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# THE MODERN IDOLATRY

# THE MODERN IDOLATRY

*being*

AN ANALYSIS OF USURY

*&*

THE PATHOLOGY OF DEBT

*by*

JEFFREY MARK

1934

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# CONTENTS

Preface on Usury Page 1

## PART ONE

### Destruction and Sacrifice

CHAP. I New Lamps for Old ! Page 9
II Actual and Potential Resources 19
III Sabotage and the Scarcity Complex 25
IV No Money, No Goods ! 36
V " Economics—that pathology of debt " 41

## PART TWO

### The Mechanism of the Modern Idolatry

CHAP. VI The Creation and Appropriation of Public Money Page 55
VII The Genesis of the Moneylender 63
VIII Heads I Win, Tails you Lose ! 71
IX Gold, Notes, and Bank Deposits 75
X The Money Machine 81
XI The Mechanism of Money Creation 88
XII ' Reductio ad absurdum ' 94
XIII The Circulation of Bank Deposits 101
XIV The Debt-Structure 112
XV Investments and Industrial " Surpluses " 125
XVI Imperial Policy and its relation to Industrial " Surpluses " and Foreign " Trade " 133
XVII Foreign " Investments " 140

CHAP. XVIII Interest due on Foreign Debt a Prime Incentive to War Page 146
XIX The Menace of the East 153
XX The Urge to Destruction 160

## PART THREE

### Free Money

CHAP. XXI Saving and Spending Page 167
XXII Price, Profits, and Usury 172
XXIII Free Money and the Abolition of Debt 179
XXIV Plant and Land 188
XXV Sociological Possibilities under Free Money 194

## PART FOUR

### Opposing and Enduring Forces

CHAP. XXVI The Bid for World Power Page 211
XXVII The League against Nations 218
XXVIII The Gold Idol in England 230
XXIX The American Banker 236
XXX A Plan of Action 245
XXXI Fair is Foul, and Foul is Fair 250
XXXII Popular Opinion 259
XXXIII The Modern Idolatry 270

*Appendix A* The Gold Standard in Action Page 279
*B* Bank Deposits 281
*C* Inflation and Deflation 283

*To*
*Schuyler Jackson*

# PREFACE ON USURY

THE aim of this book is to show that the causes for the present widespread individual, industrial, political and international unrest must be sought in the financial system, and in that only. More specifically, that this system, under whose archaic dictates we all necessarily live and suffer, is based on and entirely motivated by usury—which is itself the genesis of all hatred, fear, suspicion and war.

In order to do this, a somewhat detailed examination of existing financial processes has been undertaken. This has hitherto been considered the exclusive province of financial and economic experts. It is imperative to-day that it should be regarded as a matter for everyman's judgment.

The fact that certain sections of the book are somewhat technical, does not mean, therefore, that it has been written solely as a challenge to financial theorists. This book is written for the ordinary man, and its main implication is sociological.

The present intolerable position, which the writer believes to be merely the preliminary stage in the complete breakdown of the monetary system throughout Western civilization, is the living ' reductio ad absurdum ' of a condition which is implicit in all forms of sociology under usury.

Modern civilizations, as well as those of the ancient world, have been built up on and were or are being broken by usury. The expansion of a nation or empire depends fundamentally on the expansion and maintenance of its debt-structure. So long as interest-payments can be made with respect to an increasing debt-structure, national or imperial entities can be supported or extended. In the last analysis, however, these interest-payments can only be transferred through the complementary degradation of certain classes within these entities and the commercial exploitation of retrogressive or undeveloped

countries outside them. The spectacular rise of communism and socialism in the last eighty years shows that this internal exploitation is now receiving organized opposition on a world scale. The position with regard to external exploitation will be discussed in some detail in the succeeding paragraphs.

For hundreds of years, the civilizations of the West have lived at the expense of the East. Interest-payments due on Western capital have been made possible by the creation of slavery conditions in the Eastern countries. The jingoistic paraphernalia of Western military power, state, church, and law derive from and are entirely subordinate to the financial and commercial processes which brought about those conditions. For if, in the military campaigns which extended the areas for Western exploitation, the Bible has followed the sword, both priest and soldier have followed the usurer.

In this century, the Eastern countries have come to an awareness of these financial and commercial processes, and are now prepared to accept, to some extent, the continuance of slavery conditions, at the dictates of financiers, so as to further a new and aggressive policy in the world market, with respect to both industrial and agricultural products. In this policy, the most powerful weapon of the East is the low standard of living to which its workers have become inured during centuries of Western oppression. They are, therefore, able to produce and sell at prices with which the West cannot compete.

The chief "advantage" of the East, that is to say, in the coming suicidal struggle for economic supremacy, derives from the miserable conditions which have been created there by Western domination. Under usury, it is the exploited who finally exploit the exploiters, until the wheel once more comes full circle and the same punitive justice again comes into play. The rise and fall of civilizations are but *episodes* in the history of usury.

There are two forms of usury. The major form is that represented by bank loans, and the minor form by the creation of interest-bearing savings and investments which go to make up the debt-structure in every country.

A fact which is not, but which should be, common knowledge, is that *all money*, in and out of circulation, now comes

into existence as an interest-bearing loan in favour of the banking systems of the world. This major principle of usury is administered by an international organization which functions through the central banks and large financial agencies of Western civilization. The minor form of investments is sporadic and individualistic—even when controlled by international commercial combines—but derives from, and, in practice, is dominated absolutely by the major principle of bank loans.

It is important, therefore, to realize that *we are all usurers*—from the child who deposits his mite in the penny savings-bank to the international syndicate of money-lenders which operates through the Bank for International Settlements and the League of Nations machinery at Geneva—and that the universal adoption of this evil and disruptive principle, against the teaching of all the highest philosophical and religious examples, is ratified by common consent and full legal authority.

Psychologically, usury is based on the desire to get something for nothing. In practice, it promotes a process of interference, by the accumulation of debt-claims, in the flow of the medium of exchange, i.e., money. The spending of money is, at one and the same time, the promotion of this flow and the creation and consumption of commodities. The progressive accumulation of savings and debt-claims (misleadingly called capital) is the damning up of this flow and the progressive restriction, first of consumption, then of production, and so, finally, of both. The secondary flow created by the investment of debt-claims can only be maintained by the indefinite extension of the area for exploitation.

As the world is a self-contained entity, and as we are all simultaneously both usurers and consumers, the progressive accumulation of debt finally operates to restrict the creation and exchange of material and psychological values throughout the whole of society. Debt, in fact, is nothing more or less than a fantastic abstraction, called out of the deeps of man's subconscious, ultimately to confound debtor and creditor alike.

For, as statistics go to prove, debt automatically increases at a faster rate than production, so that there inevitably comes a time when goods go into pawn faster than they are produced. When these countries (e.g. of the East) which were formerly

exploited to pay a large part of the interest-claims due on accumulated debt, not only show less disposition to do so but begin to establish external debt-claims of their own, an impossible position of tension is created. This attempts to resolve itself by a desperate competition for the disposal of mounting " surpluses " in the world market, so that foreign currency for the payment of interest on external debt can be obtained. The result of this is, firstly, an accelerating competition in internal wage slavery in all countries concerned, and, secondly, when these conditions become insupportable, revolution or war. The World War itself was not a cause but a symptom of the present decline.

In the past, this progressive accumulation of debt-claims has brought about the ruin of civilizations as single units. Three civilizations in the American continent rose and fell. Babylon, Egypt, Greece and Rome fell. But now the nations are so interlocked by modern means of communication and transport, by international debt and exchange parities, that a civilization which encompasses the world is threatened.

The reconstruction proposals in Part III of this book are therefore concerned with the details of a mechanism to effect the abolition of usury in all its forms. The end of this would be the gradual elimination of all debt-claims and the establishment of a system of free money to facilitate and not obstruct, as at present, the complete distribution of the whole product of industry to consumers. This would not necessarily involve, as is commonly supposed by socialists and communists, the abolition of the profit system and the nationalization of the productive processes. The abolition of the principle of money interest on money lent would itself remove anomalies and desperate injustices which are supposed to reside in capitalism and the profit system.

Since the writing of " Das Kapital ", Western capitalistic exploitation, now faced by the aggressive commercial retaliation of the East, has necessarily given way to purely financial negation. Nearly all the creations of the nineteenth-century capitalists—such as, for instance, the power-loom cotton industry of Lancashire—have been broken by usury. International finance, like the international armaments racket which

it has spawned, knows no boundaries, geographical or cultural, and if the end of the latter is destruction, the end of the former, consciously or unconsciously, it matters not which, is universal degradation and slavery.

In attempting to trace out these developments, the writer refers specifically to the so-called principles of British and American banking. As the British system is the more highly developed, the more " stable " and the more in accordance with the declared ideals of bankers, he has based his argument mainly on a discussion of its methods. Eight years' residence in the United States has familiarized the author, to some extent, with the workings of the American banking and industrial systems, and statistics are given as far as possible, from both American and British sources, at each stage in the argument. He has thus sought to interest the reading public on both sides of the Atlantic.

The writer apologizes for the wholesale use of quotation marks and italics. He has been impelled to do this, because so many terms used in banking circles, as well as in ordinary conversation, take on an entirely opposite meaning when the bogus principles of internal and international finance are understood. Bank " credit " should invariably be thought of for what it is, i.e. bank debt (and moreover as irrepayable debt). The phrase " bank deposits " is a legal euphemism, as all bank " deposits " derive from the progressive issue of bank " credit ". No one, consequently, really " makes " money except the bankers who literally create it. The term " convertible currency " is a quibble which has bedevilled mankind for centuries. Money is not " convertible " into gold for the well-known reason that gold " backing " exists in less than a one-to-ten ratio to bank " deposits ". Nothing, in the writer's opinion, could be more fundamentally unsound than a " sound " currency. Foreign " trade " is not primarily the exchange of goods between nations, but essentially a device to transfer interest payments due on international debt. Foreign " investments " are simply part of the mechanism of foreign " trade ". It is criminal to regard unsaleable goods as industrial " surpluses " while millions throughout civilization are faced with the fear or actual fact of starvation. Accord-

ing to financial, as opposed to common-sense reasoning, the blessings of an ever-increasing abundance and leisure become insoluble problems of " over production " and " unemployment ".

If, on occasions, the writer may seem to be a little extravagant or emotional in his attitude, this is because it is difficult, if not impossible, to be consistently impersonal when discussing the principles of so-called sciences which have brought such an enormous amount of totally unnecessary suffering to humanity. Banking and economics are not sciences, but academic elaborations of sinister fallacies, based on superstitions which themselves derive from the gold idolatry of barbarism. The author wishes to acknowledge his indebtedness to the writings of the Editor of, and the contributors to, the " New English Weekly ", a magazine almost entirely devoted to the discussion of certain aspects of the New Economics. Where direct quotations are used, acknowledgment has been made. But, in a few instances, fragmentary phrases as well as paraphrases of incidental material in editorials and articles have been used without acknowledgment.

He wishes also to thank specially his friend, Mr. Schuyler Jackson, to whom this book is dedicated. In this enterprise, as in others, he owes much to the unworldly wisdom of this Pennsylvanian farmer.

# *PART I*

## DESTRUCTION AND SACRIFICE

"The Gods from above their mad labours behold
And pity mankind that will perish for gold."

DRYDEN, 'King Arthur'.

[1] This by no means completes the list. It could be extended to include, among other things, the suggestions for monetary reform expressed in the London Chamber of Commerce Journal, the writings of Mr. A. de V. Leigh, the secretary to that institution, Mr. Arthur Kitson's views on banking and currency, some of the principles of the Economic Recovery Association of Isidore Ostrer, the writings of the Boston merchant, Edward Filene and of the late Charles A. Lindbergh, father of Colonel Lindbergh, Mr. Henry Ford's views on banking, as well as certain aspects of the writings of Stuart Chase, Irving Fisher, R. G. Hawtrey, J. M. Keynes and other British and American economists.

## *CHAPTER I*

# NEW LAMPS FOR OLD!

THE New Economics is a generic term which is given to a large and growing section of economic thought which dissociates itself absolutely from all past and present banking theory, orthodox or unorthodox, and which derives directly from a new interpretation of the physical realities of the modern industrial situation. This development, in its widest sense, includes the findings and destructive analysis of "Technocracy", the main historical contention in Marx' "Das Kapital" and the Communist Manifesto, the analysis of the British economist, Major C. H. Douglas, the writings of Professor Frederick Soddy, as particularly exemplified in his book, "Wealth, Virtual Wealth and Debt" (New York, Dutton's, 1933), the theories of the Austrian economist, Robert Eisler, the detailed evidence for the American scene as prepared and presented by Lawrence Dennis in "Is Capitalism Doomed?" (New York, Harper, 1932), certain of the theories and practices of the present Roosevelt administration, and the immature but spontaneous expression that is in process of being actualized in the rise of the scrip and barter groups in the United States.[1]

Now while this new development has shewn itself in a bewildering variety of opinion, particularly in the reconstruction proposals suggested, the common denominator in all or most of it, is that it accepts the existence of physical plenty in the world and the adequacy of the physical means to distribute it, and is concerned with the invention of a new financial mechanism which will facilitate (and not obstruct, as at present) the distribution of that plenty to consumers. A study of the general principles of the New Economics, disregarding the confliction of detail within it, proves conclusively that the present monetary system is based on an economics of scarcity; that it has, in fact, induced a widespread condition of artificial scarcity in the midst of an obvious physical plenty, and that

[1] See note on opposite page.

it is unable to do anything except maintain and indeed intensify that condition of scarcity.

The New Economics is an economics of abundance, and its principles are concerned entirely with the means to the distribution of that abundance.

It is held to be self-evident that of the three processes which make up the industrial cycle, namely, production, distribution, and consumption, production is very well understood and efficiently conducted by producers, that consumption is very well understood, even by consumers who have little opportunity to exercise this function nowadays, but that the intermediate stage, which effects, or should effect distribution to consumers, has broken down because it has never been understood at all. In the widest sense, distribution is, or should be, the automatic function of the medium of exchange, i.e., money. So that, it is only by a thorough investigation of the monetary system and all monetary processes that the true cause for the present "paradox" of poverty amidst plenty can be discovered. Under these circumstances, it is idle to talk about (worse still, put into practice) proposals for new industrial "planning" and the reorganization or "rationalization" of production, or to moralize to consumers about economy and extravagance and what they ought to or have a right to expect from their industry, until the monetary system, i.e., the circulation of the medium of exchange, has been thoroughly investigated and properly understood.

Further, an impartial study of the so-called principles of the present monetary system proves that the present internal and international efforts towards restriction of output and the rationalization of industry are designed to protect not industry but the monetary system which has ruined it. In general, all schemes, on whatever scale, which are not concerned with the distribution of a plethora of goods to a half-starved world, are not only unethical but are certain to increase the widespread misery, distrust and confusion which exist in the world to-day.

The general principles of the New Economics have an enormous mass of undeveloped and unco-ordinated public opinion behind them. The public knows that it is living within the iron confines of a system which has somehow

brought about poverty, unemployment, internal dissension and the imminent possibility of international war on a colossal scale, at a time when there is an overwhelming evidence of plenty for all on every hand, and at a time when the dread of war and the desire for peace is almost universal; and it has the sense to know that, if all nations were economically secure, as they most certainly ought to be, under the circumstances, there would be no talk of war, still less of Armageddon.

The conclusion of most New Economists and large sections of intelligent public opinion is that the enormous development of technology in this century has made possible the creation of goods on a scale never before contemplated, and that these goods are not distributed (are, in fact, being destroyed or prevented from being produced), because the monetary system is now obsolete. The present writer goes further than this. He is of the opinion that the present monetary system, as a means for the creation and exchange of human values, was always "obsolete".

The present position of the monetary system, which is the beginnings of its complete breakdown, is the living 'reductio ad absurdum' of a proposition which first formulated itself in man's consciousness thousands of years ago, which has since been worked out in human flesh and blood, and which has now reached its illogical conclusion in this century. It now remains for man to proceed to the next stage in the solution of his problem on this planet, and the New Economics proposes a new construction which he must put to the proof. And it is because the writer believes that the monetary system, in its historical development, based successively on gold, the gold standard, the gold exchange standard and the now proposed gold bullion standard, is a direct psychological derivative from the gold-idol worship of barbarism, that he has chosen to call this book "The Modern Idolatry". This choice calls for a treatment at once factual and imaginative, and it is hoped that the reader will be able to respond to both fact and implication simultaneously.

