

CHAPTER IX

THE MONEY MARKET (*Continued*)

THE GOLD STANDARD

A FRAUDULENT STANDARD

MR. ARTHUR KITSON has called the Gold Standard as applied to financial credit the "Fraudulent Standard." The term is justified; it is not a standard; it is a bondage based upon monetary policy that is an anachronism.

The theory of the gold standard was imposed by the Bank Charter Act of 1844. Since the passing of that act a new world has been created; new powers have been commanded to the service of Man. Machines like an army of Robots stand ready, that are capable of producing economic utilities and a standard of culture undreamt of by the old economies. But the outstanding features of modern civilization are: poverty within nations, and international wars. Twenty-five per cent. of the inhabitants of the countries of luxurious poverty have been condemned, apparently, to remain on the subsistence level, and periodically there is the spectacle of the great army of producers loitering disconsolate at the doorways of the factories, gazing in idleness at the silent machines awaiting the order to produce, while all the land is filled with the great cry of "Want,

want." Consumer's desire, the "real demand," is there, insistent and insatiable; the Robots and their masters are there, anxious to produce; what demoniac Presence is it that strides the centre of the way, cutting a path of tragedy between frustrated "supply" and unsatisfied "demand"; cold names these, that harbour a world of sorrows. Is it indeed a periodic malady, that descends upon men to cause them thus to penalize themselves, in the midst of plenty, with the degradation of poverty?

PRACTICAL OPERATION OF THE GOLD STANDARD

Sufficient has already been said to justify the assertion (in Chapter VIII) that one of the penalties imposed by the present functions of the Money Market, is complete domination of productive industry by the Gold Standard. It is now further asserted that this, the actual "hall-mark" of the monetary system, with its twin progeny of ill-fame, inflation and deflation, is the hidden cause of the poverty of nations, and, in the practical working of these operations, is the cause of war; the economic war imposed by the inevitable necessity to create and protect foreign markets.

These are serious statements. But they need not be propped by original supports nor imposed by lengthy arguments. They are proven by the words of the strongest advocates of the Gold Standard itself.

Let it be remembered then that Currency is a medium of Exchange to aid the struggling masses of mankind to provide themselves with the animal-necessities of life and the cultural necessities of the higher aspirations. Refer again to the demonstrated facts of Currency as used to-day, through the financial system of perfected barter. Finally, consider the actual command of Nature's bounty at the disposal of mankind; the machines of any one great country capable of supplying the world, while the brother-

nations went on holiday; and, in the perspective of this knowledge, examine the practical working of the Gold Standard as expounded by the Cunliffe Committee in 1919. This, a commission of financiers, described the pre-war monetary system and advocated a return to it at the earliest possible moment; if the present submission is justified, their ideal must be questioned with the force of a bitter experience:—

Extract from the Report of the Cunliffe Commission
 "The Currency System before the War"
 (Paragraphs 2 to 7)

2. Under the Bank Charter Act of 1844, apart from the fiduciary issue of the Bank of England and the notes of Scottish and Irish Banks of Issue (which were not actually legal tender), the currency in circulation and in Bank reserves consisted before the war entirely of gold and subsidiary coin or of notes representing gold. Gold was freely coined by the Mint without any charge. There were no restrictions upon the import of gold. Sovereigns were freely given by the bank in exchange for notes at par value, and there were no obstacles to the export of gold. Apart from the presentation for minting of gold already in use in the arts (which under normal conditions did not take place) there was no means whereby the legal tender currency could be increased except the importation of gold from abroad to form the basis of an increase in the note issue of the Bank of England or to be presented to the Mint for coinage, and no means whereby it could be diminished (apart from the normal demand for the arts, amounting to about £2,000,000 a year, which was only partly taken out of the currency supply) except the export of bullion or sovereigns.

3. Since the passing of the Act of 1844 there has been a great development of the cheque system. The essence of that system is that purchasing power is

largely in the form of bank deposits operated upon by cheque, legal tender money being required only for the purpose of the reserves held by the banks against those deposits and for actual public circulation in connection with the payment of wages and retail transactions. The provisions of the Act of 1844 as applied to that system have operated both to correct unfavourable exchanges and to check undue expansions of credit.

4. When the exchanges were favourable, gold flowed freely into this country and an increase of legal tender money accompanied the development of trade. When the balance of trade was unfavourable and the exchanges were adverse, it became profitable to export gold. The would-be exporter bought his gold from the Bank of England and paid for it by a cheque on his account. The Bank obtained the gold from the Issue Department in exchange for notes taken out of its banking reserve, with the result that its liabilities to depositors and its banking reserve were reduced by an equal amount, and the ratio of reserve to liabilities consequently fell. If the process was repeated sufficiently often to reduce the ratio in a degree considered dangerous, the Bank raised its rate of discount. The raising of the discount rate had the immediate effect of retaining money here which would otherwise have been remitted abroad and of attracting remittances from abroad to take advantage of the higher rate, thus checking the outflow of gold and even reversing the stream.

5. If the adverse condition of the exchanges was due not merely to seasonal fluctuations, but to circumstances tending to create a permanently adverse trade balance, it is obvious that the procedure above described would not have been sufficient. It would have resulted in the creation of a volume of short-dated indebtedness to foreign countries which would

have been in the end disastrous to our credit and the position of London as the financial centre of the world. But the raising of the Bank's discount rate and the steps taken to make it effective in the market necessarily led to a general rise of interest rates and a restriction of credit. New enterprises were therefore postponed and the demand for constructional materials and other capital goods was lessened. The consequent slackening of employment also diminished the demand for consumable goods, while holders of stocks of commodities carried largely with borrowed money, being confronted with an increase of interest charges, if not with actual difficulty in renewing loans, and with the prospect of falling prices, tended to press their goods on a weak market. The result was a decline in general prices in the home markets which, by checking imports and stimulating exports, corrected the adverse trade balance which was the primary cause of the difficulty.

6. When apart from the foreign drain of gold, credit at home threatened to become unduly expanded, the old currency system tended to restrain the expansion and prevent the consequent rise in domestic prices which ultimately causes such a drain. The expansion of credit, by forcing up prices, involves an increased demand for legal tender currency, both from the banks in order to maintain their normal proportions of cash to liabilities and from the general public for the payment of wages and for retail transactions. In this case also the demand for such currency fell upon the reserve of the Bank of England, and the Bank was thereupon obliged to raise its rate of discount in order to prevent the fall in the proportion of that reserve to its liabilities. The same chain of consequences as we have just described followed and speculative trade activity was similarly restrained. There was therefore an automatic

machinery by which the volume of purchasing power in this country was continuously adjusted to world prices of commodities in general.

Domestic prices were automatically regulated so as to prevent excessive imports; and the creation of banking credit was so controlled that banking could be safely permitted a freedom from State interference which would not have been possible under a less rigid currency system.

7. Under these arrangements this country was provided with a complete and effective gold standard. The essence of such a standard is that notes must always stand at absolute parity with gold coins of equivalent value, and that both notes and gold coins stand at absolute parity with gold bullion. When these conditions are fulfilled, the foreign exchange rates with all the countries possessing an effective gold standard are maintained at or within the gold specie points.

CRITICISM OF THE REPORT

This, then, is the system to which the Committee definitely advised the Government to return, and to honour which the country has been reduced from a stage of universal prosperity and full employment, to a lamentable condition of trade depression, with millions of workers unemployed and they and their dependents living miserably on an inadequate dole.

Let these statements, therefore, be examined individually, and thereafter let the collective and cumulative effects of the suggestions be observed, when applied to the needs of commerce.

In section 2 it is stated that prior to the war, currency consisted entirely of gold or notes representing gold. But the third section admits the growth of the cheque system since the passing of the Act of 1844.

Reference to the chapters on Banking and on Currency-creation prove that the gold and notes were in fact the small change of commerce; all the major transactions were operated by cheque, on the system of perfected barter. Yet it is not considered wrong to harness the cheque-system, the invention of the gigantic organisation of modern industry, to a constraining and controlling regulation imposed while the present conditions were in embryo.

Further, when it is stated that there was no means whereby the legal tender currency could be increased except the importation of gold from abroad; and if this gold is to form the only basis of credits for the expansion of industry; it becomes obvious that industry is no longer regulated by the inventiveness of man and his control of the bounties of Nature, with currency as but the tickets wherewith to distribute the ever-increasing shower of natural riches; on the contrary, industry has become but a function of the monetary system, and its expansion has been made subservient to the possession of stated quantities of a callous and useless metal, that is not even used as money.

Again, if gold is thus to be imported from abroad the importing country must be the creditor of other countries:—all nations cannot have favourable exchanges, as we have seen, nor can all nations export gold. Hence if the applications of applied sciences continually tend to equalise the industrial power of ambitious nations, and the offensive power of their armaments, and if those nations, by the decree of a fatal system, find it imperative to have a favourable exchange implying control of huge overseas markets, then indeed the seeds are sown of strife and aggression, ending in the mutual disaster of war.

Thus the standard of living within nations tended to become dependent upon precarious international

balances. Section four describes the actual operation and effect of gold-removal, and section five continues, mounting to the statement that the most important consideration is not the happiness and economic security of the British people, but the maintenance of London as the financial centre of the world.

That this is indeed a fact, is disclosed by the considered statement of the effect of the raising of the Bank's discount rate (paragraph 5).

Let these words be recapitulated:—

There is to be restriction of credit;
New enterprises must be postponed;
Demand must be lessened;
Unemployment must occur; because
The demand for consumable goods must be diminished.

Such is the unconsidered complacency of human nature, that these statements can be penned calmly by well-fed and kindly old gentlemen of great erudition, with a sincere belief in their necessity and ultimate benefit to the community. It may be, indeed, that they have no faintest inkling of their interpretation in the life of the commonplace man who earns his precarious living subject to the terrors of unemployment and insecurity.

For in blunt language these statements mean that, to maintain the equilibrium of the monetary machine, the command, "Thou shalt not," must be issued by the great god Mammon, and straightway the hum of industry must hesitate and cease, and, that the demand for consumable goods be diminished, the worker must go home and instruct his little household that forthwith they are on forced rations. Demand must be lessened, and holders of stocks must be forced to sell them at a sacrifice; therefore the

Industrialist and the producer must go into the oblivion of bankruptcy, and their workers, and the inarticulate army beyond their workers, must shake hands with comparative Famine and lie down with Misery.

Sections six and seven show the operation of the same "gold check" on the opposite circle of rising prices, and it is stated that there was an automatic machinery by which the volume of purchasing power was continually adjusted to world prices of commodities in general. There is here an insistence on the price level that brings the discussion closer to its goal; for there is no suggestion whatever that the supply of purchasing power shall serve the community.

To serve the community the purchasing power made available to the consumer should be sufficient to enable him to purchase all the available "economic wealth" that can be produced by the absolute efficiency of the industrial system, working to its fullest capacity.

But the purchasing power consists mainly, as demonstrated, of cheques drawn upon bank lodgements. Those lodgements are based almost entirely on Credit, and Credit, as has been seen, is harnessed to Gold. The incentive to analyse this thing called Credit is increased, and it may be better understood by two examples of the reaction between gold and the loans based upon it.

KITSON'S "INVERTED PYRAMID"

Refer again to the description (in Chapter VIII) of Currency creation, and it is remembered that the gold reserve of the Issue Department of the Bank of England is used as a "Standard" by the Banking Department of the same institution; this standard

being 20% or less of the liabilities or loans based upon it. These loans further were observed to become "Cash on Hand" in the balance sheets of the Joint Stock banks, to be used by them again as the "Standard" upon which to base further credits, issued to the industrial community.

Mr. Kitson has expressed the process in diagrammatic form, correctly, as an "inverted pyramid":—

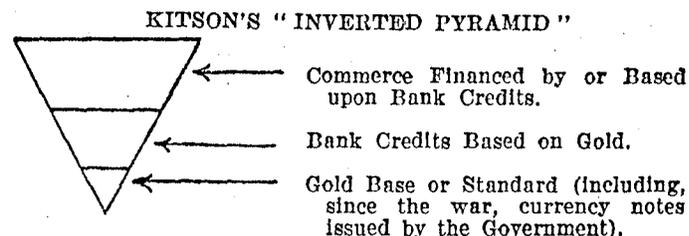


Diagram No. 8.

In this fashion, the effect of a fluctuation of the gold base or standard becomes apparent. To quote Mr. Kitson's own words:—

"The following illustration of the triangle 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."

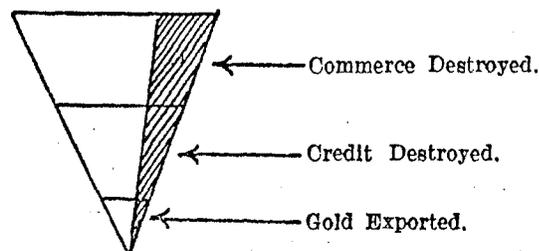


Diagram No. 9.

"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 Banker's Magazine' gave a most startling instance of the effect 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 the gold caused a fall in the prices of 325 of our representative securities, equivalent to £115,500,000, whilst the absorption of this gold caused a corresponding rise in Americans. This illustration explains why a relatively small addition of legal tender can sometimes seriously affect the price level. It is not due to the increase in legal tender, but to the disproportionate amount of Bank Credit based upon it. The 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."

