FREE MONEY

"There is no better money than bad money," said the observer, after noticing how an out-of-date silver coin changed hands five times within half an hour.

VEX.

Free Money

A WAY OUT OF THE MONEY MAZE

BY

JOHN HENRY BÜCHI

F.S.S., F.R.ECON.S.

With a Preface by

The Rt. Hon. GEORGE LANSBURY, M.P.

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PREFACE

By THE RT. HON. GEORGE LANSBURY, M.P.

My friend, Mr. Büchi, has asked me to write a short preface to his book which he has written for the purpose of introducing and explaining to the British public the late Silvio Gesell's scheme of national economy based on "Free Money."

I do not pretend that I am in full agreement with all that is written here. I commend the book to the serious consideration of all those who at this time of crisis are striving to discover why it is that in a world of abundance, together with ample means available for the creation of more wealth, poverty, penury and destitution should prevail in every land.

I am a convinced Socialist; one who thinks that true civilisation must be based on co-operation and mutual service; that each must put into the common stock according to ability, and all share according to need. This may sound—as it has sounded for the past 150

years—mere idealism. I am certain it is only common-sense.

To-day, men and women of all parties, and of none, are calling in question many old-established, hoary-headed economic theories. In Parliament, young men and old men, such as Robert Boothby, Winston Churchill, L. S. Amery, and Robert Horne, chant a woeful chorus respecting the utter failure of our present banking, credit and money arrangements. Mr. Churchill talks learnedly about the necessity for establishing a fixed standard of monetary values, and asks why the money measure of values between commodities should vary while a yard measure remains fixed.

Although the men I mention, and many other critics, are all able men, it is very difficult to discover from their utterances what remedy they want to adopt. Like many more of us, they are able to see and describe the faults and failings of the present system, but hesitate to say as clearly what is the remedy we could adopt. They seem to me to hesitate because the citadel of finance which has been built up around the Bank of England is too firmly entrenched for them to attack; or it may be that their education

has not gone far enough. They have not yet realised that the real enemy we have to dispose of is usury.

All of us who are Socialists learnt this when first we saw the light which led us to accept the gospel of co-operation; but few of us thought out the question of how we should organise our socialised industries without paying interest, and thus re-creating or keeping in being a rentier class. William Morris in *News from Nowhere* gave us a picture of life which was ideal because there were no profit-makers or interest-drawers. But however desirable such a state may be, we are a long way off from its attainment. We have to organise the transitional period, and in doing so must take the first steps towards getting rid of usury, for whether we build roads or houses, construct railways or factories, sink mines or build blast furnaces, the one staggering cost of these undertakings is the cost of money. Interest and repayments of money debt charges often exceed all other costs for the setting up of public works. This is proven by the heavy charges imposed for the purposes on all slum clearance and housing schemes.

The huge burden of war debt carried by Great Britain is another instance which, in the light of ordinary common-sense, is difficult to understand. During the war the State, not the Bank of England, printed money, and in some mysterious manner the nation was forced to pay interest on the money which circulated and was accepted at its face value by everybody because the credit of the nation was behind it. From this you will notice the nation for some mysterious reason was found to heap up a huge debt for the purpose of using the nation's own credit.

But I must not go on. I mention these matters only to emphasise the fact that, whether we like it or not, we must now try to understand whither this usury is leading us. It is not merely as individuals, but as part of a great nation that we must do this. It is of no consequence whether we are debtors or creditors; the plight of mankind is a matter of serious import to us all.

Here in this book is a scheme and a challenge. The scheme is put forward for our consideration, our criticism—and, if found acceptable, our support. The challenge is that if Mr. Büchi

and his master Gesell are wrong, then we must put forward a better scheme. Arthur Kitson has for years published detailed criticism of our banking system, and put forward his solutions. Major Douglas and others have formulated schemes of social credit. None has yet found full acceptance by any large body of opinion.

All the same, the universal ruin acknowledged now by eminent men of all parties to have been caused by the absurd adherence to orthodox currency methods and the stubborn holding on to the gold standard, is causing not only widespread discussion, but a determination that the present system of speculation and pure gambling in gold and other money values shall cease.

The Labour Party will fight for national control of banking and investment institutions. I hope that once this control is secured means will be immediately taken to prevent usury in every shape and form; and because this is my desire I hope this book, which gives a clear analysis of the evils from which we are suffering and formulates proposals for remedying these, will be widely read. People may not accept this

remedy, but, as I have already said, in that case it is their duty, as it is mine, to discover a more excellent way.

GEORGE LANSBURY.

FREE MONEY

CHAPTER I

THE NATURE OF MONEY

1. *Some Points from History*

THE hills are older than man; man is older than money; yet the first civilised man is surely he who thought to hide a piece of gold or silver in the earth beneath his simple dwelling, with the knowledge that it would keep and be of use to him on the day when the gods, whom he sought so carefully to please, would inexplicably withhold the rain from his crops or lay low his little home with thunderbolts and fire.

The story of man's progress is the history of his accumulating store of gold and silver. To tell the whole tale would fill many books. This pamphlet can but remind the reader that the story has its beginning in the very distant past.

The 280 surviving paragraphs of the Laws attributed to Hammurabis, who lived over two

thousand years before the Christian era, contain more than a hundred references to coins and money and prices. The Bible history of the people of Judah and Israel furnishes a number of interesting illustrations of the monetary policy of the period. Pharaoh was fortunate to secure as his wheat-trade manager the foreigner Joseph, who carried through a successful "corner," resulting in a deflation so ruinous both to the people of Egypt and of Canaan that they were forced, in order to escape starvation, to sell cattle, land, even their own poor bodies into slavery and serfdom. And is not King Solomon remembered chiefly for the shekels and talents which he lavished on the entertainment of his friend, the Queen of Sheba?

The Old Testament tells too of the wealth of the highly organised Medes and Persians who linked up the East with the civilisation of Greece. Lycurgus, the law-giver of Sparta, is reputed to have introduced coinage of iron; he chose a base metal to save the hardy Spartans from contamination with their easy-living and luxurious neighbours of Athens, where Solon stands out as a reorganiser of the economic life of the State, when men were weighted down by

debts crippling all development. His remedies, though drastic, were successful. In the fourth century B.C. the Athenian people, under the leadership of Pericles, who, by using the precious metal hoards in the temple of Pallas Athene to "inflate" the currency, had caused Athens to become prosperous and gay, led the then world in the glory of the public buildings which they raised and in their hegemony of an empire from which they demanded a monetary tribute, a tribute destined by the end of the century to lead to their defeat by their old rivals of Sparta.

The Greeks take an important place in the history of money, because in about 800 B.C. they first introduced coined money to the Western world. The invention of coinage marks the beginning of a new era and the history of money need be pursued no further, for since the coinage system began there has been no essential change in the nature of money.

Before 800 B.C. it is more correct to speak of money material than of money. But since Governments began to mint coins and to superscribe them, money was produced which differs from the money of to-day in nothing but the

design impressed upon the pieces of metal or paper employed.

Up to that time it was natural to believe that money had an intrinsic value, that is, a value of its own, *qua* money. At that stage of development money was measured by weight. It could be made by anyone who could dig valuable metals from the ground and mould bars which could be weighed. Instead of money material the term "scale money" can and has been used.

It will next be briefly explained why, since the operation of mints by Governments, it is wrong to believe that coins or their representatives, notes, must either be of real exchange value or represent such value in addition to their character as money tokens.

2. *The Function of Money*

Money is known to have four functions:

(i) It is a medium of exchange.
(ii) It is a measure of value.
(iii) It is a medium of saving.

These three uses are well known and need no explanation, except that money in its third use under a currency standard based on some

metal or other lasting material serves as direct saving material, as when peasants hid gold coins in their stockings.

(iv) It is the original capital.

This fourth quality of money is universally important and at first sight not so obvious. It provides the original accumulation of wealth which has led to the present degree of specialisation in modern industrial life. Without such original savings being expressible and transferable in the form of monetary capital man would still be his own farmer, clothier and builder. This was observed by Karl Marx, and money was called by him "Commercial Capital." This discovery of Marx has been largely and in some cases completely ignored by contemporary economists.

3. *Theories of Value*

The inquiring reader will first ask: How is it that money is taken in exchange for everything else?

Various answers have been given. Karl Marx and others who attached importance to giving a "social" standard of value to any

human activity searched for such a standard and found it in the social worth of labour. Others again were blind to everything but the material of which money was made, and regarded it merely as a commodity undistinguished from other commodities such as wood, wool, iron or food.

Theories of value are numerous; it is not proposed to examine rival theories but one—the Marxian—but a proposition will be advanced for the reader's examination.

As far as the use of money as a medium of exchange is concerned, it is generally agreed that money is a commodity. It is a commodity having an attribute possessed by no other commodity, and that is its general exchangeability. The medium money is not wanted for its own sake; it is sought for the power it confers on the owner. Even the miser, though he is generally depicted passing coins through his hands as if he loved the coins themselves, is only miserly because he realises that money gives power to command the supply of consumable and other commodities, of pleasures, of education, and even of political power. It is the power that money brings that is coveted

by man. So long then as money is exchangeable against other commodities it has a value. In fact, money is the only commodity that has a value as commodity only, *i.e.* without necessarily being consumable. But before it can be decided what exactly this value of money is, some further points have to be considered

4. *Forms of Money*

All money is not cash or coins, but all money is based on "cash" money—cash either in the form of coins or paper notes. As a medium of exchange money may be cash or mobile bank credit, *compte disponible*—an account on which we can draw—as it is expressed correctly in the French language, though this is already a form of debt and not money proper.

This form of money, called account money, is only representative. The banks have to hold an appropriate amount of actual cash money against these mobile, or current, accounts. The depositor, in other words the creditor, can draw cheques against his deposit on current account, or can order the bank to transfer amounts to the credit of other depositors, even to other banks. These accounts, with all that belongs

to them as cheques, transfer notes, bills of exchange, etc., do the work of the money locked up in the vaults. They are messengers, they are money surrogates. They could not act without the actual money-base, as it is called, being there. This cash base represents normally about 10 per cent. of all deposits (in England) and in a normally developed banking country will equal, or nearly equal, about the average business turnover of a working day (average over the whole year). This figure varies considerably with the change in the velocity of money and credit.

There are other forms of monetary claims. They are, however, no longer money but debts proper. They are not account money but book debts or script debts. Deposit accounts proper, *i.e.* deposits which can only be recalled after a certain prefixed time or after such and such notice has been given, belong to this class too. Deposits proper—bonds, debentures, shares, mortgages, and other loans—are all debts. They are the representatives of individual savings, and therefore the saver's claims to real savings—they are monetary savings.

Account money of this class, then, is not

money at all, but debts. Debts, however, are measured in money and become money again, or more accurately expressed, become exchangeable into money at some future date. It is important to remember this fact, for, since debts are measured in money, they are liable to automatic increase or decrease in value if a change of value occurs in the standard money.

It was said above that money is not sought for its own sake, but for the power which it confers. But if this is true, how can money be exchangeable unless it has a value of its own? The answer is that money has no "value of its own," but a character of its own. This suggests that money has some virtue possessed by no other commodity.

Money is universally acceptable; it would not be so unless it possessed some attribute which makes its character superior to that of a consumable commodity such as a potato or a block of ice. Even silver money, a commodity with an intrinsic value, is only acceptable in gold-standard countries up to a few pounds. On the other hand, there is no limit to the acceptability of gold or notes of the central bank or banks, though some of the notes are

known to be representative only of some trust or fiduciary amount, and of some debt script lying in the vaults of the bank concerned. What if the debtor becomes bankrupt and the script scraps of paper? Yet the notes are accepted and the intrinsically valuable silver refused.

A few words must be said here about the relation of the value of gold to that of money. The inflationary troubles of Germany in 1923 will help to make their nature clearer. At that time Germans calculated prices in dollars, and invoices were written out in dollar amounts, but payment was made in inflated marks. If marks were offered for goods, the goods were sold to the buyer if the offer was sufficiently high, even though before delivery marks had further depreciated. Landlords had to accept depreciated marks in settlement for a fixed rent, and had no further claim on their tenants. How could people be so foolish?

Two more examples of the relation between gold and money (but it might as well apply to silver as to gold, had we a silver standard) may usefully be given before embarking on the more complex question of the gold standard.

In 1916, 100 gold dollars could buy 488 Swiss

francs, in 1917, 428 Swiss francs, in 1918 only 390 Swiss francs, yet during these three years the gold parity was 518 Swiss francs to 100 dollars. In other words, during that period the Swiss paper franc was as much as 25 per cent. more valuable than its gold equivalent in American gold dollars.

About the same time, an English visitor to Sweden with as many gold sovereigns as would before the war have purchased 100 gold or paper kroners, received in exchange only 93 Swedish paper kroners. This means that gold was at a discount or beneath its normal value at the time. During the early part of 1932, gold was at a premium in Great Britain up to 7s. 6d. for each sovereign. It meant that for a 20-shilling gold piece one received up to 27s. 6d. in other legal tender.

5. *The Gold Standard*

In a country which is on the gold standard—either gold standard proper or gold exchange standard—the price of gold is fixed. The central bank will sell and buy gold at legally fixed prices expressed in the country's money. Therefore the currency will always be worth

approximately the same in terms of gold. It is equally possible to have a silver standard or any other metallic standard. The working is exactly the same as with the gold standard.

The difference between a gold standard proper and a gold exchange standard is that in the former system coins struck in the standard metal are in actual circulation and that, therefore, there is no difficulty in sending gold abroad. Such export is made less easy under a gold exchange standard system under which gold is not itself in circulation, but represented in circulation by notes. It has to be obtained from the central bank for export and certain restrictions are now placed on the free selling of gold. A certain minimum weight must be bought at a time and this is designed to prevent a really free private exchange of gold.

While either gold standard system is working, it is difficult to distinguish between the coin and the material of which it is made. It is only on the abandonment of the system that the duality becomes apparent. A piece of gold, then, has its own price, whether stamped with the picture of the King or not; and the coin as a piece of money has also its own price, or rather

its own two prices, the one at home and the other abroad. The price abroad is called the "rate of exchange." This explains why a gold coin, if offered as a piece of gold, will under certain circumstances command a price that is different from its legal value.

The factors which contribute to the making of different money prices at home and abroad must presently be considered. But before the question of the gold standard is left, one peculiar point must be examined. It was mentioned that if a gold standard exists, silver money will be generally accepted as good payment, but only up to a limited amount. Yet paper money of no intrinsic value and possibly worthless (almost so during the later part of the German inflation) will be accepted without limits. This is even more so under a monetary system which has no metallic standard at all. Great Britain and a number of other countries are at present (1932) in that position.

The reason for valueless paper notes being accepted and valuable metals refused is that the one is legal tender while the other is not. Paper money is accepted because the State ordains that its members shall accept such money, and

refusal to take it in settlement of debt will debar the creditor from obtaining payment of the debt by the debtor. Proof that a debtor has offered legal tender to his creditor absolves him from all liability in the eyes of the courts of law set up by the State. It is open to the creditor to stop trading if he dislikes the money provided by the State. It is manifestly unfair that the debtor who himself has to accept legal tender should be forced to pay his creditor in a different money. In practice the creditor makes no difficulties, for money is always acceptable.

It will be remembered that before the State minted pieces of money, the material of which it was made was of some importance, since in the absence of legislative or private arrangements the material had to be universally acceptable. But this is no longer of importance, though economists have not yet generally realised it. Search must now be made elsewhere for the cause giving value to money. The mere impression of a sign on the coin by the State is not sufficient. But first the question must now be answered: What is value?

CHAPTER II

WHAT IS VALUE?

1. *Value or Price?*

In practical life we nearly always mean "price" when we say value. It is best to distinguish between an objective value and a subjective value. The philosophers and sociologists have always tried to define value. They, however, were thinking of something which did not concern everyday things and workings at all. Here we have to do with causes and effects. And the only "value" that can have anything to do with economics is a value which is of interest to every member of the community. The philosopher Karl Marx took over from earlier thinkers the idea that value was connected with man, and that since man could do nothing else but give his labour this human labour was in some way the measure of all things material. From the view-point of man there cannot be another value than that of man

himself in relation to the things measured. From an individual point of view there can be as many values as there are individuals. But all such values are subjective. They have no more to do with economics than steeplechasing, nor even as much. All these values alter from person to person. They are not attached to the things themselves. But the economic factor "price" is connected with every single article. It is the objective, the economic value of things. It attaches itself, so to say, to a commodity or service as soon as they are brought into relation to other commodities or services offered or demanded in the market. A car costs the same, has the same price, whether bought by a worshipper of the internal combustion engine or by some person rejoicing in the worship of antique chariot-racing. The price is attached to the wares by the operation of certain economic laws, and according to the circumstances prevailing in the market at the time.

In opposition to the merely idealistic conception of value of the philosophers, Karl Marx, the greatest exponent of the "theory of value" and upon whose doctrines the tenets of the whole of the Labour Movements still

rest, tried to connect the subjective "ethical" value with economic laws. There had been others before him that had beaten a track. From Hobbes he took over the maxim that "labour power was a commodity." By this maxim Marxian economics must stand or fall.

Facts do not seem to agree with this doctrine. If labour power is a commodity and its value determined by its cost of production, then why is it that Mr. George Bernard Shaw could collect a fortune by writing satirical plays, although the cost to produce Mr. G. B. Shaw and to keep him in trim can only amount to a small fraction of that fortune, and although Mr. Shaw had none of the "means of production" at his disposal, which means of production Marx considers to be the means of exploitation of labour? The only answer can be that there is one G. B. S. only.

On the other hand, it may be questioned that if consumption of labour power in the process of production does result in "surplus value" for the employer, why then are the buyers of such labour power so illogical as to dispense with some of the labour power formerly used? why do they work half time only? why do so

many of them close their works altogether? They must forgo all that "surplus value," *i.e.* profit, that otherwise would be theirs. It is, indeed, often pointed out that to-day's precarious situation is caused by the system of private profits. But it is just at such junctures in economic development as we have it at present, and had it repeatedly during the last fifty years, that most of the entrepreneurs that employ labour do not only make no profits, but lose capital in addition, while at times when they do make good profits workers usually prosper too.

We do not get very far with this theory of value. But experience in commercial work has taught most people that there is at least a sure reflection of an average value in the thing we call a "price." And in this field one is also taught that though individual valuations of a subjective nature will have its influence on the average valuation, it is the latter that is of importance and not the former. But another factor plays a great part in forming the price of some commodity, namely, the difference between the supply of the commodity and the demand, the effective demand for it. Professor K. Wicksell called it the "intensity of demand."

If a commodity is offered in small quantities only while the demand for it is large, it means that prospective buyers want to buy more than is available, then the intensity of demand is great, and vice versa. Be it understood, however, that demand is not desire. These terms are by no means synonymous. Demand in the commercial sphere means a "desire for goods or services" transformed into "the action to acquire" by means of money and credit.

