given time and place when and where our system started.** Invariability is what the world has been vainly groping after for ages. And as already stated this unit or standard would agree with the tabular standard, provided such table included all marketable commodities and every market transaction—an almost impossible task. I take it, however, that the result would be the same if we adopted our present value denominations—pounds, shillings and pence—and started on a given day to issue credit and legal-tender notes against existing wealth as already suggested in this chapter.

The economic evils of the present gold standard can readily be seen by the illustrations given. Suppose the orange merchant borrowed £100 when the exchange relations started. At that time this amount represented the equivalent of only 2,500 oranges. And now suppose he is called upon to repay the loan after the changes in values in Examples 2 and 3. Under the gold standard he must sell 6,666 oranges in order to

secure the £100, with which to repay his loan. But under the invariable ideal standard he has only to sell 5,714! Of course, he has already lost on the loan by borrowing money when oranges were dear. But this is due to changes in the market relations of commodities and not to any changes in the money standard. It will be seen then that the gold standard has robbed him of 952 oranges on this loan transaction, apart from any interest charges.

And this is what is happening in every country the world over. People are robbed of their wealth and labour by the insidious, silent, secret operations of this fraudulent standard! Every producer, other than the gold miner, every person in fact, is forced by law and circumstances to buy money with his services or produce. He must have money to pay his debts and taxes. And the all-important question is, "How much of my services or produce must I give for a pound? Is it to be so much this year and twice as much next year?" Similarly, if one is promised payment for goods or services rendered, one wants to know how much general wealth, goods that one requires, this payment will represent. If, for instance, the orange merchant (in Example 1) offered to pay one sovereign to a creditor, it would make a considerable difference both to the merchant and his creditor whether the sovereign represented 1/1600th part of all the goods in the market or 1/1375th part as in Example 2. Hence it is essential to know that money preserves a fixed relation to wealth in general.

It may be objected that such a unit is impossible since the volume of wealth is continually changing from hour to hour, and also because it is impossible to tell at any time exactly what proportion any given quantity is to the whole. We have already seen that wealth is necessarily some multiple of any unit that may be adopted. If we take the whole of our marketable wealth at a given instant of time, it can be represented as equivalent to X times one pound. And all additions and subtractions from such wealth would be additions or subtractions of so many pounds, i.e., so many fractional parts of the total wealth. It is not essential to transform the system into numbers.

The preservation of the ratio of the unit to the wealth of the community from the time the system started would be entirely dependent upon maintaining the supply of money equal to the demands of trade and commerce. This condition means simply freedom and means for the mobilization of all wealth as required, allowing a proper margin for fluctuations in values.

It also means permanently divorcing legal tender from its age-long association with both gold and silver!

CHAPTER X

MONEY SUPPLY AND INFLATION

WHENEVER a proposal is made to increase the supply of legal tender apart from the ordinary gold supplies for the purpose of meeting the growing demands of trade, the suggestion is invariably met with the cry of "inflation."

From the moneylenders' standpoint, whilst the issue of Treasury notes to assist the banks in redeeming their obligations and regaining public confidence is a perfectly safe and legitimate measure, a similar issue for the assistance of commerce and industry would be nothing else but rank and dangerous inflation. If any Government had attempted in times of peace to enact such a currency measure on behalf of our industries as that with which Mr. Lloyd George rescued the banks in August, 1914, we should have witnessed one of the greatest political controversies of the century. The financial classes would have compelled the Press to start a political campaign which would have ended in the Government's overthrow. The cries of "Debasement of the currency!" "Our honest money endangered!" "Dishonest inflation!" would have been heard,

and the public would have been told that the enactment of such a measure would mean the downfall of the nation !

It is, however, a notorious fact that whenever the shoe pinches in the other direction, when the public is cheated by a contraction of the currency, the financial classes are discreetly silent ! A general fall in prices is hailed by the moneylenders as a special dispensation of Providence since it means an increase in the power of money over production and their enrichment at the expense of all other classes !

But such is the political power of the financial classes, which power, legislation has placed in their hands, that although they are insignificant in numbers, no British statesman since the days of Pitt has dared to run counter to their wishes ! From such a source the cry of inflation is somewhat suspicious, and should be received with caution. Money-lending and credit-mongering are enormously profitable businesses owing to the legal-tender laws which have made money relatively a very scarce article. And it is somewhat amusing to find certain people declaiming against the sin of usury and at the same time defending the very laws under which usury flourishes. Since our legal-tender laws have raised this simple instrument of exchange to the rank and station of a commodity, it is to the interest of those who deal in money and credit to advocate a limited supply of national currency in order to ensure a constant market for the sale of their credit.

An insufficiency of legal tender constitutes the

usurers' opportunity. And it is such a condition which the legal-tender laws of all nations have created and fostered, the plea being that such insufficiency is essential in order to preserve the value of the monetary standard. Now variability in the standard is the result of variations in the ratio of the supply of money to the demand. It is therefore self-evident that the *sine qua non* for the establishment of an invariable unit or standard, is an ample provision for an adequate supply of such units in the shape of credit and legal tender to meet all the public needs. Would such a provision be liable to end in inflation? This depends on what one means by the term. Notwithstanding the suspicious character of many of these cries of inflation, it must not be supposed that inflation is neither a possibility nor a danger. On the contrary, it is both. Indeed, in one sense it is a constant menace. What is inflation? As popularly understood it signifies an over-supply of general purchasing power resulting in a general advance in prices. It means an increase in the money demand for commodities generally, without a corresponding increase in their supply.

To the usurers, inflation means any increase in currency facilities which tends to lower the rate of interest. Under the gold standard, inflation occurs whenever credit increases beyond its normal proportion to the gold reserves. Strictly speaking, inflation necessarily exists in every industrial nation using the gold standard, i.e., there is necessarily far more credit circulating than could possibly be redeemed in gold on demand and

consequently the so-called "gold price scale" is a composite of gold and credit. Whenever the circulation of general purchasing power—whether legal tender or bank credit—is appreciably increased without affecting a corresponding increase in wealth, there must necessarily be inflation. It frequently happens, however, that an increase of currency, by stimulating demand, also stimulates production, so that supply soon overtakes the increase in demand, and hence the price level is restored to what it was prior to the increase of the currency.

Now, in speaking of the money supply, one necessarily refers not merely to the quantity of money, but also to the speed of circulation.

If the total amount of purchasing power (i.e., legal tender and credit) expended in purchasing goods and services within a given community during a given year, be divided by the average amount of such purchasing power circulating at successive instants of time, separated by equal and very small intervals throughout the year, the resultant will be the average rate of turnover, and is called the rate of velocity of currency circulation.¹

The equation is usually expressed as follows:—

$$\frac{E}{C} = V \text{ where } E \text{ represents annual expenditure,}$$

C the average amount of currency and $V =$ velocity of circulation. Since $E = CV$ it follows that the average volume of currency multiplied

¹ See Irving Fisher's *Purchasing Power of Money*.

by the velocity of circulation equals the annual expenditure.

The amount of currency necessary for effecting the exchange of commodities and carrying on the business of any community, depends upon the rapidity with which money passes from hand to hand and from one person's account to another's. The quicker the circulation, the less the amount required to effect a given turnover. The rapidity and ease with which our cheque-currency circulates, is the reason why the annual turnover in Great Britain is greater per unit of legal tender than that of any other country in the world. A community with only £50,000,000 of legal currency, can make twice the annual turnover that another can with £100,000,000, provided the velocity of circulation of the former is four times that of the latter. It will be understood therefore, that whenever we speak of the money supply, we mean not merely so much legal tender but legal tender plus credit multiplied by their velocity of circulation. Although the term inflation is usually confined to paper money issues, a currency may become inflated by the presence of too much gold.

A recent pamphlet written by Professor Irving Fisher, of Yale University, speaks of the present flood of gold in America as "Our yellow peril."

If money were reduced to its natural position, viz., the representative of existing wealth merely, and its issue confined entirely to such representation, general inflation would be impossible.

Supposing the Bank Charter Act to be repealed

and the banks authorized to issue as much credit as the public's commercial and industrial needs demand, not exceeding, say, 50 per cent. of the appraised value of such productive wealth as might be offered in security. Such credit being merely the representative of wealth, would certainly not be a commodity any more than a mortgage-deed or a pawn-ticket is, although backed by commodities of every description.

Would not the use of such credit for purchasing goods constitute merely a form of barter? If I exchange the title deed of my house for so many railway shares, am I not for the time being bartering my house for an interest in the railway? And under a general barter system, where commodity money does not exist, inflation is meaningless.

Let us take the illustration of the balance where wealth in process of exchange is balanced by the money given in purchase. If the money is made a legal commodity, and an increase in its volume alters the general level of prices, we call this "inflation." But where the currency consists merely of credit issued against wealth, purchases really involve an exchange of wealth for wealth. Hence we are merely balancing goods against goods, and since a general rise in values is impossible, the employment of credit issued as suggested, could not constitute inflation.

Supposing the public were to obtain bank credit against such productive wealth as railways, ships, farms, factories, etc., and commence buying commodities like clothing, furniture, motor-cars, etc., on a very large scale. Whilst such a demand

might raise the values of these particular goods, such a rise would mean a corresponding fall in the values of railway and ship shares, factories, etc. It certainly could not raise values generally. It will be seen that there is a vast difference between employing credit as the representative of any and all kinds of wealth and employing it solely as the representative of the money metal or legal tender made specifically redeemable in gold. Credit so issued affects prices the same as legal tender.

Applying the illustration of our balance once more, the use of gold-redemption credit, means the balancing of all commodities so exchanged against gold or promises to pay gold. Hence we get a level of prices entirely different from the general level of values, as demonstrated in Chapter VIII. On the other hand, the employment (as suggested) of credit tokens against wealth in a certain fixed proportion redeemable in services and commodities generally, means balancing wealth with wealth, and hence prices and values become synonymous.

Although gold is a commodity, too much gold, as we have seen, means inflation, for the reason that unlike all other commodities it holds a supreme and unique position as the sole legal debt paying instrument. And this function, artificially established by law, is its chief attraction to which it owes its great demand. If it were demonetized, its over or under-supply could not then affect prices or values generally to the slightest extent. Now credit money issued against

all kinds of wealth, prevents inflation because it cannot cause a general rise in values: which would be like a man raising himself from the ground by his own bootstraps. Inflation in this case would mean that whilst wealth was rising uniformly and generally in value, the legal rights and titles to such wealth which this credit currency would really give, were falling in value, which is absurd. Such a phenomenon would be similar to gold rising in value whilst bank-notes issued against the same gold were falling in value! One could understand bank-notes falling whilst gold was rising in value if such notes were inconvertible, or where the existence or availability of the gold they represented was problematical.

The illustration of the balance clearly shows the enormous influence of credit on prices where such credit is legally redeemable in gold or legal tender.

Consider what it is that really balances commodities and services under the gold standard. It consists of what we term currency, which consists of a very small fraction of gold from 1 per cent. to 5 per cent., and an enormous proportion of paper from 95 per cent. to 99 per cent. Much of this paper functions as gold in influencing prices because it constitutes effective **demand for goods** and brings no corresponding supply of goods to market. Such of it as does represent various forms of wealth which is brought into the field of exchange, does not affect prices generally, since the demand which it creates is neutralized by the supply of goods it represents.

The difference between commodity money and representative money is this: Whilst under the first all goods purchased are balanced by the actual commodity money paid for such goods, with representative money the goods purchased are balanced not with money but with the wealth which this money is issued against. In short, the creation and circulation of commodity money like gold, means an increase in the demand for goods without necessarily a corresponding increased supply of wealth. Consequently, without the latter, prices must advance. Similarly, if commodity money be taken out of circulation, it reduces the quantity of money without reducing the supply of goods or reducing the number of exchanges to be effected. Hence we have a fall in the level of prices. On the other hand, with representative money, demand and supply are united, and hence any variation in its volume does not affect the price level.

Let us consider this branch of our subject in yet another light.