This is an illustration of the policy of the deflation of currency, in one country, with a corresponding inflation in another. To the impartial enquirer, there seems no logical connection between the gold basis as at present understood and the actual currency-need of the community. There seems no justification for the chaining of "the lifeblood of the economic organisation" to the fraudulent standard; its only

justification seems to be, that to do so brings the whole industrial organisation, (working, be it remembered, on credit-currency), within the limits of the Bank Charter Act 1844, and therefore under the absolute domination of the Money Market.

Practical and bitter experience has demonstrated this effect. The base of the credit pyramid since the war has been gold with the addition of treasury notes issued by the Government, some £200,000,000 of which have no gold backing. The Cunliffe Committee was a committee for financial investigation; it was also a committee of bankers and financiers. It advocated a return to the Gold Standard. In 1920, in the midst of an unprecedented trade prosperity, marred by high prices but almost without unemployment, the Government accepted and declared this policy. The result is notorious; the people of this country have walked through a valley of shadows; thousands of bankruptcies have been forced, and millions of the population have been reduced to absolute destitution; a rising generation of young workmen have idly walked the streets for several years, without a chance to learn a trade to be their livelihood.

This deliberate return to the bondage of the old monetary standard is the root cause of the terrible condition of the country to-day, when another "winter of unemployment" must be faced.

Professor Gustav Cassel has criticised the policy, and summarised the effects of deflation or reduction of currency:—

"During the year May, 1920—May, 1921 a fall of prices has taken place perhaps more violent than any other in the economic history of the world. This fall is still going on, and though it seems to have been retarded during the last few months the definite end

of the movement is not yet in sight. The downward movement of prices has not, as is sometimes assumed, been merely a spontaneous result of forces beyond our control. It is essentially the result of a policy deliberately framed with a view to bringing down prices and giving a higher value to the monetary unit. This policy of deflation has its root in the popular idea that the pre-war levels are still to be regarded as "normal," and that stable economic conditions can be obtained only by bringing prices down to the old level. . . . A prolonged fall of prices must necessarily have an extremely disturbing effect on production and trade, and it is this consequence of a policy of deflation which has manifested itself most clearly during the last four months."

SIR EDWARD HOLDEN'S ANALYSIS

The evil effects of the gold-control of industry have been demonstrated, but the second example is a definite support of the criticism by the words of a banker. At a meeting of the Liverpool Banker's Institute in 1907, Sir Edward Holden was defending bankers against the charge that they were not supporting the manufacturers by granting sufficient credit. (The two following notes are extracted from "Our Monetary Policy" by Mr. T. B. Johnston.) By means of a triangle Sir Edward illustrated the relation between Credit, Loans, and Cash Reserves, and claimed that the banks could do no more, because they were bound by the gold standard and *Gold controlled trade*.

SIR EDWARD HOLDEN'S TRIANGLE

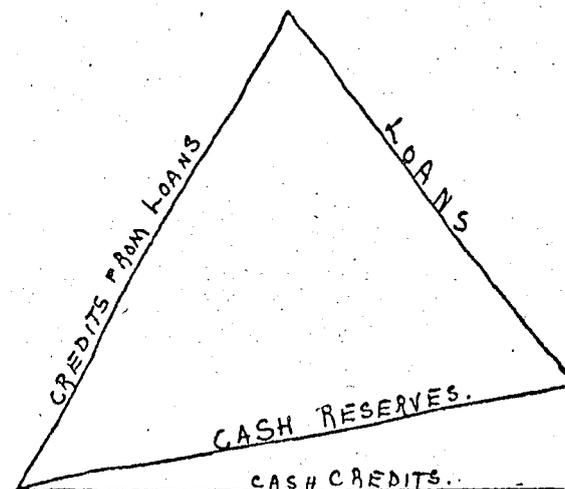


Diagram No. 10.

"The right side of the triangle," he said, "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 the loans and credits as represented by the two sides of the triangle were the only elements that the 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. But there is another element, and a most important one, to be taken into consideration, and it is the fact that all 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 the Bank of England notes represent gold.

Every banker, therefore, must 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," (since the war gold and currency notes), "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, then evidently they are getting into danger, and the only judicious course which they can pursue is to curtail their loans, which curtail these credits, and thus re-establish the ratio.

"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, and that the stand-by for the protection of credits is gold, and that therefore **GOLD CONTROLS TRADE**" . . . and consequently the employment of labour.

How the Vicious Circle is Created.

Mr. Johnston's comments are interesting and lucid:—

"It is important to remember that currency in the shape of gold or notes is practically only used for the purpose of paying wages and other small transactions, all else is settled by cheque, bills of exchange, etc. A manufacturer whose weekly wage bill was in pre-war days £1,000, would have required 1,000

sovereigns from his bank every Friday night. When trade improved, however, as it periodically did, and he was employing more men at increased wages, he required a correspondingly increased number of sovereigns for wages, and as this would apply over the whole country there was a greatly increased demand on the banks for gold, and they had to resort to the Bank of England.

"If the good trade continued for any length of time the gold reserve became depleted, and in order to protect it, and also to attract gold from abroad, the Bank Rate was raised, causing a restriction of credit, a stoppage of expenditure on capital goods, with resulting unemployment. This unemployment entailed a lesser demand for commodities, which again increased the unemployment, and a vicious circle was created, which ended in low prices, low wages, and, as Sir Henry Campell-Bannerman once said, ten millions of our people on the border line of starvation.

"The war, with the practical abandonment of the Gold Standard has confirmed this opinion.

"Instead of the gold base to the triangle which could not be increased except by further supplies of gold, we had a base composed of currency notes, which could be increased as necessity arose. We had active trade everywhere, with full employment, and if it had not been for the terrible shadow of the war all producers would have been smiling.

"When, however, industry can obtain all the money it requires, as was the case during the war, the demand exceeds the supply. There is a rising market, and if prices are uncontrolled speculation becomes rampant, and prices are forced to an unjustifiable height, which in turn brings about demands for increased wages, and thus another vicious circle in the opposite direction is created."

THE GOLD STANDARD AN UNREGULATED SYSTEM

Thus in the monetary system upon which the economic life of the country depends, there is a vicious circle that may progress either upwards or downwards; downwards into the catastrophe of deflation—upwards into the rarefied heights of inflation, where prices mount rapidly behind the expanded credit of an active prosperity, overtake and overcome it, and in due course topple it over a precipice again into the regions of deflation.

Trade cycles; financial cycles; a fault imposed by one vicious weapon remedied by another weapon equally brutal. The operators of the monetary machine control its activities by these weapons alone; surely this is the only organisation in the world that must proceed upon its way in a series of uncontrolled dashes—without an automatic regulator, by which guidance could be imposed to avoid the periodic wreckings now encountered.

The gold standard seems indeed indefensible. It is condemned by bitter experience; its principles are disproved and disclosed as sheer fraud by an examination of the financial system—it is disowned by its strongest advocates.

Professor Keynes, who in 1919 supported and approved the decisions of the Cunliffe Committee, criticised above, in 1923 published a book in which he states: "Therefore, since I regard the stability of prices, credit, and employment as of paramount importance and since I feel no confidence that an old-fashioned Gold Standard will give us the modicum of stability that it used to give, I reject the policy of restoring the Gold Standard on pre-war lines."

Addressing the general meeting of the Midland Bank, in 1924, Mr. McKenna rejected the possibility

of a return to the Gold Standard by means of deliberate deflation of currency.

Commenting upon the British Government's decision to raise the pound sterling to parity with the dollar, even at the sacrifice of her internal prosperity, Senator Henri de Jouvenel, a French writer, stated; "Great Britain since the peace has sacrificed her prosperity to her monetary prestige. It was by disturbing the solidarity of the exchange rates in the month of March, 1920, that Great Britain ruined her trade and industry, and created that unemployment of which she to-day bears the marks. . . . British statesmen have sacrificed the economic interests of their country to their monetary pride."

These examples require no comment, but invite a question. Was the British Government a free agent in its decision to restore the Gold Standard by sacrificing the country's prosperity? Was it not, rather, that the International Convention of Economists held at Brussels decided that steps should at once be taken to get back to "the complete and effective gold standard," that the International Conference was formed of financial economists, and duplicated by the national committee, the Cunliffe Committee—and that the Cunliffe Committee at great length formed and advised a similar decision, ultimately adopted—it would seem inevitably—by the Government?

THE WORLD PRODUCTION OF GOLD

The Gold Standard is the engine of control of the financial operators of the Money Market, wielding the weapons of inflation and deflation. It stands condemned.

If further evidence should be necessary to enforce the judgment that it is not economic, but merely the

embodiment of the power of a particular organisation, it is supplied by the world figures of the total gold produced for a period of four hundred years:—

ESTIMATED WORLD PRODUCTION OF GOLD
1498-1900.

Period.	Number of Years.	Amount in Kilos.	Approx. Value in Sterling.
1492-1850	358	4,752,100	£649,000,000
1851-1885	35	6,880,000	£871,000,000
1886-1900	15	8,969,600	£541,000,000
1498-1900	408	15,101,700	£2,061,000,000

Here it must be immediately noted that during the second period (including several famous gold discoveries), one-third more in weight and value was produced in 35 years than in the previous 358 years, while the last period of 15 years almost equalled the same period of 358 years.

The acceleration was due to the application of scientific methods to gold-production, and to deliberate search for potential mines. But its occurrence is conclusive proof of the actual necessity of currency-expansion during the enormous development succeeding the Industrial Revolution. Twice as much produced in fifty years as in 350 is a recognition of the necessity, even to support the penurious standard of the current system.

But the most outstanding fact of the production, after all, is the total. Two thousand millions of gold, from which must be deducted the immense drain imposed by the Arts, by losses in manufacture, in minting and in currency depreciation. The net total then, to be the dominant factor in regulating the production of economic wealth throughout the world—a world rapidly increasing in population, and advanc-

ing in productive power infinitely faster than any possible advance in gold production.

All these considerations have become self-evident during the course of the present study, and to the impartial student the gold base of industry seems an anachronism. Even in Great Britain, the total monetary values examined, e.g.,—

Bank Deposits	...	...	£2,400,000,000
Paid up Capital of Joint Stock Companies	...	...	4,000,000,000
National Debt	...	...	7,000,000,000
Bonds	...	...	1,000,000,000

are so huge that the total gold available becomes insignificant and its control an absurdity.

The trade of the world is carried on by Credit, on the system of perfected barter; the difference, in Britain, between the meagre amount of Gold held as reserve, and the immense values handled by commerce, must be based on the belief or "Credit" of something other than Gold.

The time therefore seems opportune to examine the real basis of the economic system, upon the goodwill of which the precarious and fraudulent balance of the Gold Standard, and its implications, operates. A brief analysis of Credit will supply the required explanation.

CHAPTER X

AN ANALYSIS OF CREDIT

THE OMNIPOTENT MONOPOLY

THE late President Wilson, during the discussion which reversed the American monetary policy from deflation to inflation, used the following words in one of his speeches :—

“Some of the biggest men in the United States are afraid of something. They know there is a power somewhere, so organised, so subtle, so watchful, so interlocked, so pervasive, that they had better not speak above their breath when they speak in condemnation. The control of Credit has become dangerously centralised. It is the mere truth to say that Financial resources are not at command of those who do not submit to their dictation and domination. The great monopoly in this country is the monopoly of “Big Credits.”

This is a remarkable statement, made so recently by one of the outstanding intellects of the present generation, whose life-work may yet prove to be the beginnings of the true league or brotherhood of

nations. And these words form a startling commentary on the credit-analysis of Sir Edward Holden, given in Chapter nine, summarized in these words; “The stand-by for credits is gold, and therefore *Gold Controls Trade.*” The implication of those words is unwritten but obvious; in Great Britain all credits are issued through the Money Market, and the operators control the gold reserve absolutely; therefore, if Gold controls trade, the Money Market controls both trade and gold, by means of the Credits by which the two extremes are united.

Thus the great monopoly referred to by President Wilson is obviously the monopoly of that commodity which in the present discussion has been called credit-currency, and identified as cheques, notes, and bills of exchange operating upon bank deposits, the Government credit account, (as in the case of currency notes), or the conventional credit-power granted to certain great accepting and discount houses.

The huge sums that have been examined and docketed under these headings can now be conveniently summarized into one great conception and to that conception can be given a name that describes it clearly;—the name of “Financial Credit.”

FINANCIAL CREDIT

Now what in the first place is implied by the name “Credit”? The word is indeed to be interpreted literally; “credit” is synonymous with “belief”; Credit implies belief; to grant credit is to have belief in the recipient thereof.

Apply the interpretation to the term “Financial Credit” and the whole operation of the Money Market is understood thereby. The Money Market is the creator of currency, the use of which is granted to

the economic community in the belief that it will in due course refund a like amount of similar currency.

The practical operation (in plainer language) is familiar to every business man. By an apparently inevitable process, which, unfortunately, the business community has not thought fit to study and understand, all industrial and commercial operations must be financed by loans. Whether these loans are granted by the banks or collected from the public matters not; it has been demonstrated that ultimately the loans are created by the circle of "belief" or "credit" operated by the bankers.

Therefore the businessman anxious to promote some enterprise borrows, say, £10,000 from his bank, which he uses to finance his undertaking, and in due course he produces and sells goods to the value of £10,000 with an addition of 10% profit; he therefore cancels his loan and £1,000 remains as his own "money."