Air is saved from being a commodity simply by its superabundance. For a thing which can be had gratis nobody is going to pay. Scarcity, on the other hand, is the foundation of monopolies. Since there is no limit to the erection of factories and workshops and other means of production except the maximum of labour available multiplied by the inventiveness of man, these means of production do not constitute a monopoly except in very few special cases. Labour cannot be exploited by withholding from them the means of production. They would at any time be able to produce new ones. But the fact is that the available ones are not used to full capacity. More means of production, more factories at work would mean

more employment; this again would increase the intensity of demand for labour power; this again would tend to raise wages; this would increase the intensity of demand for goods, which again would increase the demand on means of production, on labour, raise wages, and so forth. Marx has faithfully registered all these upsetting questions without finding an answer to them. His monumental work, *The Capital*, and also his manuscripts on *Theories of Surplus Value*, contain innumerable references to every single economic and monetary problem of this day, but the economist Marx was dominated by the philosopher Marx, and between them they tossed to and fro the "theory of value," which, in spite of all the labour spent to make it an economic law, remains to this day an ethical problem that can have nothing to do with the laws of economics, which on their part are governed simply and solely by physical, physiological, and psychological forces immanent in man and his natural surroundings. Among them the strongest still is the incentive to "self-preservation." Might not here be the cue for us?

At any rate, even Marx agrees that there is a

price for most things. So it is proposed to investigate the nature of this new mysterium.

2. *Quantity Theory of Money*

The old quantity theory of money simply affirmed that, "other circumstances being the same," the quantity of money issued, divided by the amount of commodities in the market, will result in the price. After provisional acceptance, this theory was discredited by some schools of economists. The real reason it was rejected was that, as stated above, it is incomplete and inadequate, but eminent modern economists have taken up the theory again and have now accepted it in a new form. It is as well to mention here that Marx too had examined the theory. He had actually found the missing link and mentioned it in his *Capital* as the "velocity of circulation." But since he considered money as a by-product which "was drawn into the circulation of commodities or repelled, as the need of that circulation required," it was impossible for him to see the great importance of the discovery he had made. He summarily dismisses the idea that the quantity of money had any influence on prices. For him it appeared

to be the other way round. He would, no doubt, have revised, probably reversed, his view had he lived to see the German inflation of 1923, when Herr Havenstein, truly following the same view that Marx had held on this point sixty years earlier, brought havoc over Germany by acting on it.

Silvio Gesell [1] accepted the quantity theory and, without knowing (at that time) of Marx's discovery, strengthened it by introducing the factor "velocity of circulation" as the "other circumstances." His advance was consolidated by his friend and disciple, Dr. Theophile Christen of Basle,[2] who translated the theory into mathematical formulæ:

$$P = c(1 + h).\frac{VM}{C}$$

P = price; c = a constant, also standing for the peculiar quality of the monetary system; h =

[1] Silvio Gesell. *Brücke zum sozialen Staat.* 1892. *Question Monetaria Argentina.* 1898 (B' Aires).

[1] Silvio Gesell. *Die Natürliche Wirtschafts Ordnung.* 1906–1932, seven editions. Translated into English from the fifth edition by Philip Pye as *The Natural Economic Order*, 1929.

[2] Dr. Th. Christen. *Das Geld ein dynamisches System.* Reprint from *Annalen des deutschen Reiches*, 1915–16. (Bern, Pestalozzi-Fellenberg Haus.)

use of money surrogates such as cheques, bank-giros, bills of exchange; V = velocity of circulation; M = amount of money issued; C = commodities in the markets.

It is sufficient for the purpose of this pamphlet to say a few words on each of the factors mentioned. They will be taken in reverse order, so as to take the main and more obviously important factors first.

"C"

C stands for commodities; it is limited to those commodities which are actually being offered for sale. For the price can only be influenced by commodities actually for sale. Commodities kept off the market are non-existent for the purpose of price evolution. The operation of a wheat pool makes this clear. Wheat is kept off the market expressly with the object of keeping the price of wheat at a higher level than that at which it would stand if all the wheat were immediately marketed.

"M"

M.—This symbol represents the total amount of money put into circulation by the central issuing institution or institutions, or by their

permission. Coins minted but kept in reserve in the vaults of the central bank are not yet in circulation and must be disregarded for any price calculation. M equals all the coins and notes that have left the issuing central institution.

These two factors, C and M, only were considered by the original quantity theory of money. C and M can be measured in terms of each other; if $C=2$ and $M=1$, then $P=0.5$, since "price" is obtained by dividing the amount of money by the amount of commodities. It is at this point that the original quantity theory failed; for it failed to take account of the fact that not all money put into circulation by the issuing institution is actually circulating at a given rate.

Switzerland provides some figures which help to make this clear. Some time in 1932 notes to the amount of 1,400,000,000 Swiss francs were issued, but of which, as was agreed on all sides, at least half, *i.e.* Sfr. 700,000,000, were hoarded by private people. If we take the above example, the price would no longer be 0.5, but 0.25.

"V"

This, then, is what Gesell meant by the

symbol V, velocity of circulation. It is extremely difficult to calculate the proportion of hoarded money. This ignorance is unsatisfactory, but still more disturbing is the lack of control of the proportions. Besides private hoardings there is the rate of turnover of money employed generally and in commerce particularly to be considered. This later depends largely on the state of credit. When credit is low, hoarding and a slowing down of turnover result. The lesson to be learnt from this is that it is no less dangerous to rely only on the static figures in the monetary system than it is to do so in the economic field as a whole.

C and M can be measured with reasonable exactitude, while V is continually varying and is difficult to control. In fact, we have not yet any means to control this factor. Its erratic movements can be seen from figures supplied by the Swiss National Bank. Their giro-accounts (transfer accounts) showed the following mean rates of turnover of the deposits for the year: 1918=268; 1919=295; 1922=127; 1928=488; 1929=431; 1931=80. 1922 and 1931 were deflation years, the latter year in spite of its enormous note issue. These erratic

movements are due to the change in the state of trade and to the sensitiveness of credit.

3. *Credit. What is It?*

It is loosely said that everything that has to do with money, but is not money itself, is credit. Such terminology is misleading. What then exactly is credit? It means, as its Latin derivation shows, "giving in trust," "trusting," in a general sense; trusting someone with one's money, for instance. If a monetary arrangement has not this element of trust or confidence it cannot properly be called a credit transaction.

The ordinary course of business requires a certain amount of trust. Most commodities in the wholesale market are sold on credit. Smith asks Brown to deliver goods at once or on a certain date. Brown may ask that the price be deposited before delivery, but Smith is unlikely to wish to trust his money with Brown until delivery of the goods unless the latter can trust him that he will pay at any rate. Clearly Smith has the greater risk to run. Brown may not yet have manufactured the goods. So settlement is generally made on delivery or else within a short time afterwards in accordance with custom

or contract unless some special long-credit arrangement is come to, mostly in connection with a bank.

When business generally is good, the risk of repudiation of the order or failure to pay by the buyer is diminished. Credit is then said to be good. One transaction follows another quickly and money changes hands rapidly. Political events may be good or bad for credit, as the case may be. If people do expect to have to lose money on each contract they mistrust the money and credit disappears. If they are assured that the monetary machine is in order and likely to remain in order, that is, that the pound sterling, or the rupee, or what other name the monetary unit has, remains at the same length and width as against commodities and debts, then they will trust to money and credit is good, at least internally.

4. *Bank Credit*

While credit in general is clearly nothing but a definite state of trustfulness, bank credit is sometimes understood to be something more tangible. But there is no difference except that in the bank we have an institution that offers

its good name and trustworthiness to industry and commerce for a commission or at a profit. It is a commercial house which has confidence reposed in it. In time of prosperity a seller is content to take almost any bank-acceptance as good. But when business is depressed the creditor becomes not only more particular in his choice of bank-acceptances (bills of exchange accepted by a bank), but he also loses confidence in the prices of commodities, and eventually he reaches the stage when he prefers to do no business rather than endanger the little money he has left. Hoarding begins. The velocity of circulation begins to slow down.

In India and in Great Britain millions of rupees and pounds of gold were hoarded privately rather than entrusted to the banks. Americans and Swiss people did not only hoard gold, but where the latter was no longer available they hoarded the next best thing, namely, the notes of the central banks. President Hoover has estimated that well over one thousand million dollars—almost a quarter of the total currency circulation of the U.S.A.—were hidden in stockings and safes in the wall. Of Switzerland we have heard that half the money issue

was hoarded and the bullion merchants of France were cutting gold bars into pieces to the order of hoarders who could not afford a whole bar. What strange behaviour! And all that in the years of grace 1931–32.

Velocity of circulation (including hoarding, its opposite) is the great stumbling block for the managers of currency; it is not under their control. The reason for this must be clear by now; unlike commodities or money it cannot be increased or decreased at will. It is a psychological factor having its seat in the changing hearts and minds of mankind. This problem is dealt with by Silvio Gesell in his proposal for a FREE MONEY, which is examined in Chapter V.

"*h*"

It is not necessary to discuss at any length the meaning of the symbol *h*, which appears in the formula. Suffice it to say that it represents commercial usages of which the chief are the use of money surrogates or substitutes, such as cheques, bills of exchange, bank transfers (giro-accounts are used on the Continent instead of cheques. The system involves much less managerial work and time than the signing

of cheques). But none of these practices constitute legal tender. They are not money, but messengers of money. They do the work on the command of money only, because no bank could do business for a week that had not a certain amount of legal tender money ready and handy.

These practices are, too, capable of control: they can be discouraged by increasing the tax on cheques and bills; bank transfers could easily be taxed too; the latter are limited by the physical limit to the number of transactions that can be handled on individual accounts during a working day. Though the rate at which money is turned over by means of these avenues of the modern bank changes rapidly and often as does the rate of velocity in general, the extension of the practice varies very little in the course of a year. But this possible variation has nevertheless to be accounted for—the symbol h is therefore of some importance, particularly if two different sets of figures have to be compared, such as: American figures with Indian figures; or the state of commerce in 1931 with that of ten years earlier or later. The rate of turnover of surrogates is covered

in the general rate of velocity as represented by V.

"c"

The constant c is an entirely abstract symbol. It is necessary because it is a variable constant. c will be c under the gold standard just as well as under a price index standard. But it does represent a different quality under the one than it would under the other. One can then say that it stands for the peculiarity of the monetary system in use.

CHAPTER III

MONEY IN CIRCULATION

1. *Banks do not create Credit*

Even people who ought to know better are sometimes under the impression that money in circulation was of an almost negligible magnitude in comparison to the bank credits turned over. It is also contended that banks can "create" credit. This has been strenuously denied by the banks, but even some professors of economics persist in this baseless contention.

As a first consideration it has to be remembered that the banks have to issue balance sheets, and that a bank that showed a list of assets that did not cover its liabilities would be required to report in the bankruptcy court. On the other hand, if it were true that banks could create credit, then their balance sheets would necessarily show a larger sum-total of assets than their liabilities would amount to. Not even the State can create credit other than the

general trust in things, unless he prints notes, and these would debase values.

The idea has of course emanated from the fact that the banks do usually keep a certain cash reserve which is more or less kept at a certain ratio to the total deposits. This ratio is in London roughly 10 per cent. From this nothing more can be got but the fact that banks can lend out 90 per cent. out of every hundred pounds, or francs, or rupees, that are lent to them. No more, nor anything less, can be deduced from the practice. Of course, people have turned things round, head downwards. They say that the bank can lend a hundred pounds for every ten pounds cash which it receives. This is an obvious fallacy. First of all, one has to take the whole banking system as one unit, because as long as there is no new money coming into circulation, any cheque drawn on a bank will cause a drain on that bank's cash reserve. All that the changing of hands of that cheque means is a changing of hands of the ownership of a claim to money. If the bank receiving the cheque could lend tenfold against it, the bank on which the cheque was drawn would have to recall ten times the

amount of outstanding credits. None of these things happens. If the bank receives a lot of current account deposits, then it will be unable to grant any real loans. It will lend overnight to the bill brokers and the stock exchange at a miserable rate of interest. If it thinks that the balances will remain for some time, it will probably buy some easily disposable securities so that it can sell them from one day to the next should the balances suddenly start to move away.

It is different when the deposits are paid in for a fixed time, say six months or a year, or at so many days' call. On these deposits the bank can work ahead. It can lend out, say, half of it in the form of long loans and grant facilities for three to six months' acceptances. The rest it will probably split up into purchases of "earning" investments and discount bills. It will lend out ninety pounds, or rupees, out of a hundred and keep the rest in the form of cash in hand or pay it into its current account with the central bank. This is the whole mystery, and anyone saying something to the contrary simply acknowledges that he has never seen the inside of bank management.

Next, it is desirable to know the importance of ready money.

2. *Velocity of Bank Balances*

A return of the London Clearing Banks for 1930 gives the total turnover on their clients' current accounts as (in round figures) £65,000,000,000. The average figure for that year of the current account balances was £920,000,000. The rate of velocity of these balances was then about seventy turnovers that year. The actual cash balance (average 1930) amounted to about £190,000,000. This was about 21 per cent. of the current account balances or about 9 per cent. of the total deposits. The circulation of mobile bank credit within these banks would, then, equal an abstract rate of velocity on the actual cash reserve of

$$\frac{70.100}{21} = 330 \text{ turnovers a year.}$$

No turnover figures have been available to the writer concerning other years and other banks. The ratio of cash holding to current accounts in the Scottish and Irish banks was, however, 6 per cent. higher than in the English banks.

If the rate of turnover on these accounts was the same (it was certainly not more) the abstract rate of velocity of the cash reserve was:

$$\frac{70.100}{27} = 259,$$

the 1930 rate of velocity in this sector was then, say, 260 turnovers.

The total cash holdings (in hand and at Bank of England) of the British banks at the end of 1930 was £395,000,000. The mean figure for the year was probably approximately £350,000,000. Of this about £310,000,000 belonged to the English and the rest of £40,000,000 to the Scottish and Irish banks. If the two cash bases are multiplied with the respective rate of velocity, a fairly representative estimate of the total turnover is arrived at. In some countries the actual turnover figures are published by the banks. They are, however, not available for Great Britain or India, at least not to private investigators. But even approximate figures will be serviceable. The total business transacted was then somewhere in the neighbourhood of:

	Cash Base.	*Rate of Velocity.*	*Amount.*
English Banks	£310,000,000	330 =	£102,300,000,000
Scot. and Irish	40,000,000	260 =	10,400,000,000
		Total, about	£112,700,000,000

To complete the investigation, the importance of the cash in actual circulation must now be considered.

3. *Actual Money Circulation*

An examination of the balance-sheets of the British banks reveals the fact that their total cash holdings, including the current deposits at the Bank of England, stood at the end of last year at £354,000,000
Of which were deposits at the Bank 126,000,000

The banks then held cash . £228,000,000

The total note circulation in Great Britain and Northern Ireland
at that time was . . . £394,300,000
deduct holding of banks . . 228,000,000

This leaves for outside circulation £166,300,000

The public therefore held £166,000,000 in cash, excluding coinage of any kind. If it is assumed

that the average turnover of money in the hands of the public is one a week, the annual turnover of the sum of £166,000,000 is that sum multiplied by 52, which gives the not exactly negligible figure of £8,632,000,000.

But, it may be asked, how many of the weekly wages are kept till the end of the week when another one becomes due? And how much of the money paid at the stores and retail shops is kept for six days, or even two days? Actual cash is probably turning over up to four times a week. If an average of between two and three is assumed, the annual turnover of this section will amount to:

$$2\tfrac{1}{2}.52 = 130 \text{ turnovers} =$$
$$130 \times £166,000,000 = £21,580,000,000.$$

This would be the business transacted by means of token-money.

The income of the British people was calculated for 1920 to be £3,900,000,000. If allowance is made for the fall in prices and the correlative increase in the value of money, £3,000,000,000 is probably near the true figure. With the money in circulation outside the banks we are able to pay seven times over

every article consumed. Even if we only allow one or two turnovers a week, we are able to pay three to five times for the whole consumption of the country. Similar results obtain from a study of the figures of other countries.

To complete the picture it is necessary to calculate the possible turnover of the circulating media, if there was no such thing as bank credit.

The weekly averages averaged over the whole year for the note circulation was near £358,000,000 for 1930, and near £352,000,000 for 1931. At one weekly turnover this note circulation would have effected

£18,616,000,000 for 1930 and
£18,304,000,000 for 1931.

But since the banks work on the deposits at the Bank of England as well as on their own cash in hand, and since the Central Bank has to be ready to issue notes or coins to the banks up to the amount of their deposits, these amounts must be considered as if the corresponding amount of money had been in actual circulation. If there had not been a central bank, the amounts would have had to be "cash in hand." Now, the average holding at the

Bank of England for both these years was something near £70,000,000. The annual business resulting from 52 turnovers would be increased to £21,940,000,000 for 1931, or at the rate of 2½ turnovers per week, equal to 130 a year, the total turnover would be £54,860,000,000. In the one case enough to pay for every article produced and consumed seven times the ultimate price, in the other case a good deal to spare for the handling of savings and speculation.

Since an article is sold and bought a number of times in the course of and at the different stages of its production, there are likewise many payments until it reaches its ultimate destination in the sphere of consumption. The initial price is, however, only a small fraction of the ultimate retail price where manufactured commodities are concerned. If a finished article had changed hands thirty times on its journey to the consumer the total payment at all stages would not be more than six to eight times the ultimate retail price. Foodstuffs for direct consumption do not change hands so often.

It must be clear from this that consumption and production could quite easily be carried on without one single penny of bank credit,

provided that money does circulate. Any change in the velocity of circulation will at once reflect on the ultimate amount of business done. To-day bank credit and actual monetary circulation are, of course, mixed up with each other. A lot of bank business is bona fide commercial business, a lot of actual cash business is speculation. Again, small saving is done almost exclusively by paying money to the bank, while a good deal of banking business is connected with the genuine transfer of claims on real savings, the investment business. On the other hand, there is a great deal of business done by bank credit and by cash that amounts to no more than one man robbing the other. As far as must be concluded from the foregoing, we can say that the part which is played by the money-token is by no means a small one. And it is also necessary again to emphasise the importance of bringing the factor velocity of circulation—both concerning bank balances and concerning actual cash circulation—under control.

It is an established fact that a rise or fall in prices takes some time to affect the retail price and still more to affect the cost of living index.

Retail prices adjust themselves more easily to a rise than to a fall in prices. This phenomenon suggests a different rate of velocity in the operation of the two halves of the cycle. Not that there is a distinct frontier between money used by the consumer and that used in commerce. Differences in quantity of money or of commoditieswill at once react throughout the system. The present ratio of the wholesale price level is about 2 to 3 to the retail price level. The former is now about level with its 1913 peg, while the latter is still 40 per cent. higher. The only explanation of this difference is that the velocity of circulation in the commercial sphere has fallen twice as much as it has in the sphere of the consumer. But since the prices most affected are the primary produce and material prices, which are almost exclusively settled—at least as far as the gross of it is concerned—by bank transfers and bills of exchange, we are entitled to the conclusion that the rate of velocity of bank balances is more quickly affected than that of the actual money circulation. Bank credit is a very suspicious thing and not by far even as reliable as ordinary everyday money.

Briefly then, "price level" results from the interplay of such monetary factors as:—quantity of money, velocity of circulation, and commercial usages, brought into contact with the factor production-consumption by measurement of the amount of commodities offered on the markets.