The basis of a fair exchange is reciprocal satisfaction. When a farmer exchanges half-a-dozen sheep which he doesn't need for a horse which the horse-breeder can easily spare, both traders get the satisfaction they require. But when the same farmer sells the same sheep for, say, £50, and the horse-breeder sells his horse also for £50, neither has received economic satisfaction until they have exchanged the money for what they need.

Now the theory of commodity money denies this. Since such money possesses what is called a "store of value," an exchange of goods for

money is a legal and final settlement. But it is evident that this is not the "store of value" the trading public want. They want the particular "stores of value" contained in commodities such as food, clothing, services, etc., which the money buys. Economic satisfaction is expressed by some such equation as the following:—

| | | |
|------------------|---|-------------------------|
| 1 horse | = | 6 sheep |
| 100 lb. pig-iron | = | 25 lb. sugar |
| 500 eggs | = | 6 gallons of wine, etc. |

But the commodity-money advocates insist that a similar equation exists between money and goods thus:—

$$1 \text{ horse} = \text{£}50.$$

But what possible economic satisfaction is there in fifty golden sovereigns, except perhaps to a miser?

The only utility of a golden sovereign is to function as currency, which a cheap valueless bank-note performs just as well or even better. And so long as it remain a sovereign, the gold it contains is as useless as if it remained in the earth, since it cannot be employed for commodity purposes without destroying the sovereign, as we have already seen.

When we come to consider the balancing of goods generally with money, we are also met with the preposterous claim that the economic satisfaction of all these goods that are essential to nourish and support life and make it enjoyable, is equalled by the satisfaction we obtain from

money *per se*, which, as Euclid would have said, is absurd!

Money *per se* cannot afford any economic satisfaction. It is the goods it represents and can purchase which afford the satisfaction. We must remember that money is, after all, only the medium between commodities, the bridge over which commodities are exchanged. It unites the supply of commodities with the demand for them. It cannot, therefore, function as a commodity itself without ceasing to be the exchange medium. An equation of goods with money is therefore meaningless unless it is understood that money is the representative of goods and not a commodity *per se*.

The equation 1 horse = £50, does not actually express a fair or honest exchange. It should be 1 horse = £50 worth of commodities.

The following illustration of the triangle (Fig. 2)

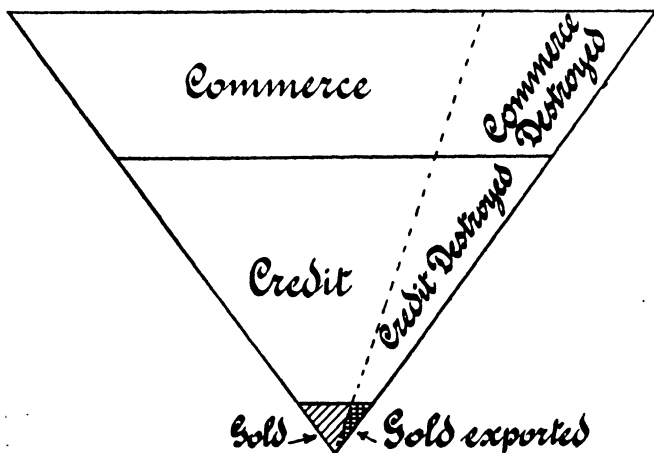


FIG. 2

(see page 153) shows that at present all our huge volumes of credit are piled upon an insignificant amount of gold, so that every golden sovereign represents from twenty to one hundred sovereigns' worth of credit. If, therefore, a million pounds of bullion are exported, the banks are compelled to call in all the credit resting on that sum, in order to maintain their so-called margin of safety. Hence the movement of a comparatively small amount of gold or legal tender means the addition to or cancellation of a large volume of currency. Some years ago the *Bankers' Magazine* gave a most startling instance of the effects of gold exports upon the prices of our gilt-edged securities. During a period of ten weeks a certain group of American financiers drew from the Bank of England sums equal in all to eleven million pounds in gold and shipped it to New York. Prior to this operation these gamblers sold British securities heavily and bought United States bonds and shares. The transfer of this gold caused a fall in the prices of 325 of our representative securities equivalent to £115,500,000, whilst the absorption of this gold in New York caused a corresponding rise in Americans. This illustration (Fig. 2) explains why a relatively small addition of legal tender can sometimes seriously affect the price level. It is not due so much to this increase in legal tender but to the disproportionate amount of bank credit which is based upon it. This fact also explains the reason why the values of commodities have become so easily the sport of speculators. The sudden creation or withdrawal of

credit, the export of gold from one country to another is sufficient to ensure certain profits to the cosmopolitan gamblers in finance.

As a well-known financier said when commenting on the above American gold transaction, "These speculators played upon two tables at the same time—one in London and the other in New York—and won on both!" Having sold "short" in London and then created a heavy fall in prices by exporting our gold, they bought in New York for a rise which they were able also to influence by the mere act of putting the same gold in circulation there. They were gambling on a certainty on both sides of the ocean!

The currency question, like many others, has its psychological aspect. The amount of legal tender required by a nation varies from time to time and is often a question of nerves. Panics are the result of fear—fear lest the margin of safety is inadequate. When knowledge is added to fear, panics are likely to become chronic. The amount of legal tender necessary varies inversely with the degree of public confidence. The public to-day know that the gold basis provides a margin, not of safety, but of bankruptcy whenever a national crisis approaches. If provision were made for issuing legal tender as required and as suggested, we should not only abolish all danger of future panics, but we should reduce the amount of legal tender needed to a minimum. The public seldom call for legal tender except in comparatively small amounts for small purchases, unless they scent danger. Remove all danger of an insuffi-

cient supply, and you get rid of what is now the chief necessity for legal tender.

One of the most complicated problems in finance is that of the foreign exchanges, in which the relations of the monetary units of various countries to each other have to be determined. These relations are constantly changing with the movements of gold from one country to another as well as with the changes in the volumes of the credit and legal tender supplies in each. The price scales of all the great industrial nations are built upon similarly unstable conditions and are all equally irrational, variable and fraudulent. But these conditions create bountiful harvests for speculators and gamblers, especially those belonging to the financial classes, and constitute the very atmosphere in which the world's stock exchanges "live and move and have their being."

Although gold is probably the most unsuitable commodity which could possibly be selected for the world's price scale, owing to its relative scarcity, necessitating a vast array of paper to make good the deficiency, any other commodity would also be subjected to great fluctuations from time to time. Wheat, corn, silver and other commodities have all been suggested as suitable standards. Silver is the oldest and has proved the steadiest over a longer period than any other, and is still the money of the Far East. In the West it was dethroned because financiers feared its supply would be more difficult to control than its scarcer, more expensive and aristocratic rival, gold. And the economic and political supremacy

of this class depends upon maintaining a world-wide scarcity of legal tender in order that there shall exist a perpetual market for their credit, the interest upon which, amounting to an annual return of hundreds of millions, is the chief source of their income. This was the real gist of the great struggle against bi-metallism which was waged so fiercely some twenty years ago. The bankers and moneylenders won, and the public paid the price for their ignorance and folly.

The historical examples of inflation usually cited by the orthodox champions of our credit monopoly as warnings against what they call "tampering with the currency" have little or nothing to do with the suggestions and proposals contained in this book. The French assignats and the American greenbacks are the two favourite illustrations of the terrible effects of "cheap" money. Now, both of these currencies were created in emergencies. Both were issued for the purpose of carrying on destructive wars, not for the development of industry and the growth of wealth. They were to assist these nations in **destroying** wealth. It is one thing for a banker to give a client an overdraft to enable him to develop his business and build up a successful and profitable industry. It is quite another thing to grant him the same facilities in order that he may get drunk, burn his factory, destroy all his furniture, and indulge in a prolonged debauch! And yet these currency writers want their readers to believe the results are the same in both cases! Supposing the Government should find it necessary after the

war to issue £100,000,000 in notes to enable numbers of returned soldiers to settle on and cultivate the land. Assuming that the money was employed wisely in procuring fertilizers, farm buildings and implements, cattle, horses, and in enabling men to live until their farms were self-supporting, is it not evident that the money so advanced would ultimately be represented by an addition of £100,000,000 and more to the real national wealth in buildings, cattle, crops, produce, etc? On the other hand, the Government is now issuing credit at the rate of £8,000,000 per day for munitions of destruction, so that we have nothing but debt as the economic result. And yet whilst our statesmen and legislators have always shown alacrity in proposing and voting for millions of the national wealth to an unlimited extent for the work of destruction, seldom or never have they been willing to do so for **creating** wealth or for making the nation economically strong and prosperous! The German Government is the only one that has shown any wisdom or intelligence in this respect. Whilst our legislators have always been willing to add to the National Debt and to the means for perpetuating it, few are they who have suggested the use of the National Credit for productive purposes.

Those, however, who regard the two historical examples cited as an evil should offer some other scheme by which nations are able to finance great wars without inflation.

Just now we are reading a good deal about the dangers of present inflation. Now a moment's

thought should convince these writers that where a nation is employed in making munitions as Europe is now doing, inflation is unavoidable since the bulk of our labour products are being destroyed. To first create munitions and supply them, we must have some kind of currency. But although these products are soon destroyed, the currency employed in making them remains in circulation. The only way to avoid inflation under present conditions, is to destroy a corresponding amount of currency, which would soon stop further production !

There is this to be said for "cheap" paper money. It is the only currency by which great crises can be met and which enables nations to survive. No great modern wars have ever been fought through on the gold currency basis. Francis Walker, the well-known American economist, says :—

"Governments have frequently issued paper money without adequate provision for its redemption in gold and silver, without such redemption, in fact, taking place, and sometimes without redemption being promised, and yet that paper money has circulated as rapidly as gold or silver would have done, has been taken as freely in exchange for commodities and services, and even in some instances has maintained an actual value equal to that of the amount of the precious metals to which it was nominally equivalent. The paper money of Massachusetts for the greater part of the period 1690 to 1710, the paper money of Russia for the twenty years following 1768, the so-called continental currency of the American revolution for a year and more after the first emission, the paper money of Prussia for no inconsiderable period of time, all circulated freely, even without discount in specie."

And again he says:—

“ The so-called greenbacks of the American Civil War never, from 1862 to the close of 1878, lost their currency in the smallest degree. At their price they were always taken readily, eagerly. Men never sought to avoid their use by taking gold at a premium, or by resorting to barter or credit.”

This last statement is remarkable, owing to the fact that the United States Government dishonoured its currency by the famous—or rather infamous—exception clause, refusing to accept it in payment for duties or issue it for interest on bonds. The real trouble the Americans suffered from, was not due to the use of their cheap currency, which pulled them safely through their great Civil War. The industrial evils and suffering which followed the Civil War were the result of the stupid attempt to bring all this currency to a gold and silver basis, i.e., by providing for redemption or conversion in specie. This piece of idiocy caused years of serious business depression, the bankruptcy of thousands, and curtailed the production of wealth enormously. But the bankers and financiers grew rich. Every dollar they had invested in the American War loans, grew to be two, three, four, five and even six dollars eventually! And by destroying a vast mass of the national paper currency the bankers compelled the public to borrow **their** paper credit at rates varying from 7 per cent. to 10 per cent.! Is it any wonder these men have endowed universities and established schools of political economy and finance, and hired professors to write books

denouncing "cheap" money and warning the public of the dangers of national paper currencies, when they know what an inexhaustible mine of wealth the gold standard opens to the members of their profession?