Under the credit-interpretation, the banker grants the credit of £10,000 in the belief that the producer can refund the loan within the monetary system, and in a specified time. The producer accepts the loan, using it as credit-currency, in the belief that he can recover a similar amount of credit-currency by means of his industrial operations, to cancel the loan and leave a margin of gain to himself.

This illustrates an individual operation. But collectively, as has been proven conclusively, the operation of loan-creation is controlled absolutely by the Money Market, working upon the theory of the Gold Standard.

Financial credit, be it remembered, refers to currency and all financial values usually accepted as representing currency-values. Thus financial credit may be defined as the belief that a person or community has the ability to deliver money, of an amount

either specified or estimated, as when and where required. Collectively the Financial Credit of Great Britain may be identified at a particular date as (A) the total credit-currency embodied in the banking system; (B) the total credit-currency embodied in Bills of Exchange or other credit instruments apart from the banking system; (C) the total value of bonds, stocks, and shares; (D) commercial credits.

The diagram in Chapter II (page 11) may now be used with advantage; the circle of investigation has been a wide one, but it is completed by a return to the fundamental conception of financial economics.

The diagram discloses the economic plan as possible of interpretation in two ways. First, the actual goods and services may be considered, for the creation and distribution of which the whole system has been constructed. But secondly, and by the imposition of the practical necessities embodied in the definition of Finance given on page 14, all economic values may be stated in terms of "Money" or "currency"; their "values may be measured" in a manner universally intelligible.

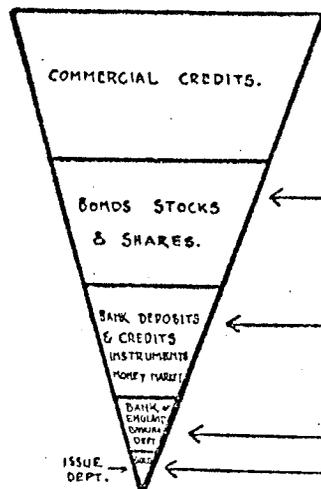
Theoretically therefore the total wealth of a community may be expressed either in currency or goods. "Currency" consists of a very small amount of Cash (or a commodity fulfilling the requirements of "good" money) and immense values of "representative" money.

To this representative money the name "Financial Credit" is applied, and it is described as "the monetary expression of the belief of the bank or other creditor in the capacity of the person credited to deliver money where, when, and as required."

Using the Kitson credit-pyramid again, the overwhelming volume of Financial Credit operated by the Money Market may be summarized concisely:—

CREDIT-CURRENCY AND LOANS

THE INVERTED PYRAMID



Approximate Amounts at 31st Dec., 1920 (in millions sterling).

← Impossible of measurement.

National Debt - - 7800
 Bonds - - - 1000
 Joint Stock System
 Paid Up Capital - 4000
£12,800

Bank Deposits, excluding Bank of England - - 2492
 Bills of Exchange (Bank Acc.) - - 172
 Bank Notes U.K. - 187
 Currency Notes - 367
£3218

← Public and other Deposits £180
 ← Gold Reserve (about) £160

Total Representative Money or Existing Financial Credit - - - - - 3,408,000,000
 Total Loans, or Frozen Currency passed through the Money Machine - - - - - 12,800,000,000

Gross Total of Measurable Financial Credit at a given date - - - - - £16,208,000,000

Total Commodity-Money or Standard Money (about) £160,000,000

Diagram No. 11.

No. 1, the narrow base of the inverted pyramid, is the arbitrary measure of the "gold standard" and is to be read as including the small amount of bronze and silver legal-tender cash used as the small change of commerce.

No. 2 is the Financial Credit created by the Banking Department of the Bank of England upon the gold basis, using the "bankers' prudence" regarding the ratio of reserve to total liability.

No. 3 is the enormous load of "Bank money" so familiar to the business community in the form of cheques and bills of exchange. The total cheque clearings for the year 1920 were in excess of thirty-nine thousand millions sterling. To the figures given must be added the credit currency outstanding as created by the Money Market operators outside the banks:—the Accepting Houses and Discount Houses, for which figures are not available.

No. 4, representing the amount of money "invested" in registered trading companies and in national and local loans, may be described as "frozen currency." Subject to definite conditions, it is negotiable through the market for securities: but the term "frozen currency" is justified by reference to the description of Government borrowings given in Chapter VIII (p. 114). Apart from fictitious share-creation and fiduciary issues for goodwill, etc., the investments have at some previous period been created by the banking system as Financial Credit, passed through the accounts of individuals, to become crystallized ultimately in the form of shares, etc.

No. 5 is the immeasurable value of personal credits granted between traders, and based upon mutual belief or confidence in the ability of each to honour his obligation in due course, by the operations of commerce. These credits, under present conditions, are obviously only possible by the possession of loan-capital in the case of companies, and of liquid or working capital, in all cases, based upon the banking system either as advances or deposits.

REAL CREDIT

Thus may wealth be described as Currency; that is, as Cash plus Financial Credit. The apparently inevitable tendency to attach a false importance to

this measure of value, and to the machinery by which the measurement is made, has been sufficiently exposed.

But again referring to the economic plan on page 11,—it must be once again emphasized that Currency is but the measure of value of all things possessing economic utility or value in exchange and that in its function as a medium of exchange it is justified only by the efficiency with which it effects the distribution of the full product of the industrial machine.

The real wealth of a community, of course, must be expressed in goods; in those commodities that fill a natural necessity or satisfy a cultural desire. Such things were wealth before money existed; it was to express their relative values and to facilitate their exchange that the whole elaborate mechanism has been evolved. The repetition of these apparent platitudes is justified, when the effects of forgetting them is observed as in the operation of the Gold Standard.

The wealth of a community may thus be described as "goods." But the conditions of industry are familiar; most goods cannot exist indefinitely while the capacity for producing them exists continually; the household example is the creation of bread, "the staff of life." Thus, just as there is cash and a huge Financial Credit the creation and control of which is vested in the Money Market, so goods may be described as actual (or existing) and potential (or future). Material wealth at a particular moment may be measured, but the potential or future wealth rests in the belief that industry can produce it. There is a "belief" or "credit" in the productive capacity of industry.

This is the "Real Credit" of the community and as applied to the individual is described as an estimate of the capacity of the person credited to

deliver goods or services where, when, and as required.

The implications of this definition will be examined further, in the light of the almost boundless producing power of modern industry. Meantime, however, advance must be made progressively, and the material base of the Financial Credits operated by the Money Market may first be stated.

PRACTICAL RELATION BETWEEN FINANCIAL CREDIT AND REAL CREDIT

In the present conception, the relation between Financial Credit as outlined, and the material wealth upon which it is based, is quite familiar to the businessman. It is the interpretation of this relation in terms of ownership, or the creative power implied, that apparently he has not studied. If he had done so, it is not conceivable that the present conditions would have been permitted to develop.

Taking the financial credits in order stated, their material foundation may be described briefly:—

- (1) Gold or metallic Money is itself a commodity possessing an intrinsic value equivalent to its stated value, excepting in the case of token coins already minted, the face value of which is granted by convention based upon the State credit.
- (2) The Bank of England (Banking Department) carries no actual "commodity money" excepting Bank of England notes backed by gold; the latter, however, has already been accounted for. The bank's liability to its depositors is based upon those securities upon which it has advanced money, "Government or Public Securities," and "Other Securities." These are not cash—the first

class is based upon the Bank's belief in the Government's sovereign rights, involving appropriation of material wealth (or its monetary equivalent) by taxation, with priority over other trade debts;—the second is based upon the Bank's belief that the borrowers have material wealth, or claims upon such wealth, of a realizable nature, which can be converted into credit-currency when required. This class of Financial Credit, therefore, is obviously based mainly upon material wealth upon which the Bank holds an indirect claim.

- (3) Representative Money within the Banking System. This class of financial credit is fully explained in Chapter V, and demonstrated by a summarized Balance Sheet on page 56. Referring again to this Balance Sheet, it may be reiterated that, in order to honour the Gold Standard theory, the depositors with the Banking system would first be required to purchase the whole of the real property or rights represented by loans and advances,—which is unthinkable. The balance is ultimately correct, but it is not a gold balance. The currency or "bankers' money" represented by deposits is not based on gold, but on real property pledged to the banks for loans, and accepted by the banks because of a belief that they are realizable, that is, convertible into "money" as required. It is obvious that this again is a circle of confidence; the properties may be realizable individually, but collectively they could not be realized in the monetary sense.

It is therefore correct to say that representative money within the banking system is based on material wealth in the form of

realizable properties or commodities upon which the banks hold either legal or equitable mortgages.

- (4) Negotiable Securities representing Currency or Representative Money that has been created by the Money Market, passed through the monetary organisation, and become "frozen" in the form of bonds, stocks, and shares, are theoretically a debt due to the community as individuals and in money, by industry, the Government, or public authorities.

The use of such loan-capital is familiar, however; it is invested in the creation of public works, and in fixed plant and productive assets. It is converted into the framework of the economic machine, upon which is based the belief in the productive capacity of industry, but, though the debt is in money, the belief refers to the production of goods. The foregoing, however, does not adequately describe the National Debt, which is largely the money value of goods and services used and destroyed in war. Since, however, war is waged in protection of the national life and wealth the debt is claimed to be a liability of the community (which it owes to itself as individuals and which must also lie against the fixed assets of productive industry). By these alone could values be "created" to balance monetary values of such magnitude.

The fourth class of financial credit, therefore, is again based upon the material wealth of the community, in the shape of the fixed assets representing productive capacity or public utility.

- (5) Commercial Credits are not measurable, but being loans between individual traders

within the economic organisation they are in effect the operation of the system of perfected barter. It has been demonstrated that while credits between traders must be measured, and are in fact controlled absolutely, by the Money Market operation of the Gold Standard, they are nevertheless based on goods; so far as the traders are concerned, the representative money operating commercial credits is merely a series of orders to their bankers to operate the system of perfected barter. Commercial credits are thus also based upon the mutual belief of traders in the possession of a capacity to produce material wealth that may be converted on demand into money. They are largely operated by the fixed assets of the joint stock system, using loan capital, and may be summarized as—the belief of traders in the potential power of production of material wealth embodied in the individuals comprising Productive Industry.

In the foregoing examination of Financial Credit and its material foundation, which the Gold Standard theory seeks to conceal, it must be pointed out that the values examined are those created by the present system. The Financial Credit, as stated, is that controlled absolutely by the Money Market; the material wealth measured by it must also be controlled by the Money Market, because, under the present system, no goods can be created unless they fulfil the conditions imposed by the monetary standard employed and are accepted by the controllers of the system as realisable properties.

There is no question whatever of that commercial well-being connoted by the term "wealth." Productive industry, indeed, cannot function for the "well-

being" of the community; it can only function for the creation of financial values as demanded by the creators of Financial Credit.

But other considerations now become obvious, and the question must be asked: Since all the credit-values examined, both "financial" and "real," represent in effect material wealth produced to fulfil a natural necessity or satisfy a cultural desire, must there not be a wider consideration,—a consideration wider than the present financial system; as wide, indeed, as the whole potential demand of individuals for those things desired by them?

That such a consideration does indeed exist is now obvious. The producer of goods, who must convert those goods into money to meet the demand of the financial system, would find them useless if no other individual within the community wished to consume them, and was prepared to pay for them. Here is found the real base of financial credit.

THE FOUNDATIONS OF CREDIT

Let the existing facts be re-stated. The creation of currency is operated by the Money Market and controlled absolutely by the Gold Standard. Since the financial credit thus "produced" is put in circulation within a severely prescribed system, its prime condition of issue is the possibility of return at the earliest possible moment. It is, therefore, based so far as possible upon the material assets of the industrial system, reckoned at the banker's estimate of their financial or selling value; beyond a point it is based only upon the belief that particular individuals can, in due course, produce "money" as when and where desired.

But once again recourse must be made to self-evident facts that are platitudes to the business man—

so well known, it is to be feared, that they are seldom examined in proper perspective alongside the power of creating "financial credit" here stated.

In the first place, a bank or other lender will advance a loan upon, say, a factory or plant only as a "going concern." The great borrowings of the joint stock companies are not intended merely to build palatial factories and erect elaborate machines; it is the future product of these machines and plants that justifies the loans.

Nothing is more desolate than a derelict industrial plant, from which goods have ceased to be demanded. In this connection, reference should be made to the forced sales of many great producing organisations erected by the Government during the War. These plants (as that at Gretna Green), could in many cases have been diverted to producing goods for a peaceful country, and in such cases they would have been legitimate "security" for bank overdrafts or other loans. But the demand was not there; at this stage of the discussion we can say that the "financial credit" in circulation as money was not sufficient to create an effective demand capable of keeping the great machines running. Therefore they became derelict and were dismantled and auctioned for little more than "scrap values."

Thus it is apparent as a second consideration that "financial" credits, or loans, are not issued against the "real" credits examined above, merely because such real credit consists of certain material assets. In most cases the actual or existing goods are of value only as part of the industrial machine; it is the potential goods which they are capable of producing that create the financial values. These potential goods are familiar in the orthodox definition of "the stream of production."

The stream of production is the wealth created to

satisfy the demands of the community for those economic utilities having exchange value. The whole tremendous fabric has been created to meet the humble necessities of the individual consumer.

Consumer's demand creates the whole of those values in the fixed assets of the community, to which the producers of financial credit have given monetary expression according to the dictates of their own system.