The present monetary mechanism is "obsolete" because it derives from dark and unsuspected throw-backs in the human subconscious. It is only by realizing and admitting that these dark places in the subconscious are part of the traditional

pathology of idolatry that we can connect the workings of the present system not only with such visible evidences of destruction and sacrifice as the toleration of unemployment in a society where actual employment constitutes the only claim to independent existence; with the sabotage of plant and commodities and the restriction of production, on a large and increasing scale, side by side with the fact of partial or total destitution for millions throughout civilization; with the imminence of a second international war in a world which dreads it, which cannot "afford" it, and which prays for peace: but also with the desperate sense of frustration, resulting in suicide, mental illness, neurosis, involuntary cynicism and disillusionment, and every variety of psychological perversion or inversion which is the unfortunate inheritance, or developed experience, of every sensitive person who responds to or is brave enough to exercise his creative impulse in life as it is to-day. It is particularly necessary to realize this, because we have so long been the victims of the vagaries, stupidities and the monstrous injustices of the monetary system, that large sections of the population in every country have come to regard even the acutest forms of material and psychological misery as part of the natural order of things.

If man's material problem on this planet has at last been solved, and this solution—now definitely held out to us by applied science and technological development—is being withheld from us by the barbarous anachronisms of the present monetary system, it is important to realize that the system is not only responsible for the present desperate condition of mankind; but also that, *at the same time*, it is preventing the transition into an age of leisure and plenty which all impartial thinkers must see to be definitely written into the future. The extent of our loss and suffering is doubled therefore when it is seen that in forcing on us this minus of work-drudgery, starvation and war, the system prevents us from accepting the plus of leisure, peace and plenty which is now definitely within our grasp.

This suicidal obstinacy and incredible refusal is evidence of the survival of the pathology of idolatry and the strength of the grip which its modern derivative, an "obsolete" monetary system, has on the world. The primitive worshippers of gold

accepted visible destruction and sacrifice because it was not only approved of by priests and community, but was openly encouraged and indeed enforced. Nowadays, we theoretically disapprove of sacrifice and deplore the hardship and suffering involved, but, in practice, we act and think so as to encourage both because—

(*a*) Although the gold, on which all modern currencies are still based (in spite of so-called departures from the gold standard), is buried in the vaults of the central banks of the world, its worship, in the complicated ritual associated with "sound" money and the preservation of the international debt-structure, is still enforced.

(*b*) Bankers and financiers, who are in supreme control and therefore can and do dictate to governments and industry throughout the world, are incapable of anything else but administering and enforcing this worship. Their efforts necessarily always result in "economy", destruction and sacrifice, because (unconsciously) they serve the gold idol, and (consciously) because this service assures them personal power and affluence.

(*c*) Statesmen, lawyers and educators, although supposedly acting for the welfare of mankind, are driven into pompousness and hypocrisy, because they are the paid servants of a system which automatically works against their declared objective.

(*d*) Of the passive and sycophantic failure of Church and Art to lead the religious and aspirational genius o1 man against this monstrous development.

(*e*) Of the creeping inertia of the public and their dull capacity for suffering.

How much longer we are expected or are likely to continue suffering uncomprehendingly and in silence it is hard to say, but there are definite signs to-day that the inertia of the public is passing and that the limit of their capacity for suffering has been reached.

Whether or not there has been or is in existence a World Financial Conspiracy to subjugate man to the crazy machinations of the present monetary system, it is impossible to discover, but that there has been a conspiracy of silence to keep

the public in ignorance of the incredible nature of this system, under which it lives and suffers, " there can be no doubt whatever " (Professor Frederick Soddy, " Wealth, Virtual Wealth and Debt " ; New York, Dutton's, 1933). Ignorance of a subject naturally breeds inertia, and inertia breeds ignorance, and this vicious sequence has no doubt been encouraged by financiers because it has enabled them to put and keep the world " just where they want it ". In this respect, the financial interests have been helped by the increasing complexity of their subject, where, particularly in the high insanity of its present involutions, it is quite impossible for the ordinary intelligence to follow it. The average thinking man, when confronted with this despairing complexity, naturally comes to the conclusion that " finance is much too deep for him ". He consequently " leaves it to the experts " ; thereby leaving the way open for his indefinite exploitation and making possible the world disaster which has descended upon him.

Professor Soddy refers specifically to the suppression of discussion " on all monetary problems, in the press and on political platforms, and amongst editors and publishers " and says that it was a " revelation " to him, " accustomed to think of the battle for liberty of thought in scientific matters as having been fought and won centuries ago at the time of Galileo and the Inquisition, to find that in economics . . . it has not yet been won at all ". He might have added that the proposed discussions on monetary matters at the British Empire Conference in Ottawa in 1932 were eventually waived entirely, while the committees elected to consider currency problems at the World Economic Conference were similarly inhibited from all discussion of fundamental aspects as soon as the currency stabilization proposals of the European central bankers were defeated through the determined opposition of President Roosevelt. Now that the system is showing unmistakable signs of breaking up, financiers are more than ever afraid of a " show-down ", and secrecy on essential points is redoubled. In this emergency, as Professor Soddy remarks, " what is dangerous to the banker is considered altogether too dangerous for the nation to be allowed even to discuss, and the public are most carefully and elaborately shielded from any

real knowledge of the preposterous humbug" which it was one of the chief objects of his book to expose.

These are serious accusations, no doubt, but the Professor is quite naturally of the opinion that "if economics were really a science it would not need to protect itself from criticism" by such a conspiracy of silence.

It will be noticed that he only says that the public is elaborately shielded from any *real* knowledge of the workings of the system; and here he has chosen the italicized adjective carefully, for there is certainly no lack of information with regard to the vicious fiction of monetary theory as finance itself sees it or chooses to present it. Generations of banking students and accountants are reared on books on banking theory and currency which are chiefly remarkable for the skill with which they avoid the real issue on such important questions as to where money comes from and where money goes to; whose exposition somehow manages to get around and even justify the patent fallacy of the so-called "gold backing" to currency and credit; and whose eulogistic descriptions of the gold standard [1] in action consistently fail to mention, still less consider, the human distress involved—the acquiescence in which (the "dull capacity of the public for suffering") alone makes the much lauded "symmetry" of its mechanism possible.

And what of the specious "mutual indebtedness" between banks and the public on which theory the whole of the credit structure throughout society is, in fact, legally based? If it is a "mutual" obligation, why do the banks continue to draw eternal interest on it? [2] And whereas the public is always liable for the full amount of its obligation to the banking system, and is thereby called upon to make perpetual and painful efforts to achieve what is in the last analysis a mathematical impossibility, the banks themselves when called upon, during a crisis, to discharge their obligations to the public, are protected or actually exonerated by moratorium declared by a government presumably elected to represent the interest of the other contracting party. Did anyone ever hear, for instance, of a "business moratorium" in which the public

[1] See Appendix A.

[2] The extent to which interest on bank loans may legitimately be considered as payment for service, will be considered in Part II.

was even temporarily excused the interest on, still less the principal of its obligation to the banks?

Whenever defects or anomalies must perforce be referred to in these books, the explanation is invariably sought and fixed outside the monetary system itself. Thus when the automatic or deliberate action of the banks is towards deflation, the money stringency which follows naturally makes the public a little fearful about their earnings deposited with the banks, and notes or gold to which they are "legally" entitled are consequently withdrawn in larger amounts than usual. Here, it is the "lack of confidence" of the public which is regularly blamed for the disaster which the banks, acting to preserve the system, precipitate, and, indeed, whose deflationary policy always *precedes* such happenings. If the "lack of confidence" persists, it is "unpatriotic" or "dangerous" to claim money which is equitably and legally the property of the depositor.

Similarly the so-called business cycles, or periodic trade depressions, are, as will be shown, nothing more or less than *financial* cycles which can be induced, at any time, by the fortuitous calling of loans by the banks, and which are, in any case, periodically brought about automatically by the workings of the monetary system. Here again finance hoodwinks the public and leaves it to be inferred that they are implicit in the nature of things, are necessarily recurrent and as inevitable as the flow of the tides or the change of the seasons. Professor Jevons, whose "Money and the Mechanism of Exchange" is still a standard work on the subject, was convinced, with the rest of the professional economic apologists, that no possible explanation for these depressions could be found within the monetary system itself, but was so hard put to it to account for them otherwise that he was driven to seek an explanation in the periodic recurrence of sunspots!

The preposterous nature of such attitudes and such explanations is only equalled by the credulity of the public, who seem to have had no difficulty, up to now, in tolerating the one and swallowing the other, generation in and generation out. When it is realized that the public here referred to includes not only statesmen, scholars, scientists and lawyers, but also a large majority of bankers themselves, the situation

becomes all the more incredible. At the same time, the need for an impartial study of the system, based on an independent estimate of the available facts and discoverable processes, and carried out, as far as possible, without any reference to the standard textbooks of the professional economists, becomes all the more imperative. For it is, without doubt, largely through the agency of such textbooks and treatises that this circular hypnosis among the economists themselves, as well as among the working members of the banking and accountancy professions, is imposed and maintained. The majority of the textbooks are read almost entirely for examination purposes, in which an "unorthodox" opinion (i.e., a common-sense reaction to obvious fallacies) would certainly disqualify the student and fatally jeopardize his chances of success in his profession. Some of these students, of course, eventually become the examiners of the next generation of gullibles, the orthodox succession is maintained, and so the vast fiction is perpetuated. In the interim, the more advanced treatises written by graduates who were once students themselves, are read by the succeeding generation of newly fledged graduates, who, being now professionally inhibited from questioning the bases of such works, can only lose themselves in admiration of their undoubted ingenuity.

It is extraordinary to think that the subject of money should be so little understood, not only by the general public, but also by statesmen, lawyers and scientists, and even by a large number of bankers themselves; especially when, as will be universally admitted, the welfare of every individual, every community and every nation is vitally and directly dependent on it. Coincidentally with this, there is the equally extraordinary fact (which 90 per cent. of the population simply do not realize) that the creation, the cancellation, the control and the *literal ownership* of nearly all the money in or out of circulation is in the hands of a private monopoly (the banking system) whose policy is not and cannot be controlled—except in a purely nominal way—by any government in Western civilization to-day. The bankers, in fact, have a legalized "corner" in money throughout the world.

If, as Karl Marx held, man's social, artistic and religious

development is based on and derives from his activities in producing his means for existence and the manner in which he produces, or is allowed to produce it (food, clothing, shelter, amenities and luxuries), then it is true to say that his life and thereby his social, artistic and religious consciousness is controlled by finance; for to-day finance directly controls industry, i.e., his actual means of existence. If the industrial mechanism

> "*forms* the economic structure of society, the real basis upon which a juridical and political superstructure arises and to which definite social forms of consciousness correspond" (Introduction to the "Critique of Political Economy", 1850)

and if, more specifically, the lives of men

> "*coincide* with their production (through industry), both in the sense of what they produce and how they produce it" ("The German Ideology", 1846)

then finance to-day is undoubtedly the final arbiter of human destinies. And inasmuch as the monetary system, as will be shown, operates nowadays chiefly to prevent man from producing what he can and what he wants to produce, and at the same time prevents him from receiving more than a proportion even of that which he is allowed to produce; and that further it dictates the conditions (length of hours and monotony of labour) under which this warped and stunted production is achieved and the conditions under which it is so incompletely and precariously distributed, the present influence of finance on human destiny is a prime inhibitory factor. Finance frustrates industry; and a frustrated industry is a frustrated people.

It is therefore not only insane but suicidal for the people of this world (*a*) not to know how their financial system works and (*b*) to have no control whatever over its policy or its administration. For bankers and financiers are concerned first and foremost with the preservation of a system which, demonstrably in theory and now quite obviously in practice, has only a chimerical relationship with the material and psychological needs of mankind. Industry and man with it are thereby sacrificed to a fantastic abstraction called *debt*, which in turn is based on gold and man's superstitious allegiance to it. This is the very essence of the modern idolatry.

## *CHAPTER II*

# ACTUAL AND POTENTIAL RESOURCES

" Whether the four elements and man's labour therein be not the true source of wealth ? " (BISHOP BERKELEY, " Queries Proposed to the Consideration of the Public ", 1735.)

IF it is any longer doubted or still only dimly apprehended that finance (or " something ") is interfering with the production and distribution of the fruits of industry, and is thereby inhibiting and perverting the natural development of individual and national psychology at its very source, let us consider the actual and potential extent of the available resources in materials and energy, the extent to which these resources are utilized, and the extent and finally the manner in which the resulting products are received by mankind to-day.

The first part of this (the actual and potential availability of materials and energy) will only be attempted briefly here, firstly because it ought to be a self-evident fact that the world is immeasurably richer in men, materials, machinery and power than it has ever been before, and secondly because the purpose of this book is more directly concerned with the second part (the extent to which and the manner in which the resulting products and benefits are received by mankind). The situation as a whole was admirably summed up for the North American Continent by Howard Scott, the founder and original director of the group of American engineers and scientists who published their findings under the name of "Technocracy", in an article in the " Living Age " for December, 1932.

" With the number of unemployed *greater than the total population* (of America) *of a century ago* ; with one of the most providential geologic set-ups of any continental area ; still possessing

more energy and mineral resources than any like area on the world's surface; having more than one billion installed horsepower of prime movers wherewith to degrade available energy into use-forms; possessing a personnel of over 300,000 technically-trained men in many varied engineering fields and more than 4,000,000 men partially trained and functionally capable of operating *the greatest array of productive equipment ever at the disposal of man*—with all this we have, nevertheless, failed to profit from technological advances, and accordingly find ourselves, for the first time in history, with an economy of plenty existing in the midst of a hodge-podge of debt and unemployment."

As the immense natural resources and the unequalled technological development of the United States now exist and desperately function side by side with an unemployment total of possibly fifteen million and the destitution or precarious existence of enormous sections of the population; and as the surveys of materials, energy and general engineering and social development have been more concretely estimated and are held in better perspective in America than in any other country, it will be convenient to concentrate on America as an extravagant but still a typical example of the national "economy" of to-day.

A group of sociologists appointed by President Hoover in 1930 to study the social life of the United States and to suggest "bases of policies in the future development of the nation", published its report in January, 1933, under the composite title of "Recent Social Trends". This report summarizes the general position as one of "abundant natural resources, a slowly increasing or stationary population and an ever-expanding technology". More specifically,

"the rate at which this heritage (the natural resources of the continent) is drawn upon is significant because it is basic to our material well-being. The extent to which we use these resources is shown by the increase between 1899 and 1929 of 286 per cent. in mining production, as compared with increase of 210 per cent. in manufacturing, . . . and of (only) 62 per cent. in population. . . . Since the beginning of the century the consumption of energy has increased about 230 per cent.; and the prices of coal, oil and electricity have not risen more than have general wholesale prices."

In agriculture it was discovered that whereas

> "there has been no increase in crop acreage for 15 years . . . yet agricultural production has increased about 50 per cent. since the beginning of the century",

while experts further estimated

> "that agricultural output per worker increased 22 per cent. between the average of the decade 1912–1921 and the average of the decade 1922–1931. A farmer now provides food for himself and three members of his family, for 12 Americans not living on farms and for 2 foreigners—a total of 18 persons".

In consonance with these estimates for American agriculture, figures issued by the Economic and Financial Section of the League of Nations and quoted in the Macmillan Report on Finance and Industry (London, 1931), shew that whereas between the years 1913 and 1928 the population of the world increased by 10 per cent. the production of foodstuffs increased by 16 per cent. (see C. M. Hattersley, "This Age of Plenty", London, Pitman, 1933). In general alignment with these various estimates are the figures given by Frank Arkright in his "A B C of Technocracy" (London, Hamish Hamilton, 1933) for the grinding of wheat in America, which increased from 471 million bushels in 1899 to 546 million bushels in 1929.

The fact that the first quota was produced by the labour of 32,000 men and the second and larger total by the labour of only 24,600 men, is evidence of the growth of technological methods in this century. Similarly the production of steel rose from 11 million metric tons in 1900 to 58 million tons in 1929—the 1900 estimate being produced by 600 million man-hours and the five times increase in 1929 by only 770 million man-hours. The rate of technological development here implied is made more evident when the figures are reversed to shew that whereas in 1900 it required 70 man-hours to produce a ton of steel, in 1929 it only required 13. The figures for the automobile industry show that in 1919 approximately 1,600,000 vehicles were manufactured at the cost of 313 man-hours per vehicle. In 1929, 5,600,000 automobiles were manufactured at the cost of only 92 man-hours per vehicle!

An interesting side comment on the enormous technological

progress implied by these figures is given by the following summary, quoted from the "Recent Social Trends" report:

> "In 1851–1855, 6,990 patents were granted in the United States; in 1875–1880, 6,400; in 1901–1905, 143,000, and in 1926–1930, 219,000."

But behind this evidence of natural resources, accelerating production therefrom, invention and improvement in efficiency and method, is the unprecedented power development in this and every country. This has forced the "Technocrats" to define the present world situation as that of a Power Age, with enormous actual and potential resources for the production and delivery of goods and services on a scale hitherto undreamt of by man, being fundamentally inhibited from so functioning by the "interference control" of an obsolete financial system.