CHAPTER XI

THE PEOPLE'S CREDIT

THE real currency of Great Britain, the medium of exchange, the instrument by which 99 per cent. of all business obligations are settled, is the bank cheque, one of the most beneficial inventions of the human mind. It constitutes the simplest, cheapest, most efficient currency system ever devised. It offers the most perfect method for the mobilization of wealth yet known. But it has been made unnecessarily expensive to the borrower, and dangerous or fraudulent to the community by reason of the narrow and insecure legal-tender redemption basis, upon which it has been built. Under our legal-tender laws, bank cheques are payable on the demand of the payees in legal tender. And as we have already seen, in times of national crises the banks are utterly unable to cash the cheques drawn on them for any large amounts. They are therefore compelled to either close their doors or secure the Government's consent to use the national credit as they did in August, 1914. But the compulsory legal tender Act also limits the volume of credit which a bank can safely issue. The limit of credit accommodation which a bank can offer the public, is not the amount of wealth offered as security, after allowing an

ample margin for depreciation, but only such classes of wealth as the bankers know will command at all times and conditions a ready and immediate sale for cash. Here, then, is the brake which our legal restrictions place upon the production and exchange of wealth. Production is limited not by its prime factors, but by our legal-tender laws. And this is the reason that trade and industry are subjected to periodical transitions of prosperity to depression. If banks happen to be in possession of unusually large supplies of gold and legal tender, they are able to extend to the business community similarly abundant credit facilities. Then we may have prosperous times and industrial progress.

If, on the other hand, our foreign trade rivals draw heavily on our free gold market, thereby reducing our legal-tender basis, the banks are forced to call in loans and reduce their credit issues, and with this contraction of credit, all the trade and production dependent upon it is suspended, and then we have industrial stagnation! There is no other reason for these periodical industrial troubles except the natural operation of our own foolish money laws. Further, the same laws are responsible not only for the frequent and often violent fluctuations in the bank rate, but for the imposition of interest charges on credit which in reality belongs **not to the banks** but to the public. This subject has been most ably discussed by Mr. Oswald Stoll in his well-known book entitled *The People's Credit*.

Amongst the vast mass of financial literature

that has appeared during the past thirty or forty years, most of which is a mere monotonous repetition of fallacies, theories and false conclusions, Mr. Stoll's work is conspicuous for its honesty and fearless exposure of our banking methods. The author is evidently desirous of contributing to the development and industrial success of Great Britain and the Empire, and he correctly points the direction in which the development may best be secured. In criticizing our costly and inadequate financial methods, he has placed his finger on one of the weakest and the sorest spots in the whole of our economic system. His book should be read by every one who is interested in trade and commerce. To most people, Mr. Stoll's conclusions will be a revelation. I know of no better endorsement of this book than the fact that the majority of our orthodox and financial writers and professors—many of whom are the paid hirelings of the present banking monopoly—either ignore the book altogether or advise their readers to treat it with caution.

Mr. Stoll shows that the credit which the banks grant to their clients—usually under the guise of a favour—and for the use of which they are permitted to charge anywhere from 5 per cent. to 10 per cent., belongs to the public. That this must be so will become apparent if we investigate any of these transactions. Suppose, for example, the reader to be the owner of £10,000 of 5 per cent. War Loan bonds, and desires the use of £5,000. He applies to his banker, who offers him the accommodation at 1 per cent. above the bank

rate. The reader hands the bonds to his banker, together with a legal transfer of the bonds to the bank as security. Whereupon the banker places to the reader's credit in the bank books, the sum of £5,000, which he is at liberty to cheque out as he desires. No doubt by this time the reader would feel the banker had done him a great service. At any rate, the average banker endeavours to impress this fact indelibly upon the mind of each of his clients, viz., that the granting of bank loans is neither obligatory on his part nor in the fulfilment of the right of any client. And the banker is undoubtedly correct. Our laws, as well as the whole deferential attitude of our successive Governments to the banking profession, confirm the belief that bankers belong to a select and legally privileged class who are under no obligations to render the public any services whatever, and if and when they choose to do so, the public must regard such services as "favours" and act accordingly. But now let us carefully examine the above transaction and see what the "favour" amounts to.

It is evident that—

(1) The possession or ownership of the £10,000 War bonds is what enables the banker to give the reader his £5,000 of credit.

(2) This credit is not the property of the banker but of the reader, and was his own property before he asked the banker to "favour" him.

(3) The issue of this credit has cost the bank nothing; since it has not parted with a single

halfpenny of its own assets. In fact, the bank has loaned nothing.

(4) The transaction has cost the reader (*a*) the temporary loss of his bonds until the "loan" is repaid, (*b*) and also the interest charges.

(5) The bank has increased its net assets by the difference between the value of the bonds less the amount of the credit chequed out, and is financially stronger than before it made the loan.

(6) The bank has gained on all points, (*a*) by obtaining the use of securities belonging to their client as the basis for further "loans," (*b*) by the use of any credit balance not chequed out by the client, (*c*) by the interest charged for allowing the reader to use his own credit.

So much for the bank "favours."

Reader, do you wonder that bank shares are always at a premium? Do you wonder that the banking business, classified in economics as **unproductive**, is one of the most lucrative businesses in the world?

Surely never was there a better game of "heads I win and tails you lose"!

Mr. Stoll's contention is, that since the basis of bank credit (wealth) belongs to the people, the credit issued against it also belongs to them, and it is the duty of Parliament to secure to the public the free use of such credit. **The contention is unanswerable.** Unless the Government is prepared to assert that the vested interests of bank shareholders are of greater importance than the interests of all other classes—nay, of the national welfare itself—they will be bound eventually to

do away with the present monstrous monopoly and provide the public with a national banking system. Where is the justification for the bank charges upon loans since these so-called "loans" consist merely of the credit possessed by the bank's clients? It is certainly not an insurance charge against risk, because the character and amount of the securities pledged amply provides for all emergencies. Nor can it be said that the banks are lending cash for credit. It is true that a borrower might draw cash, but the banker holds securities belonging to the borrower sufficient to procure more cash than his client is at all likely to draw out. The fiction with which the public mind is sometimes "doped," that the banker is loaning some of his own hoards of gold which is his capital and has therefore a right to charge interest, is, of course, too absurd to require more than a passing mention.

Considering that the bankers are drawing interest upon far more credit than all the gold and legal tender in the country, it is evident that Mr. Stoll's contention is correct.

The one valid reason for the bankers' position is, that they have the only credit organization which commands the public confidence, thanks to the stupidity and indifference of British statesmen!

Our banks constitute a state-supported, private monopoly, which has grown up under specially favoured laws and customs. Parliament has made laws compelling the public to use certain legalized tokens of exchange without bothering itself as to the supply of such tokens. This supply

has hitherto been allowed to fall under the control of privately owned companies who have the right to tax the community to any extent it is able and willing to bear. The result is that the public is permitted to employ its own credit only by consent of the bankers, and only to such limits as they choose to allow, on condition that it pays them a tax on such credit—amounting to millions of pounds annually, and this amazing monopoly exists merely because no British minister has yet had either the courage or the statesmanship to provide the nation with its own credit organizations! But the present position of affairs cannot continue. The force of circumstances will compel Parliament to destroy this monopoly and to release credit from its enslavement to gold, and thus enable the people to vastly increase the amount of their annual wealth production. Our monetary laws and banking methods will be seen to have been the chief hindrance to our industrial progress and trade advancement.

As to the limitations which our legal-tender laws have imposed upon the bankers, in their endeavours to provide the public with a sufficiency of credit, probably the clearest illustration is contained in an address delivered by Sir Edward Holden (Managing Director of the London City and Midland Banking Co.) before the Liverpool Bankers' Institute, December 18, 1907, entitled *The Depreciation of Securities in Relation to Gold*. Sir Edward illustrated the condition of the banks by a triangle, showing that credit was restricted by gold, regardless of the enormous wealth pos-

sessed by the nation in other forms. He first states—what is often forgotten—that **loans create** bank credits (thereby endorsing Mr. Stoll's main contention), and if we regard all the banks in London as one, the business of banking becomes little more than a matter of book-keeping—the transfer of credit from one person to another. He then proceeds as follows:—

“ The right side of the triangle (Fig. 3) represents the loans of the whole of the banks, and the left side represents the credits created by these loans, and the base the cash balance or reserve. If, then, you draw a line from the left of the base, and equal to the base, you get the cash credits in existence. If the loans and credits as represented by the two sides of the triangle were the only two elements which bankers had to take into consideration, then there would be no necessity for them to restrict their loans at all, and traders could increase their businesses and obtain loans *ad libitum*.

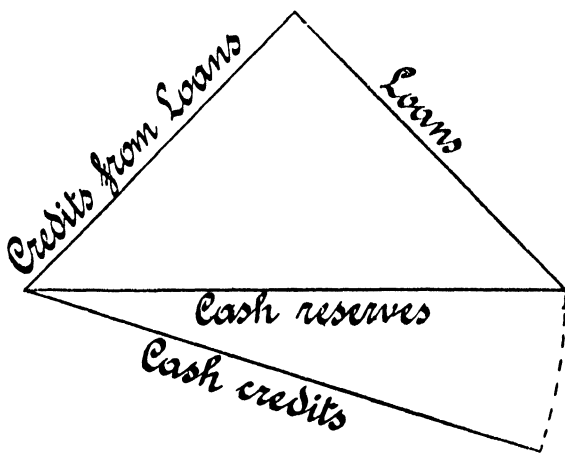


FIG. 3

“ But there is another element, and a most important one, to be taken into consideration, and it is the fact that

all the credits as represented by the left-hand side of the triangle and the line drawn from the base, are practically payable on demand and in gold, assuming, of course, that Bank of England notes represent gold. Every banker must, therefore, make up his mind by what amount his credits are liable to be diminished, both in ordinary and extraordinary times, and when he has thus made up his mind, he ought to keep that amount of available resources in gold, or in a means of obtaining gold.

“ Let us consider, then, that the base of the triangle consists of gold, and it is the ratio of the base of the triangle to the total credits (both created and cash credits) which restricts bankers from increasing unduly their loans. If business increases unduly, and if bankers continue to increase the loan side of the triangle, of course concurrently increasing their credits, and not being able to increase the gold base of the triangle, then evidently they are getting into danger, and the only judicious course which they can pursue is to curtail their loans, curtailing an undue increase of business, which curtail these credits, and thus re-establish the ratio.

“ You see here the direct connection between trade on the one hand and gold on the other, and that it is not so much the production of gold as the amount of gold which can be obtained for the purpose of increasing the bankers' reserves. I venture to think that the above explanation will enable you to come to the conclusion that, if the gold base of the triangle cannot be increased, then the danger spot is the loan.

“ I want you to remember that the banking system of every country has its triangle, and that the principles enunciated above exist in every triangle of every system based on gold in the world ; that being so, it is clear, generally speaking, that the business of the world is carried on by means of loans, that loans create credits, that the stand-by for the protection of credits is gold, and that therefore, gold controls trade.

“ It may happen that the trade of one country grows by leaps and bounds, the loans and credits, of course, following, while the trade of other countries remains normal. What, then, takes place ? The gold base of the triangle of the former becomes too small, and it is necessary to

enlarge it. How is the increase effected? It is effected by the representative bank of the more prosperous country attacking the gold basis of the triangles of other countries, and the instrument by which the attack is made is the rate of discount. By this means gold will be attracted from the bases of the triangles of other countries, and unless those bases are too great for the adequate protection of the credits, the representative banks of those countries will meet the attack by also putting up their rates. But it may happen that the trade of every country has increased by leaps and bounds, and that all loans and credits have also increased. Then the fight begins with each country putting up its rate, first to prevent its base being diminished, and secondly, to increase it if possible. Hence we have the English rate at 7 per cent., the German rate at $7\frac{1}{2}$ per cent., the Austrian rate at 6 per cent., the French rate at 4 per cent., the Italian rate at $5\frac{1}{2}$ per cent., the Russian rate at $7\frac{1}{2}$ per cent., but as the United States have no Central Bank, there is no official rate for that country."

Here is a frank avowal on the part of the world's leading banker, that trade and commerce are ever at the mercy of the manipulators of gold, that long-continued industrial prosperity is impossible because of the restrictions imposed upon exchange by our legal tender system, and that the gold basis is a brake upon the wheels of industry, which is continually checking the pace of production! Here also is the explanation of the phenomenon that periods of prosperity are inevitably followed by periods of depression!