As a final result, it must be observed that the consumer's demand operates ultimately upon natural wealth. So elaborate has this mechanistic civilization become that the foundation of all wealth, and all power of producing wealth, upon the naked and elemental resources of the earth is forgotten by the industrialised majority, when economic systems are under review.

Yet the real foundations of Credit may be stated briefly as:—

CONSUMER'S DEMAND UPON NATURAL RESOURCES

The only true origin of production is the real need or desire of the individual consumer, and, if there be any defect in the producing system, or any failure to distribute the product when available, it is the individual that suffers.

In this time of intricate system and world-wide organization the collective idea has become predominant. But the "community" is not an entity; there is a group-consciousness, but it is the community of *INDIVIDUALS* that creates such a consciousness, and to the proper conception of the individual as a source of demand, to satisfy whom the whole of industry exists, the economist must return.

Having lost that conception, there has been lost

also the power of making the individual demand, that is ever present, "effective" in its claim for a share in that stream of potential wealth which productive industry is capable of creating.

In no science, surely, is such reasoning permissible save in this study of an economic system that has been warped and distorted to the mould of a false and inadequate formulæ.

The unconquerable spirit of humanity has survived the storms of a thousand ages, and, before the menace of an apparently pitiless cosmos, has fought the cold might of Nature and forced a concession of immeasurable wealth. Generation by generation the slow battle has been waged, and then with a sudden advance the power of Man has been amplified a millionfold by his control of new sources of energy. But the impulse to advance is ever-present; with each new power the unchainable mind ascends higher, and demands more from the grudging secret-place of Nature. "Demand," says the economist, "is insatiable."

It is indeed true. So insatiable has been the demand of Man upon the immense strong-room of Nature, that this generation has a heritage that should mean comparative wealth, in the real sense, to every individual.

The illimitable resources of the earth are merely scraped, yet the economic machine operating upon them has a scientific knowledge and direction capable of supplying all men with plenty. Also, without doubt, the insatiable demand is still there.

Yet again it must be reiterated that the machine cannot work; it cannot perform its function as the intermediary between the wealth of Nature, on the one hand, and the individual consumer, on the other hand, because it has ceased to exist for this purpose, and is permitted to work only within the narrow limits of the financial system.

The giant Progress is indeed chained to the crawling chariot-wheel of Mammon. The whole analysis of Credit can now be summarized conveniently in diagram form (see Diagram No. 12).

THE FOUNDATIONS OF CREDIT

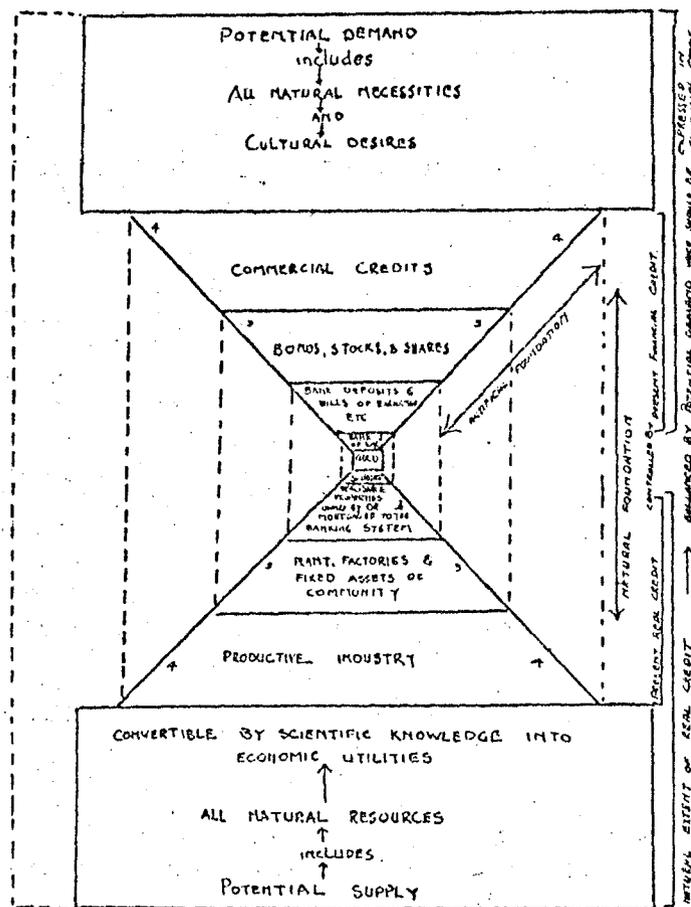


Diagram No. 12.

RESUME

The points to be emphasized in a correct analysis of Credit can be examined in the diagrammatic summary, and are as follows:—

- (1) Present Financial Credit as created by the Money Market.
- (2) Present Material foundation of No. 1 operating under the control of the Money Market.
- (3) Real Credit embodied in Consumer's Demand acting upon Potential Supply of natural wealth.

(1) Present Financial Credit. It has been demonstrated beyond dispute, by the foregoing examination of the Money Market, that all money values now identified as "Financial Credit" must be created by the Money Market. The fact is self-evident, also, that no industrial enterprise, no economic activity of any kind, can to-day be made effective and of value to the community, except by the use of Financial Credit; firstly, as the necessary "Capital" to build the plant and lay down the organisation, and ultimately as the necessary purchasing power in the hands of INDIVIDUALS, to make effective their demand for the goods produced.

Thus industrial enterprise and all economic activity is controlled by the Money Market. "Gold controls Trade;"—if the operations of the Money Market are bounded by the unnatural limits of the Gold Standard or an equally defective substitute, then the wealth of the nation is limited to the total value of those money-tokens issued by a financial organisation that is but a minute section of the community.

(2) Present Material Foundation. Therefore

Financial Policy is the dominant power in the present economic system, and since the money values issued by the financial operators are merely tokens, possessing no value except by relation to real wealth, the material foundation of the present Financial Credit is the total real wealth of the nation. Let it be reiterated; nothing is "Wealth" to the Money Market except it is convertible into that credit-currency controlled absolutely by the money-trust.

Thus the industrial system cannot expand beyond the limit laid down by the Money Market, and the material wealth of the nation, and the credit of the Government representing the community of individuals, is in fact in pawn "by a convenient convention" to the money-power of the creators of Financial Credit.

(3) Real Credit. But it is noted that no material commodity has financial value in the eyes of the Money Market, unless it is convertible into credit-currency,—that is, exchangeable for those money tokens actually created by it. It thus admits the essential purpose of the whole economic process, which is the continuous supply of natural products to the community of individuals so far as the power of production will permit. The Money Market grants credit only on "securities" that are supposed to have a realisable value; factories and plant, obviously, are in themselves without value other than scrap, except as a means to an end—they are the means or implements producing economic utilities.

Therefore the current economic system operating under the control of the Money Market has no regard for the real foundations of Credit. The real credit embodied in scientific industry, or control of natural wealth, is infinitely greater than the production at present permitted within the bondage of the Gold

Standard. For a brief period the necessities of War removed that bondage, and the amazing vision was then seen of an industrial organisation bereft of five millions of its most efficient operators, manned by amateurs, by women and unfit men,—yet producing an overwhelming stream of commodities for the upkeep of the nation and its active soldiers, and the destruction of its enemies. The enormous volume of production was diverted to the uses of peace, but “mysteriously” ceased in 1920,—how and why, we are now in a position to state.

And it is apparent also that the colossal sabotage of War is not necessary for the continuance of that insatiable “demand” that set the great machines screaming upon their triumphant march of organised production. The community of individuals has a greater desire for a continuously rising standard of comfort than the dictators of financial policy will admit. “Real” demand is indeed insatiable.

Finally, therefore, it must be noted that the Real Credit of a nation lies ultimately in the demand of individuals for those things made available by scientific industry. Real credit is thus a communal asset; it is not rightfully the exclusive property either of the owners of capital (natural or artificial) as such, or the labourers as such, or even of both classes as joint producers, but rather of the whole community, as producers *and* consumers. That is, “Consumer’s Demand upon Potential Supply embodied in the economic system.” Thus Real Credit is a communal asset, and the fact has emerged that Real Credit alone can give “value” or purchasing power to Financial Credit. Financial Credit, which is merely the expression in Currency of the Real Credit, is therefore a communal asset also.

Thus it is again apparent that if Financial Credit is made the basis of all economic enterprise, (as it

is to-day the indispensable mechanism of commerce), and if the control, issue, and policy of Financial Credit is embodied in any organisation or group of organisations, then indeed the economic wealth of a nation is controlled absolutely and beyond dispute by that organisation or group.

The examination of the financial system has now been completed; its dominant position has been made obvious, and it is now possible to show briefly and clearly its reaction upon productive industry.

Reverting to the original submission of the discussion, and regarding scientific industry, properly, as the means for producing and distributing natural resources to the community of individuals, the definite assertion will now be made more clearly, and explained, that—

“The financial system is the cause of Poverty within nations, and international (economic) War.”

But the question of the student is already answered. He obeys the “law of supply and demand,” and is bound by the “quantity law of money,” and these are things of fearfully-demonstrated efficiency within their system. But their system is false; as any system must be false that stands between man and the natural wealth won by his inventive genius; and that uses the tyranny of poverty and unemployment as a normal method of control. The Creator of the natural laws must indeed be flattered by the imitation of those lesser beings who would lay claim to the control of economic “laws” as vital to the needs of man as the air he breathes. In the midst of plenty, shall the bodies of the Nations indeed wither and die upon the cross of gold?

CHAPTER XI

MONEY TOKENS AND NATURAL WEALTH;
PRACTICAL CONTACT OF FINANCIAL POLICY
WITH PRODUCTIVE INDUSTRY

THE INDIVIDUAL AND THE SYSTEM

THE preceding chapters have treated of a system, and it is perhaps necessary to preface the present chapter with the observation that it is still a "system" that is to be criticised. The community does not exist as such; the joys and the sufferings of life affect individuals, and, though it is upon individuals that the tragic penalties of poverty and war must be imposed, yet it cannot be assumed that the individuals necessarily composing the financial organisation are severally accused of a deliberate and conscious imposition of such catastrophic sorrows upon their fellows. Collectively, however, they must accept responsibility for their policy, in so far as any defects of such policy are consciously supported, even in ignorance, to the detriment of society in opposition to any new and more scientific proposal for the better distribution of natural wealth.

Both the individual innocence of financial operators, and the concurrent responsibility of the collective Money Market for financial policy, may be traced and examined on the lines of this discussion. It has been seen that the money-functions are funda-

mentally the measuring of values of real wealth, and the facilitation of exchange between individuals, and in a primitive society these functions might indeed be performed without the intervention of any organised financial system. But it is observed that in tracing the growth and present composition of the Money Market, the trend of the discussion has necessarily been away from the first conception of money as actually a part of the trading system, and under its control, towards the elaboration of a dominant system, the directors of which are so far removed from the elemental conception of the INDIVIDUAL consumer's demand for natural wealth, that their policy is necessarily applied to the conduct of credit-currency, and the imposition of implied powers, upon principles directly antagonistic to the social good.

Thus the present organisation of nations presents a strange paradox of tremendous productive power embodied in a highly-organised system of scientific industry, and a complementary system of financial measuring, currency-creation, and control, that has imposed its policy upon the other system. If that policy should be so defective as to cause the unfathomed miseries of the poverty so evident even in the wealthiest nations, and the further disasters of tragically brutal wars that sweep across a civilization supposedly Christian and intellectual, then indeed there is a responsibility great enough to create a passion of reconstruction in the most orthodox financier, unless he be in fact lost to the necessities of a stricken world.

OPPOSING SYSTEMS

PRODUCTIVE INDUSTRY AND THE MONEY TRUST

The analysis of Credit has shown that all social systems are based on very simple things; upon the

natural desires of humble individuals for those things necessary for comfort and that elusive happiness that is the aspiration of every human being.

The ultimate foundation of Credit was shown to be consumer's demand, and from this the elaborate organisation of individuals into systems has been evolved. Theoretically, therefore, specialized industry has been evolved as the self-discipline of individuals into different spheres of work for the better production of economic utilities, won from natural wealth to the full extent of scientific power, and on the other hand the monetary system has been organised merely to reduce all such utilities to a common measure of value, and to facilitate their exchange.

Fundamentally, therefore, the problem has been identified as the balancing of the potential demand of individuals with the potential supply of natural wealth by means of financial credit in the hands of individuals.

The industrial system obviously should have no regard for money as such, if it is considered properly as the application of scientific progress to the conquest of natural resources. Industry has a function to perform, and its policy must necessarily be the production of the greatest quantity of goods, in the most desirable form, that the demand of the community of individuals will justify. That potentiality of supply is almost unlimited; during the War (let us again remember) when the insatiable demand of the great struggle was backed by the unlimited purchasing-power of the Government, the full volume or stream of production of which industry was actually capable, and is yet actually capable, was plainly demonstrated. A conservative estimate would say that with very little alteration or *extension* of plant, the industrial system to-day could produce at least

six times the quantity of goods that may be classed as necessities, if there were an available market for them; a more generous estimate multiplies present production by fifteen.

But although industry deals with goods, it must dispose of those goods by means of a system consisting of money values expressed by money tokens, and it is here that the distinction between finance as a servant of the economic system and finance as a separate and antagonistic system becomes apparent, because if industry depends for its market upon the money tokens which will express the money values of its production, obviously the quantity of its production will be limited, not by its potential power, or, as we have called it, its Real Credit, but by the quantity of money tokens to which we have given the name of Financial Credit.