Of the monetary factors only velocity of circulation is uncontrollable at present. The question ensues whether the ultimate control of the production factor, *i.e.* the amount of commodities to be supplied and offered, must be controlled, or whether the management of the currency will provide the necessary control. But whatever the answer is to this question, the monetary machine is not safely bridled till means are found to control the rate of velocity of circulation.

It is to provide this control that Silvio Gesell advanced the proposal to use a new kind of money—FREE MONEY—to the explanation of which the next chapter but one will be devoted.

CHAPTER IV

MONEY IS CAPITAL

1. *The Power of Money*

HAD Karl Marx's formula $M—C—M^1$—money, commodities, surplus money—been known to Gesell at the time, it would have provided him with a jumping-off platform for his analysis of the nature of capital. But Gesell does not adopt the Marxian view that money is a perfect equivalent to commodities, because he finds that Marx's formula itself suggests that money is something more. It is an independent form of capital. Surplus money is not, as Marx believed, either the gain made from persistent cheating in commercial transactions, or from exploitation in the production metamorphosis, *i.e.* in the factory, of human labour. M^1 is, on the contrary, the result of an innate superiority of money over commodities, a lever which the money owner can use to the embarrassment of the commodity owner. In other words, surplus

money is the product of an economic factor of power.

In what is money superior to commodities? Money, paper or metallic, and whether based on a metallic or an index standard, is easily and compactly stored and transported. Not so most commodities. All that is lost through storage of money is the profit known as "interest." Five per cent. is an average rate of interest. Loss of possible profit on £5 is therefore 1d. per week. In other words, the pressure on money to offer its services in the markets amounts to 1d. a week on a capital of £5, or £5 per annum on a capital of £100. Much greater is the pressure on other commodities, or wares, to appear for sale. ". . . The buyer gets the wares, the seller the money, *i.e.* a commodity which preserves its ability to circulate whether it appears again in the market at once or later. *No one can sell unless another one buys. But nobody needs to buy immediately again because he has sold* (commodities), . . ." says Marx on page 77 in *Capital* v. I.

Commodities are not produced for consumption by the producer, but for the market. The division of labour and specialisation of functions

have caused nearly everybody to produce something or other in quantities greatly exceeding his own needs. Conversely, he is unable to provide himself with every necessity of life. He is compelled to enter the market to satisfy these other needs. His position is invidious. He possesses commodities for which he has no use; he wants to set up a demand for other things owned by other people who probably are already fully supplied with the wares he has to offer. His wares are, then, an addition to the stocks on the market, but no demand for them is set up. His desire for other things is not itself sufficient to induce the owners of those things to sell to him, unless he is willing to offer for them that commodity which is universally acceptable as a means of exchange, namely, money. But his only way of gaining money is by finding a buyer for his own wares, for the result of his labour. He has first to find a buyer with money to purchase his own wares. Till this happens he cannot make "effective" demand for the other commodities which he so badly wants. As Marx said: "One cannot sell unless someone buys."

Money has a whip-hand. As soon as it enters

the market it constitutes demand. Not even heavy inflation can prevent its being effective demand, though at such times it may lose its function as a measure of value. In Germany in 1923 merchants and consumers reckoned prices in dollars instead of in marks, and the daily value of the marks was arrived at by way of a calculation on the basis of the external rate of exchange with the dollar. Yet an offer of marks was a good tender in settlement and marks remained effective demand. As far as goods were available a sufficient number of marks could buy them. The question, What is a "sufficient" number? leads again to the consideration of prices with which we have dealt in another chapter. Something has been said of the pressure upon money to appear in the market. Bearing in mind the objects which the producer of commodities has in making them, the difference between the pressure on money and that on commodities can easily be seen.

2. *Commodities must be offered*

Consider the position of the farmer as an extreme case. His produce is particularly

perishable. Stored vegetables are 100 per cent. loss; grain stored can cost as much as 50 per cent. of its value to its owner; the price of slaughter-ripe cattle kept too long falls soon by 15 per cent. to 20 per cent. in addition to the extra cost of feeding. Storage of other commodities is less ruinous. Coal not yet hewn from the earth and iron ore unmelted depreciate quite slowly in value. But the loss is greater than the loss on money stored. The coal mine must be pumped and the roofs supported even if no coal is hewn, else the mine will be flooded and the workings ruined. Machinery becomes valueless through neglect and disuse. The owner of the mine pays interest and other charges on capital although no coal is being produced. Loss of possible profit must be included in calculating the pressure upon commodities to appear upon the markets, just as it is to be considered in the case of hoarded money.

Though warehousing for many years may not harm certain types of commodities, yet a price has to be paid for the service and for the hire of the caretaker. The average cost of storage and loss through decay of commodities may be assessed at no less than 20 per cent. per

annum in addition to any loss of possible profit. Special mention must be made of the loss the labourer suffers. A day spent in idleness is a loss not to be retrieved. No storage is possible. Time is a hard master. This makes labour particularly vulnerable to the attacks made by the money-owner in times of depression and industrial dispute.

Commodities and services are subject therefore to a pressure which is at least four times as strong as that on money. The natural inducement to come to market is, then, four times as strong with wares as it is with money. "The extension," says Karl Marx, "of the circulation of commodities also increases the power of money, *that absolutely social form of wealth which is always ready to fight.*" *Das Kapital*, vol. I. p. 95.)

It will be clear that if money can be withheld from the market with but one-quarter of the bad consequences which would befall commodities if they remained unsold, money can require commodities to pay it a price for its appearance. This price falls somewhere between the difference of natural inducement to appear in the market as it exists between the two types.

There is no better witness against his own theory, "that money and commodities are equal," than Marx himself. It is, indeed, difficult to see how he could jump over and entirely disregard the mass of evidence to the contrary which he himself had prepared and tabulated with consummate industry.

There are certain other phenomena which still have to be considered. The two opposites of monetary mismanagement are inflation and deflation.

The effect of deflation is an increase in the value of the monetary unit in terms of commodities, with the result that the inducement for money to appear and serve is still further decreased. Inflation has the opposite effect, and its severity may be so great as for a time to remove the usual advantage of money, though even then money retains its power of being effective demand on its appearance. Commodities have at all times to wait for demand, to become of value to the seller. Thus, inflation favours the seller of goods and services. When prices rise daily money holders rush out to buy as long as the lower prices rule. And any present price would be lower as against the

one expected to-morrow or next week. If one must expect to buy less to-morrow with the same money than one can to-day, it is evidently silly to keep the money in the box, or even in a bank account. Just the opposite happens when there is deflation. If people know that prices are going down, they are in no hurry to buy. Many a purchase which is by no means unnecessary is put back. If I can save a guinea or so on a rain-coat by waiting two weeks or three, why should I spend my money now? But in times of deflation fear of losses and unemployment affect trade at once, and even those people that do not need to count their pennies start to economise and thereby help to make things worse. The result is that deflation causes industry and commerce to become paralysed and brought to a standstill.

3. *The Roots of Usury*

Except during an inflation, the money owner is able to withhold his money from the market without serious detriment to his interests, with the result that countless commodities are unsaleable, probably ruined and wasted. This advantage enables him to refuse to invest

money in what is termed "real capital," that is, the means of production and such things as houses and roads. Far less enviable is the position for the man who has nothing but his labour to offer on the market as a means of livelihood; a day's labour is a loss to the man which cannot be made good, so he is glad to take any price offered which will bring him into contact with production. But production itself is not possible unless means are available. These are only obtained from a constant repetition of production.

It is necessary to add two sentences about saving. All the means of production and all those commodities that are but slowly consumed which are available are the real savings of the people. They are accumulated partly by direct saving in the process of production, partly by being paid for by individual savings in monetary form—investments and loans. These latter savings are purely monetary and would be valueless had not actual saving taken place somewhere else. But if a man helps to "save up" a mighty building he cannot take home his part of the real saving. He receives a wage instead. From this wage he saves such part as he is not himself

consuming in the form of living in a flat or house and the provision of food and clothes. This small saving, then, is the counterpart of some of the bricks or windows which he saved "really and truly" when helping to build that building. So with all savings. Monetary savings are only of value in so far as they are the counterpart of real savings—of houses, manufactories, railways, roads, etc.

We have just said that all these means of production and habitation have constantly to be built and rebuilt. Yet the supply resulting from such production as well as the supply necessitated by the production have to pass through the market. If there is no money there, no demand for the products is set up or can be set up. Lack of means will result finally in a cessation of manufacture, building, transport—a cessation of all those activities that encourage production for consumption and reproduction. This, of course, leads to unemployment and distress among the working classes.

"*Money suddenly turns round and without warning transforms itself out of the merely ideal form of account-money into hard cash. It becomes irreplaceable by profane commodities,*" is Marx's

very accurate description of the position. (*Kapital*, v. I, p. 101.) And Marx's lifelong friend and collaborator, F. Engels, wrote in a rejoinder to the criticism of the German Professor Dühring: —"If Dühring wants to retain his metal currency, he will be unable to prevent some people putting by small treasures while others will be unable to manage with the wages that are paid to them. Thereby we get all the conditions necessary for hoarding on the one hand, and indebtedness on the other. Usurers become merchants in means of circulation, become bankers, become the rulers of the means of circulation and the world's money, thereby they become rulers of production and the means of production, even though the latter may, in form and name, remain the property of the economic and commercial commune for years to come."

F. Engels clearly foresaw here what most of the friends of nationalisation do not even yet realise, namely, that the State-ownership of the means of production does not do away with exploitation of labour. What he did not yet know was that this superiority does not only attach to metallic money, but to any trust-

worthy (in the sense of keeping its value) money, whether metallic or not. *The power of money may be said to be inherent in its power to create scarcity.* Its tactics are to wait until the producer is desperate and then come forward —at a price. It demands a reward for its services. Such reward is called interest. The greater the need for real capital, the easier it is for money-capital to dictate terms. But this is not all. Money-capital (including all money withheld from circulation which *ipso facto* becomes money-capital) extorts interest for itself: in addition its absence brings about a scarcity of real capital. Houses, roads, factories, machines and other means of production become scarce. Real capital, to be able to pay the interest to money-capital, must take it from production. But since real capital also is powerful only so long as it is comparatively scarce, an abundance of means of production would at once make interest impossible both on money-capital and on real capital. Since money-capital cannot extort a blackmail reward from production when real capital is plentiful, it simply prevents real capital from becoming plentiful.

the "intensity of demand" would be very low. Rents on houses that have cost only a fraction of what new houses cost to be built, are just as high as those for the latter houses. But if there were enough houses, rents would go down, even if the rents were not enough to pay interest on capital. But the fall in the interest value—in the yield—of real capital does not suit the interests of money-capital. For such a fall will make it difficult, in the end impossible, to go on paying interest on money-capital invested in real capital. And this is why money-capital takes care never to allow the value to fall too heavily without a recovery.

If interest rates fall as low as 3, or even 4 per cent., money is withdrawn. It disappears from both the money market and from the commodity market. Production and distribution are at once laid low in order to cause scarcity all round. There is only one type of entrepreneur who can still go on, he that is a money owner and real capital owner in one and the same person. But there are few left of those.

It can be seen from this, that money-capital is powerful because it is able to practise monetary

"birth control." But if money were to perish and decay like other commodities, it could not wait for interest to go up or move down. It would no longer be able to bring about industrial depression and social misery for the sake of keeping the supply of real capital low. And such a money, a money that rots and perishes like other commodities, Silvio Gesell proposes to establish with his FREE MONEY.

CHAPTER V

FREE MONEY

1. *The Proposals*

SILVIO GESELL writes somewhere in his *Natural Economic Order*: "Money which goes out of date like a newspaper, rots like potatoes, rusts like iron, evaporates like ether, is alone capable of standing the test as an instrument for the exchange of newspapers, potatoes, iron, and ether. . . . So we must make money worse as a commodity if we wish to make it better as a medium of exchange." And such a money, then, is Free Money. It consists of notes, the face value of which continuously depreciates at a chosen rate, probably 5 per cent. per annum. In order to keep the face value intact, the notes have to be stamped each month (small denominations) or each week (larger denominations) with a stamp of appropriate value. These notes will be replaced annually. Special stamps for the necessary values would be provided and

issued through all post offices and banks in sheets or booklets, in the same way as postage stamps are sold. These stamps would also be used as small change in addition to coins. There would still be small coins, but they would be struck of very cheap base metal in order to make them totally worthless as hoarding material. The Currency Management would, in addition, be empowered to withdraw any such coins and only exchange them against new ones after deducting a "minting fee" approximate to the rate of circulation tax charged on the notes. The coins would be legal tender up to, say, five shillings in Great Britain, or two rupees in India, for each single payment. There would probably be two kinds of notes. Notes for the values of 5s. and 10s. for Great Britain and other £ denominations, and Rs.2 and Rs.5 for India, which would only require to be stamped once a month. Notes for the higher denominations as £1, £5, and £10, and Rs.10, Rs.20, Rs.50, Rs.100—these latter would have to be stamped weekly. The dates when the stamp becomes due is to be printed in the respective compartment, *as shown on the sample notes*. It follows that some of the notes

would contain twelve, others fifty-two such compartments. The holder of the note is legally bound to stamp the note on the morning of the date marked as due date. Nobody, not even H.M. Post Office, would be exempt from the stamp-tax. For the latter the tax would, of course, be only a nominal one, since the State would get the proceeds of the sale of stamps. But as the whole purpose of the stamping would be to keep the notes at face value, there could be no exception whatsoever. The stamps so payable, assuming 5 per cent. to be the rate, would amount to:

On Amount.	*Stamp.*	*On Amount.*	*Stamp.*
5s. per month	¼d.	Rs.2 per month	1½ pies.
10s. per month	½d.	Rs.5 per month	4 pies.
£1 per week	¼d.	Rs.10 per week	2 pies.
£5 per week	1¼d.	Rs.20 per week	4 pies.
£10 per week	2½d.	Rs.50 per week	10 pies.

The Notes would be issued by a special department of State, called the Currency Office. This Office would be charged by Parliament direct with the management of the currency and it would have to manage it on the basis of a "fixed internal price level." That means that notes would be issued or withdrawn in such

a way as to keep the internal wholesale price-level steady. There must not be a general rise, nor a general fall in the average of the prices in the country. This would enable production to increase at its own safest rate of expansion without any disturbance in the equilibrium of the whole. Single prices cannot be considered by the currency management. These belong to the sectional equilibrium and have to be dealt with there. Supply and demand and the resulting profit rates in the respective sector of trade will automatically find the balance again. Gesell also proposes that the Currency Office shall have no direct connection with any banks other than those necessary for its particular work. Neither bank deposits nor private deposits would be accepted. But otherwise all the means and avenues known would be open to the currency management for the discharge of its duty. Discount of bills, purchase and sale of securities, in one word, all market operations, and in addition the discounting and re-discounting of bona fide trade bills, and lending money *pro tem.* to banks on good security, and to private concerns, would all be in the day's business.

The third and concluding proposal is that all land shall be nationalised. The land is the peoples' and most monopolies are based on the possession of land, viz., oil, iron, coal, electricity, etc. In order not to penalise the owners of land as compared with the ordinary investor, he proposes to take over the land at a free valuation and pay the purchase price in "land bonds." These bonds would bear interest at the "ruling" rate; the rate would, however, be restricted by a maximum, say, of 5 per cent. or so. An interest index would be established and interest paid half-yearly on the basis of this index. Every year some of these land-bonds would be paid out of revenue and cancelled. The State would reserve to itself the right to redeem any bond after having given three months' notice. In as far as the land was not required for purposes of State and State undertakings it would be let out to the highest bidder either by private offer or at public auctions. Subletting would, of course, only be allowed with the express permission of the land department. The question of transfer and ownership of buildings and works on the land can be easily arranged on the basis of a series

of different schedules, each one covering a special class of such property. State ownership and control of buildings can exist side by side with private ownership and control (similar in many ways to the "leasehold" system). Since the object of the control of the monetary machine will be to encourage and support a steady increase in actual wealth, which must result before long in the growth of such a wealth of means of production and real capital, that all rates of interest must fall continuously, the rate paid on the land-bonds would fall from one pay-day to the other, while ground-rent, being produced under the natural limit of the supply (land cannot be increased), would not decline on the average but rather increase with an increase in the population, so that land would pay itself. There is no space left to discuss the different aspects and details of this part of the scheme. It is mentioned solely to show that the land problem must inevitably be solved in connection with the monetary problem, and vice versa.

2. *The "Absolute" or "Fixed" Money Standard*

The foundation on which a "fixed" or "absolute" standard must rest is a mathematical abstraction, an abstract "general price-level." This fact has caused some unwarranted anxiety. Can we, one is asked, construct an index that is in every respect representative of the average fluctuation in prices? Firstly, there ought not to be any great difficulty in constructing a new comprehensive index. Trade statistics as well as detailed statistical information concerning consumption, housing, and other important aspects of social life have been improved considerably during the last ten years. This is particularly true with regard to mineral and primary production. From this information it is possible to infer the approximate importance of each single group of prices and so build up a more or less correctly weighted index figure for "wholesale prices." And this is the most sensitive layer of prices. No doubt there is need for other indices too. There is need for knowing the interrelation between the different economic strata. It will be the duty of the

currency controllers to cause such statistical information to be forthcoming. But any index of prices which includes semi-finished and finished products must include in an increasing degree (the higher up we come) wages and rent payments which by their nature cannot respond quickly to changed circumstances. Such indices lag behind. It is therefore difficult to forestall a move in the index by appropriate action. Cause and effect are too far removed in time to allow for quick correction. The prices of primary products are therefore the best guides for our currency controllers, at least at the start.

Secondly, however, absolute mathematical accuracy is not essential. There is hardly a dynamical system working which requires its managers to know at all times the exact proportions and weights of all the individual forces at work in the system. A ship at sea, an aeroplane, or a railway engine are good examples of the type involved. It is essential for every part of the machine to be built with all the care and knowledge available. Here calculations are of immense importance. But it is doubtful if a ship ever will, for instance, duplicate one performance in all its details. She may cross

the Atlantic ten times in succession and each time exact to time schedule, yet not two of her crossings would be exactly the same.

Dr Nölle, a German Government official and publicist, relates in *The Sultan's Motor Bicycle* how he crossed from Malta to Morocco in one of the small crafts called "soul murderers." The skipper, Dr Nölle writes, paid no heed to such important factors as velocity of the wind and deviating influence of the stream in the Straits of Gibraltar, nor did he measure the resistance of the oncoming waves which tossed the "soul murderer" high and low. The flickering light of a far-away light-house and the compass-needle that never stayed in its place were the only advisers to whom the skipper looked for guidance. But exact to the hour did he arrive, and moor in the harbour of Casablanca. Now, if that skipper had at all been a book-learned seafarer, he would have engaged himself in measuring the many influences that beset the path of his little nutshell. The pressure of the wind, the deviating influence of the waves, the exact resistance of the water, and so on, might have been recorded and calculations made from them as to the

pressure needed in the bowels of the engine, and how many inches he must steer to starboard or to port. Whether, so concludes Dr Nölle, he would have reached the harbour at all is, however, another question.