Increased trade demands increased banking facilities—increased loans—but the moment credit is increased to meet this demand, the gold reserves are strained, the bank rate is raised, loans are called in, the brake is applied to the wheels of

industry, production is checked, employees are discharged, enterprise is discouraged, and the extra demand for money and credit, which prosperous times require, is choked off. In short, our financial system destroys prosperity, and reduces trade to the amount of gold available. So that the mechanism of exchange, instead of facilitating trade, actually checks it! It first stimulates industry and then destroys it. **The gold basis has become both the life and death of trade!**

CHAPTER XII

HOW THE WAR MIGHT HAVE BEEN FINANCED

IN the light set forth in the preceding chapters, it would be difficult to conceive a more fantastic system than the Governmental methods of finance. Let us put the situation in simple language. A vast amount of money, credit and securities are found necessary to buy war material, food, clothing, munition workers' labour, and other labour charges, and to meet soldiers' allowances, pensions, etc., etc. These necessities may be divided into three different classes. *First*, something is needed to pay neutral countries for war material, food, and other commodities. This may be (*a*) gold, (*b*) American and other foreign securities, bonds, shares, etc., (*c*) services, such as shipping, etc., (*d*) exports, i.e., commodities, cotton and wollen goods, etc. *Second*, material assistance is needed by our Allies. This assistance is mainly in munitions, coal, metal and other goods, as well as maritime services.

A certain amount of general purchasing power is also required, which is probably paid in gold or orders on the Bank of England. *Third*, by far the greatest sum is required for settling home accounts, paying munition workers, manufacturers, shippers, merchants, etc., etc.

How is all this obtained? There are three methods. First, taxation; second, the use of the national credit in the form of Treasury bills which are discounted at the bank: these are exchanged for bank credit and are chequed out as required; third, loans.

Now, what resources does the Government have with which to finance its obligations? The Government has at its disposal the whole of the national credit! In other words, the pledges it gives in the forms of bills, bonds, certificates, in return for the loans it is asking, are merely different forms of the national credit. And this credit is represented by the national wealth, which prior to the war was estimated at somewhere between £15,000,000,000 and £20,000,000,000.

It is precisely the same credit against which the Bank of England has been allowed to issue £18,000,000 in legal-tender notes for many years past and which have circulated on a parity with gold. Would not a Government cheque drawn on the Government bank be as good as that of any of our Joint Stock banks? But it may be asked, "What is at the back of such a cheque?" Precisely what is at the back of the cheque of any subscriber to the War Loan who borrows credit from his bank on Government securities. Government bonds, Consols, Treasury bills and Treasury notes are nothing more than evidences of the national debt and credit. If our bankers are willing to issue their credit on such securities, is there any reason why the Government should not use its own credit direct for carrying on the

war and save the nation £300,000,000 per annum? **The Government is to-day using second-hand credit, viz., bank credit issued against the national credit.**

Of course, in the settlement of foreign accounts, we must pay in what is acceptable abroad, viz., gold, goods, securities, or services. But for all domestic accounts, we could have employed the national credit, which would be redeemed gradually by taxation, just as it must be in any event. **But we should have saved ourselves the enormous burden of interest charges!**

We have already seen that the War Loan, when stripped of all its disguises, is in reality a contribution donated by the British people. Both subscribers and non-subscribers will eventually be compelled to pay the loan and interest charges in taxation, they, their children, their children's children to the third and fourth generation, and possibly much longer. And until the principal is repaid or reduced considerably, the nation will pay the amount of the loan every twenty years in interest charges without reducing the original debt by a single penny! This would be no particular hardship if every taxpayer had the same income, was taxed at the same rate, and had contributed equally to the loan, and provided also that the loan had been entirely subscribed by the British taxpayers. If all these conditions existed, the interest paid to each subscriber would constitute merely the repayment of his special War Loan taxes, and, as I have shown, it would have been cheaper in the long run for the people to have

subscribed to a non-interest bearing loan. But none of the conditions mentioned exist. Both here and in the U.S.A. wealth and taxation are the limit of inequality. Nowhere are they more unequal. And the Government have accepted millions of money from foreign subscriptions. Hence the loan will constitute a very heavy tax upon British trade and industry, and the whole burden must be shouldered directly and indirectly by the producing classes. Our great insurance and credit institutions have subscribed enormous sums to the present loan. The Prudential Assurance Company is stated to have subscribed £25,000,000, the interest on which will amount to £1,250,000 per annum—probably for the next century—until the principal is paid. Now the Government's appropriation of the national credit would have meant the taking of a proportional amount of everybody's credit, or rather that of the collective productive capacity of the whole nation. So that no one firm or individual could possibly have said, "I subscribed so much, hence I am entitled to so much interest."

But it may be asked what other means of financing the war were available?

The war means a vast consumption of wealth, goods of every description which some one must provide. How could the Government procure them except by borrowing? Let us take a somewhat analogous case.

Let the reader suppose himself a constant creditor or shareholder in one of the great departmental stores where every conceivable commodity

which he requires for his house and his family is kept on sale. Let us suppose that the annual sum due to him by the said store is £2,000, which is usually paid him at the end of each year. Now there are two methods by which his income may be paid to him. First, wholly in cash, and second, partly in commodities and the balance in cash. For it is unlikely he would wish to spend all his income in goods. Through extravagance and difficulties, he finds himself in the month of January short of money. He consults his two friends, one Mr. Orthodox Finance and the other Mr. Common Sense. Finance offers to discount his friend's note for twelve months to tide him over. "You'll have £2,000 by the end of December next and can then repay me. As you only need £1,000, the loan will cost you a trifle—say £50. Give me a bill for £1,050 and you can have the £1,000 at once!"

He then consults Common Sense, who asks him what he needs the money for. "To buy food and other things for my home," is the reply. "Where do you deal?" asks his friend. "At my own stores, where I own many shares and am a constant creditor."

"And do you mean to tell me that you think of borrowing money to pay for goods from your own stores? Why on earth don't you have an account opened since you are a constant creditor, and give receipts for all the goods you need? At the end of the year your share of the profits will be paid you, less the amount of goods you have ordered. Instead of having to borrow and pay

£50 interest, you need borrow nothing and thus save your income ! ”

Now the Government stands in the position of a constant creditor towards the people to the extent of whatever expenses are needed to govern and safeguard the country.

I need hardly say that because Mr. Orthodox Finance has been the British Government's sole adviser since the days of Pitt, the British taxpayer has been compelled to pay untold millions uselessly, for which the nation has received no equivalent in return. The Bank of England has been like Mr. Orthodox Finance—always ready to advise and discount the Government's bills—**for a consideration !**

My illustration is, I am well aware, crude and faulty in certain ways, but it may serve to give the reader some faint idea of the costliness of our tortuous financial methods. Our war expenses are doubtless more than could be fully paid out of current income, necessitating a postponement of the settlement of a large portion. But the system has always been the same in times of peace. If the Treasury ran short before the end of the fiscal year, instead of employing national credit direct, the Treasury has had its bills discounted at the Bank of England, and the bank shareholders have benefited at the expense of the taxpayers.

This is mainly because the Government has never provided itself with a proper national banking system, and has therefore left the nation a prey to the financial wolves.

Supposing at the time of the great bank crisis in July, 1914, the Government had taken over the Bank of England and converted it into a real National Bank. It had as much right—indeed, a far better right and reason—than it had to take possession of the railways and munitions works. The nation would then have had all the machinery and organization necessary for utilizing the national credit. The bank would have issued all the Treasury notes required for trade and business generally, and could have called in all the gold in circulation in exchange for the notes. It would then have been stronger in every way than all the Joint Stock banks throughout the country. The Government could have gone further and absorbed every bank in the United Kingdom, bringing the entire system under one central control. This would have minimized the necessity for legal tender and enabled the nation to conduct all its home trade by cheques.

Now I have shown that the War Loan must necessarily consist of bank credit, mere book entries, backed of course by the wealth of all the subscribers. But since the Government has—under present emergencies at any rate—the right to commandeer the whole of the nation's wealth for the defence of the country, all it had to do was to open credit accounts in the banks' books against the whole of our national wealth. **The entire loan would then have been created without spending a penny upon advertising, without having to pay a penny in interest**

charges, and without shaming the British people by such pitiful appeals as those in Trafalgar Square, in which the whole world was informed that "Germany is watching," one interpretation and a most obvious one being, that British patriotism is at such a level that we need watching, above all by our enemy!

One wonders what kind of people the Government advisers must be to hold the British public at such a low estimate! There are doubtless thousands of people in the country who would refuse to subscribe to a national loan, even during the present crisis, without the offer of some bribe in the shape of interest. But it is unthinkable that a nation whose sons, brothers, husbands, and fathers, have offered their lives and fortunes by the million, would refuse to contribute their wealth, or a substantial portion, freely without a cent of interest had they been asked. It sounds incredible that a father would give his sons' lives for the defence of his country and refuse to part with a portion of his bank account! The priests in the Temple of Usury cannot imagine any one placing his property on the same low level as human life, and therefore regard the contribution of property without the interest-bearing bond as unthinkable, even where the contribution is wholly for self-preservation. They are like the lady in the farce who, when held up by the highwaymen, cried, "Take my life, but spare, oh, spare my diamonds!"

Now, by creating the loan as I have suggested, the country would have avoided the enormous

annual interest charges, which will probably exceed £300,000,000 before the war is over. Less than one year's savings would have sufficed to buy out the whole of our banks and give the nation supreme ownership of a system worth more than all the gold mines of the world! And the national ownership of the banks would have provided the people with the most effective means of victory for the coming economic war, they could possibly possess! It would have settled the question of a Trade Bank, which the bankers are doing their best to shelve, for ever. It would have been a mine of wealth for this and future generations, enabling us to repay the war costs within an appreciably short time. How great a mine the Bank of England has been to its founders and shareholders may be gathered from the sums paid it by the nation for its services and interest on loans. In addition it has been granted the privilege of issuing notes against a certain part of the National Debt, and has the use of the Treasury balances. One hundred years ago Mr. Grenfell, a member of the House, called attention to the enormous profits made by the Bank in advances to the Government and in the management of the public funds. In twenty years (since 1797) he said, their profits had been not less than £27,000,000 sterling!

CHAPTER XIII

FREE TRADE AND THE GOLD STANDARD

THERE is yet a further indictment to draw against the gold standard, and that is the disadvantageous position in which it places our industries in respect of foreign competition. Prior to the Franco-German War, Great Britain had what was practically a national currency—a currency that offered comparatively little inducement to foreign traders for exporting abroad. The silver monetary standard at that time held the predominant position and was universally recognized, whilst the gold standard was practically confined to our own country. The result was that during the first Free Trade era—from 1846 to 1873—our foreign trade was literally an exchange of our surplus products for those of other nations. It consisted of barter pure and simple. Its wisdom was shown by the marvellous growth of our foreign trade, amounting to over 500 per cent. during those years! But with the adoption by our trade rivals of the gold standard, very much of this mutually advantageous barter system was replaced by trade competition. Foreign trade soon degenerated into a fierce scramble for gold. The results were very disastrous to this country, as shown by our trade statistics. Our

foreign trade remained almost stationary for the twenty-seven years following. After 1873, our trade rivals were able to send over their goods which competed with ours, and take either goods or gold in exchange, whichever proved the more profitable. This also enabled them to affect the level of our prices. By exporting gold abroad, our rivals were able from time to time to raise our bank rate against us, thereby crippling our own manufactures, our trade and commerce, which were penalized by our banks to the extent of the increased rate of interest. This in turn naturally enhanced the cost of production in this country. At the same time, by shipping gold to Germany or the United States, money and credit were made "easier" for the German and American producers. Further, since gold prices for some years after 1873 were much lower on the Continent than in England, there was every inducement for the foreign dealers to demand gold in payment of imports. The adoption of our monetary standard by Europe and by Germany especially, exposed our wage-earners to the direct competition of the ill-paid German and other Continental labour. The results are ably set forth in the well-reasoned chapters of a little book entitled *The True Cause*, by the late Major Cecil Balfour Phipson. *The True Cause* was written fifteen years ago at the commencement of the great Tariff Reform controversy. The author saw what apparently very few had previously recognized, viz., that the original character of our Free Trade system as started under Sir Robert Peel and Richard Cobden,

was completely altered in 1873 by the adoption of the British gold monetary standard, first by Germany and later by all other industrial nations.