Thus there is the conception of the industrial system, whose power of production or real credit is limited only by the extent of scientific conquest over natural resources, controlled as to the quantity and value of its production by the financial system and its power of issuing that financial credit which is the only purchasing-power that justifies production in the present economic organisation.

To the financial system, therefore, must be given the name and description of the "Money Trust." Commercially, a trust is really a partnership of corporations or companies, who combine together for the purpose of controlling the sources of supply, the processes of production, the distribution, and the price of a particular commodity, and reckoning money as a commodity on the basis of the "Quantity" theory, the analogy with the components of the Money Market is apparent. We know, of course, that the condition of perfection for the operation of a trust is a complete monopoly of the commodity dealt in. And

we can here take the orthodox economic definition of "monopoly" which may be said to state explicitly the actual policy of the money market, i.e., that by John Stuart Mill, that it is the limitations of supply which is the essence of monopoly;—but interpreting this literally the definition may be expressed as follows:—

Monopoly=Unity of Action plus Limitation of Supply;

=Control over Article and Price;

and this definition obviously covers the action of the Money Market as already examined.

As to the type of monopoly which is embodied in the Money Market, the lack of principal or of regard for the social good disclosed in financial policy, would lead to the assertion that it is a "social" monopoly of the class created by "special privilege," which has happily gone out of fashion. So far as the knowledge of the man in the street goes, the creation of money or credit-currency, as we have called it, is in fact a "secret" monopoly; quite as secret as the monopoly of any production based on a chemical formula invented by a particular "individual." But the real danger of financial policy lies in the fact that the whole trend of action between the money market and productive industry would lead to the assertion that finance holds the "natural" monopoly of the creation of currency, arising out of the very nature of its business and imposed in theory because of the shortage of raw material, that is, Gold.

This is obviously the fact, if control of the nation's gold is stated to be the basis of currency-issue, and is granted to the Money Market and absolute ownership thereof assumed when financial policy is laid down. It is admittedly only by a "convenient convention" that currency-creation is now a monopoly of the Money Market, but it must be noted that an

opinion generally accepted tends to develop into belief, and to become a habit or rule of thought, by reiteration or by an absence of conscious self-criticism. Thus may be explained the (apparently) universally-held belief noted for criticism at the opening of Chapter VIII;—That the Money Market has become the "natural" and "only" controller of national production as dependent on "financial credit" created by itself; that it is in fact above Governments (as regards Credit) and is in itself entitled to abrogate the functions of Government. In attacking this position, there is continually encountered a kind of subconscious faith that it is so, and an uneasiness that faults should be stated to exist in such a fundamental conception in the social organism.

It can only be observed, that conscious criticism of this belief renders it absolutely untenable. It is quite as impossible of acceptance as would be, say, a monopoly of wheat, if such were possible. If by a natural dispensation wheat could be grown only in Canada, and no substitute were available, and if Canadian growers formed themselves into one producing "unit," all the elements of a "natural" monopoly would be present. They could lay down the policy of production and price-regulation to suit themselves, and impose semi-starvation if thought suitable. But it seems impossible to think that such a monopoly would be tolerated. It would be broken either by the power of Government or by force. That a financial monopoly, using poverty and unemployment as every-day weapons (vide Chapter IX), should be tolerated seems equally impossible.

OBSCOLESCENCE OF THE MONEY TRUST

Again let it be repeated that if the present financial system enabled Industry to function to its fullest capacity, and to supply the community with the full fruits of scientific conquest of natural wealth, there would be no point in criticising it. The rewards of Financial Control, great though they be, would not be grudged to those operating the "system of perfected barter" in loyal co-operation with the dealers in Real Credit.

But the financial system operated by the Money Market is hopelessly unscientific, and the implications of its policy are directly antagonistic to the present needs of the community of individuals.

The point becomes self-evident when it is considered that the whole fabric of the financial system is based upon an Act of Parliament passed in 1844,—that it is therefore entirely obsolescent.

Owing to special circumstances setting the exchanges against England, and necessitating the export of Gold, the Bank Restriction Act was passed in 1797, forbidding the Bank of England to make payments in cash and authorising the use of notes. The Act thus tacitly recognised that the amount of commodity-money, even at that early date, was insufficient, and created a substitute in the shape of "representative" money.

The effects of this creation led to the setting up of the Bullion Committee in 1810, and one of the points considered by them was that the notes were increasing, and the specie was vanishing. But the purpose of their enquiry was *not* the question of the communal well-being; they were concerned chiefly with the effect of note-issues upon the foreign exchanges. Following the report of the Committee, and particularly between the years 1819-1844, there was much

controversy on financial matters, focussing on the contest between the "Currency" and the "Banking" schools. On the one hand, the Currency doctrine, supported by Lord Overstone and others, held that it was necessary to regulate the issue of "convertible" notes by law; on the other hand, the Banking doctrine stated that, if the bank note was always convertible its regulation could be left to the safety of the Bankers, who would "take care" not to issue notes which they could not pay.

The Currency School was triumphant, and its success was embodied in the Bank Charter Act of 1844, for the control of the Bank of England. The main provisions were:—

- (1) The separation of the "Note Issue" department from the General Banking Department.
- (2) Confirmation of the amount of the Government debt at £14,000,000.
- (3) Regulation of note-issue, each note beyond a specified amount (now £18,500,000) requiring an equivalent holding of Gold.
- (4) The Bank was required to issue its Weekly Statement or Return.

One of the chief purposes claimed for the Act was its mitigation of crises by *preventing the inflation of the currency*. The Bank endeavoured to meet subsequent crises, not by the power of the Act, but by its suspension. It has been suspended in 1847, 1857, 1866, and lastly, as already considered, in 1914. This method has proved useless; it has not at any time prevented a crisis.

NOW, however, when Great Britain has been forced to the brink of ruin by an effort to honour the "Gold Standard" set up by this Act, it is legitimate to question its value.

First, it must be noted again that the date of the Act—1844—is the very infancy of the modern industrial system. Transport was quite undeveloped; the first railway was opened only seventeen years previously. Scientific production on a large scale was only in the stage of preliminary and tentative organisation, as evidenced by the growth of the Joint Stock system since that date.

Has any other economic system bound itself to the antiquated knowledge of 1844? The suggestion is preposterous. The industrial system of that day was an experimental and ineffective toy, by comparison with present-day powers.

Real Credit has expanded infinitely, but, by the natural scarcity of GOLD, Financial Credit has not been capable of similar and equivalent expansion. Thus has evolved the ineffective method of supplying a deficiency of money-tokens by the monopoly of financial credit embodied in the Money Market. The latter now clings to the Act, because in it is embodied the chief financial weapon, Gold, and by an imposition of the gold theory banker's money or credit-currency has become an actual necessity to the community. Also, while this antiquated Act controls the note-issue no legal restraint has been placed upon the amount of credit-currency issued by the bankers.

The exercise of the "banker's prudence" is untrammelled, yet, by the Act, their monopoly of Financial Credit is complete. The policy by which the Monopoly is enforced has already become apparent, and can now be summarized to show the points of impact, in practical commercial relations, upon the industrial system.

FINANCIAL POLICY, AND ITS POINTS OF CONTACT WITH
PRODUCTIVE INDUSTRY

The functions performed by the Money Market have been identified; viz:—

- (1) The Operation of the System of Perfected Barter.
- (2) Control of the Standard Money or Gold, and
- (3) The substitution of credit-currency created by itself in place of gold, for the settlement of practically all commercial transactions.

The first of these functions is performed efficiently; so far as policy allows, the Money Market is in this connection a suitable partner for productive industry. The two complementary functions concerning gold and credit-currency, however, embody the operation of the monopoly noted above, and it is in the administration of this monopoly that financial policy becomes anti-social.

This financial policy has already been identified and examined (Chapter VIII), as the imposition of certain penalties upon the economic system, by the Money Trust, apparently as a reward for the performance of its functions. These penalties are stated to be:—

- (1) Economic domination by the Gold Standard.
- (2) Credit-currency to remain, when created under the third "function," as a debt to the Money Market.
- (3) The subordination of Government credit.
- (4) The control of consumption by Prices.

The operation of the Gold Standard has been examined in sufficient detail to demonstrate the actual "economic domination" which it personifies.

"Gold controls trade," in the words of the famous banker; and, using the actual phraseology of the Report of the Cunliffe Committee, gold is shown to control the very employment of the worker, and the ruin or prosperity of the producer, as may be ordained.

The subordination of Government credit has also become self-evident, particularly in the case of Treasury Notes, for which the Government receives a "credit" of £1 for each £1 note, but for which by the creation of credit-currency with "banker's prudence" the banks receive control of £10 or more financial credit, using each £1 note as the legal-tender basis.

The second penalty stated is obviously the operation of monopoly control, and the fourth arises out of it. It must be remembered that financial policy is based on the "commodity" or Quantity Theory of money, whether the "money" be the actual metal of the theory or the artificial creation of financial credit. Therefore the credit-currency of the Money Market is a commodity that is "sold" or exchanged for goods—that is, for the unit-portions of natural wealth desired by individuals. Thus, as the quantity of credit-currency (actually of purchasing-power), is controlled by the Money Market, obviously the "price" of commodities to be bought by this currency will, under the Quantity Theory, also be controlled by the Money Market. Finally, since the possession of purchasing-power in the shape of money-tokens is the ONLY method by which the individual acquires the power to buy goods for his personal use (i.e., consumption) obviously the actual amount which individuals may consume depends ultimately upon financial policy.

At this point it is possible and desirable to interpret financial policy, not by the penalties, but by the terms of its practical application:—

STATEMENT OF FINANCIAL POLICY

- (1) All "new" money required for industrial expansion shall be in the form of bank credits (credit-currency) and shall be issued through the banking system.
- (2) The creation of such new money shall be the monopoly of the Money Market, and shall be issued upon the judgment of bankers regarding the "security" offered.
- (3) Such new money shall be issued normally only to PRODUCERS, who shall be required to pledge their real property (or productive plant) as security. That is to say, the Financial Credit will be issued only against the Real Credit of Industry, as approved by the banker.
- (4) The issue of financial credit cannot therefore be based upon the necessities of the community of individuals, but upon the banker's judgment of the borrower's power of repayment by the shortest route. This can be shown to be in many cases directly antagonistic to the communal good.
- (5) The Money Market undertakes the operation of the system of perfected barter, but reserves the right to "regulate" the volume of trade included therein by means of the weapons of the Gold Standard,—deflation and inflation.
- (6) The return of the loan embodying the new financial credit remains at the discretion of the banks, which refuse to take account of the individual as consumer. Therefore, the banker looks to the immediate borrower, normally the Producer, for the refund of the loan, and throws upon him the onus of recovering the value of the loan from the individual by the "price" of his commodity.

(7) It is assumed by the Money Market that, normally, the gold basis of financial credit can be increased only by "favourable" movements of the foreign exchanges, implying an excess of exports over imports. There is thus an entirely fictitious importance attached to foreign trade. If the financial credit by which the nation's trade is carried on, is dependent on a ratio to the gold basis of currency ordained by banking "prudence," and if that gold basis of currency, again, is at the mercy of foreign exchange rates and exchange manipulation (as in the Kitson quotation, page 138), it appears that the whole industrial prosperity of a nation depends, not on its productive power and the needs of its citizens, but upon a foreign trade striving for a "favourable" place in the markets of the world. The possession of foreign markets tends to become vital, even to the extent of control by force of arms.

Re-stating this policy from the point of view of the producers, it must be noticed that the financial policy of the Money Market undoubtedly shows that "unity of action" attached to the efficient administration of a monopoly, and it is therefore desirable to consider the producers as units in one national system, productive industry; a term which will obviously include services in addition to commodities. The industrial system looks to the Money Market:—

- (1) To facilitate exchange in the world market by operating the system of perfected barter, using credit instruments as the medium of exchange.

- (2) To provide new supplies of credit-currency when expansion is necessary; such new money being based on the real credit of the industrial system.
- (3) To cancel the loans thus created, when necessary, by the issue of further loans.

Finally, the interpretation of financial policy may be summarized under three headings, that arise naturally from the exercise of monopoly-power:—

- (1) The issue of new credit-currency.
- (2) The method of circulation of credit-currency.
- (3) The control of currency as to volume and value.

THE ISSUE OF NEW MONEY

The use of the generic term "money" has been purposely avoided in most instances, when the currency created by the banks has been indicated. Yet it is apparent that the effect of credit-currency is precisely similar to that of currency issued with the Government stamp:—

"*ALL new money mobilizes effective demand,*"—that is to say, it seeks to place new purchasing-power in the hands of individuals. Some considerations regarding the question of money-issue must be emphasized.

(1) *THE ISSUE OF NEW CURRENCY IS A VITAL FUNCTION.* Firstly, therefore, let it be emphasized that the creation of new "money" is a function vital to society, and in particular to the industrial system, without which production would cease. The fact becomes self-evident, when it is considered that; (A), the natural increase of population makes an issue of new money imperative, by the neces-

sity for greater production to meet the expanding "real" demand that can only be rendered effective by an increased supply of money-tokens; this is quite apart from the continual struggle, that is equally natural, towards a higher standard of life on the part of the poorer classes of Society, implying a greater individual demand upon the potential supply of natural wealth; (B), in addition to these natural increases, the system of accounting now imposed upon productive industry demands that the total money invested in the industrial organisation shall be recovered in prices PLUS a stated percentage of profit, that represents the "rewards of management."