To quote from Mr. Arkright's book again:

> "The largest single modern turbine has a capacity of 300,000 horsepower or three million times the output of a human being on an eight-hour-day basis. But the turbine runs twenty-four hours a day, which man does not, and hence its total output (of energy) is nine million times that of one man.
>
> "To say it another way—*four of these turbines have a greater energy capacity than the entire adult working population of the United States.*"

The Boulder Canyon project on the Colorado River, popularly known as The Hoover Dam, will be finished in 1936 or earlier and will then provide *eighteen million man-power.* It is anticipated that Boulder City, by housing the operating staffs, the necessary engineering, technical, commercial, and professional directorate, as well as the tourists and sightseers who will come to visit the highest dam and the biggest artificial lake in the world, will not need to maintain any more than its present population of *seven thousand.* It thereby transpires that each of the inhabitants of Boulder City (excluding a total of one thousand for sightseers and other irrelevant components), by virtue of his position at this focus of power concentration, will function in an average energy capacity equal to three thousand of his fellows.

The tremendous electric power stations already in existence

at Niagara gather but a fractional percentage of its energy, but it has been estimated that the water power of Canada alone is somewhere in the neighbourhood of fifteen million horse-power, or the equivalent of the energy capacity of five hundred million men. And the scientific development of water-power "is still in its infancy!" (C. M. Hattersley, "This Age of Plenty", London, Pitman, 1933).

To complete this picture of "actual and potential" sources of power, it is necessary to refer, at least, to previously unsuspected sources of an almost fabulous nature which certain scientists believe will eventually be developed from atomic energy.[1] If the present enormous development of electrical energy from water-power and other sources is only the evidence of its "infancy", what shall we think of this atomic babe, conceived but not yet born, whose development will be "of the order of a million times greater than any previously known"? With regard to this astounding possibility, Professor Soddy, in his capacity not so much as a New Economist but as a Nobel prize-man in the subject of radio-activity, is well qualified to give us the details. The quotation below is from "Wealth, Virtual Wealth and Debt" (New York, Dutton, 1933).

> "In the closing years of last and the opening years of this century the discovery of radioactivity, and its interpretation in terms of existing knowledge, revealed the existence of stores of potential energy in the atoms of the radioactive elements of the order of a million times greater than any previously known. These stores were and remain impossible to harness to any practical purpose, and are given out at very slow rates in a purely natural process of transmutation of the radioactive elements into lead and helium. There is no doubt of their existence in these elements, and the existence of similar stores in other elements has been legitimately inferred, though not as yet experimentally proved. Following the very well-known reasoning that applies in chemistry, it appears certain that any process of artificial trans-

[1] The fact that many scientists, including Rutherford, do not admit a possibility for the harnessing of atomic energy, does not affect the general argument. It may or may not be possible, and the writer is in no position to judge. The scientific development of water-power, "still in its infancy", is enough to be going on with, in either case.

mutation would be able to liberate these stores and to render them available as the energy of coal and fuel now is."

The titanic nature of the energy sources here involved is foreshadowed in the following sentence:

> " Many purely speculative deductions along the same lines have since been made from the theory of relativity, and it is to atomic energy, in the first instance, that physicists and astronomers now look to account for the maintenance of the heat of the sun and stars, and, in general, the live energy of nature, over cosmical periods of time."

It is natural, as Professor Soddy goes on to say, " to consider what sort of a world it would be if atomic energy became available " ; and here he draws a parallel which shews that a new Prometheus is again bound in our midst.

> " To compare such a world with that of to-day, it was necessary to contrast the latter with the world before the dawn of history and the art of kindling a fire. Just as the savage died of cold on the site of what now are coal-mines, and perished with hunger on cornfields now energized with the fertilizers produced at Niagara, so, it seemed, we were leading a pettifogging existence, fighting one another like wild beasts for a share of the supplies of energy somewhat niggardly vouchsafed by Nature, whilst all round us existed the potentialities of a civilization such as the world had not then even imagined possible."

## CHAPTER III

# SABOTAGE AND THE SCARCITY COMPLEX

KEEPING in mind this staggering aggregate of material wealth, technological progress, unlimited power development and the enormous physical potentiality of the future, let us consider what proportion of the actualized productivity (to say nothing of the possible productivity) is vouchsafed to us through the agency of the financial system.

Referring to the post-War period in America, which was probably more " prosperous " than any other period in any country in the history of the world, the " Recent Social Trends " report is forced to point out that even

> " in this late period of unexampled prosperity there was much poverty in certain industries and localities, in rural areas as well as in cities, *which was not of a temporary or accidental nature.*"

Similarly, in his recent book, " Insecurity : A Challenge to America " (New York, Harrison Smith, 1933), Dr. Abraham Epstein, one of America's most competent statisticians, has been at pains to examine that country's pretensions to " prosperity " in the pre-War period. In the most prosperous years, he proves that the majority of the American population lived 30 per cent. below the minimum standard prescribed as indispensable to health by forty-four welfare organizations. Three out of four of the insurance policies were only enough to provide funeral expenses. Only one worker in twenty-five had any stake in his business. One per cent. only of the industrial wealth of the community was held by the working classes; and the average of unemployed during the fourteen prosperous years, 1902–1917, was two and a half million (see " The New English Weekly ", June 22nd, 1933).

Since the present depression began in the United States, these conditions of poverty and insecurity have intensified for

these sections of the population, while other sections, previously exempted, have been similarly submerged. According to a report printed in the London "Evening Standard" for July 18th, 1933, one bank in every six has failed, one in every forty-five hospitals has closed, and one in every twenty-two business and industrial concerns has gone bankrupt, while the unemployment figures reached the unbelievable total of fifteen million, all in the short space of two or three years.

In the meantime, as is explained in some detail in Chapter XXXII, whole sections of the community, particularly in the West and Middle West (up to a national total of something between one million and two million people), have been reduced to exchange the elementary necessities of life amongst themselves by means of scrip and barter and other improvised devices outside the control of the existing financial system. And the sponsors and apologists of the monetary system expect us to believe that in this land—even now full of every conceivable thing which the mind of man could desire and with the plant, power and the people to produce sufficient, if necessary, for twice or thrice the present population—this vicious alternation between the frying-pan and the fire is part of the natural order of things; and that the explanation, if any, for the present jump from the frying-pan into the fire must be sought in sun-spots, or some other mysterious agency outside the control of ordinary mortals!

It is estimated that, in Great Britain alone, the unemployed total of two and a half million would, if elongated in single rank, military formation, stretch from John o' Groats to Land's End —a distance of about 700 miles! This means, incidentally, that some ten million of her people are living on a bare subsistence level in a country which is "decidedly the most prosperous country in the world to-day" (J. M. Keynes, at the Annual Meeting of the National Mutual Life Assurance Society, London, March 2nd, 1932). Millions of others eke out a precarious existence by working long hours of stupid monotony at jobs they are afraid they will lose to-morrow. Large sections of the population are still living in slums where

> "whole families in one room (are) sprawling hugger-mugger over one another, getting born, dying, procreating—all in front of

children, the future voters." (See a review of "The Naked Truth", by Joan Conquest: London, Werner Laurie, 1933, in the "New English Weekly" for August 3rd, 1933.).

Under such conditions, decency, let alone privacy, is out of the question, and incest, sodomy and syphilis are the unnatural result. Such conditions are again the breeding-places of crime and disease of all descriptions, and the nation has to bear the extra and totally unnecessary expense which is involved for hospitals, asylums, prisons and the like. The reviewer goes on to say

> ". . . that slums, so far from being merely rather overcrowded and somewhat disreputable areas inhabited by undesirable beings to whom one would scarcely care to be introduced (a fair estimate of the popular conception, incidentally) are composed of 'houses' condemned as unfit for human habitation. They are areas of filthy kennels swarming with rats, mice, cockroaches, lice, bugs, fleas and other vermin. An ex-service man described the vermin as worse than the trenches."

The following particulars about the lives of children, "the future voters" who are reared in this Gehenna, would not be added here if it was not certain that the author—an ex-nursing sister who has worked in the slums—knows her subject inside out.

> "Ill-clad, under-nourished children, without even a toy to brighten their miserable existence, are afraid to 'play' in the backyards for fear of rats and are kept awake at nights scratching flea and bug bites.
>
> "The sanitary arrangements are filthy and abominable—there are no baths and when the pan of the water closet is not choked with excrement children drop matches in the water and play at boats."

It is useless for diehards to protest that such people ("to whom one would scarcely care to be introduced!") "know no better" and would make a pigstye of any place they happened to live in. This attitude is, in effect, a subconscious attempt to disguise their embarrassment with respect to such facts, as is the contention that anyone who had the will to get out of such an environment, could and would do so. Since Karl Marx was writing, capitalistic exploitation has intensified to

purely financial negation, but the situation is still that both can only be maintained by the complementary degradation of the lowest classes. *If one individual escapes from this purgatory, another will and must take his place.* The religion of the modern financial system demands an "untouchables" class for its functioning just as does the caste system of India; and while we affect to be horrified at a religion which openly tolerates the existence of "untouchables", it is natural that the British Government, which exists only at the pleasure of a financial dictatorship which develops a similar class in its slums at home, should imprison a Gandhi who has risen to champion that class in his own country.

In any case, the supplementary negative to the British slum situation is the equally stupid fact that the materials for the making of bricks, concrete, tiles and plaster exist in abundance, and that there are at present some 300,000 unemployed operatives in the building trades who would fervently welcome orders to convert these materials into houses which would give these poor people at least the famous British "sporting chance" to justify themselves. The builder's frustration is the misfortune of the slum dwellers, and the cause for both the frustration and the misfortune is equally beyond the control of either!

Similarly with the unemployed, there is machinery all over the country rusting or falling into actual disrepair because the unemployed "cannot" be employed using it, while other machinery is being scrapped wholesale in the so-called effort to "rationalize" industry. In the meantime, the more fortunate members of the community are living on an enforced economy basis, paying for the upkeep of the unemployed as well as the unused machinery, and thereby unable to buy more than a proportion of the "over production" which results. The machinery can scarcely be blamed for rusting, the unemployed have nothing to do with the scrapping of machinery whose functioning would give them work and their fellows more goods; while the comparative poverty of the more "fortunate" classes can scarcely be blamed for the surplus of *unpurchaseable* goods, which economists and politicians, even in the face of this deadly panorama of unemployment, wages,

slums, starvation and a general lowered standard of living, still have the effrontery to refer to as a problem of "over-production"!

Referring specifically to the present small but definite spread of tuberculosis in certain parts of England, an anonymous M.D., writing in the "New English Weekly" for June 1st, 1933, says that

> "for the first time for fifty years this enemy of the race is making headway *with our own passive if not active connivance.*
>
> "The destruction of food because in the present financial system it cannot be sold at a profit though people are dropping dead from starvation every day, and the expulsion of penniless tenants from apartments which remain permanently empty are only two of those countless and most monstrous sacrifices which mankind is being compelled to make on the altar of orthodox finance."

And if, during the optimistic brayings of public jackasses in England, mothers have to starve themselves to feed their babies, it is simply because

> "biological necessities which are *not* under human control are being jettisoned in favour of alleged 'economic necessities' which *are.*"

In the meantime, and in the midst of this financially induced poverty in a world of unparalleled plenty,

> "the scarcity mind of our jungle ancestors, which prowls like a wild beast in our subconscious, has now emerged and bellows angrily for more and more economy."

If any doubt at all exists that this "scarcity mind" is still in control in spite of the enormous evidence of physical wealth throughout the world, it will be recalled that public dignitaries in England, such as W. R. Inge, the Dean of St. Paul's, London, have been "bellowing" throughout the whole course of the present depression for "stringent economy" and for a return to the dubious "virtues of ancestors", whose bequeathed mentality in his case, as in that of most of his contemporaries, has been one of the chief causes for the crisis: or that New York bankers insisted on more and more economy and impossible increases in taxation because the bonds of the richest city

in the world were " unsaleable "; or that Myron C. Taylor, board chairman of United States Steel, in his evidence before the Senate Finance Committee in February, 1933, declared that an abundance of all things " is our greatest menace ".

Instances of these ordinances in the direction of " more and more economy " could be multiplied almost ' ad infinitum ', and their immediate effect has been the sabotage of plant and commodities on a scale so far unknown to civilization. Under cover of such catch-phrases as " restriction of output ", " planned economy " and the " rationalization of industry ", food and almost every conceivable form of article which could be used by the starved or starving peoples of this world have been limited or actually destroyed in an effort to raise prices so as to enable producers to struggle with their eternal obligations to finance.

In June, 1932, more than 10,000,000 gallons of port wine were poured to waste by the wine-growers and distillers of the Dours district (Portugal) as the " only hope of preventing widespread misery and privation among the workers ". In Lancashire, England, a proposal was made to dismantle or immobilize 10,000,000 spindles and 100,000 looms as a " means of *restoring prosperity* to the British textile industry " ! (" New York Times ", Dec. 11th, 1931). The British Government was also requested to introduce a bill in Parliament to carry out this plan, which, it was estimated, would cost more than £2,500,000. This sum was to be raised by a loan ! Whether or not the loan was raised and the " plan " put into effect, the writer has not been in a position to discover.

Early in June, 1933, the British Chamber of Shipping gave its members a few days' grace in which

> " to make up their minds whether they favoured either of two proposed schemes for control of freight shipping, one involving scrapping of surplus tonnage and the other laying up of vessels. Action is regarded as necessary *to bring prosperity back to shipping* " (" New York Times ", June 5th, 1933).

One month later, at Liverpool, thousands of cases of oranges were dumped into the sea, as it would have been " *a loss to land them* ". This situation was caused by an attempt on the part

of the exporters of the oranges (the Spanish Government) to evade duty and thereby " defeat the Ottawa preferences, which aimed at giving the South African grower a share in the (English) market " (London " Times ", July 28th, 1933).

Up to April 30th, 1932, 5,600,722 bags of coffee had been purchased for destruction by the National Coffee Council of Brazil. Some eight months later, the National Coffee Council

> " announced plans . . . for the stabilization of coffee prices, including the destruction of 12,000,000 bags in the next twelve months and the placing of an additional tax of five shillings a bag on coffee exports from the country.
>
> " The decision to destroy the 12,000,000 bags was reported as unanimous " (" New York Times ", Dec. 7th, 1932).

In August of the following year, Mr. Arthur Whitworth, the chairman of the Brazilian Warrant, Agency and Finance Committee, in a speech made at the annual meeting of the committee, referred to estimates that the " surplus " of coffee was still in the region of 25,000,000 bags, although he personally " hesitated to think the total was as high as this with the *known rate at which destruction is taking place* " (London " Times ", August 5th, 1933). The estimate for the current crop (1933–34) is about 30,000,000 bags, of which 40 per cent.—or approximately 12,990,000 bags—will be " compulsorily handed over (for destruction in the interior) to the National Coffee Department by producers in return for payment of about 10 shillings a bag ". This periodical impounding for destruction has been aptly named the " sacrifice quota ", and in order to ensure further restriction of output, a *tax* on the planting of new trees has also been instituted.

Within the last year, the reconstruction of agriculture in America, as conceived and put into practice by Mr. Wallace, the Secretary for Agriculture, has taken the form of a bonus to farmers who agree to and actually do take land out of cultivation. In the middle of July, Secretary Wallace announced the success of the scheme up to date by the statement that 10,000,000 acres under cotton had been left to waste, the potential crop thereby being reduced by 3,500,000 bales ! The bonuses to farmers for this strange attempt to relieve the lot of a half-

starved world involved a sum of approximately one hundred million dollars !

At the same time, a long drought, heat and the ravages of grasshoppers united in causing severe damage to the American wheat crop, so that, according to the London "Daily Mail" for June 28th, 1933, nature is helping President Roosevelt to restrict production, thereby "*paving the way to world recovery*" ! The news of this treble disaster from drought, blight and grasshoppers was received with acclamation by farmers, salesmen, press and public in the Chicago Wheat Pit, and it is clear that the universal obsession with regard to money and debt has driven a world mad, when there is "more joy on earth about one crop that fails than about ninety-and-nine bounteous harvests".