Just here it may be well to explain the vast difference between barter (i.e., the exchange of one kind of labour product for another kind) and trade competition. If America sends us cotton and accepts our woollen goods in exchange, the results are mutually beneficial. No competition is here involved. Each nation benefits by getting at a comparatively low cost, goods it is unable otherwise to procure. But if Germany sends to our free and open markets cotton and woollen goods similar to those our manufacturers are already supplying, competition is at once set up. Our producers are then brought into direct rivalry with German producers for British gold or for some other commodity which both nations require. Both sides are usually after the same thing, viz., gold—because it represents general legal purchasing power in Germany as well as in Great Britain. Its possession enables one to buy in all the markets of the world.

Major Phipson was thus able to demonstrate that the age-long controversy between the advocates of Free Trade and Protection, had never been finally settled for the reason, that both sides had overlooked one of the most important factors affecting international trade. The remedy became apparent as soon as the "true cause" was discovered. The establishment of a national paper currency—a money which has no circulating power abroad—at once suggests itself as a simple

means of safeguarding our home markets. This would tend to bring our international trade back to simple barter, to an exchange of our surplus products for those of foreign countries. If America sends us cotton under such conditions, she must accept payment in our own labour products or services. Our paper money would be useless unless spent in our own country. If gold were demanded under these conditions, its exportation could not affect our bank rate and would then have no injurious effects upon our own industries. **It will be seen that under our original national currency system, our producing classes were the chief beneficiaries. But under the international gold-standard system, the profiteers are chiefly the great banking houses and international financiers!** From 1873 until 1903 our foreign trade showed no substantial increase. Since then its development recommenced: the reason of this recent development being that during the thirty years of our arrested trade development, both Germany and America were securing their grip upon the world's trade, until their financial condition approached ours. Since then we have merely taken such a proportion of trade as our financial position permits. It is somewhat paradoxical that the very instrument set up to enable us to secure foreign trade, is the same that gave our trade rivals their opportunity of successfully competing against us!

A national currency is a national safeguard, and by extending it to our colonies—by making our currency valid throughout the

Empire—we at once complete the chain which would form a bond of commercial union between every British possession. Such a system would do more to develop our home and colonial trade than all the gold mines of the world!

It should be pointed out that all currency—legal tender—is limited in its circulation to the countries issuing it and to those allied thereto. Even gold sovereigns do not circulate on foreign soil as sovereigns. They have to be remelted and recoinced into French twenty-franc pieces or United States five- and ten-dollar gold pieces, to enable them to function in these countries as legal tender. Money is like a monarch—all powerful in its native land, but powerless after crossing its frontiers. But since the metal gold is legal tender everywhere, when coined under each country's respective laws, it will be seen that the results of establishing it as the world's money standard, are to bring the producing classes of all countries into direct economic conflict, so that the tendency is for wages to fall to the level of the lowest paid labour in any country, instead of soaring to the highest level. The system of trade protection by tariffs, owes its political strength largely to this fact. Protectionists assert, that tariffs are necessary in order to protect labour from direct competition with the lowest paid labour in foreign countries.

It is undeniable that foreign trade competition has never been so keen or so ruthless as since gold became the universal money standard. Moreover, we may expect that after the war,

this competition will become more ruthless than ever. Certainly as far as our enemy is concerned—knowing how treacherous, unscrupulous and cunning is the foe we are fighting—we cannot afford to offer him any ground or advantage in our future trade methods which may enable him to regain his former superiority.

Just now the whole of the civilized world practically, is engaged, in a struggle to rid itself of the Huns, their works, their ways and their influence. And the reason and necessity for this is the discovery of the past three years that all the activities of this industrious but unscrupulous race in every field—industrial, educational, commercial, economic, political, financial, literary, religious and social—are focussed upon one final object, viz., the establishment of a universal political and military despotism under the control of Prussia. Every nation is now fully aware, that to grant the German people the same freedom and privileges they enjoyed prior to the war, is to expose themselves to the dangers of economic and political subjugation at the hands of this criminal race.

In dealing with one phase of the subject in the House of Commons recently (March 27, 1917), Lord Robert Cecil said :—

“ I agree with Mr. Hewins that the investigations that have been made have shown the enormous extent of the German trade organization, and the completely different theory that has prevailed in Germany than that here; that trade and politics must go hand in hand; that you establish your commercial house in a foreign country partly with a view to improving the trade of Germany, but partly also to extending your political power.”

Lord Robert might have added to "commercial house" the words, "factory, bank, school, Church, social and business clubs," which would much more faithfully describe Germany's foreign policy.

Germany's prodigious successes in all lands and fields have been due first to the loyalty of her subjects, and second, to the efficiency of the instruments she employed. And among these instruments, none has served her more faithfully nor proved more useful in opening up foreign markets than the "gold standard." The adoption of the gold standard by Germany, together with our policy of granting her the freedom of our markets and ports, were most important factors which enabled her to raise herself to our own commercial level, and exposed our people to the direct competition of her slavish and underpaid producing classes. It enabled our enemy to obtain in a single generation, results which it had taken us more than two centuries to accomplish. We have seen how this apparently innocent and harmless measure changed the whole character of our foreign trade, from peaceful barter to the fiercest trade competition. Whilst it is true that foreign trade is always a sale of goods for money or credit in the first instance—even where such trade is between nations using different monetary standards—the character or nature of the money makes all the difference whether such trade is mutually beneficial to both countries or not. For example, suppose we had a limited number of cotton-spinning machines which could not be replaced without extreme difficulty, and only after

a delay of months or years. It would surely be madness to allow these to be exported under these conditions, even if they were demanded as payment for other necessities. Since our laws have made gold the mechanism and tool of our home trade, its export has often affected our industries as disastrously as the export of cotton machinery would do, in the above illustration.

How valuable an instrument the gold standard has been to Germany in her conquest of our markets, may be readily seen from the following analogy. Those who have travelled from Germany to Russia will have noticed a different railway gauge employed by the two countries, as soon as one reaches the Russian frontier, the Russian gauge being several inches wider than that in Germany. In consequence of this difference in standards, it would be impossible for Germany to run her railway cars into Russian territory, even if each nation agreed to allow the free use of its rails and roadbeds to its neighbour; this difference in standards would prevent either nation from running through cars from its own industrial centres to those of its neighbour and so competing in passenger and freight rates. Under these conditions we may say that the difference in standard gauges, constitutes a complete system of protection against foreign competition in transportation rates. Suppose now under similar treaty rights regarding the free use of each other's railroads, Germany decided to adopt the standard gauge of Russia. The result would be a fierce war in cutting rates similar to those

which were formerly waged between the trans-Atlantic steamship companies of this country and Germany, to determine which nation should acquire complete control of the traffic of both countries.

The latter condition is analogous to our pre-war trade relations with, not only Germany, but every other great industrial nation. And whilst all nations by adopting the same monetary standard, weakened their positions in one respect, these countries with but one solitary exception, viz., our own, erected tariff barriers to take the place of the natural protection which would have been afforded, if each had possessed its own national currency standard.

Curiously enough, gold is the one commodity which is above all tariff laws. No duties are imposed upon the import of this favoured metal by any country on earth, owing to the universal superstition and belief that it is the highest and most desirable form of wealth.

It does not seem to have occurred to the statesmen of any country, that this freedom of movement, coupled with the unlimited free coinage of gold, constitutes a most fraudulent system of tampering with the standard, just as much as though we were allowed to alter the standards of weight and length from time to time. All nations regard the latter operations as crimes of the highest magnitude punishable by imprisonment. But our cosmopolitan bullionists are permitted to change the units of value in every country to their hearts' content, whenever they find it to their advantage to do so.

There is nothing to prevent financiers flooding with gold the markets first of one and then of another country, for the purpose of first booming and then depressing prices and winning on both operations in each country.

As we have seen, with the adoption of the gold standard, Germany secured many advantages over us. Gold prices were higher here than in Germany for many years, owing to the greater abundance of metal here. We had an almost exclusive gold currency, whilst Germany's currency was largely paper. She had no free gold market, whilst we have been the only country possessing such a philanthropic institution ready to sacrifice ourselves for the benefit of foreigners.

But the advantages the Germans gained by gold were many. They were able to regulate their own price scale and undersell us in our own markets. They were also able to manipulate our scale by withdrawing gold or supplying it to our markets. Their costs of production, reckoned on our scale, were far less than ours. And as they suffered no legal trade restrictions from us, our markets became, for all practical purposes, merely an extension of Germany's markets. A Westphalian or Saxon manufacturer could send his wares to England and enjoy the same privileges in London, Manchester, and Birmingham as he did in Berlin, Leipzig, or Munich. He had no trade or financial barriers to get over. On the contrary, he had advantages which the British manufacturer had never enjoyed. He had better and cheaper banking and credit accommodation.

Loans were freely made him by his own banker for indefinite periods until he could repay them out of his profits. He had little fear that his banker would suddenly swoop down upon him and demand a settlement under a threat of bankruptcy. If his plant was inefficient or out-of-date, his banker would advise scrapping it and buying a new one. He had the help and assistance of his Government in all matters of foreign trade. Every German Ambassador and Consul stood ready to help him in getting foreign orders, in advising him regarding foreign requirements, prices, costs, etc. At home he stood entrenched behind tariff walls that made him secure against all foreign encroachments. The extraordinary loyalty of the German people to their Government is very largely due to the knowledge that their business interests have always been one of the chief considerations of the Kaiser and the various departments of his Government. Every German has been taught to believe that his welfare is the special wish of his rulers. Contrast all this with the condition of the average business man of this country. His Government has no interest in or knowledge of his existence except at general or special elections of Members of Parliament, when it solicits his vote, or when his taxes fall due; nor does it ever display the slightest solicitation for his well-being. Beyond voting and paying taxes, the Government has no use for him, and his British citizenship is of little or no benefit to him. He has no more rights, freedom or benefit, than any foreigner may enjoy who chooses to reside

here. British Ambassadors and Consuls hitherto, would never lift a finger to help him secure trade or extend his business in any quarter of the globe. Under the régime of men like Lord Lansdowne and Viscount Grey, our Foreign Office apparently considered the interests of their countrymen just as safe in the hands of Germans and other aliens, as in those of their own people. Hence we find that prior to the war a large proportion of our Consuls were Germans.