No contradiction of the vital nature of currency-issue is possible, unless it is to be assumed that the increase required to meet natural expansion of demand is balanced by an equally "natural" increase in the gold upon which financial policy is based. Truly, then, the ways of Nature are wonderful and shrouded in mystery—but suddenly it is noted that gold, when produced, belongs to an individual, and enters the banking system with a tag of ownership. Or as regards profits,—to which may be added the power attributed to money to create "new" money as interest, this actual creation of new money must obviously become vitally necessary unless indeed it is argued that each profit within the financially-bounded commercial system is balanced by a corresponding loss. At five per cent. simple interest, a sum of money returns itself in twenty years, yet still remains intact; must then another similar amount be *extinguished* in the same period? The prospect seems disheartening, and the money-monopoly begins to take more definite shape.

Finally, in this connection the issue of new money becomes a function vital to industry, because of the

present organisation of production, and the manner of circulating money, noted below;—that is to say, that purchasing-power for present necessities, in the shape of wages and other rewards, can be gained only from work upon *future* goods, for which, when produced, the purchasing-power (or effective demand) is not available.

(2) *NEW MONEY IS ISSUED ONLY FROM THE MONEY MARKET.* New money being admittedly vital to the community, the power of issue becomes of immediate importance. It has been demonstrated beyond dispute, from the figures of the money system itself, that new money in the shape of credit-currency is now available to industry only in the form of bank loans. Money can be issued only from the Government, or from the Money Trust, and by "a convenient convention" the creation of currency has become a monopoly of a section of the community. The Government has, in fact, acknowledged the supremacy of Financial Credit over Real Credit, and issued its currency notes as the legal tender basis of huge loan-values that became deposits, and ultimately, during the war, investments in War Loan. Now the Government pays interest upon £7,000 millions of "money" created by its own credit, as pledged to the financial system, while the community of individuals, supposedly "richer" by this amount than before the war, staggers through a morass of trade despair and increasing bankruptcy.

(3) *THE PRESENT ISSUE OF NEW MONEY IS SECTIONAL AND ANTI-SOCIAL.* The above paragraph emphasizes the fact that while the Real Credit of the nation has been shown to be founded upon the real demand of individuals, the mobilising of this demand into an effective demand, expressed by money-tokens, is embodied in a monopoly con-

trolled absolutely by a small section of the community, performing in theory an important but quite normal commercial function.

"When a bank allows an overdraft for the purpose of carrying out a contract or a productive programme, it performs an absolutely vital function, without which production would stop. If you doubt this, consider for a moment the result of a rise in the bank rate of interest on loans," (see also Chapter IX), "and you will see that the power to choke off producers by taxing them at will is essentially similar to that exercised by governments on consumers by orthodox taxation, with the vital difference that in the first case a purely sectional interest is operating uncontrolled by society, whereas in the second case the power undoubtedly exists, though ineffective because misunderstood, to control it in the general interest. Now the vital thing done by a bank in its financing aspect is to mobilize effective demand. The effective demand is that of the public, and the willingness of producers to respond to economic orders; but the paramount policy which directs the mobilization is anti-public, because it aims at depriving the public, with the greatest possible rapidity, of the means to make its demands effective:—through the agency of prices." (C. H. Douglas, "Control and Distribution of Production.")

(4) THE PRESENT ISSUE OF NEW MONEY ABROGATES A FUNCTION OF GOVERNMENT.

The foregoing points regarding the issue of new credit-currency are quite understandable; the mechanism is obviously the "second function of banking" outlined in Chapter V and elaborated in Chapter VIII, (Currency Creation by the Banks). That it is an abrogation of a function of Government is apparent; by this means the Real Credit of the nation, personified in the theoretical power of the Government to

mobilize effective demand, is controlled by the Financial Credit of the Money Trust. The imposition of this control through the agency of prices, as mentioned above, leads naturally to a consideration of the circulation of money.

THE CIRCULATION OF MONEY

The economic system is devised to bring together the potential demand of the individual consumer, and the association of individuals in the productive system. This is the Real Credit of the community, and the method of satisfying this necessity is by the system of money-tokens.

It is therefore apparent that the only money-tokens having any utility at all in the present organisation of society are those in the hands of individuals, and backed by their potential or "real" demand. Thus having examined the source from which money is issued, its connection with the individual must be established; otherwise, it ceases to be money.

The statement of financial policy declares that money is issued to the Producer, and recovered from him; therefore he has the responsibility of distributing it to the individual members of the community, and recovering it again from them.

It may be objected, that too much insistence is being made upon the question of "new" money, on the assumption that industry has sufficient money within its ownership to finance itself. But every pound shown in the Balance Sheet of the banking system in excess of the insignificant amount of standard or metallic money, has been created by means of credit-currency based on bank loans. The necessity for this method, and the impossibility of any other method under present conditions, will be immediately apparent.

In the circulation of money three factors have been identified :

- (A) The Money Market, the source of issue.
- (B) The Producer, who distributes and re-collects.
- (C) The Individual as Consumer.

Assembling the facts of the present position, already stated, it is seen that Financial Credit is available to Industry only as a "going concern," or in other words, by the pledging of its Real Credit. Further, the individual can acquire purchasing power only *through* the Industrial System; no purchasing power is issued direct to Individuals, as consumers, but reaches them only as producers, in the form of wages, salaries, and dividends. These terms are correct and all-inclusive; the "Profits" of a commercial organisation are merely figures in a book, so far as the individual consumer is concerned, until the dividend warrant is issued and honoured by the bank concerned. Sole traders or firms, similarly, show an accounting "profit" that is in fact their salary, as managers of their own businesses, and is purchasing power only so far as they translate it into "drawings," the term applied to the salary paid to a man by his own business. Wages, naturally, are the principal means of distributing purchasing-power to individuals.

All individuals, however they may receive their money-tokens, are familiar with the method by which these money-tokens are taken from them again. They receive wages, salaries, and dividends, and pay them away again in the PRICE of those things they need, either to meet a natural necessity or satisfy a cultural desire.

The circulation of money may thus be expressed diagrammatically. (See Diagram No. 13).

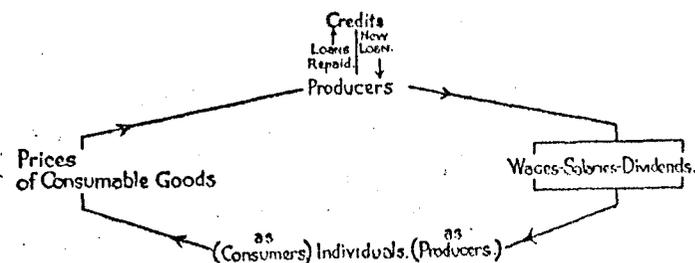


Diagram No. 13.

The important points in the circulation of money may be summarized, and their consideration will state more explicitly the flaws in the financial system that have been gradually assuming a more definite form as this examination has progressed. These circulation-points are stated hereunder :—

(1) *ONE LOAN MUST BE CANCELLED BY THE ISSUE OF ANOTHER* and larger one, elsewhere within the system. This point must first be understood; the operation as it affects one transaction has already been made clear. A bank-loan is used to finance a commercial enterprise; it is paid out and becomes a "deposit" in some other bank account. The Bank Balance-sheet still "squares," the increase in "loans" balancing the increase in "deposits." In this process, however, "goods" of some kind have been created; these are now sold, the money paid for them reduces some bank deposits, and when received is used by the borrowers to extinguish the original loan. Thus "Deposits" are reduced again, and "Loans" reduced correspondingly, the Balance-sheet again "squaring." The element of interest or "profit" does not affect the aggregate balance, because if the original borrower

recovers his profit in prices, and receives more than the loan, the surplus becomes a deposit in his name, some other deposit being reduced.

The point is, however, that the circulation of economic utilities has been increased, and the credit-currency has been expanded to meet the increase. But unless the goods produced have been extinguished utterly with the loan, some new currency must remain. The ordinary conduct of business proves that the price paid for the goods, when sold, does not buy the "capital" in the shape of plant, etc., required for their production, and by which the loan was secured. Thus new commodities remain when the first loan has been extinguished, and usually the potential power of production has been increased;—the necessity has been created for a continuance of the new credit-currency created by the loan. This necessity is met by the issue of a new loan;—say, to the individual whose deposits were reduced in purchasing the goods created by the first transaction.

That one loan must in fact be replaced by another and larger loan within the system, is proved by the continually expanding aggregate volume of bank deposits and investments, excepting during the operation of an artificial check by deflation. The necessity was made obvious when considering the "issue" of money as vital to industry.

(2) *THE INDIVIDUAL AS CONSUMER IS IGNORED.* The most outstanding feature of the issue of money is the complete ignoring of the INDIVIDUAL, whose potential demand for goods and services is the ultimate justification for both the industrial system and its complement, the financial system. In the issue of "new" money, it is the PRODUCER, or the person owning or controlling those assets representing Real Credit, whose "security" for the loan is acceptable to the Money

Trust. This preference, in fact, must be carried from the issue of "new" money to the circulation of currency already existing; the diagram already given shows that the individual *never* receives money as a "consumer." He receives it either as wages or salaries, in return for his services as part of the producing system, or as dividends, in return for the use of his "Capital" as a loan to the producing system.

This point must be extended:—

(3) *THE INDIVIDUAL RECEIVES PURCHASING-POWER ONLY IN RETURN FOR SERVICES.*

Thus money in its ultimate form as purchasing-power in the hands of individuals, reaches the latter on the "producing" side of their social existence. The point must be emphasized, because the fact that society is a community of individuals, for the satisfaction of whose needs the economic system exists, appears to be ignored. The individual cannot "create" currency; he can only "earn" it; even those lucky enough to possess financial wealth have received it either from the salaries or profits of others, or from financial values created in some "real" property by the actions of the community of individuals:—our old friend, "unearned increment." This increment, however the dispute may go regarding ownership by the community, or one individual thereof, has no "value" whatever under present circumstances until money-tokens or credit-currency have been created by the Money Trust to represent it, —thus again emphasising point No. 1, above.

In general, however, the fact must be admitted that purchasing-power is issued only as a reward for the services of individuals as producers. Man must work, by hand or brain, or by the loan of money as his proxy, that he may acquire the "right" to live. *Money is a licence to live.*

(4) *PURCHASING-POWER AND WORK FLOW*

THROUGH THE SAME CHANNEL, PRODUCTION. It now becomes obvious that, in the distribution of money to individuals, there is a precisely equal allocation of work to them in their capacity as producers. The major part of purchasing-power is distributed as wages and salaries; individuals are thus embodied in the producing system, and rewarded by money-tokens for their services. But (let it be repeated) they cannot receive money-tokens as consumers; they must work for them. Industry apparently has for its primary function the giving of work to individuals,—not the creation and distribution of commodities to satisfy their needs, but of work that will enable them to acquire a purchasing-power or effective demand upon those commodities. This point of view has strange results.

(5) *PURCHASING-POWER MUST BE INCLUDED IN COST OF PRODUCTION.* The first effect of the system of distributing purchasing-power in return for work, is the creation of an "accounting cost" of production. By an accounting cost is meant that statement of the financial value or credit required, under present circumstances, to be embodied in the "price" of an article so that the producer may receive, in prices, all his payments, whether made from a deposit or a loan, and a percentage to represent his profit, or "wages." The accounting cost includes the (financial) value of raw materials, wages and salaries, interest on capital or loans, and depreciation of plant, machinery, etc., with the addition of other charges such as rent, rates, taxes, etc.

Note here that included in the cost of an article is "interest" on the "capital," (that is, loans from individuals or banks originally invested in the enterprise), and at the same time "depreciation" is charged as part of cost, on those objects such as plant,

factories, etc., into which the original Capital or financial credit was converted for productive purposes. Thus Cost includes a charge (interest) assuming that the Capital is automatically creating NEW financial credit recoverable in price, and also a charge to cover an assumed disappearance of the assets representing it. When depreciation reserves equal the original cost of the assets, there is assumed to be recovered in price a financial credit capable of replacing the assets, or refunding the capital, as desired. The implication of this, and of the fact that price is observed to include more than the cost included to cover the work upon which purchasing-power is issued, will be examined in some detail in the next chapter.

(6) *THE PRODUCER CAN RECOVER COSTS ONLY THROUGH PRICES. PRICES ARE RECOVERABLE ONLY FROM CONSUMABLE GOODS.* Thus in the duty imposed on him by finance, the Producer distributes purchasing-power to individuals in return for services, and includes the total amount of the distribution in the Cost of the commodity. He must do so because under the present system he must recover in the form of prices the total financial credit originally issued, and price is based on Cost plus a percentage of profit. (Profit, as the wages of management, is actually a proper cost.) There is no other means of recovery; industry supplies goods for sale, and can "finance" itself only by disposing of its goods in return for money-tokens. But a self-evident fact must now be emphasized, not because it is unfamiliar, but because its place in the recovery of costs has not, apparently been allowed for when the basis of Price was decided. Price can only be recovered from INDIVIDUALS in return for CONSUMABLE goods; that is to say, for goods that

will fulfil a natural necessity or satisfy a cultural desire.