This is a very good example. Just as it is possible to steer a ship on the indications of such, to all appearance, irrelevant things as a compass-needle and a light ahead, apparently ignoring all relevant factors, so can a currency be managed on the indications of a general abstract price index.

How the work is done is even now known to every banking expert. There is the "bank rate" or rate of discount. It is proposed that under the new system bank-acceptances and trade-acceptances should be eligible for discounting by the currency office. When the trend of prices, as indicated in the price index, is upwards, thus showing a certain superfluity of money in circulation, the office will raise the bank rate. It will become dearer to finance commercial and other transactions by having a bill discounted. As with everything else, what may be profitable at 3 per cent. per annum will be a loss at 4 per cent. If too little money

is in circulation and prices tend downwards, then the rate is lowered and the borrowing on bills is made cheaper. But this manipulation of the "rate" is not always operative. When trade is bad, money is afraid of losing its substance if it goes into commercial transactions or into long-term investment. It remains idle on deposit accounts in the banks. The banks again must find some employment for these monies, otherwise they not only can pay no interest but have to charge for keeping useless sums. So they pounce upon the bills that are available and offer (themselves) discount rates much below the official rate. Naturally they get the bills and keep them. Small trade causes few money transactions and, therefore, few bills. The official rate must remain inoperative unless it goes right down to the level of the private rate, also called market rate. This is the state of general distrust in prices. Karl Marx already knew (*Das Kapital*, vol. I, p. 108) that a superfluity of short money in the banks was a sign of the "commercial circulation of commodities" being out of order. It is the time when, for political or other reasons, nobody can trust the State to keep things "all right," or when

nobody can trust prices. Insecure prices mean insecure business. But since falling prices are tantamount to an increase in buying-value of money and monetary claims, money has no interest to go into wares and risk its life. It stays as money, either directly, that is, hiding in stockings and safes, or indirectly in seeking the form of fixed money claims, such as first-class fixed interest-bearing securities, or simply by lying idly about in bank accounts. The rate of discount, then, is not itself strong enough to force the machine to move.

The currency controllers must have the power to increase the circulation against the will of idle money. They can sell and buy securities themselves. If money is idle they buy. New money is going out into circulation. Under the new system no money deposits would be accepted by the currency office. So an amount of money issued would remain issued until the office purposely withdrew money. In order to get possession of some of the investments sought by the banks and private money-holders, the office will have to make a higher offer. It will give a fillip to gilt-edged security prices. In this way it will get rid of the money to be

issued and at the same time awaken interest and create a better outlook. But in driving up prices of this class of securities it will press down the rate of long-term interest. If a security is issued at a fixed interest of 5 per cent., and its price is raised to 120 per cent. of its nominal value, then the actual "yield" (profit) is only 4 per cent. By raising investment prices, rates of interest are forced down. Industrial securities and shares are low-priced in times of depression, because there is great risk that they do not pay the interest due, or do not pay dividends or only small ones, and probably they become unable to repay the principal. Early in 1932 a number of American industrial shares were sold at prices so low that the actual yield for the buyer was more than the rate of dividend paid on the shares in good years like 1928. Still, when the yield on secure investments declines there will be a shifting of places. Some of the more courageous investors will sell gilt-edged at a high price and transfer the proceeds into cheaper, though more risky, industrial and commercial investments, thus encouraging prices in that sphere too.

Instead of driving in every penny of tax that

it can get hold of, a Government that can co-operate with the currency control is able to postpone taxation. Current expenditure is for the time being financed by way of treasury bills. The money is advanced by the currency office but the bills are not placed on the market. Every addition of new money to the nominal circulation is a sure warning to the idle money to come out of its hoards or lose in value. The currency office will use every available avenue to issue money, discount of bills, financing the Government, lending money for the purpose of long-time developments. And, to frighten the idle money out of its haunt and out of its "short claims," it will lay down a long-term policy of cheap money and slight inflation and pursue that policy with vigour. Such a policy will need little time to bear fruit. If trust in the state of things cannot be created overnight, it is possible to create fear of the coming of another state of things. The whole credit structure, as it is called, is based on fear and trust at the same time. Either money can be trusted or wares can be trusted. When prices increase, money is distrusted and trust is in commodities. Then it is the possession of real

things that bring profit. If prices fall, money is to be trusted and loss must be feared on the stocks of wares and the commodities in the course of manufacture. These fears and expectations are stronger than any political influences. The currency office will act on them and be master of the situation.

As soon, then, as people begin to fear for their money, they will put it into shares and commodities. Trade receives a new lease of life. Once things have come so far, the currency management will not let them fall back again. It will go on with its restoration policy until prices have reached a certain level. From that moment it keeps to a straight course.

It must not be forgotten that such a policy was never yet pursued by any group of banks or other currency masters. At all times the people have been subjected to the chances of finding precious metals for their currency. Mankind has been living in fear of losing its money. A really stable currency has never yet existed though we have had times of stable price levels. So it is necessary to pay attention to the psychological factor. There was always some kind of fear. The money-owner, fearing

for his money value in times of inflation; the entrepreneur fearing for his capital and the worker fearing starvation in times of deflation. But a stable currency will create trust and fear will be reserved for those alone that are opposed to sane development. When the manufacturers know that their debts will remain the same, that the latter will neither be made heavier nor less heavy in terms of general wealth, when they know that if they buy raw material to-day, they are able to charge this same price, together with the wages and capital expenses they had to expend upon the product, and, if they know their business, should be able to make an appropriate profit in addition, they will go ahead and get people to work for them. Workers too will know that they need have no fear of "no bread to-morrow." The more manufacturers there are looking out for labour, the less will the unemployed army be. It will not be long before it disappears. From that point labour's ascent begins.

It was pointed out earlier in which way prices are formed. There is a minimum level for any price. That is the point where it becomes unprofitable to go on producing or

handling a commodity. Below that point a price never stays for any length of time. But above that point the play between supply and demand decides the issue. This is so everywhere. The fact that this law also applies to labour had induced Marx and those before him to think that labour was a commodity too. If the demand for labour increases, the "intensity" of demand must increase as soon as the reservoirs of supply are being drawn upon to a considerable extent. Wages have to rise. But rising wages must necessarily mean lower gross profits. No price contains any other element than the two: payment for wages and payment for interest. An entrepreneur who is worth his money will partly be classed as worker, partly (in as far as he simply draws dividends for his money) as rentier. So there can be no question but that whatever relative advance is made by labour must be a corresponding relative loss for interest as a whole. But it is possible, indeed it is to be expected, that a few years of steady advance, as must be expected from the operation of a stable standard of money and a stable, or slightly advancing, price level, will produce a large increase in the

wage bill without reducing the absolute amount of interest. If to-day, to take an imaginary figure, wages are £1,000,000,000 for Great Britain and interest another £1,000,000,000 per annum, or 50 per cent. to 50 per cent. and the total production figure increases by 50 per cent. and, owing to shortage of labour, wages increase not by 50, but by 100 per cent., then we shall have a total wage bill of £2,000,000,000, while the interest bill is the same as before, £1,000,000,000. The total production for consumption will be £3,000,000,000, *i.e.* 50 per cent. more than the original one. A relative advance of wages absolute by 100 per cent. of their own former amount, or a shifting of importance relatively from 50 per cent. originally to 66.6 per cent. of the total price, will leave the interest-getters where they were before as far as their absolute figure is concerned. The policy that will improve things most must have as its aim, not to take something from the other fellow, but to increase the sum total in such a way that the other fellow's share becomes insignificant although, for some time to come, remaining the same in absolute figures.

It is a well-known fact that wages are always

higher and are easy to support on a higher level in times of great activity. This is entirely due to the ensuing shortage of labour in the labour markets. In the commodity markets the opposite phenomenon can be observed. Prices of commodities tend to become smaller, but it will be observed that this is more true of highly manufactured articles than of products requiring little treatment. In fact, primary foodstuffs usually gain. This shows that it is by a policy of industrial extension that we can reap the benefits of technical invention and the help of machines. We shall come back to this point in the paragraph on Industrial Equilibrium

Up to now no mention has been made of the influence of the special character of Free Money. The stable price level alone will provide inducement enough to set every hand and brain to work. But hoarding will still be possible unless Free Money is introduced. The reasons will be set out presently. It is also necessary to emphasise the fact that a managed currency, even if based on a stable price level, does not in any way impede an increase either in nominal or in real wages, nor would it fix the total income of the community or the

nation. All that will be fixed will be the length of the measure. The amount of money will be kept at such ratio to the amount of commodities produced and ready to change hands as is necessary to keep the average price level in its preappointed place, or else to put it there.

In order that the further influence of Free Money may be understood more easily it is necessary to pursue some further detailed studies of the meaning of and the factors influencing such things as profits, competition, wages and interest, saving and lending, and the prices of money and of capital.

3. *Prices*

"Price" is the arithmetical product of the compound interaction of a number of co-related factors. Briefly stated, prices can be said to be the product of the following: the quantity multiplied by the intensity of effective demand, *i.e.* money, divided by the quantity of commodities offered for sale. It was found that effective demand could only consist of a counter-offer of money.

If some of the commodities offered are supplied too plentifully, the specific intensity

of demand will be correspondingly low, and vice versa. The mountain of commodities as a whole depends on its being borne away to the sea of consumption on the whole of the ravening waters of the river "money," as well as on the quickness and force with which the latter moves. The quantity of money in circulation multiplied by its own rate of velocity constitutes the total of effective demand.

When the amount of commodities offered is large, and, compared with it, the "turnover" of money (money × velocity = turnover) small, then the intensity of demand is low, and prices must also be low. If the amount of commodities offered is small, and the money turnover the same as before, then it is possible that prices are still high. All the factors continually alter. As long as they alter in exactly the same proportions no alteration in the price takes place. As soon as one factor moves more or less than all the others do, a corresponding dis-equilibrium is the result and prices move accordingly. It is not true that "costs" determine prices, as can be seen when individual price evolutions are considered. Up to now we have considered only the total, or average,

price level. Be it remembered in this connection that equilibrium can be restored without correcting all the factors to their previous positions by simply manipulating one of the major factors in order to balance the others.

Individual prices follow the same laws of supply and demand as does the average price level. It was found by statistical investigation that the distribution of domestic expenses is more or less the same over the whole of a specified income class, say between £150 and £200, to quote an instance. So many per cent. expended on rent or interest on mortgage, so many per cent. for food, so much for dress, etc.; the proportions vary from class to class. It would appear from this that housewives are actually splitting up the total money turnover going through their hands into these different proportions and spending them in this particular way. This in fact must be what happens. Women may have more to do with the distribution of the expenditure on food and dress, while men attend more to the provision of housing and entertainment.

Custom plays a great part in this distribution of the nation's income on the various classes

of expenditure. But prices again greatly influence the creation of customs and habits. Years ago Indian women would wear none but home-spun and woven cloth. Cheap foreign supplies changed this custom to a great extent, and the increase in Indian production of cheap textiles will by and by still more replace home-spun by manufactured textiles. Another example of what low prices can do is provided by the advent of the motor-car.

When the cheapest motor-car was priced between £500 and £800 (Rs. 6000 to Rs.10,000) it was decidedly the privilege of the high-income class to make use of them. The demand was restricted to a small circle. But when eventually costs were cut so far that prices brought the possibility of possessing a "Baby" racer to the income class of between £200 and £300 (Rs.2000 and Rs.3000) per family, these motor-cars became a commodity in everyday use.

The motor-car habit has considerably altered the budgets of the income classes concerned. More money is apportioned to the purchase and upkeep of this kind of entertainment and less is spent elsewhere. Demand has increased

in this class of commodity. A market was "created."

So far it can be said that prices of commodities may change customs and habits. Customs and habits again influence demand for particular commodities. Single prices are, on the whole, dependent on the amount of money turnover that is set apart by the accumulative appropriation of income by the people for the particular group of commodities.

Good times or bad times will at once cause strange variations in the distribution of expenses and must, therefore, equally strangely influence the demand for certain groups of commodities at such times, this particularly with regard to the non-necessity types.

If a large proportion of income is set aside for musical instruments, there is a good time in sight for the manufacturers and dealers in such instruments. But fashion will decide whether it be mostly gramophones or pianos. Should all the manufacturers go on building gramophones, there would soon be a glut on the market. Supply would be too large and demand too small, and in order to sell, manufacturers and dealers would have to reduce their

prices regardless of stocks simply to get rid of the surplus. The intensity of supply would kill prices unless the intensity of demand increased similarly. The reverse also happens, namely, that a new fashion suddenly springs up and causes demand for a commodity while the provisions for supply are insufficient. In this case the intensity of demand will be great, in spite of high prices, and these latter will give the suppliers a much larger profit than the average level of profits would warrant.

In this connection it is of some interest to note that prices which are fixed by a body or authority outside the sphere of demand and supply will either cause a slump in production, to the detriment of the consumer, or they will cause a continuance of surplus production in spite of already overstocked markets. The first example is now being illustrated in Russia, as it was during the war; the second was made in those countries where "wheat pools" (Canada), State-buying (United States of America), and State price regulations (Brazil coffee) had their sway to the detriment of the producer. The only safe way of managing single prices is that of adjusting supply, *i.e.* production, to demand.

Even in a state of socialised production it is possible to have unfair prices, if prices are fixed instead of being left to the fair play of demand and supply. The fundamental difference of control between that of the general price level of a country and that of the prices of individual commodities is that the former can be controlled solely from the monetary side, while the latter must be controlled by adjusting production to individual circumstances.

4. *Competition and Profits*

These individual adjustments in production are now made by the individual manufacturers. They are forced to do so by the existence of competition on the one hand and the motive of private gain inherent in human nature on the other. It is sometimes contended that both these factors are bad and antisocial. This is a mistake. They are eminently human and natural and as such cannot be eliminated without grave dangers to society itself. A bad boy is not killed outright, but he is taught how to use his energies in a better way. Competition to-day is neither pure nor free, it is perverted by certain monopolies.

An entrepreneur has to risk more than an ordinary wage earner. He has to have the knowledge of the latter, and in addition must be able to provide monetary capital of his own, or he must be able to get credit from other money owners. He will take the risk only on the assumption that he will be able to make a profit for himself in addition to a mere wage.

When starting a new venture, he will look round for a market where profits are still on the average line or above. By entering that market as supplier he will, however, set up competition against the existing suppliers. This will automatically help to reduce prices and, on the other hand, increase demand for labour in the particular line of production. This again must tend to reduce overall profits. If, through some circumstances, either overproduction is caused, or a breakdown of demand is experienced, he and his competitors will be forced either to let their stocks deteriorate and so become a total loss, or else sell at whatever price they can get and write off the loss. Those amongst the unlucky suppliers that are financially strong enough can do so quickest and best, and are then able to turn round and start

producing for another market where demand is still good and profits sufficient, leaving the dying market to their less fortunate brethren. It must not be forgotten that they have to pay overhead charges just the same whether they are producing and selling or whether they are not, whether they are making profits or suffering losses. Unless they are the sole and absolute owners of their firm and its estate, they have no other choice but to make profits or go into bankruptcy once their reserves are used up. Some old private firms are in a better position. They are themselves the owners of the loans, and though they will not be able to produce interest they are at least still able to produce such a gross profit as will allow them to keep up the establishment and live on it. This is one of the reasons why some very old and out-of-date mills can still compete in the markets, while most up-to-date mills are virtually or actually bankrupt.

Competition will force an adjustment of local dis-equilibrium. As long as the general stream of trade is not disturbed it will be comparatively easy to make these adjustments. The largest and most radical industrial readjustment, and

one that involved at least half the world, took place in 1918–19. Mountains of machines and tools became scrap-iron almost over night. Yet 1919–21 were the greatest boom years industry has ever known Such adjustment would have been an impossibility had it been accompanied by general trade stagnation. Competition in times of trade depression is like a scramble for a bone, but in prosperous times it rather resembles the individual exertions of healthy athletes in a sports event.

Gross profits cover a multitude of payments. Some of them are classed as business expenses. But since they have to be paid out of the proceeds of the sale of the wares or services, the whole of these payments which are not payments for wages in one form or another have to be considered as profits. Any payment that goes to some human being employed in the venture, be it to the miner who picks away pieces of ore or coal down in the bowels of the earth, or to the managing director's private secretary, or to the railwaymen handling the goods on transit, is wages or salaries. Even the directors' and manager's salaries have to be considered as such, if they are earned purely as remuneration for

services rendered. But all the rest is gross profits. Neither Mother Earth, nor the animals that may be employed, nor anything else receives payment but man and woman. Anything that is not wages must therefore be "unearned" income. Gross profits are the sum-total of unearned income made out of a business. There are two classes of unearned income. The one owes its existence to land monopolies, the other to money monopolies. The first includes along with mining rights, water rights, etc., also what is called the "unearned increment" in the value of the land. Land is of no value unless people want to live on it or near it, or want to exploit it. The most beautiful spot of most fertile land somewhere in the centre of South America or Africa may be absolutely valueless, but a dirty corner in one of the large cities is worth a fortune. This unearned increment and the special rent (also called "differential" rent) which it can command cannot be, and ought not to be, eliminated. In a communistic state, for instance, it would amount to an unearned privilege for the man who was allowed to live in a privileged position in town, as compared with the comrade who had to walk an hour to

get to his dwelling. But, as experience shows, prices play as great a rôle in Russia as they do in Great Britain. No doubt the communists will in time have to pay more for a flat near the centre than for one far away. The main point is that this special ground-rent, and in fact there is no other ground-rent, shall benefit the nation, since it is society that is continually creating it. It is quite truly said that "the mothers are creating the value of the land." Private ownership of land is unnatural and uneconomic.

It has just been said that only this "differential" rent is actual ground-rent. Payments for interest on loans is not ground rent at all, it is usury, a payment for the service of money capital (so they say). At any rate, it is simply a monetary profit made out of the land.

Monopolies of a different nature are the trusts and combines which have as their aims the "regulation" of prices. They can only exist owing to the peculiarities of to-day's monetary machine. As soon as the monetary system is altered in such a way as is here suggested, there will be ample opportunity for the small-unit undertaking to get credits under conditions in no way worse than those under

which the big concerns are using them. Experience has shown that the very large commercial unit becomes unwieldy for management, and costs much more in overhead administration than the smaller unit. As their true aim is to keep prices higher than the state of technique would require, these new undertakings would have ample margin to set up a fierce competition. Where the conditions make it possible for new ventures to enter the field almost any day of the week, it will become an unprofitable business to buy up competition or to cut prices to ruin them. Even now, with the Uni-Lever trust and other mighty concerns, there are thousands of soap and margarine manufacturers making nice profits for themselves. A good monetary system is bad for price-screwing combines.

If, on the other hand, the large undertaking can work and produce at such prices as are simply impossible in smaller units, then the monopoly is by no means dangerous to society but an advantage. And it will only remain a monopoly until someone else is able to catch it up in its methods. Competition must be free to evolve the most rational methods of production and distribution.

What the monetary system has to do is to ensure such a continuous flow of money through the commodity markets that all production can easily be disposed of, and, on the other hand, that monetary savings are reasonably sure both in the banks and in industry and real capital in general. The basis of the monetary structure must be safe, and industry and commerce must be able to trust it. Free Money would ensure this, because not only could money not be kept away from the market, but this very inability would force money savings into the investment and loan market. Scarcity of credits would become a thing of the past. Distrust could no longer keep it out of circulation. The man who is caught on the fourth floor of a burning house does distrust a jump down, but he will jump nevertheless. The jump *might* save his life, but to stay where he is *will* kill him. So would money jump into production rather than lose its life for certain.