To realize the full implication and the suicidal insanity of these vast governmental vandalisms, it is necessary to emphasize the fact that the plant or commodities have all to be *purchased* before they can be destroyed. The Lancashire proposal for the sabotage of spindles and looms necessitated the raising of a £2,500,000 loan; the destruction of twelve million bags of Brazilian coffee involves a yearly expenditure of £6,000,000; while Secretary Wallace's scheme, still only in its early stages, has already cost the American taxpayer $100,000,000 ! In each case, the destruction is forced on producers in an effort to raise prices so that they can continue to struggle with their eternal obligations to finance (i.e., keep out of bankruptcy). But the act of destruction itself, which takes away needed goods from the consumer, involves producer or consumer—and, in the last analysis, both—in further debt ! In the case of the consumer, the interest charges are met, on his "behalf", by the government through taxation. So that, either way, in order to exercise a compulsory "privilege" to destroy goods which it has itself produced, which it desperately needs, but which it cannot buy because of an existing intolerable debt burden, the community must add to that debt; thereby creating and adding to itself a special interest charge for the exercise of this monstrous "privilege".

Finally, we have the spectacle of a World Economic Conference, convened by the League of Nations, in the gravest international crisis of all history, blatantly resolving itself into an

attempt to push through European central bankers' proposals designed to bring about the stabilization of certain currencies, the resumption of international lending, and the maintenance of the 'status quo' in the international debt structure. When these proposals were defeated by the flat and unequivocal opposition of President Roosevelt, the delegates of the gold 'bloc'—France, Belgium, Switzerland, Italy and Poland—first threatened their simultaneous retirement, and then, cajoled into remaining by Prime Minister Macdonald, insisted that all discussion on fundamental financial problems should be shelved.

As a result of this, the economic experts to the conference, far from concerning themselves—or, indeed, being able to concern themselves—with the obvious problem of how to distribute a plethora of present and future goods to a half-starved world, were driven to consider how international industry might continue its struggle to transfer the interest charges due on the fantastic aggregate of national and international debt which finance inexorably held out against them. And just as the dictates of bankers in every town and country have invariably resulted in the restriction or destruction of national output, so this international conference, driven by bankers and bankers' appointees from the Bank for International Settlements and the financial sections of the League, were able to force countries and commercial syndicates into proposals for the *simultaneous restriction of output throughout the world.*

For, if the tangible "results" of the Conference had to be summed up in a single phrase, that phrase would be "restriction of production". Ordinances for the co-ordinated restriction of output in the countries concerned were effected in the case of a large number of commodities. The proposals in connection with sugar production will be quoted as an example. The Cuban delegation, driven by the New York and Canadian bankers who first bankrupted and then acquired the entire sugar industry in this unfortunate island, were able to press their plans for world sugar restriction on the sub-committee of the Economic Commission to the Conference, and then have them virtually duplicated by a convention drawn up by the

International Sugar Council. This convention specifically required all contracting parties

> "to agree *for a period of ten years* not to start the construction of new sugar factories, and to agree that the total effective daily capacity of the sugar factories of each country shall be determined and may not be increased. In determining this capacity, factories which have been totally or partially dismantled shall not be taken into account.
>
> "During this period of ten years, it is proposed that no new subsidies, either direct or indirect, shall be granted for the production or export of sugar by the parties to the convention." (London "Times", June 29th, 1933.)

It should be noted that this international "co-operation", effected behind a screen provided by the League of Nations, has given to a world-monopoly combine the power to determine and fix exactly how much sugar the world shall be allowed to consume and the power to regulate the price at which it shall be sold; has endorsed the previous policy of sabotage by refusing to allow dismantled plant to be restored for a period of ten years; and has literally forbidden the governments of the contracting parties to assist their fallen sugar industries.

The 'reductio ad absurdum' of this subconscious scarcity mentality, induced by the medieval monetary ritual of the modern gold idolatry, was envisaged by an exasperated U.S. Senator, when, faced with a deluge of proposals for restricting the output of this, that and the other, he declared that all that was necessary to complete the picture was a bill to restrict the production of children throughout the United States. He probably did not know that in November of the preceding year (1932), a Mr. Pitt-Rivers, of some Population Research Society or other, had written to the London "Times" already suggesting that, in view of the existence of a "surplus" of production over consumption and the growing dispensability of manual labourers, the latter should be instructed, if not actually compelled to limit their output of children: or that another medievalist, Mr. Harold Cox, a well-known London columnist, had written to the same newspaper, suggesting exactly the same thing.

> "The poorer section of the population have outrun the demand for manual labour . . . and they must learn to regulate the expansion of their families as the middle and upper classes have long been doing."

Such complete mental inversions striking, as they do, at the very foundation of the Christian ethic and set against the actual facts of unlimited physical abundance throughout the world, can scarcely be credited, even in these twentieth-century Malthuses. And although birth-control clinics, built next to the banks at every important street corner would exist as twin visible symbols of "civilization" under the present monetary system, it is exactly as if the jungle mind, "bellowing for more and more economy", and not content with the sacrifice of millions of living beings through wars, involuntary economies, starvation and suicide, was reaching out, in the psychological frenzy of its barbarism, to the sacrifice of generations of children not yet born.

## *CHAPTER IV*

# NO MONEY, NO GOODS !

> " Whether money be not only so far useful as it stirreth up industry, enabling men mutually to participate in the fruits of each other's labour ? " (BISHOP BERKELEY, " Queries Proposed to the Consideration of the Public," 1735.)

DURING this long recital of destruction and sacrifice, actively enforced and passively tolerated, the short preliminary survey of the physical sources of wealth—" the greatest array of productive equipment ever at the disposal of man ", the enormous mineral resources of the world, the accelerating growth of technological method, the almost incredible extent of the available and potential power sources, the extraordinary development of water-power (" still in its infancy "), the three million man-power turbines, and the sources of atomic energy still awaiting discovery and exploitation—may well have been forgotten. But it was necessary to give some estimate of the one and to elaborate the other as the tremendous disparity between the two is not commonly realized.

If then, we have the spectacle of the present machine and power equipment of the world, some of it being constantly scrapped or dismantled for reconstructive, but more particularly for destructive considerations, and of the remainder working at an average probably something considerably below 50 per cent.[1] capacity, but still turning out goods and services which have to be forcibly destroyed, on an enormous and increasing scale, in front of the very eyes of a half-starved

[1] Estimates made by both American and British engineers as to the absolute efficiency of the plant in both countries, invariably result in some quotient considerably below one-half.

world; and if we think particularly of this new Prometheus of power development struggling to be released, then it is beyond all possible question that there is some sinister defect of distribution, *of a prime and universal significance*, which has created, is maintaining and can quite definitely be expected to intensify this impossible situation.

Here, again, we are confronted with the undoubted fact that the physical means for distribution and the numbers and business ability of salesmen and distributors are commensurate with the extent of the productive sources themselves. The extraordinary development of transport facilities by land, air and sea, the extension of telephonic, telegraphic and wireless services, are together manifestly able to cope with the distribution of the available goods and services from or to all corners of the earth: while the spectacular rise of the so-called "arts" of advertisement and salesmanship are positive evidence that the distributing component is grossly overmanned, and is now, indeed, in a position, if it were allowed to do so, to distribute probably two or three times the industrial output which the machines turn out. If any doubt at all is entertained on this point, there is the authority of the "Recent Social Trends" report for saying that "from one and a half to two billion [1] dollars were spent in 1929 on advertising" in America, while the Incorporated Sales Managers' Association came quite definitely to the simple conclusion that "on the average what costs 40 to produce takes 60 to sell". With regard to the nauseating intensity, the disgusting ballyhoo and the total uselessness (as far as the consumer is concerned) of most modern advertising, the following extract from a letter written by Mr. David Warren Ryder of San Francisco to the "New English Weekly" for July 6th, 1933, will suffice.

> "Consider gasolene, for example. Competent users all declare (which is my own experience) that there is no choice among the half-dozen or so first-rate brands on the market. All are equally effective. Yet each of these brands, by newspaper, billboard and radio, is constantly engaged in claiming absolute superiority; with the cost of all this needless ballyhoo passed on to the gasolene

[1] The word "billion" is used, here and elsewhere, in the French and American sense, i.e. as meaning one thousand million.

user. What is the warrant of this? Every motorist has to buy gasolene, and would buy just as much if it were not advertised at all."

It is now becoming obvious to an increasingly large number of people that the causes for this tremendous disparity between production and consumption are certainly financial, and, indeed, it would be unnecessary to establish what ought to be as plain as a pikestaff, if it were not for the equally obvious fact that very few seem to have even the vaguest idea as to how finance manages to perform this criminal disservice. For, unfortunately, a finance-controlled press throughout the world persists in misrepresenting the facts, now as always, while the official manifestoes issued by the banking profession (with the possible but brilliant exception of the " Midland Bank Review ", directed by Reginald McKenna, the able Chairman of that institution) either ignore the " possibility " of a financial cause for the " depression " or else flatly deny it. So that, even if a growing proportion of the general public are sensible enough to know where the trouble really lies, it has nevertheless been fairly thoroughly schooled to accept the financial diagnosis— " over-production ", as well as the financial " cure "—restriction of output and the " rationalization " of industry.

But if the public could get away, even for a moment, from the " brayings of its public jackasses " and the subtle propaganda of its bankers' ordinances, it would see immediately that " over-production " is simply not possible in a world in which unemployment, poverty, long hours and sweated labour exist side by side with it; and that the only possible, as well as the only humane and ethical, diagnosis is *under consumption*; and that the only possible cure is and must be more consumption and more leisure.

For if we examine the distressing examples which have been referred to, the inescapable conclusion is that, in no case, have they been caused by the lack of men, machinery, materials, or power, or by the lack of ability or willingness in men to produce and exchange goods and services amongst themselves. If these simple and obvious conclusions were publicly realized, publicly insisted on and no palliatives which did not concern themselves with such conclusions were tolerated, the whole

face of civilization throughout the world would be transformed within a year.

[1] The barter and scrip groups in the United States were forced to use their improvised but very sensible devices, *because they literally did not have the money* in quantities whose aggregate buying power was even remotely sufficient to exchange the goods and services mutually available for exchange amongst themselves.

Unemployment under modern conditions exists because producers must cut their costs if they are to remain solvent, i.e., remain out of the confiscating clutches of finance. It is obvious that if they could *afford* to pay more men a " living " wage, they would get the same, or probably better results, by employing twice the number of men half the time.

Houses for slum dwellers in England cannot be built because the working classes do not have enough *money* to pay interest and redemption charges on the loans which are needed to build them. Recent proposals for building such houses at £330 each would involve a rental of something between six and seven shillings a week to pay interest and provide for repayment of the loan. If the cost were more, the rent could not be paid ; if it were less, the houses would probably collapse on the occupants. The building trade meanwhile languishes for lack of orders, and bone-cut estimates to establish such a ridiculous minimum cost as £330 automatically produce jerry built and unsightly houses, which, in the last analysis, are not brought into existence to satisfy a pressing human need, but simply to work out an abstract financial proposition which will be " satisfactory " to the lenders. The houses in fact will be guaranteed not to collapse on the occupants for at least as long as the period required for the redemption of the loan. After that (and the history of house property during the last hundred years or so proves this to be true), it will be found to be more " satisfactory " to the lenders to finance the building of still more jerry built and still more unsightly houses, where the guarantee not to collapse will be for a still shorter period.

Strikes, in England as elsewhere, are caused almost invariably because of proposals to reduce the wages of workers—which,

[1] See Chapter XXXII for an account of these groups.

in turn, would give them still less *money* to pay the rental of still more jerry built houses, which would exist to be condemned with ever-increasing frequency. Such vicious circles, which are disheartening and disastrous to all except the money-lenders, are only a few of the thousands which are initiated by usury.

Mothers starve to feed their babies, and disease is spreading because the poorer people do not have the *money* to spend on necessities of life which would, in turn, bring orders and prosperity to grocers and the like.

The Pigs Marketing Scheme, the Bacon Marketing Scheme and the "rationalization" of the milk industry in England were drawn up and will be carried out because the majority of individual dairy producing organizations are bankrupt or facing bankruptcy, and are driven to fight their last battle with their creditors and the banks in mass formation. The Industrial Recovery programme of President Roosevelt, which is simply a vast benevolent "rationalizing" of the whole of American industry, is the same battle fought out on a national scale, and here, so long as the recovery is based on banker's loans, it is bound to fail—as is the British dairy industry—for the simple reason that the banks are mathematically bound to win!

The tithe war in England is caused by the inability of bankrupt farmers to pay tithe dues on which impoverished clerics and others depend; both are thereby set in opposition, while both are equally unable to do anything to rectify the position. If the British Government comes to their "rescue", it can only do so by *borrowing money* from the banks, or by taxing its desperate citizens to the full amount of the new responsibility thereby assumed.

These instances could be multiplied out of the common experience 'ad infinitum', and the inescapable conclusion is that the world is suffering not from a lack of goods, but from a *lack of money*. A condition of artificial poverty has been brought about because the circulation of the medium of exchange is somehow restricted so that it cannot or does not effect the mutual exchange of all the goods and services available; an exchange which would take away a "surplus" now withheld or destroyed, and thereby benefit producers and consumers alike.

## *CHAPTER V*

" Economics—that pathology of debt." HOWARD SCOTT.

IF the situation is examined a little more closely, it will be discovered that side by side with this shortage of money, there is an actual glut of money in the banks, a mass of " frozen credits " everywhere and a general availability of " cheap " money. If, then, the economic plight of all classes is directly due to a lack of money and there is an abundance of money lying " idle ", there must be some very serious and sinister reason for this universal refusal to use it. Bankers and politicians assure a long-suffering world that it is the " lack of confidence " of the public which has brought about this paradoxical situation, but even a quick examination of the bases of the bankers' system of money *lending* proves that this " lack of confidence " is thoroughly justified, and has its roots in fact and experience and not in scare psychology.

For the simple and obvious truth is that the world as a whole is up to the ears in debt to its banks and bond-holders, and while it desperately needs more money, it knows that its *only* means of acquiring it is by further borrowing from the former source, thereby increasing a debt burden which is already mathematically incapable of any resolution whatsoever. It has, in fact, discovered by bitter experience, that you cannot borrow yourself out of debt; especially if you have to pay eternal interest on all your borrowings or else forfeit personal property in lieu of it.

For if we examine the specific examples which have been referred to, it will be discovered, if it has not already been stated, that the cause for the lack of money to exchange goods and services, is the universal imposition by finance, of an impossible burden of debt, which is fatally crippling the development and even threatening the very existence of individuals,

business concerns, nations and the actual bases of civilization itself.

The barter and scrip groups of the United States, which are largely composed of farmers and rural industrialists of various sorts, were forced to adopt their " improvised but very sensible devices " because the little United States currency which they managed to acquire all went to pay interest or mortgage charges to banks, insurance companies and other debt creators. The " Recent Social Trends " report has already been quoted to the effect that the American farmer

> " now provides food for himself and three members of his family, for 12 Americans not living on farms and for 2 foreigners—a total of 18 persons ".

In return for this service, achieved by hard work, skill and devotion in face of a financial system dead set against them, the farmers of America are now saddled with mortgages to a gross total of something like $10,000,000,000, on which they are expected to pay interest (it being absolutely impossible for them ever to repay the principal, and thereby achieve solvency, in the true sense of the word) at rates of 5, 6, 7, 8 and even 9 per cent.—apparently by growing crops and selling them at a dead loss all round ! According to Lawrence Dennis, the farmers are attempting to pay this interest (thereby maintaining their " solvency ") by " living on $425 per annum per farm family in 1930 and by receiving a *minus* return on their capital investment " (" Is Capitalism Doomed ? " New York, Harper, 1932). As Mr. Dennis says, " the worst of debts is that they have to be paid ". The main purpose of this book will be to show that, except for the existence of the vast pathological machinery of usury, debts and so-called " gold-payments ", such " obligations ", incurred as these most undoubtedly were, during the performance of the most fundamental and vital service to the community, need not have been nor would they have been accumulated.

Debts, to whatever extent they may be precariously supported by the community as a whole, have come to be regarded as a necessary evil. At certain periods, in particular, in spite of the fact that men, materials, and machinery exist in the

same quantities as before, debt accumulates at such a rate that production, but more extensively, consumption, is seriously inhibited. Such developments are, of course, deplored by the community, but they are not specifically questioned. Times are hard, it is said, and there is "no money" about.

Why, at certain periods in particular, there should be no money about, but plenty of debts and goods for sale, has not been deliberately considered, to the writer's knowledge, by any government in Europe to-day. When the subject has come up inadvertently, explanations and remedies suggested by bankers and financial experts—whose administration of the issue and control of credit actually brings about the shortage of purchasing power referred to—are invariably accepted, and, usually, put into practice.

Yet it is an undoubted fact that lack of money, or overpowering debt-claims on current earnings, are at the root of nearly all the social problems of our time, whether considered individually or collectively. Over any period, the curve showing the increase and decrease in the rate of suicide very closely follows, and, indeed, may be regarded as a variable of the curve representing bankruptcies over the same period. Numbers of people commit suicide because of unrequited love, or because of some other material or psychological frustration, but the main determining causes, directly or indirectly, are poverty, debt and the fear or actual fact of bankruptcy.