The individual has no use for factories, plant, and machinery, as such; these things are valueless even to the owners of them, if no market can be found for those commodities they are potentially capable of producing. It has been found when considering Credit that in fact the Money Market will accept industrial assets as security, only so far as they are approved as a "going concern,"—that is, the lenders must be satisfied firstly that the producer can "deliver the goods," and also that an immediate market can be found for them,—a market supplied with purchasing-power expendable upon the particular commodity. Even raw materials are valueless to individuals, in most cases; they buy cotton clothing, not yarn; or houses, not bricks and timber.

Therefore the total amount of wages, salaries, and dividends distributed through the productive system must be recovered in the price of CONSUMABLE GOODS, and similarly the costs of all intermediate processes must be added cumulatively to the cost of the goods finally bought by the individual consumer. The land values of distant farms, the machine-costs and food-costs of ranching; the railways and ships transporting cattle or hides and earning their own costs in freight, and the land, factories, plant, machinery, coal, and power, the separate organisations of which recover *their* costs by the prices charged to the tanneries, the leather-factories, and boot-factories, all these and the separate costs of wholesalers and retailers must be recovered proportionately in the price of the boots and shoes ultimately bought by the consumer, and the supply of boots and shoes is the only point of the whole enormous organisation in which he, AS CONSUMER, is interested.

(7) *PRODUCTION IS DIRECTED INTO CHAN-*

NELS DESIRED BY THOSE WITH THE GREATEST COMMAND OF FINANCIAL CREDIT. At this point it must be taken as admitted that, under present financial policy, the economic system is directed to a financial end, and not to the supply of economic needs. It is therefore inevitable that the policy of productive industry must be determined by the real facts of the environment in which it functions. That is, it must so order its production that the credit of the producer will be maintained with the Money Market, and that goods purchased will appeal to those with the greatest command of purchasing-power.

Thus an explanation is found for the ever-increasing insistence on the production of "Capital" goods, because it is upon these goods that Finance is prepared to base the issue of new credit-currency. Capital goods are those embodying the Real Credit of the community; they have no value in themselves to the community, or even to the producer, but they embody the "power of production,"—they contain the systematised production that can guarantee a "potential supply" of economic utilities in the shape acceptable to the individual consumer. The aggregate of the costs of these Capital goods, however, must be embodied in the price of consumable goods, and the total of wages, salaries, and dividends, distributed to individuals employed in this branch of industry, as producers, must similarly be recovered in the price of consumable goods.

Since, however, the greatest part of purchasing power is issued to individuals as wages, and must perforce be expended on the simplest necessities of life, the demand for these necessities is a market that is ever-present, but bounded absolutely by financial policy and its imposition of the Gold Standard. There is thus an inducement to industry for the pro-

duction of luxury goods, demanded by those with a large command of financial credit. In this division of production there is no inherent evil; but in present circumstances, with an infinite and unsatisfied demand from ninety per cent. of the population for actual necessities, it is symptomatic of a flaw in the system and must be called anti-social.

(8) *NEW MONEY CANNOT BE CREATED FOR BENEFICIAL BUT UNMARKETABLE WORK.* From the foregoing considerations, the point emerges naturally that new money cannot be issued for services or enterprises having no "selling" value, in the judgment of the currency-creators. This fact is familiar to everyone; all work of research or advancement performed altruistically by advanced scientists and humanitarians, must be financed from private fortunes, or savings, or charitable and other donations. It is on record ("The Conquest of Consumption") that Sphalinger, using his private fortune and gradually evicting himself and his household from their family home so that he might fit complicated laboratory systems, at last reached the point of actual poverty, and had actually to sell many of the Irish thoroughbred horses that formed the source of the serum with which he was so gallantly fighting the white scourge. The value of his work was infinite; but the present system makes it impossible for credit-currency to be placed at his disposal by the banks, simply because he could not "recover it in prices." His splendid work can be assisted only by the Government's aid, recovered from taxation;—but the Money Trust must, under its present policy, ignore him.

(9) *PURCHASING-POWER DISTRIBUTED TO INDIVIDUALS IS REQUIRED TO, BUT CANNOT, PURCHASE THE TOTAL PRODUCTION IN RESPECT OF WHICH IT IS ISSUED.* Sum-

marizing the points concerning the circulation of money, it is necessary to state again the simple but fundamental ideas underlying the economic system; (A) The individual demands the necessities and the amenities of life, and under present conditions he sells his services in order to obtain the money-tokens that represent Purchasing-power (or effective demand) upon the commodities desired.

(B) The producing system exists to supply the consumer's demand to the full extent of the supply created by the scientific conversion of natural wealth into economic utilities, and industry has no other end or justification for its existence.

(C) The financial system exists to provide the connecting link between real demand and potential supply:—and the effects of these fundamental conceptions, as applied to the circulation of money, should be that: if the Industrial System is required to distribute purchasing-power to individuals, the amount so distributed should be equivalent to the financial value of the total commodities produced, and the amount recovered in price should thus liquidate the total expenditure embodied in cost. By analogy also, it would be natural to assume that the individual should pay only for the goods consumed by him, and not for other things (Capital Goods) embodied in the cost, which remain the property of others.

But under the present financial policy two penalties are imposed upon the producer and consumer, in the circulation of money from its issue to its return by price. First, the wages, salaries, and dividends distributed throughout the whole of industry, whether for Capital Goods, or goods satisfying the immediate demands of the consumers (food, etc.) must compete in the market for consumable goods ONLY. Secondly, the producer is compelled to charge in cost, and the consumer is compelled to pay in price, cer-

tain financial values that are not, in fact, distributed as purchasing-power at all.

There is thus a discrepancy between purchasing-power issued, and goods produced; the latter cannot be bought by the value of the former that is issued in respect of them. It is sought to remove the discrepancy in two ways:—

- (a) By seeking to sell the surplus goods outside the money system concerned, that is, by exports drawing upon purchasing-power issued elsewhere, and implying a favourable balance of international trade.
- (b) By the issue of new money from the Money Trust, which, however, will be issued only on the security of assets embodying Real Credit, or the power to produce future goods.

The present position is stated explicitly by Major Douglas; "The wages, salaries, and dividends distributed during a given period do not, and cannot, buy the production of that period; that production can only be bought, i.e., distributed, under present conditions by a draft, and an increasing draft, on the purchasing-power distributed in respect of FUTURE production and this latter is mainly and increasingly derived from financial credit created by the banks."

This conclusion, the most important of the Douglas "credit-analysis," is understandable and logically inevitable, to any person who has examined the present financial system on the lines of this discussion. Purchasing-power is distributed for PRESENT work, and the wage-earner spends his weekly pittance to satisfy immediate needs, but the goods worked upon will obviously be available only in the FUTURE and the goods bought have been produced at some period in the past. The analysis and effects of this theorem are explained in the next chapter.

THE CONTROL OF CURRENCY

The exercise of monopoly control of currency was stated explicitly by Sir Edward Holden (p. 142):

"I want you to remember that the banking system of every country has its triangle, and that the principles exist in every triangle of every system based upon 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.*"

That was in 1907, and stated the pre-war system. In January, 1924, Mr. Reginald McKenna, addressing the Ordinary General Meeting of The Midland Bank on presenting the report of the company, stated his opinion that Gold no longer functions;—"Take the conditions as we actually know them. Trade has been bad for a long time, but signs of improvement have begun to show themselves. Bank advances have increased, with the inevitable result that there has been a demand by the public for more currency. We have already seen, however, that when additional currency goes into circulation, the cash resources of the banks are reduced and their power to lend is diminished. No gold is now bought as formerly by the Bank of England, and unless that institution makes additional loans or investments there is an automatic throttle on the expansion of bank credit and the trade revival must be brought to a standstill.

"In present circumstances therefore it is only by wise action on the part of the Bank of England that the restriction on trade revival can be removed."

Mr. McKenna apparently states honestly that the Gold measure of "bankers' prudence," always fictitious so far as encouraging the development of Real Credit was concerned, has now been scrapped by the banks even as it has passed completely out of circulation, and that it is substituted by the only "real" thing in the regions of finance, the undisputed power of the Money Market, functioning mainly through the Bank of England, to exercise monopoly control and lay down its own conception of "wise action."

Mr. McKenna's speech was controverted as regards gold at the general meeting of the Westminster Bank, and this little rift in the harmonious instrument of financial policy is interesting. Since then the Gold Standard theory has been enforced by coercion and propagated in every political organ, and is now once more accepted. It is being consolidated internationally, and the Dawes' Report is its scourge in Europe, while the author of that plan has become Vice-President of the United States, the present financial dictator.

Now, (November, 1924), war conditions still exist in currency; Gold is substituted by currency notes in circulation. These notes are legal tender substitutes for gold, and used by the banks similarly as the "measure" or "standard" of loans,—and therefore deposits. The following extract from "The New Age" of November 6th, 1924, is informative and interesting, as recording the present attitude of the Money Market to the question of currency control, and the effects of the suggested policy.

"We will now notice the article of Sir D. Drummond Fraser in the Spectator of October 25. First let us record some useful facts which he gave. The gold reserve now concentrated in the Bank of England amounts to £150,000,000. The pre-war reserve of this bank was £30 millions and the other banks

held £40 millions between them. In addition, there were £80,000,000 of gold coin in circulation. "The aggregate assets of the banks—Bank of England, English, Scotch, Irish banks—and of the currency notes are double the pre-war figures, and exceed £3,000,000,000 (December, 1923)." The number of branches of these banks has increased from 7,423 to 11,394. Next let us quote an illuminating sentence:—

"The inflationary borrowings of traders for the world trade boom 1918-1920 increased the bank assets by £800,000,000."

"If the banks only lend out of savings, here is a flagrant instance of the part being greater than the whole. Someone ought to read a paper before the Royal Society about it. Sir Drummond makes four definite suggestions: (1) That the currency-note issue of the Treasury should be amalgamated with the Bank of England note issue "under one control—that of our central bank, the Bank of England." (2) That the twopenny stamp duty on cheques should be removed; (3) that Post Office Bonds of £5 and multiples should be issued continuously; and that (4) the long-prepared Bill defining the word "bank" should be forced through the Parliament "in the public interest." According to the March balance-sheets of the London Clearing banks, their deposits in 1922, 1923, and 1924 were respectively 1,747, 1,596, and 1,603 millions of pounds.

"We are in a position to appreciate his arguments. In support of the Bank of England's "complete control" of bank money for the financing of trade, he says: "This is the lead which the reconstruction of public finance in Central Europe is giving to the world." Then he adds: "The provision already existing in the currency note Act for the elasticity

required to meet special necessities should be incorporated in the arrangements made." The cheque stamps are to be abolished "in order that the excessive note issue may be reduced and the deposits increased by a corresponding amount." The Post Office Bonds are wanted because "this would spread the Government's Debt among the largest number of individuals and" (this is frank enough) "would relieve the banks of some of the Government securities with which they have been saddled in connection with War finance." Well, if there is anything else which the banks need in order to make their power over the nation's life absolute, we should be interested to hear it. The only limit which the Government (and this only in form) can place upon bank policy lies in its (theoretically) independent power of fixing a limit to the value of treasury notes it issues. These notes are legal substitutes for the golden sovereigns which the banks (theoretically) are bound to pay on demand. The existence of £480 millions of them added to the £150 millions of gold held by the Bank of England, form the sub-structure of credit operations reflected by nearly £2,400 millions of deposits. A really independent Government could, by calling in and cancelling its notes, force the banks to restrict their credit-operations by nearly three-quarters, for which it would thereby cut away that proportion of the banks' power to pay out currency—which would then be reduced to the £150 millions of gold. This is sufficient indication of the magnitude of Sir Drummond's suggestion when he talks about transferring the control of all paper currency to the private institution which he calls "our" central bank. No quid pro quo is offered. No proposal that the House of Commons shall have a voice in saying where credit is lent, or in deciding on what terms or for what purposes. Even the mention of such a possibility

borders on the seditious. Well, the new Government has won a majority: let us hope it will also show signs of having arrived at it."

Thus control of currency is operated by means of the gold standard theory, even though legal tender Currency notes are added to the gold to bear the huge credit pyramid. The above passage suggests an audacious advance, but control is even now complete. This proposal would merely add a huge value of Currency notes to the fiduciary note issue of the Bank of England, giving the latter absolute control of legal tender as well as financial credit.

Reduce Government currency, say the banks, and increase cheque currency; make it essential, in fact, for every member of the community to use the banking system and to become dependent upon it for credit-currency, even more absolutely than the producer depends upon it at present.

But it has already been noted (see Chapter IX) that the gold standard as it affects trade is not a system of regulation at all. It is, in fact, a chaotic method of subordinating Real Credit to the policy imposed on behalf of Financial Credit, and it is this fact that makes the monopoly of money so serious a question to the community. It is not the monopoly of *money* that matters; it is the fact that this monopoly implies absolute domination over industrial organisation, and resolves itself ultimately into a monopoly of the entire economic system.

The gold-control of industry, in fact, takes advantage of a fact often overlooked; that Inflation under present conditions is a normal process, and to this normal advance is applied the artificial check of deflation, as in 1920, when financial policy so dictates. These points are therefore worth examining in the light of the foregoing points regarding the issue and circulation of Money.

(1) Inflation, a normal Process.