One other kind of monopoly is left to consider: the one based on patents or secret processes of production. What interference may be necessary in this case is of a legal character. Patent laws might be improved in

favour of society or in favour of the inventor. But here, too, cheaper money and freer money will help considerably to improve things. The monopoly in prices that attaches to such production is not of enduring nature. And a good part of the extra profits made go to repay the money which was used to bring the invention up to commercial exploitation and to remunerate the inventor for his ingenuity and work. Free Money will rather cause the latter to have a better chance than he had up to now. Many a process is possible and profitable when interest rates are 3 per cent. or less which is not profitable with interest rates at 5 per cent. or more.

The monetary monopolies are of little importance as soon as the monetary system is altered so as to reduce money to the status of an ordinary average commodity which, in addition, has only one use, that of changing hands. The land monopolies will fall to the State, and whatever special price is paid for the exploitation and, eventually, in the prices of products from that source, the total benefit of those surplus payments will be that of society.

All such payments, then, as interest on loans, money discounts, dividends (this also applies

to rates and taxes, *i.e.* those parts which go to pay for similar charges), rent, ground-rent, royalties (in as far as they are not payments for work, as in the case of inventors, artists, and authors) are parts of gross profit. And to these different parasitic profit-eaters comes a more positive one, the premium to cover risks. This last factor cannot, and need not be, eliminated. If it is eliminated in the case of a socialised administration of industry, it will be a premium on inefficiency and therefore not be eliminated but covered up. The price has to be paid by society as a whole. But just as the importance of monetary monopolies will decline with a sane monetary policy, so will the risks decline and with them the rate of the premium against risks. It can well be taken as an ordinary production expense which wages will have to suffer, since its very existence insures their own position.

5. *Wages*

The last but most important factor in this series is wages. Wages do not, as some economists contend, govern prices, but they help to make prices either profitable or unprofitable. How this happens has been shown in the two

preceding paragraphs. Wages and profits together always equal the price. Evidently it is exactly the same to a worker whether he receives 10 shillings a day with which he is able to buy a certain amount of commodities at a certain price, or whether he receives a pound a day but can buy no more commodities, since their price is now twice as much as before. The question is, who is determining the wage level? Marx thought that it was the iron law of wages which decreed that labour was paid at its cost price, *i.e.* the costs involved in producing and reproducing (upkeep) labour-power. But since an Indian or a Russian average stomach is just about the size of a British one, it would follow from his theory that wages must be more or less the same in Great Britain, in India, and in Russia, whereas they are very different indeed. Even wages in the high capitalist countries, U.S.A., Great Britain, and Germany vary considerably.

Wages are fixed by the competition for work. The less work there is available, the less will the rates of wages be. The more work there is the more workers are wanted and the higher have wage rates to go in order to get the necessary

shifts together. The best policy for labour and the trade unions would therefore be to ask for more work, for an increase in production, not in supporting (as some still do) ignorant capitalist propagandists in their silly rambling talk about overproduction. Trade Unions can no more raise wages above the level where net profit disappears than the State. Wages can only increase in relation to gross profits. If employers are forced to pay wages which do not allow them to make a profit for themselves after having paid their capital charges, then they stop trading, and instead of more wages workers will get no wages at all. In the same category of impossible solutions is the proposal to reduce the working week without reducing the absolute paybill. In fact this is a very dangerous proposal in two ways. First, it would make absolute the enforced reduction in accumulation of real savings, *i.e.* means of production and habitation, and therefore limit the increase in demand for labour and not free it; and secondly, it will reduce actual employment by making even those sections of trade unprofitable where fair employment is still in existence. If ever a proposal was advanced by

Trade Union Organisation that was against the interest of their own members, it was this proposal which runs against all economic laws. This, of course, does not say that it was not well meant. But well-meaning and economic laws are two different things.

It may be mentioned in this connection that in an important trade union report the sentence is found: "It need not be assumed that what is economically wise is politically or socially wise." This is a colossal mistake. Nothing that is economically foolish can be politically or socially wise. Economics are the economic laws of social life. They cannot be evaded nor altered. We can make the best of them or the worst. We can, to use a simile, let the waters flood our villages and towns if we like, but we can also dig canals and lead the water on to turbines and like instruments, and so make it our faithful servant. But we must know the laws under which water is acting and we have to act according to those laws if we want to make water serve us. So with human psychology, so with material things and with matters economic in particular.

Wages cannot be secured from the wages

side alone, since it is labour that competes against labour. Again, it is unwise and uneconomical socially to eliminate this competition between labour and labour. Russian experience again has shown that competition and graded wages in some form are necessary to achieve some degree of efficiency. Equal pay means no more and no less in the end than that the degree of efficiency is taken from the lower grades. Even the most efficient and industrious worker will in time get tired of continuously working for others only. He will reduce his own exertions to the level of the average and in so doing will himself again lower the latter. This is natural. We are not yet all of us saints and sages. And even the saint is sometimes in doubt whether he is really and truly working without reward for those above him, or whether he does not work simply because in his innermost heart it is no more than his own egoistic craving for sublime rewards that guides him. Much coarser and more open are the feelings of the average man. Reward is the best rein for him and the stings caused him by his own folly the best guard. He will react quickly and faithfully to both of them. "Equal chance for

all" is, no doubt, a better motto than "equal pay for all."

This brings the problem forward to the point where wages meet profits. Since wages can only rise with the increase in demand for labour power, wages can only rise if an increase in production takes place. An increase in production takes place only when gross profits are of such magnitude that they enable the entrepreneur to make such a net profit on top of his wages as he considers worth while to undertake the risk and responsibility involved. If it is possible to reduce the capital charges which he has to pay out of gross profits, or out of his own savings in times of bad trade, it will be possible to raise wages without endangering production. As was pointed out earlier, a stable currency standard, or a standard that allows a slight but controlled inflation, will cause the flow of money to go on and to ebb or swell according to the needs of production until the rates of long-term interest drop below a certain point, whereupon money withdraws. It is here that Free Money enters the field. It will force money to circulate in spite of the fall in the interest rates. Continuous production

has always tended to increase demand for labour power. This in itself means a pressure for higher wages. Under any system but that of Free Money (as far as we know) there came a time every ten years or so when rates of interest fell, and following this money was hoarded and production laid low, unemployment and wage reductions ensuing in due course. Up to now money had never allowed wages to rise unless at the same time the total interest bill was raised accordingly. The whole of economic life was time after time sacrificed to Mammon. Only in so far as standards of living can be raised without infringing this law, only in so far can wages be raised without the use of Free Money. An average interest rate of 4 per cent. will always amount to roughly half of the product of production. Wages can increase, and do increase, even in a capitalistic society, but they can only increase together with the increase in usury payments.

Free Money will break that chain link and set production and wages free of usury. New ventures will be undertaken in spite of receding interest payments, because money savings have to jump or die. Every upward move of pro-

duction and consumption will call for additional demand of labour power. There need be no fear that work suddenly disappears and that one morning we are left with unwanted time. There is not one town in the whole of Great Britain that does not need entire rebuilding. There are hardly any houses in this and many other countries that can be called "modern" dwellings, if under "modern" we understand something really good and comfortable. There are very few kitchens where drudgery is no longer needed because machines are doing the work. And so on and so forth. Leisure has not yet become a problem. Since the price level, and with it the supply of means of payment, is guaranteed—even a guaranteed rate of inflation is security—there is little risk for the seller to lose by a general fall in prices. Producers are able to judge the magnitude of demand to be expected. They also have some knowledge of what competition is likely to be. Any change in the structure of the markets in general and in particular sections, the merchants and industrialists are apprised of daily in the commercial press, where reports of markets, of new and old firms, of the productive capacity of

specified trades, estimates of coming harvests, and other news from all over the world is published. This security of general price levels on the one side, and the security of credits on the other, enables the manufacturer and the merchant to quote lower rates of gross profits in relation to their total turnover. This again means cheaper prices and most likely a greater demand for products, or else higher profits for the time with increasing competition following, and a still greater demand for labour and therefore higher wages again. And so the game will go on until there is no longer any profit left over save for the special premium against risk and a special margin of wages for the entrepreneur. Because as soon as there are enough means of production, prices of the material for the construction of such means must drop. There will be less opportunity for money savings to be invested and they will by and by be offered for safe keeping. So the entrepreneur will not pay interest any more. He is not going to build a new factory while he can buy an existing one at half the price of what the new one would cost.

So the process of production goes on and on

until wages are, except for ground-rent and the small premium against risks which insurance institutions and the entrepreneur will be able to command, the only component of prices as a whole. This will be the time when every intelligent worker should be able to exchange his wage for that of the entrepreneur. But let him be warned. He cannot charge high profits. Even if he could do so for a short while, Nemesis would follow him in the form of renewed competition, which would soon reduce his extra remuneration to the level at which not many would exchange security of employment for the comparatively small difference between their wages and his net profit.

When some people think that we do not want to retain what they call "wage slavery," they must be answered that wage systems are the inevitable correlative to modern production. Wages came along with the division of labour. It is the latter which has enabled us to raise the standards of living. To discard the wage system means to discard all advantages of science and technique in production and in transport and housing. Savages indeed were not wage slaves, they were comparatively free

too. But they were a collection of paupers compared with the skilled wage earner of to-day. It is exploitation that must cease. It will decline as wealth increases, and it will cease when plenty is within the reach of every member of society.

6. *Saving and Lending*

The difficulty of properly understanding the connection between private savings and national wealth is a result of the existence side by side of "monetary" savings and "real" savings. Monetary savings are those which Tom, Dick, and Harry save out of their wages, or, if they belong to the luckier sort of people, out of their profits and other unearned income. They spend part only of their incomes on consumption, and the rest they save in some form or other. Some people leave some of the profits in the business where they were made. This is just the same as if they had taken out all the profits and then reinvested part of them again. Although the profits remain partly in the business where they were made, the saving was done by the owner of the profits, *i.e.* in his capacity as a consumer.

Others save from their wages or from unearned income without having any direct use for the amounts so saved. Because they neither own a business nor real property wherein to invest their additional funds, they have no other chance of disposing of their savings but by giving them to someone else. They may know friends or acquaintances employed in some sort of business who could do with some more "capital." If these people are trustworthy, and if their business seems "to do all right," then they should be able to use the savings so that, at some later date, they will be able to pay back an equal amount of money. This giving away of savings in the expectation of a return, if not of the same money, then of an equal amount of money, is called lending.

The lending of monetary savings is a branch by itself and is of great importance nationally. It will soon be seen why there are people and business concerns that want and need these savings. First, however, it must be pointed out that in this society of ours it is difficult for the small saver, sometimes even for the large one, to know where to look for the man or business that might be wanting his money and at the

same time be able to provide reasonable security for the amount so lent. This difficulty is partly overcome by the establishment of banks and similar institutions. The money saver can bring his money to these institutions, and people and business concerns requiring money (or credit, as this is called) go to the banks in order to "raise" the amounts required.

Commercial concerns issue not only shares —a share is a certificate of "part-ownership" in the concern and its estate—but also all sorts of "debt-scriptures." These debt scriptures or debentures are simply acknowledgments of debts and of the conditions under which they were incurred. Nearly all of the more or less important of these "issues" are made with the help of banks or special "issuing houses." The latter simply act as agents between the saver and the borrower.

Governments and corporations also issue so-called "bonds," a debenture where the government or the corporation is the borrower and debtor. All these securities are called by the name of "stock," although this term only covers certain classes of securities, if strictly applied. The market where shares and debt certificates,

i.e. debentures and bonds, etc., are sold and bought is called the "stock exchange," deriving its name from the term mentioned above.

The stock exchange is necessary. Savings put into investments cannot be recalled any day in the week as one can recall a sum of money from a cheque account with the bank. Even deposit accounts with the banks will only be opened on condition that the money is left with the bank for so many months, or that six, fourteen, thirty days', or even three months' notice be given before the money can be withdrawn. Money invested in shares can only be got back if and when the firm in question liquidates with assets in order. Debentures of all kinds are always for a term of years. The debtor cannot be asked for the return of the money until that time has passed. So, if a saver who has invested his money suddenly needs that money, he would be unlucky if he could not "dispose" of his investment. To enable him to do so, most of the securities are transferable. This means that one can, by filling up a slip of paper and having it passed on to the debtor's head office for registration, pass on one's claim to someone else. It amounts

to selling one's rights. But it is also possible to get another loan on the security of the certificate one is holding. This kind of "lombard" lending is in vogue amongst the banks themselves. Stock exchanges (in other words, investment markets) are, then, a necessity for the saver who is a long-term lender, an investor. Unfortunately, and owing to our money systems, these markets have become the most terrible pools of speculation.

It is no doubt possible to build up a purely fictitious credit structure by pledging and repledging a whole series of consecutive securities. But these are simply duplications of the original issue. Each consecutive loan on such issues simply amounts to digging a new hole in order to fill in an old one. This also applies to holding companies. The latter have, however, a special and useful purpose. By means of holding companies it is possible to have a centralised financial control under a system of decentralised working. But the previously mentioned practice amounts to no more than financial acrobatics.

If a bank needs money and borrows money on the security of some investments, no new investment is created, nor is the amount of

credit increased by the amount of the lombard loan to this bank. This new loan is given on the strength of the existing one. One bank has the cash, the other bank has a claim supported by an investment. They go and exchange the two. The two things have changed places but nothing else was changed. These transactions are of no importance whatsoever from a national or even from a trading point of view. There was one hole in the garden—a loan certified by an investment script—covered with a lid (the script). A new hole was dug and with the material the old one covered in, then the lid was transferred to the new hole. There is still a hole in the garden but there is neither more nor less earth there. The position is similar with the repeated rediscounting of bills of exchange. No new credit is "created" nor does this practice cause the slightest inflation. It is no more than a "turnover" figure. Some of the first-named activities might well be investigated by the department of the public prosecutor. They are a danger to the average investor, but no more. In other words, they present a legal problem rather than an economic one.

It is possible to save actual money, notes and coins. Yet, although there was a considerable hoarding of gold and notes in the United States of America, in Switzerland, Holland, and France, and in a smaller degree in other countries, one cannot speak of this form of saving as being the usual custom in any of the countries mentioned except France. This hoarding[1] did not so much amount to saving up money, as to saving the money from the debacle of falling prices and following bankruptcies. Matters are, however, different when we come to consider India and China. Here it is indeed a general custom to save by hoarding money. Even if the actual amount per head of the population is comparatively small, it is very large in relation to the total amount of currency issued.

This kind of saving is no saving at all. Gold and silver, and, still more, paper, are only valuable because they have been chosen as monetary material. They cannot provide anyone with food and shelter if these have not previously been produced. All such monetary savings are mere illusions. In so far as they

[1] See p. 36.

affect the price level by their continuous drain on the active monetary circulation they are immensely dangerous and harmful. But apart from this last fact, monetary savings are only useful if they can be translated into real savings. That is, if alongside with the monetary saving an equal saving of real and useful commodities has taken place.

Supposing five hundred persons save by hoarding money fifty pounds each, while at the same time only ten persons have saved by building a house which, at the ordinary rate, would be worth £500 sterling. If no other real saving took place then all that is available against the £50 × 500 = £25,000 is a house valued £500. 98 per cent. of the monetary savings would then be "for the cat." There is no real value saved to back it. £24,500 would be entirely useless. They might just as well have been thrown into the next brook.

Even money saved and placed in a bank is useless unless the bank is able to lend it to someone who is going to use it in productive activity. This clearly demonstrates the fallacy of the idea that the State is able to "create" credit—if by credit something more is meant than a par-

ticular state of trust. If the State causes money to be issued without regard to production, that is, without regard to the amount of commodities ready to change hands, it simply causes inflation. If it is using the money so issued, then it amounts to nothing but taxing in another form, namely, by making all monetary claims less valuable. It creates nothing but confusion, certainly no credit. Only when real values have been created, or are being created while the new money is issued, only in so far has there been any addition to "credit" in the more tangible form. The State, then, cannot create anything by misusing the monetary machine. All that this practice amounts to is to tax real savings without accounting for it.

Monetary savings avail a nation nothing at all. There must be actual saving behind the monetary one. Things produced that endure for some time and remain useful to somebody for some period to come, are real savings. Houses, machines, manufactories, roads, railways—these are the real savings. The fact of some thing enduring for Mteen years does not yet constitute the saving. If a house is useless it is no longer a saving in the economic sense.

A heap of bricks may be saved, but if they cannot be used for some purpose then they are more likely to be requiring some more labour to remove them to some spot where they do not constitute an eyesore. Old machines may still endure. But if new ones in their place would produce a better result, then the old ones are not only no longer a saving but they become a waste.

In primitive society it was not possible and not necessary to save "sums." Saving took place in the process of production alone. Under the division of labour different methods were evolved. Although the building of a house is undoubtedly a pure saving, nobody considers it as such. People look upon it as some kind of consumption of material and labour. For this consumption the builder pays out wages and profits. Again, all these wages and profits represent real savings. But the men employed to build the house cannot wait to eat and sleep until the house is slowly consumed. In order that they may go on saving really and truly, some others are saving "sums" only. In this way it is that "real saving" and fictitious "money saving" are mutually compensated by investment and lending operations.

A very large amount of saving is done in the sphere of production without passing through the stage of monetary saving at all. Real savings in Russian industry amount (at present) to something like two or three times as much as consumption. This is an extreme example. It is necessitated by the previous entire lack of means of production. A perusal of accounts of industrial concerns will show that large "secret reserves" are accumulated in times of prosperity. Although wages are then rising it is almost universally possible for industry to expand operations and pay for new buildings, repairs, new machines, etc., out of revenue. But, of course, it is a well-known fact that "overhead expenses" decrease in ratio as the turnover increases. It follows that real saving is strongest when labour is fully employed. Without production there can be no real saving. The less workers there are at work, the less relatively will be the amount of real saving. Any Canadian or Australian pioneer can tell us, and the experiences of present-day Russia emphasise the fact, that real saving has to take place before consumption can start or increase. A house must be saved up first, afterwards it

will provide shelter for, may be, a hundred years. A machine represents a long series of real savings long before it can turn out one single consumable article. To "economise" in times of depression amounts to no more than saving monetary "sums" against which there is no real saving whatsoever. It is, in fact, no more than an artificial slowing down of consumption at the expense of the working classes.

7. *The Price of Capital and of Money*

Savings being sold and bought in whatever form they exist, it follows that they must have a price. It also is natural that the degree of utility should play a part in producing this price. But just as there are different classes of savings so are there different price quotations. Short-money claims and actual money supplied to the market are priced by the quotation of a discount. This practice refers to the practice of selling and buying, *i.e.* discounting, bills of exchange. The bill is bought at the nominal value less a discount. Parallel with this discount rate goes the deposit rate paid by the banks on cash deposits. This is the price for money.