In the matter of credit, the British business man, unlike his German rival, finds no banker welcoming him as a friend, ready and anxious to help him. On the contrary, he often has difficulty in getting accommodation at all, and when he does he is given to understand that such accommodation is a great favour and can only be granted for a very limited period. He is exposed to the most variable bank rate in the world, and is liable to have the loan called in whenever a flurry or crisis occurs. He dare not think of scrapping his old machines or improving his plant, lest his banker should suddenly pounce on him and sell him out. Neither his rulers nor his bankers care a rap whether he sinks or swims so long as he does not let them suffer. Whilst his Government leaves him unprotected by either tariffs or a national currency, he finds tariff walls against him the world over. Foreigners come and compete freely with him in his own markets and those of his Colonies, and get better credit facilities from their own bankers (who have been permitted to establish branches in London) than he could obtain. If

he were prosecuted abroad, his own courts of justice were willing to recognize and enforce the decisions of foreign courts. On the other hand, if he prosecuted and obtained judgment against a German temporarily residing in this country, the German courts always refused to recognize such decisions, and he was compelled to start his suit from the beginning in a German court, and deposit sufficient security to pay all costs in the event of his losing his case. And yet some of our arm-chair professors have had the impudence to attribute the loss of our trade supremacy to lack of enterprise on the part of our own manufacturers! The marvel is, not that Germany has forged ahead so tremendously and overtaken us industrially and commercially, but that we are still in the running! Our Governments have all been obsessed with the belief that so long as London remained the world's money market nothing else mattered. Hence every protection and privilege demanded by the bankers has been granted, whilst the industrial and producing classes have been utterly ignored. And as often remarked, Great Britain for the past fifty years has been fast drifting into the position that Holland occupied in the seventeenth and eighteenth centuries. We have been sacrificing our producing classes on behalf of the moneylenders. We have been priding ourselves upon being the pawnshop of the world. And to-day we are beginning to realize the folly of such a policy. For the first time in a century we are painfully aware of our dangerous position. The submarine menace is doing more to destroy our insane

economic and financial systems than all the warnings ever uttered! The gold standard has been the *ignis-fatuus* that has lured the nation on to the brink of destruction. The people have been taught from infancy that it is better to acquire gold and buy commodities from abroad, than produce them at home. Statesmen have told us that the export of our national credit to foreign lands for the purpose of developing the trade, productions, and industries of other countries was a wise thing, and economically sound. Hence whilst British wealth was employed in building the railways and developing the wheat fields and cattle ranches of America and Argentina, whilst German bankers were allowed to send British credit to build up German industries to compete with ours, to acquire German colonies as a menace to our own and to prepare for the great war in which Germany intended to ruin our Empire, British agriculture was allowed to starve, our country was becoming a vast game preserve, our industries were neglected, our youths were compelled to emigrate in thousands to find employment, discontent was engendered and encouraged among the working classes, and the nation was showing every sign of disintegration. Our Parliamentary geniuses had not the intelligence to see that the export of our capital meant the emigration of the most valuable part of our population. But our statesmen were satisfied because the banks prospered in spite of everything. It mattered little what happened to British trade and agriculture so long as our financiers were busy

arranging foreign loans to support foreign industries—which paid them far better than financing home industries. And our financial prosperity was regarded by these blind, apathetic politicians, whom we politely called statesmen, as the barometer of the national welfare and industrial safety. The natural result of all these foreign investments was that our vessels came laden with tributary goods in the shape of meat and wheat from South America, cotton and metals and machines and manufactured goods from America, dyes, electrical apparatus, chemicals and innumerable manufactured articles from Germany, hops from Hungary, and so on. And with the exception of certain raw materials like cotton, these tributary goods displaced our home-made articles and helped to destroy our native industries !

Let us hope the people will have learned the great lessons this war is teaching, so that they will refuse hereafter to tolerate the rule of men in the offices of state whose sole qualification for office is either a glib tongue, the accident of birth, or great wealth.

The profession of the statesman, should demand something more efficient than these non-essentials.

CHAPTER XIV

SUMMARY

LET us now collect the various points we have already discussed and see at what conclusions we are justified in arriving. Those who have had the patience to read and to consider the previous chapters, will realize that our present financial system is built chiefly upon a fallacy arising out of a gross misconception of the true meaning of exchange-values, and this misconception has been fostered by those who have desired to reconcile economic theories with private and class interests. And how persistent this desire has been may be seen in every branch of the science. Take, for example, the numerous theories regarding interest (better named usury, i.e., payment for use), upon which innumerable treatises have been written, and to which reference has already been made in a former chapter. Instead of recognizing the simple truth that interest is the price of a legally created scarcity which has resulted in a world-wide monopoly, economists have invented all sorts of theories, such as the "reward of abstinence," the "fructification theory," the Austrian theory that "present goods are worth more than future goods," and numerous others equally untenable. Interest will cease as soon as nations abolish the laws which have converted the factors of produc-

tion and exchange—land, money and credit—into private monopolies, and not before!

It has been well said that if it were to the pecuniary interests of any class to deny the validity of the multiplication table, the denial would be forthcoming. More than half a century ago Marx wrote as follows:—

“In the domain of political economy, free scientific inquiry meets not only the same enemies as in all other domains. The peculiar nature of the material with which it deals, summons as foes into the field of battle, the most violent, mean, and malignant passions of the human breast—the furies of private interest.”

He added that even the Churches would more readily pardon an attack upon their creeds than upon their incomes!

Orthodox economic science is founded upon the assumption that existing property rights—no matter how acquired—that class privileges and vested interests created by the selfishness, corruption, the ignorance and caprice of both modern and ancient rulers, are permanent and essential to the existence of society. And the main object of orthodox writers has been to justify these interests. Were we about to found a new colony in a far-off land uncontaminated and unhampered with tradition, juridical rights, vested interests, precedents and privileges, it would not be a difficult task to map out an economic system which would work harmoniously in all its branches for the equal welfare of all classes. But our laws have raised so many impediments to any such system, these private interests so often clash with the

public interests, that any attempt to establish a science built upon our present social and economic inequalities can only end in failure. The present system reminds one of a machine which has been constructed from various pieces of machinery, built in different ages and for different purposes, no two parts of which can be properly fitted or adjusted. The result is a horribly noisy, wasteful, grinding machine which goes by fits and starts and is continually breaking down in spite of the enormous amount of lubricants employed !

Exchange-value has hitherto been regarded as the most abstruse—although admittedly the most important—of all the numerous branches with which political economy deals. And the cause of this abstruseness is due to the attempt of its professors to reconcile theories which are either naturally conflicting and irreconcilable or are wholly unrelated. We have seen that exchange values are merely the arithmetic of trade and are expressed by numbers. The “measurement of values,” as it is called, is practically a system of numbering or counting. It is identical with the “measurement” of games like billiards and cards. Chips and counters are the money of card games, i.e., they are used to indicate the number of points won by each party, just as sovereigns and one-pound notes are used to indicate in numbers of pounds, one’s winnings or earnings in trade and industry. These pounds merely represent certain fractional proportions of the whole of our national wealth. That the function of money is to enumerate or count is shown by the fact that in all

financial and trade dealings where money is concerned the only question that arises is, "How **much** money?" One never hears such a question as "What **degree of value** is your commodity worth?" or "What **quality** of money do you require for such an article?" Even where different kinds of money are in circulation, if there exists any preference for one kind over another, such as gold or silver over paper, or paper over gold coins, such choice is due to special circumstances, to convenience or the requirements of foreign trade where paper has no legal-tender powers. If a difference in value exists, it is indicated numerically, i.e., one kind will be quoted at a discount compared with another. There is no such thing as **degree** or **quality** in exchange-value. Chips and counters are no better indicators for being made of gold and silver than if made of bone or ivory. Similarly money—legal tender—performs the same functions whether made of gold, silver, paper, or tin. By confining legal tender to gold, all we do is to make our counters unnecessarily scarce and costly. And by so doing we burden our trade, limit our output of wealth, and make ourselves poorer than if we used something less costly and less scarce. We have seen that the inevitable results of establishing a commodity standard are: (1) Variability in the money unit, so that prices and debts are made to fluctuate with the variations in the supply of and demand for the money commodity. (2) The exchange-values of all other commodities are falsified from time to time by the intrusion of the

standard commodity's own value, which takes the name of prices, and the industrial and trading classes are continually defrauded.

We have seen that, scientifically speaking, the "pound" is not as our laws define it, although Sir Robert Peel's fallacious definition provides the basis of our present dangerous and irrational banking and currency systems. This fallacy has cost the British nation untold millions, not merely by the taxation which it has inflicted upon all our industries, trade and commerce, as well as by increasing our national obligations, but chiefly through its limiting the amount of our annual production. It is estimated that every rise in the bank rate of 1 per cent. costs the industrial and commercial classes from £60,000 to £100,000 per week in increased interest charges on loans! No form of oppression can be more intolerable than for a Government to first establish the legal necessity for an article and then fail or refuse to provide an adequate supply of it. This, however, is a description of most of the world's legal-tender laws. Its results are shown in the annual record of bankruptcies, suicides, lockouts, strikes, and industrial disputes. Sir Robert Peel made it doubly oppressive by making gold our sole legal tender for sums over £2, and refusing to allow the issue of one-pound notes. The inevitable tendency of this legislation was to thwart enterprise, to drive the small producer out of business, to concentrate industry in the hands of the wealthy classes, in short to enrich the wealthy and to weaken the middle and poorer classes.

We have also seen that the gold standard imposes an **elastic monetary unit** which functions as a fraudulent measure of wealth. Natural conditions alone, such as fresh gold discoveries, the failure of existing sources of supply and the variations in demand due to the growth of population and trade, are sufficient to create serious fluctuations in the value of the standard. But added to these natural causes are the variations produced through the creation and cancellation of vast sums of national and bank credit which function as currency from time to time, and affect the purchasing power of money just as the issue and distribution of so much legal tender would do. And when we remember that a considerable proportion of all this currency is controlled by a few international banking firms whose interest it is to cause periodically these sudden fluctuations in the purchasing power of money, we can get some faint idea of the unfortunate position of the trading and industrial communities. Some years ago a well-known United States Senator, speaking of the unlimited power in the hands of a few New York bankers, made the following announcement. He said :—

“ There are fifty men in the City of New York who can in twenty-four hours stop every wheel on every railway, close the doors of every factory, lock every switch on every telegraph line and shut down every coal and iron mine in the United States ! They can do this because they control all the money of the country. The control of money gives its possessors absolute power over a nation's industries.”

A somewhat similar condition exists in this

country to-day. The Bank of England—which, bear in mind, is a privately owned and controlled Joint Stock bank—with about twelve other Joint Stock banks, practically control the entire currency and credit of Great Britain. Walter Bagehot once wrote (*Lombard Street*):—

“ All our credit system depends upon the Bank of England for its security. On the wisdom of the directors of that one Joint Stock company it depends whether England shall be solvent or insolvent. This may seem too strong, but it is not. All banks depend on the Bank of England, and all merchants depend on some banker ! ”

It speaks volumes for the comparative honesty of British bankers as a class (compared with those of other nations) that they have, generally speaking, so moderately used the enormous powers which privileged legislation has placed in their hands. But it must be remembered that they are members of a larger circle of cosmopolitan financiers who operate in all countries and are not troubled by the scruples of most of our British bankers. And who is to ensure a continuance of this policy of moderation? And what is to prevent our bank shares from falling entirely into the possession of a syndicate of unscrupulous cosmopolitan financiers, amongst whom the Hun banker is notoriously conspicuous? Bank shares are purchasable with money. **Imagine the results, if the bulk of these shares fell under the control of some foreign syndicate, whose policy might be to destroy British commerce !**

Currency, whether legal tender or bank cheques, is a **social instrument**. No man or group of

men, outside the halls of legislature, can create a nation's currency. This requires the confidence and consent of the trading public. It is the public, and not the bankers, who give currency and therefore value, to paper and credit. The refusal on the part of the industrial and commercial classes to accept any particular instrument in exchange for their commodities, would render any instrument useless for currency purposes.

We have also seen that nearly 99 per cent. of our trade and commerce is transacted by means of bank credit, and most of this bank credit is issued against the wealth belonging to the public. As Sir Edward Holden says, "Loans create bank credit." Hence it follows that bank credit is, properly speaking, the property of the public, although our Governments have always permitted the banks to charge the public for its use. On the other hand, it has been shown how an invariable unit can be established without altering our present monetary denominations. The one-pound unit can be made stable by a very simple alteration in our banking and legal-tender laws. All that is required is to repeal the Bank Charter Legal Tender Acts which have made gold the sole legal debt-paying commodity, and establish the one-pound Treasury note as the unit. Simultaneously with this, the banks should be compelled to issue bank credit to all those demanding it who are willing to pledge productive wealth to an amount which will allow for all possible variations in the values of such wealth—say 50 per cent. of its appraised value, to be repayable in definite yearly

proportions as may be agreed. There should be a definite Government issue of Treasury notes based upon the national credit, equivalent at least to the annual sum required by the Government for its support, for pension purposes, and interest on the National Debt. Since the Government must collect taxes in the form of legal tender, it must necessarily first provide a sufficiency to enable taxpayers to meet the Government demands. The most convenient price-level consistent with political and industrial ante-war conditions would have to be pre-determined. This level would be obtained by the issue of Treasury notes sufficient to reach that level. Here it may be pointed out that this level will of necessity have to be not lower than it is at present. The nation cannot go through an era of industrial stagnation and starvation in order to reach a lower level of prices merely for the benefit of bondholders and moneylenders!