In order to break into the spectacle of debtors on a larger scale, we have only to consider the question of the actual maintenance of the unemployed throughout the world. These men are supported in enforced idleness by organized charity from impoverished subscribers, by the imposition of higher rates by municipal bodies at their wits' end to know where to turn for money, and by governments which are themselves hopelessly in debt to the banks and bond-holders of the world.

With regard to bankrupt municipalities, it is only necessary to refer to Chicago, which is so much in debt that it has been unable to pay some of its public servants, including its school teachers, the wages due to them for nearly a year. Or to New York, the richest city in the world, going on its knees to its bankers for money which it desperately needs, but being

refused it or only granted it on humiliating terms requiring stringent municipal economy and increased taxation—because its " bonds are unsaleable ". The same conditions obtain, in a milder or more aggravated form, in almost every city in the United States, while English municipalities, particularly in industrial areas, are rapidly approaching the limits of rateable capacity. As England and America are the two most " prosperous " countries, it is fairly legitimate to make the same inferences for the municipalities of the world in general.

The following bird's-eye view will be sufficient to give some conception of the staggering aggregate of international debt. Every country in South and Central America, with the exception of Venezuela, is now smothered under a load of debt to these two most " prosperous creditor " countries—England and America. The activities of the National City Bank and the Chase National Bank of New York in debt creation in Central and South America have been carried on, since the War, to an extent that is scarcely credible.[1] Canada is similarly bound by a debt to these two nations involving interest payments at the fantastic rate of one million dollars per day. Australia, with a population of some seven or eight million people, has an external debt demanding interest at something like £40,000,000 a year.[2] Austria, Hungary, Greece and the Balkan countries are all in debt to such an extent that defaults, part payments and moratoriums are the rule rather than the exception. Germany, driven to desperation by the humiliating impositions of Shylock-driven statesmen at the Treaty of Versailles; having witnessed the total obliteration of her middle-class savings in the effort to wipe out an impossible internal debt by the spectacular depreciation of the mark; having writhed in the financial coils of the Dawes and Young plans—essentially schemes of external taxation by the foreign creditor powers; and having contracted further debts to America and Great Britain to the tune of several billion dollars in an effort to pay them, has at last turned under the emotional but intensely sincere leadership of Hitler.

Cuba is a test case, and the recent desperate revolution in

[1] See page 143.

[2] See article by P. C. Loftus in " The New English Weekly " for June 8th, 1933.

that island was undoubtedly brought about by external debt-creation and financial exploitation on a scale and to a degree of savage intensity possibly unequalled in the whole of the sordid annals of finance. Since 1921, when her sugar industry, on which the island almost entirely depends, collapsed, Cuba has been in the bailiff hands of New York and Canadian bankers, whose loans, up to an estimated total of some $1,000,000,000, were forced into the island at the end of and immediately after the World War. The transfer of the interest charges on these loans, throughout an unparalleled period of world deflation, was enforced by the military dictatorship of President Machado, and has brought about the complete ruin of the island, financially, industrially, politically and morally.[1]

The Japanese currency, to mention no other, is seriously depreciated and has only been saved from utter collapse by war inflation. Jehol is being "saved" from a chaotic China by fire and sword, and Japan will be driven to push her military programme in the East far more by pressure from the inflated yen than by any "loss of face" that might be involved in a withdrawal. At the same time, both Japan and Russia, in an effort to bolster up their internal and external debt structures, are dumping goods wholesale throughout the world, and are forcing other countries to raise up tariff barriers against them in a vain attempt to keep out the flood. These goods are produced by cheap labour, working under government regimentation, and are sold abroad, if necessary below cost, to pay overhead charges not recoverable through internal purchasing

[1] Between 1922 and 1933, Cuba shipped about $11,000,000 in coin and bullion, largely to the United States, to settle the adverse balance of its external debt. This, in Cuba, represents a backing for some $25,000,000 in notes and coin, and about $130,000,000 in credit.

Out of a total population of approximately 3½ million, some 2 million are employed as sugar labourers in plantation and factory. The wages of the latter, during this period, depreciated to a general level of about 25 cents a day, or possibly less. Making allowance for the fact that these "wages" are only paid regularly during the time of the sugar "crop" (i.e., for about three months in the year), the total yearly income of the sugar labourers might conceivably be estimated at $50,000,000.

The effects of the progressive restriction of currency and credit to a final amount equal to three times the total yearly income of the labouring classes in Cuba may very properly be left to the imagination.

power. The inevitable and disruptive effect is to drive down the standard of living of the workers in other countries engaged in the hopeless competition against them.

China has had her normal silver currency and the normal purchasing power of her peoples destroyed by the successful efforts of the gold-worshipping bankers of the world to drive down the world price of silver. India is on the brink of a revolution which threatens to imperil the very basis of British control in the country. For the causes of this, it is necessary to look further than the religious rivalry between Hindu and Moslem, the civil disobedience of Gandhi, and the uncertainties on the North-West Frontier. The recent imposition of the gold standard in that country and the fall in the world price of silver has similarly destroyed the silver-purchasing power of her people. India is particularly unfortunate in that she is beset by debt creators from without and within. If her ruin, in its major aspects, can be traced directly to the "interference control" of the gold monopolists and central bankers of the world, her internal fears and miseries have been intensified by the ubiquitous efforts of the native 'shrof', or moneylender, who has most of the village families in his clutches.

While the spectacle of individuals or business concerns being in debt to each other, or to banks, may be received with a certain amount of equanimity—as creditor and debtor are here in visible opposition to each other—how are we to account for the fact that *every* nation in the world to-day is hopelessly and irrecoverably in debt? In political and financial circles, a perfectly meaningless distinction (judged by straightforward, as opposed to financial reasoning) is made between "creditor" and "debtor" nations. This subtle quibble is maintained because the world is not yet quite so finance-ridden in its mentality as to accept the existence of a debtor without the tangible and identifiable presence of an opposing creditor. *But if every country in the world, "creditor" and "debtor" alike, is in debt, who or what are these mysterious and invisible creditors, functioning outside the entities we call nations, to whom the whole world is in pawn?* For the inescapable fact is that the two most "prosperous" nations, England and America,

as well as every other country which wears the "creditor" label of international finance, are themselves in debt internally to an extent that almost defies comprehension.

In England during the War, the National Debt rose from something like seven hundred million pounds to its present total of more than seven thousand millions. How was this sudden and enormous increase brought about? The standard reply to this important question, which has probably not even been formulated in the minds of more than a negligible fraction of the country's inhabitants, would no doubt be that it was to pay for the War.

To common sense, as opposed to financial, reasoning, it should appear that the War was really paid for, during its progress, as are all constructive or destructive enterprises, by the expenditure of materials and the labour of men which went to its furtherance. The fact that a large part of the commodities created were blown to smithereens on the battlefields, and that the lives of a million men and the complete or partial maiming of millions of others went to swell the totals of labour time expended at home on the creation of commodities for use or destruction, does not interfere with the fact that this gross expenditure of life, labour and materials was the real cost of the war, and that this cost was paid, *on the nail*, while the war was in progress.

How then does it come about that the country is still paying for a "cost", which it has in reality already paid, by interest payments on an enormous increase in the National Debt at the rate of nearly three-quarters of a million pounds *per day*? The British taxpayer is still paying interest on money borrowed by the Government to finance the War that ended in the Battle of Waterloo (1815). The American taxpayer has already paid back four times over the money borrowed to finance the Civil War of nearly seventy years ago, and still owes, with interest, another billion dollars (see page 267). The explanation for this, and every other staggering anomaly engineered under the present system, will be found by an examination of the financial mechanism which brought it about.

The most startling fact which emerges from a study of financial developments during the War is that the dimensions

of British bank deposits rose from a total of about 750 million pounds in 1914 to about 1,760 million pounds in 1919.[1] As will be explained in detail in Part II following, an increase in bank deposits can only be brought about either by an increase in bank loans, by an increase in bills discounted by the banks, by an increase in securities bought by the banks, or by some combination of two or three of these processes. As will also be explained, this expansion of credit, as it is called, is brought about under a system which, in effect, establishes all such creations of loans, bills and securities as the absolute property of the banks which negotiate them. During the War, that is to say, more than £1,000 millions of *new money* came into existence as an interest-bearing loan in favour of the British banking system.

In actual practice, this was largely effected by the banks lending out this newly-created credit at the specially low rate of 3 per cent. to enable borrowers to buy War Loan on which the taxpayer was ultimately to pay interest at 4 per cent.[2] In this expansion of credit, the banks took no risk, firstly because it was technically " based " on the war issue of Treasury notes, themselves backed by British Government securities guaranteed, both as to principal and interest, by the British taxpayer, and secondly because the banks could and did hold the War Loan scrip as collateral security until these newly created loans were " repaid ".

This expansion of bank deposits was, of course, balanced by an equivalent increase in the volume of the National Debt. On the whole of this increase, the British taxpayer paid interest at 4 per cent., of which the banks, in effect, received 3 per cent., and the War Loan holder the remaining 1 per cent. So that for every pound increase in taxation levied to meet this increase in interest on the National Debt, the banks received 15*s*.

[1] The figures below shew the rise in the totality of British bank deposits during the War, in millions of pounds. The 1919 total of £1,761 millions has since risen to its present total of about £2,300 millions.

| | | | |
|---|---|---|---|
| 1914 | 751 | 1917 | 1,073 |
| 1915 | 947 | 1918 | 1,355 |
| 1916 | 992 | 1919 | 1,761 |

[2] See Frederick Soddy, " Wealth, Virtual Wealth and Debt," New York, 1933, page 193.

and the War Loan holder 5*s*. But as the borrowers themselves were also taxpayers, the whole operation amounted virtually to the creation of new money to this amount as a debt bearing interest at 3 per cent. in favour of the British banking systems.

The amount of money circulating by cheque was thus gradually increased, until, in 1919, it was almost two and a half times the amount of that circulating in 1914 (£1,760 millions as opposed to £750 millions). Vast profits were made by industrialists, whether engaged in the production or distribution of commodities for use or destruction. The fact that these war-profiteers, as they were called, battened on the sudden and enormous acceleration of industrial activity brought about by the rapid circulation of this new money, is well known; but it is not so commonly realized that still more enormous fortunes were made behind the scenes by independent financiers, financial trusts and company promoters who had direct access to this new credit as it was being issued by the banks, and to the new agglomerations of capital which derived therefrom. The profits and capital appropriations made by the profiteers as well as by these intermediate financial enterprises were similarly used, to some extent, to buy up War Loan. This increased the volume of the National Debt, but not the volume of bank deposits. (For an explanation of this process, see the chapters on the relation between the circulation of bank deposits and the debt-structure in Part II.)

Specifically, the increase in the National Debt from £700 millions to £7,000 millions was made up of four factors. Firstly, by a re-investment of pre-War assets; secondly, by small holdings purchased out of savings; thirdly, by an interest-bearing gift of £1,000 millions in favour of the British banking systems; and fourthly, by purchases largely made by the profiteers and financial entrepreneurs referred to above.

If we assume that the first two factors increased the original £700 millions to £3,000 millions (probably an over-estimate), it will be seen that of the remaining £4,000 millions one-quarter was appropriated by the banks and three-quarters by the profiteers and financiers.

It should, however, be realized that the estimated £3,000 millions of War Loan held by the latter represented only a

small part of their gross capital accretion during the War. In fact, it is of prime importance to realize that the circulation of bank deposits two and a half times the volume of those of 1914, generated capital, i.e., debt claims on industry, far in excess of those which were in existence in the pre-War periods. The financial costs of the War, that is to say, materialized as debt-claims which now form the greater part of the gross capitalization of the country. In the short space of four years, the financiers and profiteers referred to above appropriated the larger part of these debt-claims—part of which appropriation is represented by holdings constituting probably more than one half of the whole of the National Debt.

So that, although the War was actually paid for, during its progress, by an extraordinary expenditure in human life, labour and materials, the financial equivalent of this expenditure, *which is now substantially the gross capitalization of the country*, was largely appropriated as incontrovertible debt-claims by a small minority composed of bank shareholders, independent financial enterprises and profiteering industrialists; while the soldiers were given a shilling a day to risk or lose their lives in France or elsewhere so that this process might be supported.

The soldier returned to civilian life with virtually no claim on this new capitalization whatsoever. In fact, far from deriving any capital benefit from these transactions, he actually lost part of that which he did possess by giving up his job and means of livelihood; while he and his family were grossly under-recompensed for loss of life, health and limb.

But the real trouble has been not so much that the soldier was so scurvily treated as that his lack of capital has prevented him from having any real share in the control of post-War politics and industry. He has, in fact, been forced to submit to the dictates of the minority of financiers and profiteers who battened so extensively on his sacrifice. Similar minority controls, in other European countries, were brought into existence at the same time, and under the same circumstances. And it is undoubtedly a fact that these minority controls, whose influence permeates through the whole of politics, industry, education and law, have endeavoured to extend their opportunities for profit-making and capital aggrandizement since the

War. With the help of their American counterparts, they have endangered the very basis of Western civilization by the pursuit of a rapacious and mutually destructive policy, and have brought the continent of Europe to the brink of another great international war.

The writer cannot, at this point, go into any detailed examination of the extraordinary issues here involved, but it should be clear that, inasmuch as the War was a national enterprise, the created bank credits which brought about this enormous accumulation of new capital should have been owned, issued and controlled by the State. The actual position to-day becomes more clear when it is pointed out that this minority of bankers, financiers and profiteers have entries in their books equivalent to the larger part of this new capital which they call *wealth* (and on which they propose to draw eternal interest) whereas these entries obviously

> " represent loss not gain, debt not credit, to the community, and, consequently, are only realizable by regarding the interests of (this minority) as directly opposite to that of the community.
>
> " Now, it must be perfectly obvious to anyone who seriously considers the matter that *the State should lend, not borrow*, and that, in this respect, as in others, the Capitalist usurps the function of the State." (Major C. H. Douglas, " Economic Democracy ", London, Cecil Palmer, 1920.)

The extent to which the British Government, by not exercising its *constitutional right to lend*, has been forced to borrow, at the taxpayers' expense, is indicated by the dimension of the floating debt, now in the neighbourhood of £1,000,000,000 and that of the National Debt, which, in March, 1933, stood at £7,643,793,534 ! The interest and other services in this debt amounted to £224,000,000 budgeted for the year 1933–1934, which is almost exactly one-third of the estimated national revenue from all sources, viz., £698,777,000.

Exactly the same debt-creating mechanism was operated by American bankers, financiers and profiteers during the War, only on a much larger scale. There is no need, therefore, to duplicate the process here, using another set of figures in dollars instead of pounds. The resulting situation, in America, the largest " creditor " country in the world, was admirably summed

up by Mr. Bassett Jones, one of the founders of "Technocracy", in a letter to the editor of "Electrical Engineering" in December, 1932:

> "The industrial debt of this country—bonds, mortgages, bank loans, and all other interest bearing amortized securities—totals approximately $218,000,000,000 (*two hundred and eighteen thousand million dollars!*).
>
> "Taxes and obsolescence included, the fixed charges on this debt are $34,000,000,000 a year, practically half the national income of 1928."

This condition has been intensified since 1928, as the following evidence given by Irving Fisher, Professor of Economics at Yale University, before the Senate Finance Committee in May, 1933, will show:

> "The wealth of the nation has shrunk from $362 billions in 1929, to an estimated $160 billions in 1933, as against $200 billions now owed; while the national income has dwindled from $89 billions in 1929 to $40 billions in 1932; deflationary forces have drawn it down still further in 1933."

If, as Mr. Bassett Jones pointed out, the fixed interest charges on America's debt amount to $34 billions, it is obvious that the "obligations" incurred by the creation of these vast debts now amount to *more than three-quarters of its total national income.* And America is still the greatest "creditor" nation in the world!

It will be seen that the following statements, made by Mr. Bassett Jones in the same letter, are amply borne out by Mr. Fisher's testimony:

> "The population of the country has been increasing as the square of time, debt increasing as the fourth power of time, production as the third power of time.
>
> "It follows that the debt, which must be supported by the sale of produced goods, increases faster than the production of goods. In other words, the goods are 'put in hock' (i.e., go into pawn) faster than they can be produced."

"How long," as Mr. Jones goes on to say, "and by what kind of financial legerdemain, can such a proceeding be maintained?"

## *PART II*

## THE MECHANISM OF THE MODERN IDOLATRY

ANTONIO: Or is your gold and silver ewes and rams?
SHYLOCK: I cannot tell; I make it breed as fast.
("Merchant of Venice", Act I, Scene 3.)

## *CHAPTER VI*

# THE CREATION AND APPROPRIATION OF PUBLIC MONEY

ALTHOUGH it would be illuminating to trace out how and by what labyrinthine process of legal quibbles these vast appropriations of public money have been effected, it will be more convenient to consider the position, point blank, as it exists to-day.