Investments and fixed loans are priced on the

basis of the income they can command per annum, while real savings are priced sometimes on the basis of the ordinary commodity—simply supply and demand—sometimes on the basis of income-producing capital. Real capital, *i.e.* manufactories, land, houses, are always valued at the rate of the unearned income they produce, in other words the possible profit.

The discount rate is, then, not to be confused with the long-term interest rate. The former is the price for money, the latter is the remuneration for capital. The discount rate does not reflect the state of trade or prosperity in a country. It can be high at times of great prosperity and activity in trade, and very low at the time of acute depression. To take the bank rate or even the private discount rate as the measure of cheapness or otherwise of short money is fallacious. If we take the last three years as a whole, we find that the value of money has increased through deflation by roughly 30 per cent. The annual loss on money invested in goods and real savings would therefore have been, or rather it was, 10 per cent. plus the prevailing rate of interest. This rate applies to both India and Great Britain. The

actual discount rate was, then, 16 per cent. in 1930, 18 per cent. at the end of 1931, and about 15 per cent. at the end of July 1932, for India; 13 per cent. in 1930, 16 per cent. at the end of last year, and still about 12 per cent. in July, for Great Britain. But if we look at the short-rate fluctuations we find that the actual rate for the trader was something like 18 per cent. for 1930, and about 20 per cent. at the end of 1931. In view of the still receding wholesale prices the rate was then still somewhere between 10 per cent. and 12 per cent. for London.

But the exact opposite happens when there is inflation. If the rate of inflation is 10 per cent. per annum, then the discount rate can be 12 per cent. and still be very low, because it would only be an actual discount of 2 per cent. (two). The debt would have lost in weight at the rate of the inflation. A publisher known to the writer paid as much as 2000 per cent. for short loans in 1923 in Germany and made good business. The rate of inflation was still more and my friend had his money for nothing in spite of the apparently horrible discount rate.

Inflation and deflation, rising prices and

falling prices, go to make the actual rate of discount lower or higher than the "nominal" or "bank rates" are. Quick trade with resulting quick turnovers, and slow trade with corresponding slowly moving transactions, will also help to make the money employed in those transactions either cheaper (in the first case) owing to many transactions with the same money and for the same interest payment, or dearer if the reverse is the case.

In prosperous times manufacturers and merchants turn over their wares very quickly. Intensity of demand for commodities is strong and everyone wants his wares at once. So traders try to turn over more and more. In order to do so they need additional funds, sometimes for a very short time. The main saving is done directly in the productive sphere at such times. Capital expenditure is extensively financed out of revenue. The "Ford" parent company is a striking example of extensive direct saving. Instead of distributing enormous dividends they enlarged the works and remained free of the financier and of the rentier. However, even such policy must at times strain the liquid funds of business concerns

and recourse is taken to the short-money market and to the loan market proper. But prosperity in any one sphere encourages young blood to have a try. This increases the pressure on the money market in general. Discount rates must go up and long-term fixed rates will move up. But not so with the "yield" This upward move of interest rates has to stop when existing commodity prices do not allow for a profit on and above these rates. Demand for money will be curbed. Every business man will ask the question: Will prices hold out? Under the old system one had to expect a reaction sooner or later. Not so under the new rule. The price level is guaranteed. The entrepreneur knows that he can sell his product at a profitable price so long as demand for the particular articles is not outrun. Since no monetary system will ever be able to guarantee single prices, or even price groups, his care must be to see that he stops or reduces production of such articles as are falling considerably in price —provided this fall is not caused by a cheapening of production, because he will lose money by causing a sectional overproduction. But that risk he is quite willing to take. He can, if he is

awake enough, transfer part of his production to some other articles for which there is still a large demand. And he will do so without loss of time if the general position allows him to expend the necessary capital outlay for new machinery. And, a general price level guaranteed, the position is secure.

What then happens on the rates of loan interest and short money reaching a certain maximum rate as fixed by temporary circumstances is no more than the stoppage for the time being of new money capitalisation. All the monetary claims in the world cannot be more valuable than all the real savings in the world. So when the price for these monetary savings so offered becomes too high they are refused. Demand for them will cease. No new investments are issued. The money and investment market will be confronted with a very limited supply of marketable investments (securities). Shares in expectance of good dividends too will not change hands unless there is domestic need for it. What now follows is a rapid rise in the price of all investments. Those investments from which the owner can expect a high return are paid accordingly. At

this point the actual rate of interest payable on the loans and bonds, etc., becomes a nominal figure. The real valuation will not be the rate, but the "yield." This is the rate that the present owner reaps on his own investment. Supposing dividend payments all round average 8 per cent. and Government security stock 5 per cent. The demand for such stock would by and by drive up the price of the latter to, say, 120, the actual yield on the money which the buyer would have to pay for the stock would be reduced to 4.2 per cent., the same price would reduce the yield on the industrial shares to 6.6 per cent. The rate of risk, which previously was 3 per cent., would thereby be reduced to only 2.4 per cent. As soon as prices of risk-bearing and of secured investments become more equal, holders of the former will sell out and transfer their claims into the latter kind of security. This, of course, tends to lower the price of industrial shares and raise that of governmental bonds, with proportional losses and advances in the prices of the many groups between the two extremes mentioned, so restoring the rate of risk to its appropriate level. The real rate of long-term investment

is the "yield," the profit on the actual investment by the holder. The price paid for an investment and the rate of yield move in equal proportions but in opposite directions. This explains why it is possible to have a discount rate much higher or lower than the long-term interest rate. The discount rate is the result of the demand for and supply of short-money claims and currency; the long-term rate originates from the supply of and demand for investments.

The evolution of prices for real capital is very similar to that of the prices for investments. Costs play a very small part. The possible results alone are of importance. An industrial or commercial undertaking is sold on a different basis from an ordinary commodity. The price is based firstly on the possibility of making profit and, secondly only, on the maximum cost of construction of a similar establishment. Compared with the cost of construction the sale price may be very low. The prospective buyer wants to be convinced that the profits which he can get out of the property will be large enough to cover interest and depreciation as well as something above a mere wage for himself and the risk he is taking. On the other hand,

if considerable good-will is attached to the object, *e.g.* cheap electricity available for working, or a good locality for rail and road transport, or other advantages, the buyer will be willing to pay an amount that may be many times that of the actual costs of construction and installation. A new venture might take years to develop to the point of the existing one. And the latter would, of course, be a competitor. This again shows that the rate of profit is the real measure of the value of real capital. Profit is simply the aggregate of: rate of risk, interest on borrowed and owned savings, wages for the entrepreneur.

It was found that stable monetary conditions will increase commercial activity and production generally; that the demand for money and for loans increases accordingly, and that industrial expansion takes place; that, however, rates of interest, both short and long term, will not increase beyond a point, and that from that point onwards actual yield on long-term investments will gradually decline. Wages will have risen considerably owing to the increase in employment. The new currency controllers will, of course, not allow the slightest hint at

possible deflation. They are engaged on keeping things moving at the new level so reached. But man is an inveterate hoarder. He will insist on saving monetary tit-bits and these are continuously collected as monetary claims in the banks and elsewhere. The entrepreneur, the legal owner of the factories and the means of production, has also been saving, so has the small house owner, so has the real estate man. These people have saved directly by improving their property. Part of their usual demand for monetary savings has thus been satisfied without any call on the investment market or on the banks. While, then, from the money-saver's side there is an increase in savings offered, there is no longer a corresponding demand from the entrepreneur's side. Savings in the investment market are up against a relatively decreasing supply of investments. Be it understood that it is the relative figures, not the absolute ones, which are important. Investors have, then, to buy dearer and accept less yield. The rate of long-term investment will recede still more. But so will the price for real capital. When there are few houses and many applicants for them, prices will be high and rents prohibitive.

It is not the number of people that need houses, but the number of people that are both willing and able to rent or buy the class of house offered, which determines the price. If, however, the number of houses has increased to a point where they are in excess of actual and effective demand, then prices will slump, no matter what the cost of building is.

The very same thing applies to industrial buildings and other real capital. Industrial expansion must necessarily mean a competition between monopolies and, in the end, the breaking down of all monopolies not rooted in the possession of land. The nationalisation of the ownership of land will secure the benefits of the latter monopolies to the nation. New manufactories are a menace to the existing ones in two respects. First, they will put up a competition in prices, and, secondly, they will compete for the requisite labour power. This they can only do by paying higher wages. Gross profits must fall in relation to wages. But if gross profits fall, then interest rates must fall. The legal owner of real capital will not be able to retain as much relatively as he could do previously. If investors will not agree to less

yield, then he will quit the business. This would mean still less employment for money savings. It may be better to take a small reward than none at all. The long-term interest rate cannot be saved unless . . .!

Apart from the ephemeral influences of pure speculation, the importance of which will diminish with the advent of monetary stability, the steady downward move of interest rates has always caused a desertion from the investment markets of all free money, first into the short-money markets and later into hoarding. As Marx so nicely described the situation: "Money suddenly turns round and, without warning, transforms itself from the merely ideal form of account money into hard cash. It becomes irreplaceable by profane commodities."

Unless (to conclude the sentence left unfinished) money is allowed to withdraw from the investment market, the long-term interest rate must continue to fall. The question poses itself: Will the currency controllers be in a position to prevent money from deserting the field and hiding itself?

And the answer is definitely in the negative as far as traditional money is concerned, even

though it be managed on the basis of the stable price level.

Money can still be hoarded. It has less chance of upsetting the apple-cart than it had when on a metallic standard. But it does not lose substance in hoarding. It is true, the currency controllers will simply issue new money to fill the place of the hiding one and to compensate for the fall in the rate of velocity. But this must cause the hoards to grow into fantastic proportions. The great adepts in speculation will mark their time. Having sold out their investments when the going was still good, they will keep their mountains of money ready for a "coup" on the stock exchange and on the foreign exchange. When the time is ripe for them the money hoards will be unloaded into the money market and inflation is a fact. That they will make their profits nobody will doubt, but they will also have "proved" that a stable currency is an impossibility and by the facts of it people will believe them. The old gang will come back and rule the world by rule of thumb and interest.

Unless, then, to repeat the ominous word, unless money cannot withdraw, unless it is made

to lose its substance while in hiding, unless money is made as bad a commodity as the average wares, money will still be able to cause crisis and depression.

The management of money on the basis of stable average prices will ensure all that is necessary to open up avenues of unheard-of wealth to all mankind. It will eliminate what is now known as exploitation of labour. The rotation of the mighty wheel of monetary interchange will generate the powers necessary to sustain the weight of ever-growing wages and ever-rising standards of living. But there is still one flaw hidden in the monetary structure. And this flaw will cause the whole structure to crash down into ruins as soon as the critical point is reached. This is the reason why Free Money is essential to success. Free Money cannot be capital, it cannot be hoarded, it must change hands frequently and will be void of any inherent power. "Unless . . ." will disappear and interest rates must go down until they reach zero and disappear for ever.

8. *Free Money in Practice*

Free Money, it will be remembered, will be liable to a weekly or monthly circulation tax. The user of money will have to pay to the State for the service which he gets by using money. This tax will be paid by affixing a stamp to each note each tax-day. The face value of the note will thus be kept intact. Notes not properly stamped will still be accepted but at the appropriate discount. The rate of the tax may be anything from 5 per cent. to 12 per cent. per annum. Experience must tell which is the best rate.

The holder of the note on the morning of the tax-day marked on the note itself will be liable to affix the stamp. So everyone holding the note previously will try to get rid of it as soon as possible in order not to be caught when the ominous day arrives. People with banking accounts will economise in the use of actual cash and pay into the bank any money which they do not absolutely want. Others will spend more quickly by paying promptly. Lest some readers think that they would have to pay tax on their whole income, it must be understood

that only the actual cash in one's possession on a tax-day is taxable. If some worker should be unlucky enough to have to pay for the whole of his pay every time (a thing which will hardly ever happen), if his weekly pay were £5 he would pay on an average 1¼d. a week, or 5 shillings a year, if the annual rate was 5 per cent. Or say an Indian worker receives Rs.10 each week and has to pay the tax every time (again it would hardly happen), his weekly tax would amount to 2 pies. But what may amount to only a few pence or pies in the case of a worker will amount to thousands of pounds in the case of a bank or other financial institution. It is in these quarters in particular that Free Money would cause alarm and a considerable increase in velocity of circulation.

There is a rational rate of velocity also for money. Three to four weekly turnovers of actual cash are probably the rational rate. However, the greatest importance of Free Money does not lie in an increase of velocity but in the establishment of a "stable" rate of velocity. If the price level can be sustained with a quantity of money = (A) at a velocity of circulation of (3), the turnover will be 3A and

the amount of business done must also be 3A. But if the amount of prospective business remains 3A, and for some reason or other the rate of velocity drops to (1), then the total money turnover will only amount to 1A. Business would collapse. This has indeed happened more than once. The gap in the monetary turnover could be balanced by fresh issues of money. But this would take time and in the intervening days the finest exchange gamble could have taken place. The stable rate of velocity is of as much importance as is the control of the quantity of money.

Banks and business-houses have to get rid of Free Money as soon as they receive it. They cannot leave it to the last evening because they would not know whether they could dispose of it then or not. So they will have to act daily. Business-houses and small traders would no doubt simply pay the cash into the banks. Private people with banking accounts would do likewise.

It has been suggested by certain critics of the scheme that more and more people would open accounts with the banks and cheques and transfers would be used instead of cash and

so the whole scheme made illusory. It is necessary to analyse this criticism. Supposing it were true that all and sundry opened accounts with the banks. The result would be a large increase in short bank balances. It must be remembered that short mobile deposits cannot be lent out by the banks on really remunerative terms, because these balances are liable to be called away at any time. They can only lend out on good terms money which has been deposited with them for good, and for a fixed period, or with the proviso of a certain minimum time for recall. The increase in current account balances would simply increase the mobile liabilities with hardly any chance of earning with them. It is clear that the banks would do their best to earn what there is to be earned. They would buy bills and "short" or "hot" investments (investments which are soon falling due for repayment). They would be able to lend to the stock exchange. But since speculation in general will decrease owing to stability of trade and prices, there will be less opportunity to finance that market. All the banks will be in the same predicament, and in order to get the bills and "shorts" they will have to lower the

private discount rate and raise prices for the investments.

The cheapening of short money will at once be followed by a smaller demand for long-term money. Business will be able to finance cheaply by way of bills of exchange, and therefore decline to pay high rates for long-term money. Interest rates will come down on both sides. The banks cannot arbitrarily choose the ratio of cash they want to keep against their deposits. There are certain minima which are absolutely necessary and beyond which no bank can go. That ratio is probably about 7 per cent. of the total deposits. If the mobile balances increase while the fixed balances remain the same, then the ratio of cash to deposits must accordingly be increased. The amount of cash necessary is somewhere near the amount of a daily turnover of the mobile accounts. The rate is relatively higher in banks where the main part of the business consists of average and small business payments than it is in banks with a considerable "financing" business and investment transactions. This is easy to understand. All capital transactions are already in monetary form. They can be cleared one against the other with-

out the help of actual money. This is not so with commercial business where there is almost always a cash transaction at one end of the transaction. Here the monetary unit acts not only as a means of payment, but also as a measure of value.

Any considerable increase in private and other current accounts must force the banks to hold more cash. Since they must hold it all the year round, there will be a weekly recurring charge on the whole of the cash holding to cover the Free Money stamp. Instead of being able to pass this on to the borrower they will have, as was shown, to take less interest.

Be it remembered too that under the new system the banks are unable to pass on superfluous funds to the issuing bank. They will have to charge the depositor of short money with the amount of the circulation tax, just as if he had kept the money himself. More so, on days when the cash takings are exceptional they will themselves pay as much as is possible in ready cash instead of by cheque or bank transfer. This will force the public to deposit their funds in deposit proper, *i.e.* for some time

or at so many weeks' call. When this happens the banks will be able to lend out on longer terms and to buy ordinary securities. By doing so they are of course pressing down the rate of interest on the former, and increasing the price on the latter, so reducing the yield. There can be little doubt that industry will soon refuse to issue fixed-rate investments. They will offer par-securities instead. Par-securities would pay interest at the ruling rate, and for this reason would always command the nominal price unless the security was weak or impaired. As can be seen, there is no escape. If it is remembered that in prosperous times very large direct saving is going on in all sections of industry and real property this becomes even more clear. An increase of monetary savings on the one side will be up against a decrease in demand for such savings. Interest rates must drop in time to zero.

It is possible that people instead of paying their current money into the banks will spend more directly and pay cash. There is no need for apprehension as to a falling off in saving. People will save. They are born hoarders. It is so natural to consider old age and security.

It is conceivable that the whole of the insurance business will alter its ways and private saving become almost exclusively insurance practice. Such a development would tend to concentrate the investment business in professional hands. Insurance companies would no longer be able to pay annuities and bonuses out of interest earned on investments and loans, as they do now. Rates for premiums would have to be increased, in time doubled. But a fall in the rate of interest does not only mean a similar rise in wages but, as was shown on page 89 it will certainly mean an increase on the wages side many times the amount of the actual loss to receivers of interest. Production will no longer be hampered by periodical set-backs and the total of production will increase in almost geometrical proportions to the loss in interest. Saving will be easier, not more difficult. It is less exertion to save £500 out of £2000 than it is to scratch £50 out of £200. And it must also be remembered that at present there is almost no security for the saver. In the ordinary run of things he will lose as much on the investment as he is likely to earn in interest. This applies to the investment business as a

whole. The speculator, of course, buys and sells at the right time. Interest system and periodical crises are really madness *in excelsis*. Except for a few professional speculators in the world's currencies nobody is enriched by the system, but 98 per cent. of the populations are kept poor. So it will be a boon to investors and workers alike when investments keep their par value. Interest will indeed have lost the battle, but security will take its place and wealth will increase for all.

9. *Equilibrium Assured.*

It remains for the student to find out whether the combined effects of such a policy as the "fixed price standard" plus "Free Money" will not in the end cause one-sided development, leading yet to disequilibrium again.

That this disequilibrium cannot come about in the money and investment market has already been shown. It is to be expected that after some time the now so-called "short-money market" will almost entirely disappear. Once interest rates have reached as low a level as less than 3 per cent. on an average, there will no longer be enough margin between the two levels

to induce the trader to make use of the short-money market rather than the long-term market. He will finance his business on sound long-term lines and instead of drawing bills on his customers' bank will himself finance the whole transaction from beginning to end. Between long-term investment prices and short-term investment prices no margin will be left. They will both be quoted at par unless the real security behind them be invalid. Banks will lend on securities as they do now to customers that do not want to sell their securities but are temporarily in need of funds. But current account holders will not only receive no interest on their deposits, but they will have to pay the circulation tax plus a charge for their services to the banks.

A number of economists ascribe the causes of industrial and commercial depression to a change in the ratio of saving relative to consumption. They say that in times of prosperity people start to save more than they did before. This surplus of saving finds its way into industrial expansion. The first experienced increase in the demand for consumable goods leads to enlargement of the productive plant in general.

This will in time mean an increased supply of consumable goods. But owing to the *pro rata* increased savings of the consumer there will be no correspondingly larger, but a smaller, demand for commodities when the new manufactories and extensions begin to turn out their wares. Prices fall and depression sets in.