Much has been said of late about high prices due to inflation of the currency, but, as pointed out in the chapter on this subject, it would be difficult to carry on a great war in which a nation must devote its whole energies to producing munitions of destruction without inflation. If we were to employ slave labour as Germany is doing, inflation might be avoided to a certain extent, but not otherwise. The Government is compelled to **buy** its munitions. It cannot very well **steal** them. It buys with its credit and the proceeds of taxation. To pay wholly out of taxation the Government would have to impose an all-round tax of twenty

shillings in the pound. In other words, we should all have to work without food and other necessities which, as Euclid would say, is absurd! Hence the Government must pay from loans and credit. Having acquired the goods, our armies proceed promptly to destroy all this wealth, but the debt naturally remains in the form of promises to pay, which are divided into floating and funded credits or debts. Hence our national labour merely creates a void which is represented by so much credit (or debt). If we were all similarly engaged in **producing** wealth, if we were building up towns and increasing and improving our agriculture instead of destroying them, all this credit or money now being spent would be represented by wealth and the inflation complained of would not occur.

Having selected our monetary unit, we have demonstrated that the maintenance of its stability and invariability is entirely dependent upon a sufficiency of the money supply. What material the "pound" should be expressed by is altogether of minor importance. The main question is: **How can the supply of pounds be kept always equal to the demand?** And the selection of the material should be governed entirely by this consideration.

In his history of Europe, Sir Archibald Alison tells us that the "thousand-year night," commencing with the break-up of the Roman Empire about the sixth century, was largely due to the loss of the precious metals which created a dearth of currency. And as no other currency was

possible at that period of European history, trade and industry dwindled and decayed and mankind sank into universal poverty and misery. With the discovery of America, and especially the great silver mines of Potosi, trade, enterprise and production were quickened and the great awakening known as the "Renaissance" began. Whether the Renaissance was the cause or the result of these discoveries need not trouble us. What is indisputable is the fact that the condition of trade does depend very largely upon the supply of currency. A deficiency of money invariably brings industrial crises, bankruptcies and depression, whilst an abundance tends to encourage and stimulate both trade and production. And this brings us to the crux of the whole question. **The value of the "pound" depends far more upon our banking mechanism and administration than upon the weight of gold in a sovereign!** And to establish an invariable monetary unit without some arrangement or general control of our entire banking business, would be equivalent to attempting to define the standard capacity of a railway truck or car necessary for the transportation of so many thousands of tons monthly, without considering the number of such cars or their speed. It appears to me, therefore, that it will be difficult to satisfy the legitimate currency needs of this country on any just basis unless we nationalize the whole of our banks. **Consideration of this subject from every standpoint, patriotic, scientific, commercial, economic, points conclusively to the necessity**

for nationalizing the banks, and as speedily as possible.

Its accomplishment would be far simpler and cheaper than the nationalization of either our land or our railways. **Let the Government purchase the shares of our banks by an exchange of War Loan certificates at a just valuation. This would involve no injustice to bank shareholders, whilst it would give the nation a vaster mine of wealth than all the gold mines of Africa and America combined. By taking the banks as running concerns with their present efficient staffs, the transfer would occasion no difficulty or interference with trade.** On the contrary, it would enormously improve our industrial outlook. To-day, the average bank manager occupies a difficult and often an unpleasant position. He must obey the instructions of his head London officers, and these instructions are not always acceptable to his clients. Instead of catering to the public welfare and interests, he has to think only of the wishes of his directors and shareholders. His promotion often depends upon his ability to secure deposits and transfer to London as much money as possible. The policy of the great London bankers is similar to that of the bankers of New York and Chicago—to draw as much money to headquarters and leave the provinces with as little as is consistent with the continuance of trade. This enables the banks to make large loans to those who can pay the most. How disastrous this policy has been in the past may be seen from

the financial plight in which we were placed prior to the war. Millions of pounds belonging to British depositors were loaned to German bankers, and the money remains in their possession at the present time. Many of our enemy's enterprises which have driven British industries out of the running have been financed by loans of British credit by London bankers! Percentage has hitherto ranked in the eyes of many of our money merchants above patriotism. If the Germans wanted a railway to Bagdad or elsewhere, no matter what their political motives might be, they could always come to London and get the accommodation they needed (which was often refused to British merchants and engineers) so long as they paid the rate demanded! As to what took place prior to the war we have already seen in an earlier chapter.

How many of our manufacturers, farmers, merchants, and traders, how many of our former industries have been sacrificed in the temple of usury for the maintenance of our "good, sound, honest" banking system, i.e., to enable our banks to maintain their large dividends! I do not altogether blame the bankers. As a class they are, according to their light, probably as honourable as any other class of the community. But they are both conservative and selfish, and it is perhaps only fair to add that they are often quite innocent of the injury their system inflicts upon their fellow-countrymen. The banker is what the system has made him. And probably no one would derive greater benefit from the nationaliza-

tion of the banks, so far as his own mental development is concerned. To realize that his work henceforth is to be for the exclusive benefit of his own country, that instead of scheming to make profits for a comparatively small group of shareholders, instead of having to take part in "holding up" production as he is sometimes forced to do, he would be working hand in hand with the wealth creators of the British Empire, building up its trade and industries, surely such a prospect would be worth his striving for! To-day, our monetary and banking Acts block the path of our national progress, and must be swept away with many other antiquated obstructions which, beyond a certain archæological interest, are of no national benefit whatever.

The greatest indictment against the gold standard is its alliance with usury (i.e., payment for use)—the most destructive principle in the economy of any society. It is one of the amazing paradoxes of economic science that the instrument established for facilitating commerce should prove its most fatal enemy. Under our legal-tender laws gold is said to facilitate and encourage trade and industry. But the interest system which it fosters tends to burden and destroy them. It was pointed out by Aristotle more than two thousand years ago that money was unproductive. For this reason the taking of interest was forbidden by every religion and by every moral teacher from Moses to John Ruskin. It was forbidden by the Roman Catholic Church down to the eighteenth century. It is still forbidden by the Mohammedans. Its maintenance

here and elsewhere is due to State-granted monopolies and privileges. And yet our entire economic and social systems are built upon this false principle. The system of interest is impossible for any very large amount and for any long period, for the reason that interest charges tend to grow faster than surplus wealth. From the returns of industry, sufficient wealth must first be given to the prime factors, to labour, capital and land, to repair wastage and maintain their productive powers so as to ensure future production. After allowing for all this and for the maintenance of the State, for the care, nourishment and education of each coming generation, it will be found that the balance left is not sufficient to pay interest charges even at the rate of 5 per cent. on more than a comparatively small proportion of the national capital. The result is that the amount of capital that can be employed is necessarily limited by the rate of interest prevailing. Some writers, with a taste for sensational figures, have given us examples proving the impossibility of satisfying the claims of interest by showing the results of a five per cent. investment at compound interest. Proudhon showed that if a man in the reign of St. Louis had left 1,000 francs on interest at the rate of 5 per cent., with instructions that this interest should be reinvested at the same rate at the end of each and every year and the accrued amount should be divided among the French people in the year 1840, the total sum would have far exceeded the whole wealth of Europe! A recent American writer has also figured out that if Mr. Rockefeller will leave his

wealth in trust at a similar rate of interest to accumulate for the benefit of American posterity five hundred years hence, the amount accruing will suffice to pension off the entire population of the United States, allowing for its natural growth, with an income for each person of one million dollars per annum for ever !

Our monetary laws have eclipsed even the laws of nature, for they have conferred the life principle upon inert matter. Nay, more, they have conferred the boon of immortality upon an unproductive metal. A chunk of gold which an ordinary workman can carry on his shoulders, which takes no part in production nor adds one iota to the general wealth, comfort, or happiness of mankind, and which, for all the use it is, might as well have remained in the bowels of the earth, will buy his life's labour six times over, even if he managed to outlive Methuselah ! It is more valuable to its owners (thanks to these laws) than the labour of six men for all time—so long as the present system is maintained ! The gold represents the equivalent of this amount of economic power exerted so long as these infamous laws and the gold superstition exist. The gold produces nothing, but it gives its owners the legal right to purchase, to pay debts, and enables them to exact a tribute from wealth producers year after year during their lives and of their descendants for ever ! The principle of usury continues to operate, however, only because it is confined strictly within limited amounts and limited periods. But even with these limitations it entails wide-

spread poverty on the masses of the world's producing classes. Single taxers and land reformers, who see in the monopoly of land the cause of all social misery, should sit down quietly and make a simple comparison of the total amount of our annual wealth production paid in rent of land with that extorted in the shape of interest on loans and capital. **For the monopoly of credit not only determines the rate of interest on all capital, but it is the chief cause of such interest!** And since the gold standard is at present the one factor limiting the issue of credit below the needs of all industrial communities, and preventing the free mobilization of wealth, it follows that it is also the cause of interest.

The whole currency and interest problem is to-day merely a question of insufficiency—of an inadequate supply. The supply should be regulated by the demands of industry and commerce, not by the precarious and accidental discoveries and production of gold. The industrial and social needs of the world after the war, will necessitate the complete abandonment of our present financial and banking ideas and methods. Deposit banking will not suffice for the financial needs of industry. The theory that trade and production can only be properly financed by the **surplus** idle wealth of individuals, will also have to be scrapped. Cheap money and credit facilities will be imperative in order to save the world—and Europe especially—from a degree of misery and starvation, such as has never been witnessed. Taxation alone will require such an amount of

money as we have never yet been accustomed to.

Again, it is probably not realized that the excess profit tax will wreck hundreds of our industries unless ample credit facilities are furnished by the banks or the Government. In the majority of cases, profits are shown by an increase in machinery, tools, plant, stock, material, whilst taxes are payable in legal tender. How are firms to pay these excess profits unless the Government provides the necessary means for mobilizing all this capital? How is it possible for the nation to pay £600,000,000 in taxes annually without crippling its industrial resources, when the Government has only provided about one-third of this amount for all purposes?

No doubt, to the average reader, this somewhat tedious discussion regarding values, standards, ratios, etc., will appear highly technical and most uninteresting. A cursory glance over the preceding chapters may raise the question, "What does it all signify?" "Who cares whether exchange values are merely 'extrinsic relations' or 'intrinsic qualities,' and how can it affect me?" The intelligent business man, however, will realize as well as the financier, the enormous importance of these seemingly unimportant questions. The answers that the world's moneylenders have been able to give to the above questions in the form of banking and legal-tender laws, have enabled them to gamble with the lives and fortunes of the industrial classes in all countries, with the certainty of winning. These laws made it possible for a man like the late W. H. Harriman, whose original capital consisted merely of a seat on the New

York Stock Exchange, to secure control of thousands of miles of railway which were built and paid for by other people! They also gave to the late Pierrepont Morgan greater economic power than was ever previously wielded by mortal man! These same laws make it possible for a few men to acquire fortunes overnight, to take wealth from those that have created it and give nothing in return. It makes the producing and business classes the pawns and playthings and their possessions the prizes of those who deal in money and credit. Neither banking nor money-lending creates one solitary grain of wealth, and yet the men in these professions invariably grow rich, and often fabulously so. Where does it all come from? **From the labour and sweat of the masses!** These laws have made our economic system topsy-turvy. They have placed non-producers at the top of our social scale and the producers at the bottom. They have made the most useless and least important commodity the most valuable, whilst the things that are indispensable have been treated as of the least importance. The banker who has spent his whole life in the sole pursuit of enriching himself at the public expense is ennobled by being raised to the Peerage, whilst the farmer, the inventor, the manufacturer, the distributor, whose labours have benefited and enriched the whole nation generally, die neglected, unknown or forgotten. But the war is exposing this system of false values in a manner hitherto undreamt of. It is now the worker, not the idler, the wealth producer, not the wealth grabber, the

fighter, not the shirker, the patriot, not the pacifist, who are in demand. These are the men whom the nation will delight to honour.