In Great Britain, the following approximate figures [1] indicate the composition of the medium of exchange:

| | |
|---|---|
| Bronze | 10 |
| Silver | 40 |
| Bank of England notes | 450 |
| Bank deposits | 2,000 |
| | 2,500 (in millions of pounds) |

The totality of bank deposits is largely determined by three factors: the sum of all bank loans outstanding, the sum of all bills discounted by the banks, and the sum of all securities held by the banking system. Loans, bills and securities are, or become, in effect, the absolute property of the banks, as will be explained in the chapter on " The Mechanism of Money Creation " (see also Appendix B).

Of the 450 million bank-notes, some 250 million represent the British £1 and 10*s*. Treasury Notes issued during the World War, which, in 1928, under the terms of the Bank

[1] It should be understood that these figures make no pretence at literal accuracy, and are drawn up simply to give a rough but just idea of the proportions which each category bears to the others and to the total. The actual figures, of course, vary considerably, especially in these times of financial chaos, but the mutual ratios between all categories remain substantially the same.

Notes and Currency Act, came under the control and are now the virtual property of the Bank of England. The fact that that institution is under a technical liability to "redeem" these notes in gold need not concern us here. Firstly, because the utter speciousness of this liability will be discussed in some detail later; secondly, because, since the suspension of the 1925 Gold Standard Act on September 21st, 1931, it has been exempted from doing so; and thirdly, because the Bank of England has never wholly redeemed this liability at any time in its history, and when called upon to do so during a crisis, has invariably been exonerated by the direct intervention of the British Government.

The important point that emerges from this division of the British currency into its various components is that State-issued money now consists entirely of the bronze and silver coin, i.e., a mere £50 millions; and, conversely, that the banks now own and *claim as their property* (subject to the specious liability as to gold redemption referred to above) some £2,450 millions out of a gross total of £2,500 millions.

It is therefore clear that the British banks, except for about 2 per cent., have created and now own all the money in circulation in England as a debt against the community. Certain qualifying factors, which need not be discussed here, but which go to accentuate even this ratio of monopoly, enabled Major C. H. Douglas to make the following statement during a speech at Ipswich, England, on April 4th, 1933:

> "In the modern world, as we have been specifically told by such a banking chairman as Mr. Reginald McKenna, all but an insignificant fraction, probably not amounting to more than 0·7 of 1 per cent. of the money in circulation, is actually created by the banks and is claimed as their property."

The situation in the United States, and indeed in all civilized countries to-day, is substantially the same. The Federal Reserve Banking System, although not exclusively a private corporation as is the Bank of England, was, up to the time of the present Roosevelt administration, only under the "supervisory control" of the United States Government. This was definitely stated by Senator Carter Glass in his evidence before

the Senate Stockmarket Investigating Committee on May 23rd, 1933.

> ". . . the government of the United States neither owns a dollar of proprietary interest in the Federal Reserve Banking System, nor does it provide the System . . . any aid.
>
> ". . . the aid (afforded by the Federal Reserve System to the member banks) is not extended by the Government of the United States; it is an aid by the banks to themselves. They own the Federal Reserve System. The Government simply has a supervisory control over it."

Even this supervisory control, except in the case of extreme national emergency, was mainly concerned, in its definitive legal aspects, with regulations referring to the issue of notes and the deposit of gold and silver in the United States Treasury for their "redemption"; while even this control, which is concerned with a relatively unimportant matter, when compared with the issue of bank credit by member banks of the Federal Reserve and National Banks alike, was resented by Senator Glass—whose very honesty and integrity, as a banker, has directly prevented him from realizing what the true issues are in this national and world emergency. His evidence on this point before the same committee, is appended below.

> "Federal Reserve Banks have not the right to issue (notes). The government has the right to issue upon the request of the Federal Reserve Bank, and . . . the member banks of the system *did not want that done. . . .*"

Now although the issue of both notes and credit is much more involved in the United States than in England (where the issue and control of both are now determined absolutely, and in their totality, by the policy of the Bank of England); and while the situation is made more complicated by the dual control and actual rivalry of the Federal Reserve and the National Banking Systems, the following figures, abstracted and approximated from the U.S. Treasury statement for the month of February, 1933, will give a rough but fairly accurate picture of the diverse components of the American currency:

| | |
|---|---|
| Subsidiary silver (standard silver dollars omitted) | 300 |
| Minor coin (nickel and bronze) | 130 |
| Gold certificates | 1,300 |
| Silver certificates | 500 |
| Treasury notes of 1890 | 1 |
| United States notes | 346 |
| Federal Reserve notes | 3,000 |
| Federal Reserve bank-notes | 3 |
| National Bank notes | 900 |
| Bank deposits | 50,000 |
| Total | 56,480 (in millions of dollars) |

These figures [1] again make no pretence at literal accuracy, and are given, as in the case of the table for the British currency, to give some idea of the mutual ratios maintained between the various components. In any case, the figures for each suffer a continuous modification, while the whole basis of the currency, particularly with respect to what is and what is not "legal tender", is being revised under President Roosevelt's administration.

With this explanation, it will be seen that the total amount of State-issued money—including all bronze, nickel and silver coin, dollar bills, greenbacks, Treasury Notes and gold certificates—was formerly some $2,577 millions. When the retirement of the gold certificates and Treasury notes is completed, this total will be further reduced to some $1,276 millions.

[1] In the figures given above, standard silver dollars are omitted entirely, although there are still some $28 millions in circulation. When they are returned to the banks, they will find their way back to the Treasury, there to be retained, with over 500 million others, as backing to the silver certificates (dollar bills) listed above. Similarly, of the 1,300 million gold certificates listed, only some 600 million were in circulation in February, 1933, while the return even of these in exchange for Federal Reserve or National Bank notes, has become mandatory under the present administration. The Treasury notes of 1890, which were issued in payment of silver bullion purchased under the Sherman Silver Bill of July 14th, 1890, are similarly cancelled and retired whenever received, under the Act of March 4th, 1900. The United States notes, or "greenbacks", are protected, to about half the amount now in circulation, by a gold reserve of some $156 millions, held in the U.S. Treasury.

The remaining $55,000 millions, in notes and bank credit, is issued by and is the property of the Federal Reserve and National Banking Systems. So that here, as in England, the banks own and control all but some 2 or 3 per cent. of the total amount of money in existence.

It should strike the general public in England as an extraordinary fact that virtually the whole of the public money is now *owned* and controlled by bankers, whose policy is subject to the absolute dictatorship of the Governor and Board of the Bank of England, a private corporation,

(*a*) the list of whose shareholders is still not accessible to them,

(*b*) whose actions and policy is not discussed by their elected members in Parliament assembled, because it is a private corporation;

and the general public in America as an equally extraordinary fact that the policy of their Federal Reserve and National Banking Systems, who, between them, similarly own virtually all the money in the country, is not directly controlled by their elected representatives in Congress, except in respect of certain (now almost obsolete) regulations governing the comparatively unimportant matter of note-issue: and that a very able and honest ex-Secretary of the Treasury, Senator Glass, should so accept this situation and the dominance of the bankers' point of view as to resent the "supervisory control" of the Federal Reserve by the Government (then being increased under Roosevelt) to such an extent as to petulantly protest, in his evidence before the Senate, that

> "the only aid the Government (gives to the Federal Reserve) is to institute a system of espionage in them".

Now although it ought to be quite clear to anyone who has studied the matter impartially, that the chief cause of the present financial chaos is the fact that the governments of the world have not, up to now, instituted permanent "systems of espionage" in their respective banking systems, it is easy to understand why Senator Glass should resent this development. The involutions of finance, especially in the high insanity of its present behaviour, are, as has already been pointed out, entirely

beyond the comprehension of the uninitiated. And the interference of uninformed and "muddling" Senators and Congressmen, which only makes more difficult the delicate task of maintaining a world fiction, is naturally resented by experienced bankers.

Here, it is important to point out that government interference or control with respect to the *administration* of its banking system, is not advocated—in fact, the opposite. Bankers are experts at their job, and as administrative entities, the banking systems of the world are probably much superior to anything else we have—both as regards efficiency and departmental integrity. The nationalization of the banks, vaguely contemplated by certain sections of the Communist and Socialist movement would undoubtedly mean the administration of the *same system* by a horde of incompetent and inexperienced government officials.

But with regard to policy, i.e., as to how and to what extent money should be issued, bankers are the last people in the world to express an impartial opinion. For they are concerned with the preservation of "sound" money (in the special sense already briefly defined) first and foremost, and only in a secondary sense with the true function of money-issue—which should certainly be that of effecting the mutual exchange, between individuals, businesses and nations, of all the goods and services, available and transportable between the peoples of the world. In practice, finance is now chiefly remarkable for the extent to which it manages to prevent this exchange, as Chapter III must abundantly prove. Bankers and financiers seem to act on the assumption that if a "sound" currency is maintained, goods will or should be automatically exchanged. If, as in practice, they are not, then apparently it cannot be helped. The goods will be destroyed, but "sound" money must and will be maintained.

For there is not the slightest doubt that the original intention in the Constitution of every nation was that the control over the issue (and thereby the ownership) of the medium of exchange should be in the hands of their respective Emperors, Kings and Governments. For this reason, from the time of Cæsar onwards (and from times before him) the "coin of the realm"

has always borne the "image and superscription" of Kings and Rulers. Section 8 of the American Constitution specifically states that

> "The Congress shall have power to . . . coin Money, regulate the Value thereof, and of foreign Coin, and fix the Standard of Weights and Measures."

Now, while in America, as in every other country to-day, the authority of the Government to fix and maintain the standard of weights and measures is not questioned, the authority to regulate the much more important standard of money-value "and of foreign coin" has passed, here, as elsewhere, without any sign of public protest, into the hands of a highly organized body of national and international moneylenders. Again, while the granting of an absolute monopoly in the production of even a minor commodity is not contemplated and would be strenuously resisted by the community, an absolute monopoly in the creation of money, the most vital commodity of all, has passed, again without any sign of public protest, into the same hands.

In the face of this, it is indeed extraordinary that Senator Glass, as well as the majority of men who have the public welfare at heart, should resent even the suggestion of control by the United States Government with respect to the monopoly of its banking system, both in the coining of money (now substantially the issuing of notes and the creation of credit) and regulating the "Value thereof"—a monopoly that has patently been usurped from the very Government which now proposes to re-exercise at least a "supervisory control" over it.

For while the dollar bills of the American currency still bear the "image" of certain of its past Presidents, the "superscription"—except in the case of a few Treasury notes and "greenbacks"—is that of some National or Federal Reserve bank:

> "The Federal Reserve Bank of X (or some National Bank) will pay to the bearer, on demand, *x* dollars" (in gold, silver, or—as in the case of the new Federal Reserve Bank notes—some other form of currency tactfully not specified).

In the case of the whole of the English note-issue, the "image", where it exists, is now that of the private corporation calling itself the Bank of England, while the "superscription" reads,

> "The Bank of England. Promise to pay the Bearer, on Demand, the sum of (One Pound)" (currency form of redemption again tactfully not specified).

While, in the case of both countries, bank cheques, which now form the vast bulk of the medium of exchange, invariably bear the "superscription" of the bank which issues it.

## *CHAPTER VII*

# THE GENESIS OF THE MONEYLENDER

IN the long process of effecting this vast appropriation and monopoly, finance has not proceeded openly and directly, but by a scrupulous attention to legislation concerned with the now relatively unimportant matter of note-issue, has striven to give the impression that its procedure has invariably been constitutional, thereby producing a vague conviction in the public mind that the control of money is still with the public and their elected representatives. The issue and control of the metal " coin of the realm " is still in the hands of governments, as it would have been impolitic to interfere with such a visible symbol of money authority: an actual minting of coin by banks would be distrusted even by the least informed sections of the community. At the same time, the minting, maintenance and replacement of mutilated coin is a complicated and costly business which is conveniently carried on by the Treasury at the expense of the public. It is moreover available in such small amounts (compared with the total volume of bank deposits), that its control by the Government does not interfere with finance's absolute control and ownership in the matter of notes and credit—which, conversely, are easy and cheap to print !

Before the development of the bank-credit system, which now completely dominates the currencies of the world, the banks set their seal of monopoly on the issue of notes, and have strenuously, and usually successfully resisted every government attempt to issue them. This resistance and this victory have invariably been achieved in the clamant interests of " sound " money. So that whenever governments, during some period of desperate financial stringency, have printed their own notes and put them into circulation, the banks have

consistently warned the country of the dangers of "inflation" through the issue of "inconvertible paper money" and have terrified peoples and governments alike by prophecies of catastrophe if such "printing press methods" were continued.

Seeing that the bankers have successfully operated their own printing presses to issue notes, "convertible" into gold, in a fluctuating ratio, with respect to deposits, of about one to ten, it will be interesting to discover what, in their opinion, constitutes "sound" money, and why the use of a government printing press, rather than a bankers' printing press, should endanger it.

For the answer to this question, which undercuts the whole of the past and present history of banking practice, it is necessary to go back several hundred years and consider the transition of the medieval goldsmiths into moneylenders—the close, and indeed, exact relation of whose activities to modern banking methods is so ingeniously misrepresented in all the standard textbooks on the subject.

Gold itself being the direct and virtually the only symbol of accumulated wealth in those days (notes and bank credit being still officially "undiscovered"), it was natural for merchants and private individuals to deposit their gold with goldsmiths for safe custody; the goldsmith in return giving a signed receipt for the amount of gold deposited with him. The next stage of development was described by Major C. H. Douglas in the Ipswich speech already referred to.

> ". . . these goldsmiths' receipts . . . began to pass from hand to hand in settlement of debts, thus forming the original bank notes, since they had to be met upon presentation by the delivery of a specified amount of gold plate."

So far, so good! A great convenience has been effected for all the merchants concerned, and the goldsmith is entitled to make a charge for his service and safe custody. The currency—in so far as it is represented by these receipts—is on a true gold basis. For each receipt or note in circulation there is a deposit of gold in like amount at the goldsmith's, and consequently all can be redeemed in gold, even if they are all presented simultaneously. Under such circumstances, the goldsmith

would obviously have nothing to fear from a run on his " bank " for gold.

In practice, however, it was found, as Major Douglas goes on to say, that these receipts

> " were found to be so convenient that they were used (as currency) until they were worn out, passing from hand to hand exactly like a modern £1 note, and were only occasionally used for their original purpose of drawing out the gold plate from the custody of the goldsmith ".

The goldsmith therefore found himself in virtual possession of a store of gold which was never claimed; and being very unwilling, as are our modern bankers, to see so much gold lying " idle ", he realized that he could " lend " this remainder at " interest " with perfect safety, and thereupon proceeded to do so.

This procedure—the lending of money which is not the property of, but is only deposited for " safe custody " with the lender—is, in itself, entirely unethical, and is fraught with serious dangers for the community. It is, however, only the first step in the moneylenders' game.

In practice, the goldsmith discovered that less than one-tenth of the gold deposited with him was claimed and taken out at the same time, and that therefore he always had more than nine-tenths which he could lend out at interest. He therefore issued to the borrowers his signed personal notes for gold on demand for this nine-tenths remainder. These were used by the borrowers to pay their accounts or debts, thereby also passing into circulation *as money*.

Here again his personal notes functioned so successfully as a medium of exchange that less than one in every ten—on an average—were presented for redemption in gold at the same time. He therefore found that he could not only lend the more than nine-tenths of the gold originally deposited with him, but also that he could issue his new personal notes to borrowers up to ten times the amount of this remainder, and be quite certain that, in practice, not all of his gold would be withdrawn (through the presentation of his original receipts or his subsequent personal notes) at one and the same time. If, therefore, he could always supply gold on demand for the *proportion* of notes continually presented for redemption

(actually, at any time, always less than one-tenth of the total number of receipts and personal notes in circulation), he could maintain the illusion that the whole of his note-circulation, receipts and personal-notes alike, was " backed " by gold.

The successful maintenance of this illusion, which depends essentially on the proportion of people in the community who, in practice, are likely to and do present their notes for gold redemption at the same time, is the " convertible paper " and the " sound " money of the modern banking system.

Let us now consider some of the extraordinary consequences of this proceeding. There were, let us suppose, 10 original depositors, who each left with the goldsmith gold equal to one major unit of the currency. There are now in circulation 10 goldsmith's receipts, collectively equal to and actively functioning as 10 units of currency. But by loaning out the 9 unclaimed units of gold to 90 borrowers as described (each borrower being assumed to borrow one unit of currency), 90 of the goldsmith's personal notes are now in circulation and also function as 90 units of the currency.