This contention has no ground to stand on. It has already been shown that monetary savings do not of their own account alter the structure of production. If few monetary savings are forthcoming, increased saving will perforce take place in production itself. This is the primitive and most natural mode of saving. But the surplus (?) monetary savings of which the learned professors talk have not entered production at all. They have been hoarded in the form of gold hoards and hoards of bank notes on the one hand, and in the form of vagabond-money deposits in the banks on the other hand. Monetary savings are not employed, which fact, instead of having helped to swell production, has caused production to stop on account of the missing means of exchange having stopped trade in the primary markets and latterly also in the retail com-

modity market. Production is not aimlessly accepting money for extension. Otherwise it would now take the opportunity and help itself to the cheap money lying about. A flourishing industry or commercial section saves for itself and by and by reduces the ratio of foreign capital to its own. And at that point interest rates start to drop. The consequences are known.

Nor is there any truth in the statement that sectional fail-investment can cause a general depression. And such fail-investment is implied in the extension policy just analysed.

Looked at from their point of view we should have to consider as a fail-investment all the scaffolding necessary in the building of a house. When the house is finished it has to be taken down and half of it is useless, although it is not by any means "consumed." But nobody would think of ascribing the bad habits into which the building trade has fallen lately to fail-investment in scaffolding material. Why, then, is the measure applied to industrial scaffoldings? Half of the world's fleet of ships is only fit to be broken up. But owing to high interest charges it is more profitable to keep those soul-murderers

and steam-rollers and endanger crew and cargo than to break them up and, when need again arises, build modern ones. The same applies to old machinery, to insanitary workrooms, inefficient office or workroom arrangements. The rich city of London can pride itself on the worst offices to be found, as well as those of the most modern type. If anything, industry and commerce have not by a long way expended as much money as they ought to have done. If we count up all the industries and trades that are working below normal and describe the production units not now used or not fully employed as fail-investments, we find that half of the world's investments are not worth the paper used for their certification. But that is pure nonsense. Most of these units will yet make profits and be good security. We have much more equality of poverty in all sections of trade than sectional disequilibrium. Of course, there is and always will be some fail-investment. But its magnitude is negligible. It will not even affect the general trade of a country, still less that of the whole world. But the claim might be viewed from another point too.

All commercial enterprise is based on the

age-old motive of profit. Production, distribution, transport, they all go on until enough profits cannot be made to provide for all charges plus a special bonus for the entrepreneur. It was shown that when the war came to an end about half of the world's industries were suddenly left without markets. There were enough tanks, enough cannons, enough khaki uniforms. Within a few months tractors were turned out instead of cannons and motor-cars instead of shrapnel, and so on. The enormous disequilibrium in industry was overcome almost unnoticed because new markets were there and money was plentiful. The risk of demolishing the old machines and installing new ones did not seem too grave to be taken in view of the other circumstances. And it would not have been too grave had the gold-brain-storm not paralysed the brains of most economists and central bankers. As it was, prices were killed in one country after another and profits soon followed into the grave. But while the same trade extension kept France busy and content right up to a few years ago, did it cause our creeping consumption of ten years' duration? It is a rule in experimenting never to alter more

than one factor at a time. In this way it is possible to learn of the specific influence of the one factor on all the others. If economists tried this method they would in time find out that certain factors are always involved in certain happenings while others are not. The method of the largest common factor is taught in the elementary school but there are not half a dozen economists that appear to know about it. They certainly never use it, as their barbarically unscientific statements prove.

If we consider the terrible poverty around us even in Great Britain, the millions of people that have not enough to eat or not the food they want, to say nothing of their needs for dress, for housing, for education, and the desire for better things, even if it only be a motor-car, for all of which these millions would like to work, yet are prohibited from production as well as consumption, the idea that sectional disequilibrium can cause such dismal conditions is simply laughable.

Even if some people save more of their money than they did before, what is happening to that money? Is it being eaten up? It may be remarked that the economists in question do

not believe in the theory of general monetary conditions as severely affecting conditions. So we must not take any note of the unemployed money, as we have done in previous paragraphs.

The surplus saving, as they say themselves, went into production. But what happens to money that goes into production? It is not thrown into the fire but it is paid out again at some point or other in wages and salaries and dividends. Even if it is paid to the State as taxes, it will find its way back in the form of interest on war loan or salaries to civil servants. Every penny and every anna that is saved and not hoarded will again be paid out and will constitute effective demand in the commodity markets. If there is a large increase in production of a type that will increase the means of production, and so lead to further increase in consumable commodities, then there must be, for a time, a smaller output for direct consumption. As the professors themselves say, if one class gets more, the other class must get less. There will be good wages and plenty of wages in the production for production sphere. Consumption will, therefore, be rather larger than smaller, since, in order to cope with the

demand, production for consumption demands labour rather more pressingly than before. Wages and salaries must be good and dividends no doubt too. So even if there is some more saving it will hardly be more than the difference in wages if compared with the former state.

But the continuation of this disproportionate appropriation of labour and capital would soon lead to an increase of prices in the consumable commodity markets and a retreat of prices in the markets for commodities for production. It has never been noticed that workers or rentiers have sat down and started to eat the bricks that were saved up. The more there are savings the more is the opportunity for the worker to earn money. Demand for a dredger means the same amount of consumable goods for him as does the demand for blue silk or fresh eggs. Wherever the savings go—as long as they do enter commerce and industry—they will be payments for profit and wages. There are no other payments possible, whatever the commodity is that is bought. Why then should workers become unemployed and rentiers made miserly with their incomes because there are a few machines too many in some new factory or

a few miles of electric wire laid that cannot now be utilised?

What really would have happened could only have been this: Too much saving on one side leaves more consumable goods over for others. The savings having gone into production would at once have created a corresponding easing off of demand in the commodity market, and prices would tend to fall rather than improve. No such movement could be overlooked by the trades in question. So, instead of embarking upon new extensions, the manufacturer would have tried to save money by stopping or reducing his programme. The banks could not have lent him the special money-capital and would have been left with the savers' sum of money. So the banker would have turned round and informed the latter that his saving is only wanted at a lower rate of interest. Had the savers and money-capitalists agreed to such a course, the bank would have told the manufacturer that he ought to go on with his building. There would certainly be another good time to come and he ought then to be ready. As things were he could have the loan two per cent. cheaper, and so on and so forth.

In that case production for production would have gone on and the savings would have entered the raw material and machine markets and would have provided wages and profits for the people engaged in those trades. By and by prices in those markets would have risen, while the supply in the markets for consumable goods would have decreased. But owing to the good trade in the first-named section, there would soon have been an increased demand for consumable goods to be consumed by the workers and investors in the first market. This would have tended to increase profits in the second market again and a considerable shifting in production would at once have set in. While the first market is active, Sir William Morris is able to sell commercial vans to the builders and the electrical trade. When the tide turns he sells them to the manufacturers of boots and laundry, etc.; it is only when trade in general is out of joint that he has to try to sell those vans to professors of economics. The fact is, of course, that those savings were indeed made, but they were not pressed into the channels of production, whether of one sort or another. They were simply and truly hoarded. That is

why it is impossible to feed the hungry children of the unemployed although there are mountains of wheat and meat about.

There is another section. These people consider the prevailing condition to be the result of planless production. This is the more serious view and many points seem to be in favour of such a theory. But it also fails on strict examination.

It is an impossibility to estimate future demand with anything like fair accuracy. In spite of all statistics it has to remain an estimate, unless it is intended to take away from the customer his freedom of choice and force him to eat bread when he wants apples. As far as "production for production" is concerned most orders are placed before production starts. However, the largest surplus stocks are to be found in those regions where demand is a more or less fixed factor, at least where it only changes considerably over a long period. Wheat, sugar, cotton, coal, and iron are the main products that are unsaleable to-day. The prices are still too low to allow for either good wages or business profits. Why, then, has production in those products and materials not declined?

Take wheat. The farmers in America, with the help of the banks, planned a campaign to keep prices high. Instead of letting the automaton of ordinary economic law do its work, men put their hands to the spokes and stopped the machine. Only so much wheat was sold as did not allow the price to fall. And the result? Farmers, instead of reducing their acreage for wheat, as they would have done had the falling price pinched them right away, went cheerfully on with the old acreage. But the conditions elsewhere caused also an increase of acreage outside the pool territory and so the unsaleable wheat stocks increased to mountains —the result of planning.

The British Government, no doubt in order to be sure of sweet tea, subsidised increased production in sugar at a time when production ought to have been reduced.

The Brazilian coffee planters and the Government did something similar to that practised by the wheat pools. Again the acreage tended did not decrease but in many parts increased, and coffee was burnt instead of coal or thrown into the sea.

The Russian Government and their planning

departments went on planning magnificent industries and forgot to plan how to feed the people. Had they, instead of planning impossible industrial "jumps," planned as a first step the issue and management of money in accordance with the actual needs for money and credit, they would have had better results without that grandiose planning system. But instead of setting the monetary machine to help them in their struggle, they allowed inflation to make all their wonderful plans invalid. This could happen because they still consider money to be synonymous with "capitalistic," and human psychosis synonymous with "bourgeoisie." The result is that they have to shoot a few managers every now and then and that private usury rates are as much as 50 per cent., while the official rates are between 8 per cent. and 12 per cent., the highest capitalistic rates in all the world.

Coal and iron are still produced (in fact production has gone down and therefore there ought to be no discussion about it any more) simply because there is no other employment. Does any sane man think it to be possible that the Welsh miners, that splendid race of people,

would sit in their homes and bewail their misery if there were an earthly chance of getting work and wages elsewhere? Why, then, not plan other work? Because whatever was produced would not find a market. So we see that it is much more the wrong planning than the absence of planning that has caused the present situation. And what are customs barriers other than autarchic plans?

No doubt a lot must and can be done in the co-ordination of services, of intelligence, and of management. There are such things as roads and, in the writer's opinion, railways and similar service undertakings that are best planned on national lines. But planning will not help the worker to get one single penny of higher wages. The Swiss Federal Railways have to cut wages at present although they have been in the possession of the State for thirty years.

Sectional disequilibrium is, then, itself partly due to general disequilibrium. And the latter is caused mainly by the unnatural monetary system and wrong planning nationally and internationally, and, not least, to the little regard that is paid to human nature.

Since Free Money, based on a scientific

monetary standard, as it would be, would set all the inherent human greed or—it is more correct to say—egoistic satisfaction—to work in union with the larger social units such as commune and State, instead of against them as now; every man would have the chance to use his energies and improve his skill to the utmost and get the reward for it, as far as material rewards can go. All the different disruptions in the industrial and commercial sphere of which the world is so full at present would disappear or become negligible. Every single person would have an interest to do his best in whatever line that may be. As long as he will go his way without infringing the law he will be free. If he works then he will have to eat and will be able to buy his pleasures if he needs to buy them.

It is wrong to suppose that this crisis is something new. That it is a sign of a crumbling capitalism only very naïve people can believe. A system that is able to shut out thirty million people from work, simply to protect the rates of interest, is not yet at its wits' end. When we read what Marx's friend Friedrich Engels wrote in 1877, namely, that ever since 1825 about

every ten years there was a crisis, we think for a moment that he is accurately describing the position to-day. So he writes: "Trade stops, the markets are overflowing, the products are lying about in masses but are unsaleable; *ready cash becomes invisible*, credit disappears, the factories are closed, the working masses are denied food because they have produced too much food. Bankruptcy follows bankruptcy, foreclosure follows foreclosure, and this state endures for years. *The powers of production are wasted and destroyed on a colossal scale. . . .*"

This was written in 1877. It might have been written in 1677. It was then true as it is now. The electric motor, the motor-lorry, the new weaving loom, air-mail, and wireless could not then be blamed for the situation as they are now. "The circulation of goods is destroyed for the present," continues Engels a few lines down the page, "the means of exchange, money, becomes an obstacle to circulation; all laws of production and circulation of commodities are turned upside down."

Yes, so were and are the laws that are attributed to this circulation process by Marx and others. But laws do not alter their influences

for the fun of the onlooker. If circumstances have turned those laws upside down, then it is clear that the laws so attributed to economic dynamics were and are wrong. Money is a major cause and factor in the economic machine and will upset all calculations that are not based on this knowledge. But knowing the laws, we can proceed to deal with the matter. Free Money is based on nothing but economic laws. Neither sentiment nor prejudices have been wasted by Gesell. His Free Money will prevent the state so accurately described by Engels. Money that is taxed if it remains in hiding will soon appear in the market and become visible to all. Commodities will start to circulate again from the mines and fields towards the consumer. Workers will not be left without food because they have produced too much. Above all, Free Money will for the first time in history make competition free and rob it of its antagonistic bitterness. Even in a communistic (say neo-communistic) state Free Money will be of value. It will help the planning and management if they let it work free, and leave the prices to evolve their own individual levels in the different markets, but within the limits set by the stable

standard. They will then no longer need to shoot people for psychological and arithmetical mistakes. Cause and effect will become obvious to expert and laymen, and management becomes easy. Planning will become, what it ought to be, just a gently guiding hand instead of the autocratic tyrant which it now is in Russia, and which, in a slightly milder form, so many serious-minded people would like to see established all over the world.

It must be repeated that money has to offer itself under the rule of Free Money. Monetary savings must offer themselves even if no interest payments wait for them. Security will be all they will be looking for so that their owners may eat up their savings when the time comes. No longer has all real capital to be paid in full every eighteen or twenty years and yet be left owing. Once paid it will be paid for good. The abundance of monetary savings offered, and they will be larger then as now, will make it easy for the courageous man to raise money for any more or less sound scheme. All this must increase the demand for labour in spite of the new machines that will be invented and installed. Intensity of demand for labour means

increasing wages even though interest payments are a thing of the past. There is no reason whatsoever why the average wage-level in any country should not reach such a point that every worker can enjoy the same amenities as can now only the man with a £10,000 income, except one-personal service. Servants in the old sense will become historic. If we want waiters, we shall have to pay them as much as we now pay to the General Manager of a big bank. But customs will change and maybe we shall not want to be "served" any more.

Free Money will, indeed, be "cursed." And, unless the curse is lifted again, will give mankind freedom from exploitation.

VI

INTERNATIONAL MONETARY PROBLEMS

1. *International Payments*

THE chief monetary tasks internationally are to ensure, first, the balancing of trading accounts between different countries; secondly, the flow of capital from one country to the other. The former, though a problem of great importance, can be dismissed in a few words. For if there is a system which permits free commercial intercourse between individuals, then it will be the care of the parties to a deal to see that they can pay, if buyers, or be paid, if sellers. The country itself will have no balance to make up. It will be a purely private affair.

Tributary payments, such as war debts and reparation payments, are on a different footing because they are outside the normal business of offering and accepting goods or services. But these too must ultimately consist of goods given or services rendered to the creditor country.

In the first chapter it was shown that a monetary system can be worked without metallic reserves. If that is true of one nation, it is true of the world as a whole. Gold or silver are by no means indispensable. Examples were drawn from Switzerland and Sweden to show that gold does not transfer its own value to the particular currency which it represents, that there may be a discount on gold. The merchant is interested neither in the price of gold nor of paper. His concern is to know how much of his own currency he will have to pay to settle his account abroad. His first thought on negotiating purchase of goods in America, shall we say, is to enquire how many dollars he will receive in exchange for a pound or how many rupees he has to pay for a dollar. Then he decides for or against the deal. In other words, as far as he is concerned, the whole transaction is simply translated into figures representing the purchase price in his own currency. Having closed a deal he can go to his bank and order them to buy the requisite foreign currency on forward contract. This secures him against any possible movement in the rate of exchange. If he does so he is only concerned with the rate

of exchange on the day when he buys forward. If he does not do so and rather chooses to speculate, then it is no part of the commercial transaction and has to be considered as pure speculation.

It is, however, desirable that rates of exchange should be more or less stable. Stability leads to better conditions internationally. Yet it must not be forgotten that internal trade is at least five to six times as much as external trade even in the most industrial countries. Internal stability is, therefore, correspondingly more important. But real stability can exist only between two countries where there is internal stability. It is not even necessary that the two standards be the same; as long as they keep to a common guide, internal and external stability can be achieved. Indeed, gold as a medium of international payment, if relied on solely, is extremely dangerous. It can easily become the pawn of politics and of the financial gambler. National and international trade can be brought to a standstill by withdrawal of gold from its normal channels. France and America have recently shown that this does occur. A heavy loss of gold by a country on the gold standard

(or of silver if the country is on the silver or a bimetallic standard) will paralyse that country's trade. Not only trade, but the peace of the nations is in the hands of those who have gold as their plaything. How is gold obtained? By the sale of goods and services. But is it not more sensible to sell these things direct without the intermediary of speculation in a valueless metal? If South Africa pays for commodities in gold, she is paying with a commodity, for gold is produced there. But if an English or an Indian trader pays in gold, someone must first have sold commodities, probably at a low price, to obtain the metal from the foreign bullion merchant. This second transaction is entirely superfluous.

Silvio Gesell and others have repeatedly warned the world that any monetary standard for which the monetary material cannot be produced or found within the country itself, must in the end become a cause of war.

What is our anxiety to retain a certain surplus of exports but the fear of the monetary base being lost to the foreigner and our commerce destroyed? For if the material for the monetary basis is missing, then the monetary circulation,

and with it credits, diminishes. Prices fall, trade is dislocated, and unemployment ensues. So long as the foreigner is willing to take more goods from us than we take from him and for the rest lets us have some of the gold (or silver), all is well. When he refuses to do so but is still willing to exchange goods against goods otherwise, some apprehension is felt with regard to a possible slump. It is, however, only when he is in need of (or otherwise wants) more gold (or silver), that is, when he tries to export more goods to us than he will buy from us and takes our money material away in payment for the surplus import, that danger becomes imminent. Tariff restrictions, colonial extension policies, and—unless the disruption is local—war will follow. We will fight for the yellow or gray metals with all that our young manhood is worth. The first step of any disarmament conference ought to be to ask the nations to discard those metallic money standards for good and all.

All that happens, once this is accomplished, is that the banks accumulate the monetary claims that are passed on to their agents abroad, until the time when we have to make payment in the foreign country. They sell us at home

foreign bills and drafts on their agents as they do now. Nobody would notice anything. It does happen that one country receives too much payment in one currency and too little in another. Other countries will be in the opposite predicament. The balances unwanted in one place are exchanged against balances in another place. This is done every day in all the money markets of the world. It never was the unbalanced state of trade that upset the exchanges, but the movements of money capital from one country to another. Under the metallic standard these vagabonds can take gold or silver (as the case may be) out of the country if they are unable to sell or exchange their balances.

Under the new system it would be impossible. They would have to sell their claims, or leave them where they are. If they sell too much the rate of exchange will go down and they themselves will lose most. But the fall in the rate of exchange will induce foreign buyers to buy our goods. If they have to pay less for the pound or the rupee but no more pounds or rupees for the goods we sell, they will make a bargain. In fact they profit just as much as the

capital-vagabonds lose. The country can look on with equanimity. By this very operation of the rate of exchange a redress of the balance, *i.e.* a settlement, is automatically brought about. So if the opposite happens, only in that case it will work in the reverse way.