The accepted definition of Inflation arises naturally from the economic statement of the Quantity Theory of money, (q.v.). Inflation of currency is stated to be an increase of "money" without a corresponding increase in the quantity of "goods." That requires amendment by our present knowledge; inflation we recognise as an increase of credit-currency based on loans.

The normality of inflation is obvious; it is noted particularly in the note on the issue of new money as a function vital to industry, and again in the note on "circulation,"—the cancelling of one loan by the issue of another and larger loan. These evidences support the submission by Major Douglas (in "Economic Democracy") that it is a *normal* accompaniment of the present-day producing system as a whole, and his view has been accepted by other and more "orthodox" economists.

R. S. Hawtrey in "Currency and Credit" describes the process of financial industry as follows: "An order is given by a merchant to supply a quantity of goods. The manufacturer borrows from his banker a sufficient credit to meet the necessary expenses of manufacture, including the cost of raw material, for the period which will intervene before the goods can be delivered and payment received from the merchant. When the goods are delivered the merchant in turn borrows their value for the time they are likely to be on his hands. The goods pass from one manufacturer to another and from one dealer to another several times before they are finally disposed of piecemeal by the retail dealers to the consumers. Each manufacturer or dealer will probably be indebted for a part, at any rate, of their value as long as he holds them. A debt, as it were, is attached to the goods so long as they are being dealt in—that is

to say, bought with a view to being sold. This debt is only finally paid off when the goods are sold, not to be dealt in, but to be consumed. But each manufacturer or dealer is quit of the debt when he is quit of the goods. He borrows to meet the expenses of making or buying the goods, uses the proceeds of his borrowing to pay the people employed in manufacturing them, or to defray the purchase price; then when he disposes of them, applies the proceeds to pay off the sum borrowed, and retains any balance as his own profit. Thus new credits, as distinguished from those created merely in replacement of old ones, are created to pay the profits, remuneration, interest, etc., of those who contribute, either by their personal services or by the use of their property, to production."

This is entirely accurate and describes the point elaborated under the "Circulation of Money" regarding the necessities imposed on industry to include *all* costs in prices of consumable goods, the price thus including such items as profit, and interest. Since every producing and distributing unit is required to earn an individual profit or interest, the industrial system in its entirety is therefore assumed to earn an aggregate profit and interest equal to the sum of the individual items. This represents an increase in "currency" at the end of the trading period, as compared with the amount available at the commencement thereof, and is quite obviously "new" money,—it is *in addition to* the aggregate accounting cost of production.

Looking at the facts of the present industrial situation, it is seen that the purchasing-power in the hands of individuals is mainly in the form of weekly or monthly payments for work done, and quite obviously such payments must be spent immediately on the necessaries of life. But the *work* for which the money

is received does not materialize in the shape of new goods till some future date; therefore the production of future goods is paid for by money-tokens that are used as purchasing-power for goods produced in the past.

Thus, when the new goods for which payments are made *do* come into the market the purchasing-power issued in respect of them has already been spent, and must be replaced either by money issued on more "future" goods, or by bank credits. Further, when the fact is remembered that the greater proportion of the wages and salaries in a *present* week are issued in respect of "Capital" goods,—that is, goods to increase the power of production,—when the goods of the present week's work are priced in some future week, there is actually the full costs of both consumable and capital goods to be recovered, and concurrently an increased power of *producing* goods, for which no effective demand exists in the form of purchasing-power.

As regards the Capital goods, they have been created by loans which are a debt due to the Money Market, and which must, ultimately, be recovered from individuals in the prices of consumable goods. But the latter spend their purchasing-power as they get it (the so-called margin of "saving" is here ignored), receiving the goods they want, yet the capital goods and debt still remain. An explanation of this point will demonstrate the inevitable nature of currency-inflation under present conditions, and the elusive conception of capital goods being paid for twice. The following excellent summary appeared in "The New Age" of February 28th, 1924, in answer to the question:—How does the public pay twice for Capital development? arising out of an examination of the London Dock disputes.

(2) Capital Development is paid for Twice.

"Let us 'suppose a case.' There is a community on an island. Suppose it is divided into three classes: 'D,' employers who administer the work of capital development (all constructional and other non-consumable output); 'C,' employers providing consumable goods; 'P,' the public. ('P' of course includes 'D' and 'C' but it will be clearer to keep them separate for a time.)

"Suppose all their production and consumption is being accomplished on and fully engages a total money circulation of £100,000,000. Suppose also that their consumption of consumable goods is (to choose a common quantity unit) 1,000,000 tons per week.

"Now they want to construct a harbour and docks on the south coast of the island. The group 'D' raises £10,000,000 which is provided by a bank credit. This is new money, additional to the £100,000,000 previously existing. It is loaned to 'D.' 'D' gets to work and hires certain of the public 'P' to dig out, assemble, and work on the iron, steel, etc., required. Suppose (to avoid complications) that all the work is individual hand and brain labour, and therefore, that the whole of the £10,000,000 is expended in wages and salaries. Then, in a short time, the total money in 'P's' hands is £110,000,000. Against this quantity of money the group 'C' have 1,000,000 tons of consumable goods to sell. There is a boom in their trade, for the possessors of this money do not require pieces of granite, steel girders, and other constituents of docks and harbours; they can only make use of 'C's' goods, on which they bring to bear all their expanded money demand. 'C's' prices accordingly rise. Suppose they rise 10 per cent. Then in the end 'C' collects £110,000,000 for 1,000,000 tons instead of £100,000,000, as previously.

"The harbour now being completed, what is the position? The group 'D' possesses a harbour valued

at £10,000,000. They owe the bank £10,000,000. They have not got the money. It has gone in and out of the pockets of the public 'P' and has passed, in the form of excess profit, into the possession of the group 'C.' The public have paid the cost of the harbour to 'C.' This group has banked the money, and it stands to their credit in the bank books. The bank books balance, for the sum of £10,000,000 which 'D' borrowed stands debited to 'D' as a loan, and credited to 'C' as a deposit.

"Now, 'D' must begin to pay the £10,000,000. The only method open to them is to enter the sum in the costs of harbour services and charge it out gradually in port dues, etc. (We are ignoring interest.) The ultimate payers of these charges must be the public 'P.' But we have seen that 'P's' resources before the harbour was commenced were £100,000,000, and that that sum was fully engaged in meeting the costs of that time. Now the harbour is finished, their earnings are no longer represented by £110,000,000, but have reverted to the old £100,000,000. So it is impossible for them to pay the £10,000,000 to 'D' or any portion of it. They have already paid it to 'C.'

"Nevertheless, at this juncture the £10,000,000 exists; 'C' has got it. We may fairly assume that 'C' as a group are already well enough off to be able to regard this money as free for investment; they do not need any of it to live on. Here is a way out for 'D.' They form themselves into a Port Authority and issue £10,000,000 worth of stock which they offer for public subscription. Let us suppose that the group 'C' buys it up. What then happens is that 'C's' deposit at the bank is transferred to 'D's' account. Directly it gets there it is applied to the liquidation of 'D's' loan. The result is that instead of adding £10,000,000 to 'D's' deposits, the bank

subtracts £10,000,000 from 'D's' loan—thereby cancelling it. In the end, therefore, 'C's' deposit disappears, and so does 'D's' loan. Ten millions of money has disappeared. It has been destroyed, thus bringing about that saying of Mr. McKenna's, 'a repayment of a loan destroys a deposit.'

"It is clear now that not 'C,' 'D,' and 'P' added together have a penny piece of money answering to the £10,000,000 worth of harbour stock now held by 'C.' All they have is the original £100,000,000. In theory they might, by pinching themselves, squeeze the £10,000,000 out of the £100,000,000—only in practice that would mean knocking off ten per cent. of their means of life. That can be ruled out as impracticable. What then? The only way out is for another harbour to be constructed on the north side of the island. That such a harbour is not required is a frivolous argument to use in the face of the fact that if the community are to pay 'C' back they must get some extra money from somewhere. The only somewhere is the banking system and the banking system will not create fresh money unless for some such work as another harbour. So the group 'D' get busy again, and the process is repeated. The money raised for the purpose of the northern harbour enables the community to pay for the southern harbour. But, someone will say, how about paying for the northern harbour? Let him not be discouraged. There are still more than two points to the compass. The community can still go west.

"What, now, might have been done to avoid this dilemma? Supposing that when the harbour was commenced some inducement to 'C' had caused them to refrain from raising prices. Then the public 'P' would have had the choice of (a) consuming 10 per cent. more goods, or (b) saving up £10,000,000. In the latter alternative they could have bought the

£10,000,000 harbour stock from the group 'D.' They could therefore have bought the right to collect from themselves £10,000,000 and to reimburse themselves with the proceeds. Being practical people, they would have short-circuited this nonsensical conjuring by tearing up the Stock and getting on with something worth while. In the former alternative, the people would have been in no worse condition at the end than we have seen them to be, while they would meanwhile have at least lived for a time at a higher scale of comfort.

"But supposing there had been no way of preventing 'C's' prices rising, could anything have yet been done? Yes. Some member of the public might have said to 'C'—Look here, you hold £10,000,000 of harbour stock, but the public have no money answering this debt. If they pay you back out of the old money, they will have that much less to spend on your goods. So, in the end, you will lose in trade what you recover as bondholders. Had not we both better examine a proposition that has recently been published, that since £10,000,000 of new wealth has come to stay in the form of this harbour, the £10,000,000 of new money which brought it into being ought to have come to stay as well, or at least be reduced at the same slow rate as the harbour wears out? Therefore, shall we not—in fact, must we not—re-create that £10,000,000? Let it be issued, part of it to help you finance a larger output, on condition that you agree to charge your goods at some definite margin of profit and not depart from the agreement however the demand on your goods grows. The other part of the money we can distribute to ourselves, knowing, then, that, for us, the extra money will mean extra goods. In this way there is a bit for all of us. What about it?"

Here is seen the immediate inflation by present pay-

ments on account of future goods, and the ultimate deflation necessitated by the theory that the money available as purchasing-power must be measured against a financial, and not a real, standard of wealth.

(3) Deflation.

At this point the extract from the Cunliffe Committee's Report, and the subsequent criticism, (p. 130 et seq) should be carefully re-read, noting particularly that it is foreign exchange conditions, and not internal prosperity, that is considered to be most important. Deflation is a deliberate or abnormal reduction of Currency without a similar reduction of Real Credit.

Deflation becomes necessary under the present financial policy either by internal prosperity, or by an adverse balance of foreign trade. Internal prosperity, however, tends to create an adverse exchange; the volume of trade increases, financial credit is increased, and the "vicious circle" of increasing purchasing-power absorbed by increasing prices is set up. Meantime the import trade is stimulated, and exporters are encouraged to divert their goods to the home market.

Ultimately the exchange is bound to become adverse from the point of view of financial policy.

The point to be noted, however, is the *reality* of the prosperity while it lasts. Until Price overtakes and overwhelms the increased trade and expanded currency, the individuals of the community *get an increased supply of real wealth*. But that is not the purpose of the economic system, as controlled by financial policy. What happens is:—

- (1) Internal prosperity demands more currency, increases prices automatically, and expands the bank credits beyond the imaginary "standard" of percentage to gold (or

Treasury notes) decided by the "bankers' prudence." Therefore the Bank Rate is raised, credits are restricted, currency is deflated, and the period of inflation is succeeded by an *organised* series of falling prices, falling wages, bankruptcies, strikes, and general depression.

- (2) An adverse foreign exchange, in itself not an undesirable thing if it implies abundant purchasing-power at home, encourages the export of gold by the financial operators, (as explained in Chapter VII). The Bank Rate again rises, and the success of the foreigner in selling his goods here is countered, not by substituting home-manufactured goods, but by causing the "vicious circle" of depression and *reducing the purchasing-power of the individual*, and thereby his hold upon the "standard," not of money, but of *life*.

RESUME

Thus it appears that the economic machine cannot function for the benefit of the individual, and because of financial policy it has no equilibrium, but proceeds by a series of erratic dashes, inflation arrested by the tragedy (to individuals) of deflation, succeeded again by inflation that leads with apparent inevitability to another crash into deflation.

Therefore financial policy must be accused of defective management of the economic machine, and in particular defects must be charged against it causing the following results:

- (1) By reason of the method of issue and circulation of money imposed by financial policy,

the purchasing-power of individuals is always too small to buy the production in respect of which it is issued, the standard of living represented by earnings continually tends towards the subsistence-level evidenced by social poverty, and that as its consequence industry is not permitted to function in its proper capacity to supply natural wealth to the community of individuals.

- (2) The control exercised by the Money Trust is anti-social, and uses the unemployment and misery of wage-earners as an ordinary weapon when enforcing a policy of deflation, at the same time making a favourable exchange at once vital to industry, and increasingly impossible of maintenance.
- (3) Arising out of the method of issue, circulation, and control, of currency adopted by all gold-standard countries, the possession of foreign markets becomes an absolute necessity for national economic existence, but at the same time this necessity causes the civilized world to become, with ever increasing rapidity, highly industrialised and therefore self-supporting. The surplus for export in all countries therefore increases, and concurrently the available foreign markets decrease. The penalty of the deadlock is international economic struggle and bitterness, political friction arising out of the quarrel, and ultimately, —and quite inevitably,—war to gain or protect the markets vital to national existence.

The fundamental defect is the method of price-fixing based on the accounting cost of production, and a concise explanation of this point will consolidate the foregoing proofs that not only are the above charges