By virtue of the illusory gold-backing to his notes (the illusion never being destroyed as no more than 9 notes are simultaneously presented for the 10 units of gold in his vaults),[1] the goldsmith has *created* 90 units of currency, which were not in existence before, *which he claims as his property*, which therefore must be repaid him, and on which he will charge interest, say at 5 per cent., until such time as they are repaid him.

If we suppose him to charge a similar rate to his original depositors for this " safe custody " of their gold, the fact emerges that there are now 100 units of currency in circulation; 10 the property of the depositors and 90 the property of the goldsmith, with a fixed yearly charge owing to the latter on every unit.

[1] It should be understood that the actual process of withdrawing gold (unless for " hoarding " purposes) eventually meant the acquisition of this gold by some other individual, who would, in turn, deposit it with a goldsmith.

In this way, the original stock of deposited gold, although continually being withdrawn and deposited by this process, remained substantially the same, and was thereby always at the disposal of the goldsmiths as gold " backing " to their note circulations.

It should be remembered that, at the beginning of this proceeding, the goldsmith *owned nothing whatsoever* (if he did, he could and would generate a similar cycle of debt-creation, based on his own gold). At the end of the transaction, the original depositors still own the same number of currency units as they did at the beginning. (If they earned more in trade, and deposited the gold equivalent of all or any part of it with the goldsmith, this would similarly enable the latter to initiate a further cycle of debt-creation, up to ten times the amount of such deposit.) *Whereas the goldsmith now owns, and therefore controls* 90 *units of currency*; his total yearly receipts for both service charge and interest (over and above the ownership of the created currency) being 5 units of currency, i.e., half the value of the original gold deposits—the whole of this extraordinary creation and appropriation of interest-bearing currency being based on *other people's money* deposited with him for "safe custody".

If we add to this the fact that these "fictitious loans" (to borrow a convenient phrase from Professor Soddy) were only granted against evidences of tangible security deposited with the goldsmith in an amount always in excess of the loan, and that this security was confiscated by the goldsmith if these "loans" were not "repaid" when called, we have an accurate picture in miniature of the modern financial system, under whose dictates we all necessarily live and suffer. Modern finance, even in the complicated medley of bugaboo which is carried on under the sounding titles of High Finance and International Finance, is simply a vast elaboration and mystification based absolutely on these simple but monstrous principles. And were it not for the fact that it is necessary, unfortunately, to prove to an incredulous public that this exact relationship exists, this study of the modern financial system might well stop here. For, undoubtedly, if these medieval precedents were universally understood and appreciated, the world to-day would have no difficulty in solving its desperate economic problems.

Since the time of the goldsmiths, these moneylending principles have been extended to the exclusion of all other methods of creating money. Whereas, in medieval times, the money-

lender functioned side by side with the authorized issuers of the " coin of the realm ", the majority control has gradually passed from the latter to the former, until to-day, the money-lenders of the world are incorporated under a legalized system, known as the banking system, which is so organized, nationally and internationally, that 98 per cent. of the money in and out of circulation belongs to them, while *all* new money is created as a debt in their favour. Under these circumstances, industry's need for more money to meet its continuous expansion, is necessarily and simultaneously the modern financiers' opportunity to create an equivalent debt against the community—a debt which it is mathematically certain it can never repay.

This rise to power has been accompanied by a notable change in the social status of the moneylender. It is only necessary to refer to such a figure as that of Shylock, in the " Merchant of Venice ", to realize that (quite apart from all racial or confusing sentimental considerations) the moneylender of medieval or early renaissance times, was a despised and hated figure. People thought and felt a little more directly in those days, and although their knowledge of the actual working of the money-lending game was probably just as vague and elementary as it certainly is to-day, they somehow arrived at a correct estimate of the moneylenders' position, i.e., as a vampire, who visibly lived by first injecting and then sucking away the very life-blood of social and industrial enterprise.

When the blood-stream of the body politic, then as now, is enlarged by the creation of new money (debt), it eventually returns to the moneylender vitalized and enrichened in its passage through the industrial cycle by the addition of interest-corpuscles which have been acquired at the expense of society. But the root of the trouble is not so much that the moneylender thereby lives comfortably and ghoulishly on the life-blood of the Body Politic, as that the heart of the system (the pump which controls the issue and withdrawal of credit) is *outside the organism* itself. Under these circumstances, natural development is fundamentally inhibited, to the ultimate discomfiture of organism and money-vampire alike. It is obvious therefore that the first step necessary to revive the anaemic organism of the Body Politic to-day, is to put the heart back into the organism,

i.e., allow credit to be issued and controlled automatically by the dynamics of industry. In this way, the mutual relationship, as in the human organism, between bones, flesh and bodily activity on the one hand, and the blood-stream on the other, would be established. As it is, money is now issued *for usurious purposes only*, while the total amount issued is determined, eventually, not by the vital needs of industry and society, but by an entirely fortuitous circumstance—the amount of gold that happens to be in existence in the world at the time in question. It is only just, therefore, to point out that, if the moneylender is our master, he, in turn, is dominated by gold, which is still enthroned at the very apex of the modern idolatry ; and that his position as high priest is ratified by common consent and full legal authority.

It seems that, without comprehending it, the medieval mind instinctively felt this, and the moneylenders continued to be feared and detested by all people in or out of their clutches. In the meantime, Kings and Emperors were too busy fighting amongst each other to bother about how money came into existence, and were themselves driven to usurers for money which they needed for wars and other emergencies. Thus it came about that,

> " the Imperial Democracy that held a world beneath its sway, from the senators who bore historic names down to the humblest tillers of the soil, from Julius Cæsar down to the smallest shopkeeper in a back street of Rome, was at the mercy of a small group of usurers " (G. Ferrero, " The Greatness and Decline of the Roman Empire ", vol. vi, page 223).[1]

It is significant that the Bank of England, possibly the largest and certainly the most highly organized debt-creating agency of all time, came into existence, in 1694,

> " as an expedient for gaining money for William III's continental wars against Louis XIV . . . the capital of £1,200,000 being at once subscribed. The whole of this amount was *lent to the State at 8 per cent.* per annum, to which was added £4,000 a year for the expenses of management. The Bank was empowered to issue

[1] See also Chapter XXIII.

notes to the same amount, but not beyond" (Ernest Sykes, "Banking and Currency", London, Butterworth, 1925).

With this rate of interest guaranteed by the State, it is not surprising to read that the capital was "at once subscribed". Since that time, its power to issue notes "not beyond" the amount of this capital, has somehow expanded to its present total of £450 millions, while its control over the issue of credit to a total of some £2,000 millions, is absolute.

But the moneylenders rise to respectability and power was definitely achieved at the end of the eighteenth and the beginning of the nineteenth centuries, when the banking-house of Rothschild controlled the destinies of Europe and the profound issues which devolved from the French Revolution much more absolutely, if a good deal less spectacularly, than did Napoleon. Their position thus acquired was firmly consolidated by their close co-operation with Metternich in his subsequent determination of European policy and the "balance of power". Since then, they have been universally accepted by Church and State through the silent assertion of their money authority; and the sinister nature of their origin has been entirely forgotten.

The change from greasy gaberdine in the back streets of Venice to top hats in Threadneedle Street has been the change from a sinister, skulking, despised but still incomplete power, to an equally sinister but now open autocracy, which receives the full measure of public approval. Of the absolute authority of Finance to-day there can be no question. To those who still cling to an illusion that politicians, bishops, military authorities, judges and educators, or some combination of any two, three, four or all five of them, have the fate of nations and the world in their hands, it should be unnecessary to submit evidence to the contrary—for that evidence is everywhere—and because the ultimate authority must, in the very nature of the case, be with Finance.

Seeing that all things are produced through the agency of money, and that all money now comes into existence as a debt to the banking systems of the world, this simply means, as Major Douglas has said, that our now internationally organized moneylenders "are the actual or potential owners of everything produced in the world".

## *CHAPTER VIII*

# HEADS I WIN, TAILS YOU LOSE!

THIS extraordinary rise to respectability and power has been based on a subtle legalizing of the fiction with regard to the moneylenders' "gold-backing" to his currency, and the necessity for preserving "sound" money, i.e., a note and credit circulation which, according to the money-lenders' practice, as described in the previous chapter, will be "convertible" into gold.

When, during one of the monetary crises which the bankers would have us believe are part of the natural order of things, the carefully fostered illusion of "sound money" is broken, and it is shown quite clearly that gold is not available for the redemption of the notes and bank "deposits" of the money-lenders' creation, the very agony of the situation strengthens, rather than weakens, man's dependence on their system. The desperate hoarding of gold during a crisis is pathetic evidence of this.

This superstitious allegiance to gold, and the sacrifices involved, has been given, in historical sequence,

(1) to the metals gold and silver directly;
(2) to gold or/and silver, plus so-called "convertible" gold or/and silver notes and certificates;
(3) to a developing international gold standard—in England, roughly between 1844 and 1914—based increasingly on the cheque and bank-credit system;
(4) to a developing gold exchange standard, 1914–1933, based almost entirely on bank-credit.

The common denominator with regard to the moneylenders' policy, in all four stages, is the establishment of a so-called "mutual liability" between finance and the public, with regard to the ownership of the gold and the debts which are based

on it—a fiction which was possibly maintained between the priests and worshippers of the old idolatry with regard to the "possession" of gold. In point of fact, both debt and the "ownership of debt", whether expressed in terms of gold or notes and credit based on gold, are simply abstractions called up out of the deeps of man's subconsciousness, ultimately to confound priests, financiers, the modern public and savage worshippers alike.

For, if we examine the theory of "mutual liability" between the banks and the public, on which the expansion of all modern currencies is based, it can only be with a feeling of amazement that such a criminal fallacy, concerned, as it is, with the very fundamentals of national well-being, should ever have come to be sanctioned by the full authority of legal process. The inescapable conclusion is that the law, like every other component in the mechanism of modern civilization, has, over long periods of time, been gradually suborned or coerced by the grinding power of finance.

The case is presented in miniature by Hartley Withers, in his "The Meaning of Money" (London, Murray, 1930), where Jones has been granted a loan of £10,000 by a bank. The extraordinary argument proceeds as follows:

> "These notes, being a promise to pay (in gold on demand) by the bank, are in effect a loan by Jones to it [*sic*], and thus Jones and the bank have become mutually indebted. The bank has lent £10,000 to Jones, and he, by taking payment in the bank's promise to pay, is lending it £10,000 *as long as he refrains from presenting the notes and demanding cash* (*gold*) *for them.*
>
> "Jones and the bank are thus mutually indebted, and by their agreement to owe one another money the currency has been increased by £10,000, and to that extent Jones is enabled to hire and load a ship for foreign trade, or otherwise to engage in productive enterprise."

If it is a genuine case of mutual indebtedness, why are the banks entitled to draw eternal interest on the full amount of such loans? (The extent to which interest may be regarded as a legitimate charge for service will be considered in a later section.) And if Mr. Jones is automatically required to deposit evidences of tangible security with the banks as collateral against

a *mutual* loan, why are the banks not called upon to deposit similar evidences of security with Mr. Jones?

Even if we neglect these important instances, it is evident that this theory of mutual indebtedness falls down at once, on Mr. Withers' own testimony, as soon as the question of mutual repayment is introduced. Mr. Jones, of course, is expected to repay his obligation to the bank in full, but an 'a priori' reservation, with respect to repayment, is made in favour of the bank, in the agreement itself. In fact, Mr. Jones cannot be considered as having made his "loan" to the bank unless "he refrains from presenting the notes and demanding (gold) for them". Which is simply to say that the agreement will not hold if Mr. Jones exercises his right of contract. This theory of mutual indebtedness is evidently the converse of the schoolboy method of proving a proposition in Euclid by first assuming it to be true. A strange theory, indeed, on which to rest a world civilization!

In actual practice, the banks can and do exercise their privilege of demanding repayment, as far as it is politic for them to do so, but Mr. Jones, who represents the general public in every country in Western civilization to-day, not only does not but cannot exercise his privilege beyond about one-tenth of his "legal" right to do so. If he does, as he is often forced to do during a monetary crisis, the whole system comes toppling about his ears, and Mr. Jones, through the agency of his government, is forced to intervene to protect and perpetuate the very fallacy which brought about the crisis. This monetary Humpty Dumpty, which has already fallen off the wall many times—only to be reinstated by the combined efforts of all the King's horses and all the King's men—is now sitting so precariously on his perch that the gentlest breeze will have him down again. In the meantime, trade "depressions", which invariably coincide with these desperate crashes, are part of the natural order of things!

The position, in fact, works down to this. Mr. Jones, who represents the whole of industry and private enterprise throughout the world, is forced to sign this suicidal agreement because it is his *only* means of obtaining the new money which he desperately needs. When he is called upon to repay his

" loan ", and cannot do so, the bank exercises its right to claim the tangible security deposited by Mr. Jones as collateral against it. In this way, the banks, by virtue of the fact that they now hold 98 per cent. of all the money in existence under similar agreements and have the monopoly to create all new money on similar terms, are undoubtedly " the actual or potential owners of everything produced in the world " ; actual owners, to the extent that they have *already* claimed property and goodwill in lieu of loans which generations of Joneses have been unable to repay ; potential, by virtue of the fact that they have a similar legal right to claim ownership in lieu of loans which cannot be repaid now, as well as to everything that may be produced in the future.

On the other side of the picture, when, during a monetary crisis, a desperate Mr. Jones calls on the banks to fulfil their part of the contract, the banks " are protected or actually exonerated from discharging their obligation by moratorium " from a government presumably elected to represent Mr. Jones' interests in the matter. The question propounded on page 15 may well be repeated here. Did anyone ever hear of a " business moratorium " in which the public was even temporarily excused the interest on, still less the principal of, its obligations to the banks ?

The evidence of Mr. Jones's indebtedness, and its desperate consequences for him, have been assembled, it is hoped, with some vividness in some of the preceding chapters. Where is the *evidence* of the banks' indebtedness to Mr. Jones ? [1]

Whatever bankers may think or say to the contrary, it is clear that the illusion of gold-backing to currency is, in actual practice, *a device to excuse banks the discharge of their obligations by making it literally impossible for them to do so.*

[1] Compare the position of British industry between 1913 and 1932 with the profits made by the British banks during this period—see Appendix C.

## CHAPTER IX

# GOLD, NOTES, AND BANK DEPOSITS

ACCORDINGLY, during a monetary crisis, when Mr. Jones is driven to claim his right of contract, the banks come in for a good deal of sympathy, simply because of this literal impossibility of repayment. On the other hand, Mr. Jones is accused of hoarding, of a " lack of confidence " in his banking system, and his desperate insistence of his " legal " right is denounced as dangerous and unpatriotic.

The world has not acquiesced in this extraordinary development without a struggle, but the intensity of the public resistance has continuously decreased; firstly, because the dice are heavily loaded in favour of the banks, and secondly, because the public have never had anything but the vaguest idea as to how the moneylenders' game is carried on. To-day, in fact, the game has developed so many complicated involutions that only a few bankers understand the game which they are playing *against* the community, and ultimately, against themselves. Indeed, it is true to say that the vast majority of them, in this world emergency, sincerely believe that they are now co-operating, by every means in their power, to meet the needs of industry and society. Your true financier will go further and deliver himself of the opinion that the historical rise of industry is due primarily to the progress and organization of finance; whereas the patent truth is that this advance has been precariously achieved, in a series of desperate stages, by work-drudgery, poverty, and incalculable sacrifice in the face of a financial system set dead against it.

Now whereas it has been shown that the public and the moneylenders were in violent and open opposition in medieval times, the fact that they are still in violent opposition has been

obscured by the moneylenders' subsequent rise to respectability, affluence and complete authority. The bankers' battle with regard to the monopoly of note-issue, symbolized and precipitated by the founding and quick rise to power of the Bank of England at the end of the eighteenth century, was fought and won in the first half of the succeeding century.

Since that time, bankers have paid scrupulous attention to the legal enactments proceeding from that victory and through whose instrumentality the illusion of the gold-backing to all forms of currency has been preserved. This outward observance in the matter of note-issue, combined with the fact that governments still control (and pay for) the issue and upkeep of the metal coinage, has been effective in maintaining the vague conviction in the public mind that money control is still somehow with the people and their elected representatives.

For, even in these days, when the enormous volume of bank-credit completely dominates all currencies—in England, the ratio of bank deposits to note-issue is 4 or 5 to 1; in the United States, it is a 7 or 8 to 1 ratio—we have been treated to a great deal of reassuring talk from bankers about the "gratifying" percentage of gold-cover to note-circulation. In the United States, it is normally as high as 70 per cent.; in England, it is about 45 per cent.; in other European countries it is this, that and the other. In view of the existence of bank loans to 5, 6 or 7 times the amount of note-issue, such calculations are, in the last analysis, completely meaningless, and only serve to confuse an already bewildered public.