Let us then get rid at once and for ever of all our false ideas, principles, laws, systems and institutions under the sheltering care of which the useless and costly drones of humanity have hitherto flourished. We are endeavouring to destroy the greatest foreign despotism that has ever existed. Are we to permit the continued growth of a despotism in our midst far more insidious and equally dangerous? There is none more cruel, more intolerant, more soul-destroying or more universal than the money despotism. It exists in all lands, and its results are the same everywhere. Its policy is to enrich the wealthy and enslave the poor, to divide society into two antagonistic classes, and to establish and perpetuate everywhere and in every department of life the money standard. It is the most degrading, the most corrupt ideal ever presented to mankind. It is destructive of everything noble and praiseworthy in human life and character. And its power and maintenance depend entirely upon two or three Parliamentary Acts. The remedy is therefore to repeal them. The Bank Charter and Legal Tender Gold Acts must be annulled. We must nationalize the whole of our banks, and substitute Treasury- and bank-notes for our former gold currency by issuing them against the national wealth. Finally, provision should be made for the free mobilization of our exchangeable and productive wealth by the issue of bank credit

against such wealth as may be required to meet the demands of trade and industry.

These measures would reduce gold to the level of other commodities, and destroy the economic despotism which has grown up under the privileges accorded it.

We have already discussed the question of the monetary unit or standard. This would correspond to the purchasing power of the one-pound note at the time the new system became established. And so long as the supply of credit and legal tender were maintained equivalent to the demand, the unit would remain invariable. Such results would completely change all industrial and trade conditions. Accompanied by a land nationalization policy, these measures would banish the speculative nature of production almost entirely. They would enormously lighten the load of the toiler. They would ensure larger returns to those who labour and less for those who "neither toil nor spin." They would vastly increase the amount of our national wealth. They would destroy involuntary idleness, and starvation would vanish from our towns and cities. They would lead to harmony between capital and labour and put an end to strikes and industrial unrest. They would enable the State to meet its obligations and lighten the burden of taxation. The saving which they would effect would be sufficient to pay all the interest charges on the National Debt, and enable the nation ultimately to replace the National Debt with a vast fund of National Wealth. Surely such a prospect is worthy of the most serious consideration of all classes.

As a final word, let me again warn the public to resist at all costs any attempt on the part of the Government to re-establish a gold currency. Such a measure will inevitably rivet the chains of industrial slavery upon 95 per cent. of the population and their descendants for all time. All that our armies are fighting for, viz., political and industrial freedom, will be irretrievably lost, if the world's financial despots, among whom are the leaders of Germany, are permitted to gain control. We shall have gained but little if, by destroying the Huns' military power, we fall beneath the sway of cosmopolitan finance.

CHAPTER XV

THE NO-MONEY ISLANDS

AGES ago, there existed in the Pacific Ocean, a certain group of small islands, inhabited by a highly intelligent, sober and industrious people who were eventually cut off from intercourse with the rest of the world, partly through natural conditions but mainly from choice. These islands had doubtless been thrown up by some volcanic disturbances, and they later disappeared from similar causes. Although it is evident that some means of communication between one or other of the great continents was in use at one period, this was afterwards stopped and all communication strictly forbidden by the law of the islanders. The reason for this, forms the subject of this narrative. At some early period of these islanders' history, a vessel sailing from some distant port became stranded on one of the dangerously hidden rocks near their coast, and became a total wreck. The vessel was carrying a valuable store of the precious metals belonging to its owners—some Oriental Jews—who were on board, and who managed not only to escape with their lives, but to save their cargo of gold and silver, which, with the help of the natives, they brought safely to shore. The natives treated them so generously.

and hospitably, that out of gratitude, the Jews presented to the wives of the rulers, some pieces of these rare metals, which were hitherto quite unknown to them. These gifts gave great joy to the natives, who desired to obtain further supplies, and consequently they offered in exchange such products as they possessed, such as food of all kinds, clothing, and ornaments. But the Jews refused to part with any more pieces. After some months of exploration of the islands, the Jews, having observed the fertility of the land, and the industry and intelligence of these people, decided to establish themselves permanently, and become the supreme owners of the group and thus enslave their inhabitants. At this time the only method of trading known to these people, was simple barter. Goods of one kind were exchanged directly for those of another kind, which involved many difficulties and inconveniences. The Jews therefore conceived an idea of "killing two birds with one stone," as the saying is. They decided to persuade the natives to use their gold and silver as the medium of exchange. By this means they would be able to satisfy the desires of the people who wished to handle these new metals, and at the same time accomplish their chief purpose. Permission was readily granted the strangers by the governing body to establish a bank, and gold and silver were made the sole legal tender. The circulation of these metals was obtained through loans made to the bank's clients. Traders were thus compelled to borrow from the bank in order to obtain the means of paying their debts, as the

Jews refused to *sell* either gold or silver outright. They took as security for the loans, mortgages on the lands of the natives. The loans were repayable at the end of twelve months, at the rate of 5 per cent. interest. The total amount of the loans during the first week, was the equivalent of £300,000 in British currency. Now at the end of the first year, the islanders found themselves debited altogether with £315,000 for principal and interest payable to the bank in gold and silver. They then realized that as £300,000 was the total amount of all the precious metals the Jews possessed, having loaned all they had, they were indebted for a sum which, if the Jews insisted upon fulfilment of their obligations, they could not possibly pay. The governors therefore approached the Jews, and pointed out the impossibility of the people paying their debts. After some discussion, the Jews agreed to extend the time for repayment another year, on condition that the first year's interest be paid in gold immediately, and that additional security be given in the shape of a mortgage covering the entire islands. This was agreed to, and the trade of the islanders resumed.

When the second year's interest became due, it was found that although the total amount owing by the islanders was as before, viz., £315,000, there was only £285,000 in the hands of the people to pay with, as the Jews had received already £15,000 of the metals for the first year's interest. It soon began to dawn on the islanders that if this continued long enough, at the end of twenty years they would have repaid the Jews in interest

charges alone, all the gold and silver they originally borrowed, and would then still owe the original amount, viz., £300,000, without having a solitary piece of the precious metals left, with which to pay even their interest, in which case the whole islands would be bankrupt, and the Jews would then become owners of all their lands and possessions. The Government thereupon consulted with the Jews once more, and pointed out to them the peril in which the new money system had placed them. Now it appears that the Jews had been buying food and goods of all descriptions for themselves and their families, not with gold and silver, but with written promises to pay gold or silver, and they represented to the people that such promises were better than gold itself, because it saved them the trouble and care of handling and guarding it. They then suggested to the Government that the difficulty might be surmounted if they would enact a law making the bankers' **promises to pay gold and silver** legal tender, as well as the metals themselves. They also urged the people to deposit all the precious metals they still had with them, and use their paper instead, as a precaution against losing any of the scarce and precious coins. The result was, that as each year passed, and interest charges grew with the development of trade and production, the paper issues also increased, until the bankers again held all the gold and silver with which they first started (which had been repaid them as interest), and they also had £1,000,000 of their notes circulating, upon which they were drawing the same rate of interest. In addition

they held mortgages covering the whole islands. The Government also found it necessary to borrow from the bankers from time to time, and as they were unable to pay any more in gold and silver, they had to redeem their loans in land and produce, until the Jews became the absolute owners of the islands, whilst the inhabitants fell into a state of absolute slavery. This condition might have continued indefinitely, had not the Jews grown very insolent, autocratic and tyrannical, until finally the people, unable to bear the tyranny longer, revolted, and destroyed the bank and massacred the money-lenders ! The gold and silver was all collected and wrapped round the bodies of their victims, and thrown into the sea. From that time on, the term "money" was anathematized. As it was the symbol of slavery, and signified everything base and vile, the word was regarded with loathing and horror ! And in order that the misery which the use of gold and silver money had brought to the islands should never be forgotten, they called the group "**No-money Islands.**" The old barter system was then revived, but with all its crudities it was found infinitely preferable in its operations to "money," since it gave no man any undue advantage over his neighbour.

In course of time, however, an ingenious native conceived a method of facilitating exchange without the dangers arising from the use of gold and silver. The system was as follows : He first arranged a table of all the exchangeable goods brought to the markets from time to time, in terms of the quantities in which they were exchange

equivalents. Although this table is far too voluminous to republish here, I reproduce a few items which will illustrate the system.

| Butter in lbs. | Wheat in Bushels. | Suits of Clothes. | Shoes in Pairs. | Wine in Gallons. | Cows. | Zinc in lbs. | Tin in lbs. |
|----------------------|-------------------------|-------------------------|-----------------------|------------------------|-------|--------------------|-------------------|
| 100 | 60 | 5 | 10 | 35 | 1 | 50 | 2½ |

The above table simply meant that the commodities mentioned, were equal in exchange in the above quantities. Thus 100 lb. of butter = 60 bushels of wheat = 5 suits of clothes, etc. After ranging all commodities in quantities of equal exchange power, the inventor then proceeded to discover a common denominator of the numbers. He first found their least common multiple and divided this by each quantity. For example, the least common multiple of the above table of numbers is 5,250. Dividing this by each number respectively he arrived at the following :—

| Butter in lbs. | Wheat in Bushels. | Suits of Clothes. | Shoes in Pairs. | Wine in Gallons. | Cows. | Zinc in lbs. | Tin in lbs. |
|----------------------|-------------------------|-------------------------|-----------------------|------------------------|-------|--------------------|-------------------|
| 52·5 | 87·5 | 1050 | 525 | 150 | 5250 | 105 | 21000 |

Now the meaning of this last table was, that the value of butter in pounds to wheat in bushels, and wheat to suits of clothes, etc., were as the

numbers mentioned. He then invented a name to designate the unit which corresponded somewhat to our penny. He thus obtained a common language in which to express the values of all commodities. Taking the word penny as denoting the unit of purchasing power, he then tabulated each commodity as follows:—

- 1 lb. butter = $52\frac{1}{2}$ d.
- 1 bushel wheat = $87\frac{1}{2}$ d.
- 1 suit of clothes = 1050d. and so on.

This unit had no definite relation to any fixed quantity of any commodity. It merely served as a counter or number, in which to express all the exchange-values of the goods coming to market. For instance, if the cattle-breeder brought a cow to market to buy wheat, since a cow = 5250 units and 1 bushel of wheat = 87.5 units, it was evident that the wheat-grower had to give $\frac{5250}{87.5} = 60$ bushels in exchange for the cow. Of course, with the variations in the supply of and demand for various goods, these relations varied with each other, which variations were easily expressed in terms of the unit. But the unit itself was invariable in relation to the total wealth of the community. Having invented this simple method of expressing values in terms of an ideal and **an invariable unit**, the inventor then induced the Government to open a commercial bank for supplying tokens to represent the units. These were merely convenient pieces of paper printed in denominations of 1, 2, 5, 10, 20,

50, 100, 1,000 and 10,000 units. They were issued by the Government in two ways. *First*, in payment of their services to all the governing officials and servants, and in settlement of all Government debts for purchases. *Secondly*, in loans against securities and mortgages. A nominal charge was made for such loans, to pay the cost of running the bank and an insurance for bad debts. Loans were issued to the extent of 50 per cent. of the assessed value of the wealth pledged as security, and were repayable at the rate of at least 10 per cent. of the amount of each loan per annum. **No interest was charged on loans**, but a tax of 1 per cent. per annum was made for insurance and expenses. Taxes were payable solely in these notes, which sufficed to give them currency. Since their issue was restricted entirely to all kinds of wealth pledged, and to the expenses of Government, there was neither "inflation" nor "contraction" of the currency. Usury was unknown, and the islanders prospered exceedingly. Such phenomena as a general rise and fall in prices were thus made impossible, because prices always coincided with values. The bank paid its expenses, and kept a reserve as an insurance fund. Beyond this there were neither profits nor dividends, and it is recorded that there were none who might be called very wealthy, and none who were really poor. But all had enough and to spare. There were no disputes between Capital and Labour because every man owned capital and contributed his share of labour to the general commonwealth. And until the final disappearance of the islands,

one day each year was set apart to commemorate the final redemption of the islanders from the galling yoke and oppression which the use of gold and silver money had inflicted upon them.

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