2. *Movement of Money Capital*

Not all capital export is dangerous, but it is synonymous with a desertion from the nation's workshops. Capital export is caused by either fear or low rates of interest. If capital is withdrawn through fear, the balance can only be redressed by an increase of export. If the country nevertheless stays on a stable money standard, it is the exporter of capital who loses as we have just seen. His claims will reduce the rate of exchange and he will not receive so much foreign currency. But if the internal price-level gives way and inflation ensues, then it is the exporting country that loses, and the buyer of the goods will have the advantage. This happened to Germany about ten years ago. But if only the surplus capital is drained off, the export designed to rebalance the account can be carried on in addition to the normal productivity of the

country. It would lead to a temporary halt in the fall of the interest rates at home, but the increase in capital so offered abroad would indirectly cause a quickening of the fall of foreign interest rates. This applies to foreign lending in general.

Any foreign loan for unproductive purposes is simply waste (sometimes for the receiver and sometimes for the lender). A foreign loan in any form, political or commercial, is only useful to the borrowing nation if it produces a corresponding reduction in internal interest rates. If it does not, then its interest payments are tributary payments. Only in so far as the real capital in a country is increased by the use of it can loans and services which have to be paid to foreigners be of assistance. Free Money is sure to reduce the internal interest rate. Since the lowering of the rate will drive some capital abroad, it will also indirectly cause international rates to drop. So long as the monetary machine is intact trade will nevertheless go on increasing and be a good example to other nations.

There is the question of international co-operation. Many people talk and think of international money. "One money for all

nations." This is dangerous. No monetary territory ought to be so large that local conditions cannot be easily bridged by an average price level. India, for instance, is almost too diverse in her conditions for one to be satisfied with simply issuing money on a certain standard without causing the issue to be spread out, and circulation to be vitalised by special methods of village banking and other arrangements. A single world-currency issued and managed from a central office is an impossibility—if it is to function properly. But world co-ordination (this is much the better word, since co-operation is not yet known in any branch of daily life, and collectivist activity is a long way off co-operation), co-ordination of as many as possible, let us hope all, of the world's national currency managements is not only desirable but easily possible. All that is needed is a common policy. Five hundred different currencies absolutely independent of each other but co-ordinated by a common policy are more effective and easier to achieve than Mr. Wells's world currency.

Gesell has also shown the possibility of a world "super-currency"—a currency superimposed upon the co-ordinated currencies.

Much water will flow under the bridges before such a currency can be introduced, so it is not necessary to describe it here. All that may be said is, that it is simply another stable currency to act as intermediary between all the co-ordinated currencies. The main point for all international currency policies must be that national currencies must be free. The only reasonably safe line of co-ordination, however, is the stability of the internal price level.

The chaining of currencies, like the arrangement between Pound Sterling and Rupee (Switzerland and Great Britain followed the U.S.A. Dollar for a considerable period in the same way without arrangement) is the most dangerous and the most stupid method of currency "subjugation." No account can be taken of the needs and special development of a country. Inflation, deflation, stability, if either is the policy of the leader, must be followed by all the other countries. Instead of adjusting the monetary flow to the needs of trade and national development, the latter have to be adjusted to the former. Surely not only a dangerous, but an idiotic arrangement.

VII

A PRECEDENT AND AN EXPERIMENT

1. 1150–1350, *Two Centuries of Bad Money and Prosperity*

THE late Professor J. E. Thorold Rogers wrote in his *Six Centuries of Work and Wages* of the high standard of living and the very high wages of artisans and labourers during the thirteenth and fourteenth centuries. He came to the conclusion that artisans in London drew weekly wages which would equal £5 to £6 of the money of his day (about 1890).

Taken as a solitary statement this seems to be a miscalculation. And, indeed, modern economists did not seem to believe Prof. Rogers on this point. What exactly the reason was which allowed so high a rate of wages, the author does not say or know, nor was the present writer able to find evidence to go by for establishing this new point. Evidence may in time be found to prove beyond doubt the statement above.

That a time of similar prosperity was experienced right down the whole of western and central Europe is now beyond doubt.

A number of continental historians, viz., L. V. Ebengreuth: *Allgemeine Münzkunde und Geldgeschichte des Mittelalters* (1926); Kulisher: *Allg. Wirtschaftsgeschichte des Mittelalters und der Neuen Zeit* (1928); Maier-Schirmeyer: *Lehrbuch der Geschichte* (1926); Damaschke: *Geschichte der Nationaloekonomie* (1905); Dr. France: *Der Weg zur Kultur* (1920), and *Chronik von Dinkelbühl*; and others—are all agreed upon the remarkable prosperity amongst artisans and workers during the two hundred years between about 1150 to 1350. It appears that this time of prosperity ran parallel with the practice of most of the then mint-lords to recall and remint their money three to four times a year, each time charging a considerable mint-fee.

To Fritz Schwarz, a well-known Swiss writer, belongs the credit of having sifted French and German historical literature for the statements of fact and opinion of historians on matters of monetary policy of the time reviewed in their works. Part of his collection he has published

under the title: *Segen und Fluch des Geldes in der Geschichte der Völker* (Pestalozzi-Fellenberg Haus, Berne. 2nd Ed. 1931). (*Blessings and Curses of Money in the history of the Peoples.*) Schwarz comes to the same conclusion as does Dr. Hugo Fack in the article from which we copy the following:

2. *The Golden Age of Business*

Extract from an article by Dr. Hugo Fack which appeared in *The Way Out* (San Antonio, Texas, U.S.A.; Jan. 1932) and for which the author is indebted to Dr. Fack and the publishers of *The Way Out*:

"With the fall of the Roman Empire was initiated a period extending over centuries and known to us as the dark Middle Ages. Out of this economic and cultural glacial period stand in shining glory the human accomplishments of the era from 1150 to 1350.

"Historians in general offer no plausible explanation for the darkness of the Middle Ages. They report it as a fact, without being able to state its cause. Economists also cannot explain why, during this period, almost all economic and, with it, cultural life faded away, why the earth became 'a valley of tears,' causing the

remnants of the once happy humanity to flee into seclusion behind high-walled cloisters in order to pray more intensely for, and earn more justly a better life to come in the beyond than the existing one. Human genius seemed extinguished. Here and there a faint light, hardly strong enough to bridge the abyss of darkness in order to be recorded to us.

"But from 1150 on a change set in, bringing about temporarily an incomparable economic and cultural ascendancy of the European nations.

"Again historians and economists have nothing to report concerning the causes of this change.

"Germany, Austria, Switzerland, Italy, Poland, France, Spain, and England experienced during this era an economic and cultural revival such as these countries had never had before or after so generally among all classes.

"Prof. Rene Thevenin, the distinguished French scientist, in a series of articles just published by the *American Weekly*, writes briefly on this epoch:

"'After six centuries of misery and horror came the expansion of the three glorious centuries of the Middle Ages—the 11th, 12th and 13th—one of the greatest periods of art

and faith in the history of humanity, accompanied by the building of marvellous cathedrals rivalling the greatest masterpieces of all time and all countries.

"'This magnificent development carried the mind of man to heights which he has not often attained in his history.'

"Should present-day European civilisation go down and perish as some historians, in sinister analogy of former civilisations, prophesy, the investigators of later civilisations would stand in admiration of the wealth of works of genius and beauty brought forth during that era of 1150 to 1350.

"The magnificent architectural monuments of that time, the splendid city halls and public buildings, the luxurious and spacious private mansions, the lofty and sublime Gothic domes, etc., which we can admire in hundreds of towns and cities all over Europe, such as Cologne, Burgos, Strasbourg, Bamberg, Würzburg, Chartres, Paris, Wells, Salisbury, etc., to name but a few, are the incomparable masterworks of that period of splendour which seems to have produced them without particular effort.

"The historians agree that that era was an

age of plenty, that poverty was unknown, that general prosperity had spread to all who worked, that the workmen found as much work as they wanted to perform, that wages were unbelievably high, measured by their purchasing power, that the satisfaction of material wants gradually led to voluntarily working less, that the workers decided on a 4-day week, that almost everything was paid in cash, that long indebtedness disappeared, that more and more quality goods were made, that the finest quality and most durable clothes were worn, that the homes were richly equipped with beautiful furniture and precious pottery, that peasants, considered the lowest class, were wearing gold or silver buttons, in double line mostly, on vest and coat, that shoes were worn with big silver buckles and ornaments, and that social differences between high and low, between nobleman and peasant, had almost been done away with.

"Johannes Butzbach, one of the chroniclers of that period, records that the low people, the workers, had rarely less than four courses at the meals, that food was something negligible, that workers, boarding with their masters, as often was the case in those days, were legally protected

by city or county ordinances as to quality, quantity and kind of food they were entitled to besides their wages.

"The world, under such conditions, was big enough for a far larger population. No idea of birth-control worried them, and the population increased rapidly. Hundreds of now important towns and cities, such as Berlin, Bern, Fribourg in Switzerland, Riga, etc., were founded, wide areas of the East settled, beautiful romantic castles built at selected beauty spots of the landscape, and visions of those marvels of edifices realised at which we gaze to day in awe and admiration. Simple trades were gradually turned into craftsmanship, finally developed into art, to satisfy the eternal craving for more beauty. The general abundance of material wealth may, for example, be demonstrated by the fact that the various worker associations, even the humblest, made rich donations for the construction of the magnificent edifices of their towns. For example, the sack, coal and grain carriers at Danzig donated richly to the construction of the famous Marien church and for one of its beautiful windows, painted by a prominent artist.

"Real culture began to develop. Besides, in art the soul of the people began to express itself in folklore and folksong. Beautiful folk dances were in vogue. Poetry lived in the genius of such as Walther von der Vogelweide. Minnesong and chivalry flourished, the time of veneration of the ideals of womanhood appeared. Refinement of customs and fashions permeated all classes, even the life of the peasants, as Gustav Freytag in his *Picture from the German Past* describes. It was as though human action had been set free at last to realise the dreams of the soul.

"How was that period filled with material abundance, even without machines? How was it that the joy of life was ringing through the lands, from high and low? That culture, beauty, ennoblement of body, mind and soul permeated the masses of the people—real culture. That the chroniclers of that time agree that in the communities and 60 free towns, in 100 town republics of Italy, and in 250 towns of Pan-Greece an optimum, a maximum of human achievement, had, at least once, been reached, and that the cultural tree of humanity bore blossoms inconceivably beautiful and rich for

our times? How was it that life at that period could be lived on unreached heights, whilst in the same countries to-day, just like in America, the masses are unemployed in spite of poverty, starve beside the machines, the railroads, the aeroplanes, and suffocate under the flood of shallowness and tastelessness of products in all walks of life and art? How was it that at that time there was plenty of money available for the things that enrich and beautify this life, while to-day the masses are in destitution and starving? How was it?

"The archbishop Wichmann of Magdeburg (1150–1192) gave the starting signal. In order to get a new revenue he ordered all coins to be withdrawn twice a year and to be recoined against a minting fee of about 30 per cent. yearly. Other clerical and secular princes, having at that time the right to mint coins for their district, were only too willing to imitate this new example of filling their chronically empty treasury. To simplify the process of reminting, these coins, of which there existed only one kind, were made of thin silver plate, and called thin pennies, dinares. Small change was made by simply breaking them, for which

purpose dividing lines were indicated on them. In general, the recoining fee was fixed at 20 to 25 per cent. per year. One of the princes is reported to have renewed the coins during a 32 years' rule about 100 times, *i.e.* three times a year. In Poland one ruler went even so far as to withdraw the coins four times a year, 'at every fair' (market).

"These thin plates 'Bracteats' were the only money in Europe from the 12th to the 14th century, report the historians.

"Hoarding money thus became impossible. He who would have withheld his money would have lost it after a year. Every money owner was placed in the same position as the owner of wares. He wanted to get rid of his money as much as the owner of goods that also deteriorate with the time. Consequently, in order to avoid the minting fee when due, he tried to exchange his money for wares which he could make use of, or he loaned it to somebody, or paid debts or wages. Thus he escaped the depreciation of receiving only 12 for every 16 pennies he gave.

"Money had become the genuine medium of exchange which it had never been before or

after This money no more ruled, exploited, tyrannised, ruined. It only served the purpose of exchanging goods and services. Speedily it hurried from hand to hand. It was spent in order to receive, and by continued selling and buying, production and distribution went on without interruption. The exchange of goods and money was taking place on an even level. Both, money and wares, were standing under compulsion to enter the market, because of deterioration. Without interruption, production and exchange could go on incessantly, to the limit of human abilities to produce and the intensity of human wants to be satisfied. Within a generation a change had taken place from poverty to wealth, from cultural darkness to light. All available money was without much delay turned into useful and life-easing and beautifying goods, and every producer knew that his products would be sold or that he could turn to the production of goods in demand.

"Interesting is the fact that debts were not affected by this depreciation. He who incurred debts of, say 100 pounds, had to pay this debt back in the agreed amount and value of the

day when it was granted. And by the semi-annual or annual withdrawal of the coins the new coins suffered a depreciation from date of issue so that the depreciation got evenly distributed all over the year on all money owners. What cost 12 pennies at the begining of the year, would cost 13 pennies three months later, 14 pennies after six months 15 after nine months, 16 after a year, when 16 pennies were turned in for 12 new pennies. In this way the purchasing power of money was maintained at the same level all the time and without money being hoarded.

"The depreciation, putting money into circulation, although received with curses, became unexpected blessings which the people had never fully understood as to its origin. During all this period the people were putting up a fight for the so-called perpetual penny, the money which was not depreciating, which did not change in the course of the year, which was not called in for renewal. They wanted a money which they could not 'only' use as a medium of exchange but also as a medium to hoard, particularly after their material hunger for goods had more and more been satisfied.

They never recognised the causal relationship between the compulsory circulation of their money and the increased production of real wealth."

3. *The Miracle of Schwanenkirchen*

Schwanenkirchen is a mining and farming village in the Bavarian forest. It is now about a year since a host of press reporters from all parts of Germany descended—or rather ascended—on the inhabitants and besought them to answer their questions. This is the tale they were told:

The ideas of Silvio Gesell (the man who had warned the Reichsbank of the threatening inflation catastrophe seven years in advance) had spread through Germany and Switzerland. A group of pupils and supporters of the late Silvio Gesell decided to demonstrate his theory in practice. They founded a special association which issued to members, against payment in legal currency, notes in the form of Free Money which they called "Wära," *i.e.* "enduring." Traders belonging to the circle announced that they would accept wära instead of Marks. So it might happen that some member of the

association would walk into the tobacconist's shop and having received his tobacco would pay with wära and, of course, conspicuously display it. Other customers would notice and put questions. Such a demonstration was naturally more convincing than any lecture, and the propaganda did very well. Now the peculiarity of these wära notes was that they had to be stamped every month with a stamp (also issued by the association) equalling 1 per cent. of the wära. It amounted, then, to an annual circulation fee of no less than 12 per cent. Readers of the preceding pages will know the meaning of this stamp.

One of the associates happened to be a mining engineer in the possession of a soft-coal mine. He had bought it at a very low price from the receiver in bankruptcy of the last of a series of companies. In spite of the small price, he was unable to raise sufficient working capital. Eventually he thought of the potentialities of wära and got into negotiation with his friends. It was decided that a credit should be arranged against the security of the mine.

The man went home and started to engage workers. These were glad to offer their services.

The whole village was in one way or other bound up with the prosperity or otherwise of the mine since it was the only industrial undertaking far and wide. They were almost destitute, for the mine had been closed for some years and the little farms could not keep them all. But they were less pleased when they heard that wages would be paid in wära. They had reason to be afraid that butcher, baker and candlestick-maker would refuse the wära slips in payment of beef, bread and tallow. And they were right. The difficulty was solved by the promise that a canteen would be set up to supply the workers' needs. Work began and the number of workers increased from week to week.

Soon the store-keepers got alarmed lest the workers should not visit them any more on business. So they approached the owner of the mine and sought information about this new-fangled money. They were persuaded to accept wära and were promised that, if at any time they could not dispose of them, the association would exchange the surplus wära for Reichs-Mark. So they accepted wära and, the first shock over, were quite content to stamp

the notes in their possession on the last night of every month. Trade flourished again, and workers and traders blessed the name of Gesell and the association and the man who had thought of introducing wära into their valley. The mine was run successfully; the village of Schwanenkirchen and the hamlets in the neighbourhood were full of contented and happy folk; the old days of enforced idleness and want began to be forgotten.

Thus it went on until the Reichsbank got "the wind up." The associates had been clever enough to frame their practice in such a way that it remained within the law. But the Reichsbank entreated the Government to take action, and a special emergency law was promulgated under which wära was forbidden. It may be added that with the help of well-wishers it was possible to finance the undertaking after the wära notes had to be withdrawn and that work is still going on.

The interest of this experiment for the economist lies in the fact that a money without legal status or intrinsic value, and which had to be stamped at the rate of 12 per cent. per annum, was able in a short time to oust the

recognised legal tender of the country, the gold-covered Reichsmark. The occurrence confirms in a striking way the instance of bad money in the middle ages mentioned in the preceding sections of this chapter.

POSTSCRIPT

THERE is still a great deal of confusion with regard to economics and politics. As Ruskin quite properly pointed out somewhere in one of his books, the very name "political economy" has contributed to confuse the issues. Politics and economics are two entirely different departments and both are instrumental and not final social functions.

Economics is concerned with subsistence, politics with order. But food, clothing and shelter, and law and order, are not the aim of mankind. They are the foundations upon which man can act and express himself. And moreover, they cannot be organised in his own interest so long as they are desired as ends. Only those who know that the meaning of the whole cannot be expressed in terms of function are able to distribute functions wisely in the interests of the whole. This is the conception of the *organic State* which is put forward by the NEW EUROPE

GROUP (55 Gower Street, London, W.C.) and their subsidiary, the NEW BRITAIN GROUP.

I mention this group as I am indebted to them for the realisation that what I have been dealing with in the preceding chapters is no more than a plank, though a very important plank, in such a platform.

It is true that no economic system is in itself fundamentally automatic, because, as Silvio Gesell says: " . . . the order which we impose upon ourselves is always an act, an act consciously willed." And a few lines farther on he writes: " The economic order under which men thrive is the most natural economic order " (*The Natural Economic Order*—Preface).[1] And, we might add, men can only thrive under an economic order which is based on the foundation of human psychosis.

It is encouraging to learn that Prof. Irving Fisher of Yale University has also taken up the case for " stamped money," and that he gives due credit to Gesell. He is propagating the case for the new money not only in his book

[1] Silvio Gesell, *The Natural Economic Order*, translated from the fifth German edition by Philip Pye, about 400 pp. Stirn Verlag, Leipzig. London: Hendersons, 66 Charing Cross Road.

on *Booms and Depressions*,[1] but also in articles and speeches.

Concluding, I should like to express my great indebtedness to The Rt. Hon. George Lansbury for the encouragement he has given me and for the appreciative Preface he has so kindly contributed to this book. Many thanks are also due to Mr. Purcell Weaver and to Miss Cecil Eastgate for reading and revising the manuscript.

[1] Irving Fisher, *Booms and Depressions*, Adelphi Publishing Co., New York. (1932.)

J. H. B.

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