To some considerable extent, however, the confusion is mutual, as a large number of bankers still take this obsolete ritual with regard to gold-cover to note-issue very seriously. The expansion and contraction of note-issue and note-circulation in reference to a continually fluctuating gold stock, has been watched with a good deal of absurd anxiety in the United States, while the Issue Department of the Bank of England is entirely concerned with the continuance of this calculated tomfoolery. The spectacle of the Bank of England haggling in the open market and now paying more than 30 shillings for gold which is buried in its vaults and then entered in its books by solemnly printing an equivalent bank-note *worth only 20*

*shillings*,[1] can scarcely be credited in these comparatively enlightened days.

In the foregoing paragraphs, the bankers' conventional reasons for the rigid restriction and regulation of note-printing have been neglected, because they are irrelevant to the real issue—which undoubtedly is the relation between the aggregate of bank deposits and the aggregate of gold stocks. And while we are given, at short and regular intervals, a meticulous calculation of the ratio between note-issue and gold stocks, the much more important ratio between total bank deposits and total gold stocks can only be discovered by personal investigation.

Bank notes have now entirely superseded the old gold coinage, and are simply tokens by means of which bank loans can be *partially* realized in currency. Even at this, the actual legal status of these tokens is debatable, in both England and America. But by carefully limiting the amount of notes which are in existence, and laying it down that it shall be "illegal" to print more, except through the purchase and deposit of an equivalent amount of gold (now at a premium of about 50 per cent.), the bankers make it both technically and legally *impossible* for their obligation to the public to be discharged in full.

The situation plainly is this. In England, the "mutual indebtedness" of banks and public, i.e. the aggregate of bank loans, is now in the neighbourhood of £2,000 millions. The actual number of tokens in existence for the redemption of these loans in currency is 10 millions (bronze), plus 40 millions (silver), plus 450 millions (bank notes)—a total of 500 millions (see summary on page 55). When it is realized that the bronze and silver tokens are not "legal tender", except in small amounts, and that the actual status of the bank notes, since the suspension of the gold standard, is, to say the least of it, dubious, it will be admitted that the banker has now succeeded in "legally" reducing his tokens for redemption to a very inadequate mixture of rather uncertain value.

[1] The position in the United States, before the devaluation of the dollar took place, was substantially the same. The "mint-price" of gold was little over $20 an ounce, and its market value more than $30; so that the American people paid more than $1·50 for every dollar's worth of note-issue.

If we give him the benefit of the doubt as to the validity of his tokens, it will be seen that for every 4 units of bank deposit outstanding in Great Britain, there is only 1 currency token (coin or bank note) in existence. Even of these available tokens, only a proportion of the notes are in circulation. But if, during a crisis, more notes than usual are demanded, the Joint Stock Banks must perforce reduce their balances at the Bank of England by taking out more of the notes "retained" in the Issue Department. If this process of withdrawal continues, and, at the same time, gold is withdrawn on foreign account—thereby automatically reducing the number of notes in existence (for cancellation of notes follows the withdrawal of gold, just as the deposit of gold is the authority for printing them)—then the Bank will soon come to the end of its stock of notes which it is legally "entitled" to issue. Before this process of withdrawal has proceeded as far as this, the Bank, through the mediumship of the Treasury, will make representations to the Government, which, in the past, at any rate, has never failed to come to its rescue by ordering the suspension of all gold payments. If the run is persisted in, the banks will be closed by order of the government, and a moratorium on all payments, both in gold and notes, will be declared. This is the actual mechanism of the device to "excuse banks the discharge of their obligations, by making it literally impossible for them to do so", as explained in Chapter VIII.

The situation in the United States is exactly the same. The moratorium declared in March, 1933, when internal demands for currency and the withdrawal of gold on foreign account compelled the whole of the banking system to close down temporarily and seek the protection of the country, was brought about by the automatic operation of this "safety device". Once started, the situation develops more rapidly in the United States, for the simple reason that the number of notes which the banks are legally "allowed" to print are less in proportion to the aggregate of bank deposits than in England. If we refer to the summary on page 58, it will be seen that the total number of currency tokens available—bronze, nickel, silver, gold and silver certificates, Treasury notes, "greenbacks",

Federal Reserve and National Bank notes—is $6,480 millions, while the aggregate of bank loans is in the neighbourhood of $50,000 millions; the ratio of currency tokens to bank loans in the United States is thus about 1 to 8; in England, as we have seen, it is 1 to 4 or 5.

It is characteristic of the whole system and the uncomprehending attitude of bankers and public alike, that the stringent laws with regard to note-issue—whose effect is to restrict the printing of tokens whose very inadequacy is the patent mathematical cause of all monetary crises—should be obeyed with ritualistic punctiliousness by the bankers, and respected by the people as necessary for the preservation of a "sound" currency. Whereas, there are no specific laws, as far as the writer has been able to discover, extant in either England or America, which are concerned with the much more important matter as to the amount of, or the circumstances under which, bank credit may or may not be issued. The bankers' rule to keep a 10 per cent. ratio of cash to deposits is not a law, but simply a precept which moneylenders and bankers have discovered to be "safe" in actual practice.

So that, when we have cut through all the welter of elaboration, mystification and legal "protection" of the currency, we get down to nothing more or less than the ratio of 10 loan units to 1 unit of gold, which moneylenders throughout all history have discovered to be sufficient to preserve the illusion of gold backing to currency. The present ratio of total gold stocks to the aggregate of bank deposits in both the United States and Great Britain is roughly 1 to 10. In the former country, there are about $50,000 millions of bank deposits outstanding, while total gold stocks are something between $4,000 millions and $5,000 millions; in the latter, bank loans to an aggregate of over £2,000 millions are covered by the £190 millions of gold in the Bank of England.

And if either country, or any other, for that matter, has, at any time, seriously exceeded this "safe" ratio, either by issuing loans beyond it or by having its gold withdrawn to settle foreign debt, it has entered upon a period of "inconvertible" currency and financial chaos and has had to buy or borrow gold from some other country to support its currency.

Conversely, if another country has its internal currency more than " covered " by gold, it can either sell its gold or hire its credit (i.e., create external debts through foreign investment) to other countries. This is the financial basis of the international gold standard, whose much-lauded " symmetry " has the ultimate effect of driving down the standard of living in all countries.[1]

The breakdown of the present system, on the terms of its own foundation, is due to the fact that the enormous issue of new loans during the world war and the subsequent hiring of credit (foreign " investment ") by " creditor " nations since then, has so expanded the debt-created currencies of the world, that, *as a whole*, they are now " inconvertible ", i.e., the ratio of world gold stocks in the central banks of the world to world bank deposits is now some fraction considerably less than one-tenth. The fact that the currencies of France, the United States and now Great Britain are all near enough the " safe " ratio, does not alter the general situation: for finance is now so highly organized internationally that a world shortage of gold (in reference to the aggregate of world debt to the banking systems) will ultimately be reflected in a world restriction of currency and in a world restriction of trade and output. The bankers' ordinances for more economy, the sabotage of plant and commodities and the universal restriction of output, endorsed and pushed to further extremes by the international " co-operation " of powerful vested interests throughout the world—themselves driven to do so by the pressure of their gigantic obligations to their bankers and creditors at a World Economic Conference convened by the League of Nations: all these vast portents, as described in Chapter III, are simply the gold idol saying to the world, through the mouthpiece of its high priests: you *shall* adjust your currency, and thereby your wealth, and your population, if necessary, to the scale of my dimensions: if they are not adjusted, they must and will be sacrificed: if you want to enlarge one, two or all three of them, *you must enlarge me first*, when the high priests and all who serve me will be rewarded in exact proportion to this enlargement.

[1] See Appendix A.

## *CHAPTER X*

# THE MONEY MACHINE

" A bank is not an office for borrowing and lending money, but it is a manufactory of credit." (H. D. McLeod, " The Theory and Practice of Banking.")

IT will be instructive to get some idea of the nature and extent of the general ignorance about money and financial " policy " by a rough review of the opinions held by various classes of people to-day. In the lower classes, it is quite safe to say that they have not the least idea where money comes from or where it goes to. The little money they do get, they keep by them as far as possible, and if they do entrust it to a bank (usually a savings bank), they do so under the vague impression that the bank puts it in a safe and keeps it there for them.

Those sections of the middle classes who have no direct or indirect connection with bankers or professional economists know that metal coinage is issued and controlled by the government, but are extremely hazy about the issue of paper currency. They have entirely erroneous impressions—if they have any at all—as to how bank credit is issued and cancelled. In the United States, it is doubtful if any but an extremely small percentage of the whole population realizes the technical differences between a gold certificate, a Federal Reserve note, a " greenback ", or a National Bank note, and it is certain that the special significance, in this crisis, of the new Federal Reserve Bank notes, is not appreciated. In England, after the Currency and Bank Notes Act of 1928, when the Bank of England issued its promissory notes in exchange for the £240 million odd Treasury notes then extant, all that the vast majority of the popula-

tion realized was that whereas before the "pound notes were brown and the ten shillings notes were green," now the "pound notes are green and the ten shillings notes are brown"!

In both countries, and indeed in all countries, the general "intelligent" opinion is that banks make their money by lending it to people at a higher rate of interest than they borrow it from other people. At the same time, they are, in the main, "wise" to the fact that banks and financiers in general make enormous profits by the investment of deposits through agencies (investment trusts, "security affiliates" and the like) within or without the spirit or letter of the law. The financiers' easy access to this "gravy" is tolerated with a certain amount of good humour as part of the vast machinery of "graft". The general reception given to the astounding evidence heard before the Senate Stock Market Investigating Committee's inquiry into the affairs of the National City Bank of New York and J. P. Morgan and Co., is proof of this. While there was a good deal of natural resentment, the average man's reaction was expressed in the whimsical hope that he might one day find himself "on J.P.'s list".

The distressing thing about the whole situation is that it is not the financiers' easy access to this "gravy" which is the real trouble—or, incidentally, the concern of this book. If any one wants "gravy", and he is within his legal rights when he is getting it, let him go to it! Everyone helps themselves apparently, and the banker has the ladle in his hand. The trouble is that the banker is in an entirely special category, when it comes to the matter of "getting" money. He not only has the ladle in his hand, *but he makes the "gravy"*.

Individuals and businesses can only get money

(*a*) by borrowing from banks, the "gravy" makers;

(*b*) by begging, borrowing, stealing, earning or receiving a gift or inheritance from somebody else. And that somebody else, in the last analysis, borrowed it from the banks.

The banker, on the other hand, *makes* money, in the literal sense of the word, by writing up figures in a book as debts. And all that it costs him to *make* his money, is pen, ink, and

paper, and the service of the clerk who writes up the figures. And in return for this privilege and his tragic misuse of it, his service to the community consists solely in the writing up of these figures and the accounting of them.

It should now be fairly clear that, through the agency of the specious theory of mutual liability, and the deliberate restriction of the redemption tokens (coin and notes) by legal process for the preservation of "sound" money, the illusion of gold "backing" to currency has been preserved, to the end that man's superstitious allegiance to gold may be maintained, and, if possible, intensified. The upshot is that man is held in absolute thrall to these figures in the books of the moneylenders of the world.

Now to anyone who thinks clearly in this matter, it should be perfectly obvious that money, *at the point of issue*, cannot properly be owned by any person or combination of persons; it must and can only be equitably issued by and for the people through the agency of the government. Under the present system, the situation is exactly that of a man who is paying rent to another on property which belongs to himself. *Once in circulation*, the acquisition of money by individuals and businesses is another matter entirely.

Let us now consider some of the technical consequences of the donation of this interest-bearing gift, continually being "repaid" and re-donated in the convulsive spasms of expansions and contractions of the currency.

The totality of bank loans, the debt-created currency of England, is somewhere in the neighbourhood of £2,000 millions. This, at an average interest rate of 5 per cent., costs the community about £100,000,000 a year, and is equivalent to an income tax yield of about 2*s.* 6*d.* in the £.[1] In the United States, the total is normally about $50,000 millions, which, at the same interest rate, creates a fixed yearly charge on the community of something like $2,500,000,000. The total national income "dwindled from $89,000 millions in 1929 to $40,000 millions in 1932; deflationary forces have drawn it

[1] For the year 1931–32, the British income tax at a standard rate of 5*s.* in the £ yielded about £288 millions, and for the year 1932–33, about £252 millions.

down still further in 1933" (see page 52). It therefore transpires that the American people are now paying a sum equal to more than $\frac{1}{18}$th of their total national income *for the hire of their own money.* On the other side, bankers, lumping them altogether, constitute about $\frac{1}{180}$th of the total adult working population of the United States!

Banks, of course, must be recompensed for keeping the accounts of individuals and businesses. As things are, a certain amount of interest (albeit at a much smaller rate—particularly on checking or current accounts) is returned to the people on deposit accounts and credit balances; although a certain proportion, even of this, is reclaimed as bank charges.

In any case, the total interest charges due to the banking systems in each country should be periodically assessed and made known (as are all Treasury returns), so that the public would have an opportunity of discovering what exactly this (merely preliminary) charge amounts to. The public would then be able to decide whether or not the current interest rate resulted in a gross return to the banks which was equitable for the type and magnitude of the service performed. If the banks are to be allowed to own and lend all the money in circulation, it is obviously only just that all changes in interest rates should be determined and fixed by Congress or Parliament, only after such a survey and such an estimate have been made.

At present, the Federal Reserve rediscount rate and the British bank rate, which control all internal interest rates in each country, are determined by the international movements of gold and capital. As such, they are not controlled by any government or combination of governments, but by the dictation of the gold idol, speaking through the mouthpiece of the high priests of "sound" money and the vested interests of "High" Finance.

The writer has no precise idea as to what a banking service charge (as opposed to that under a banking monopoly in debt-creation) might cost, nor has he seen any independent estimates that may have been made. He is confident, however, that an interest charge for what is, in the end, a pure book-keeping service, would be some fraction of one per cent. It would certainly bear no relation to the high interest charges which

have been prevalent throughout the whole history of money-lending, particularly in the matter of raising money by foreign loans or foreign investment. Alternatively, the administration might be co-opted into the Civil Service and run as a national service to citizens.

The present situation, with the currency tokens legally prohibited from being more than a fraction of the total of the "mutual" loans created by the banks, has been well presented by Professor Soddy:

> "Let everyone with money that is his very own—borrowed from or lent by nobody—present himself at the bank at the same time and ask for it. As everyone knows, they would be lucky if they got 2*s*. in the £ (or ten cents on the dollar). Even if banks do keep 15 per cent. of their liability in cash, they would only get 3*s*. in the £.
>
> "As the owners of it have not got the money they own, and as the banks have not got it, and as the people who borrowed it have not got it, where is it? Obviously nowhere. *It is imagined to exist for the purpose of charging interest upon it.*"

The concrete aspects of the celebrated fallacy of compound interest, which derives from these fictitious loans "based" on gold is symbolized by Professor Soddy in the ownership of, say, $100,000, represented to-day by a ball of gold about 9 inches in diameter.

> "As a possession it obeys the laws of conservation of matter and energy. As money in its original sense, something to be exchanged for wealth, it possesses no powers of self-production. As a hoard or store to buy goods, it would diminish in quantity, like soap when you wash with it.
>
> "But *lent* to someone else, and buried out of sight in the vaults of some bank, like a seed in the earth or a fowl laying eggs, it reproduces its kind."

Professor Soddy might have added that the people who own it, or have it deposited with them for "safe custody", the moneylenders and bankers of history, have also seen to it that it hatches about ten credit-eggs every sitting. If the owner of the $100,000 ball of gold has other means to support

himself, he may continue to lend the interest, so that the rate of increase changes from simple to compound.

> "In 1,070 years out of our 9-inch ball of gold, disposed of in this way, there would arise *legal* claims to a golden ball equal in size to the earth, and weighing four times as much."

It is obvious that, long before this dream of the moneylender can be realized, planetary communication will have to be discovered and instituted so that he can go in for cosmic lending in a really big way. And however fantastic it may seem, this is the modern moneylenders' real difficulty in the monetary 'impasse' of to-day. The earth is not big enough to hold him. His beetles' ball of gold dung has grown so big that he cannot put it on its bank-credit-nest and get interest on the whole of his credit creation. At the same time, industry has grown to a giant which demands the creation of credit at such a rate that the traditional ten-to-one hatching to existing gold stocks is altogether inadequate to its needs!

The technical procedure in the modern credit-hatchings has been vividly and accurately outlined by the same authority. It will be seen that, except for the assumption (later modified) that the banker keeps 15 per cent. cash to "deposit" liability, the system is exactly the same as that inaugurated by the medieval moneylender, as described in an earlier chapter.

> ". . . the whole secret of the system is contained in the fact that when a bank creates a loan and lends £100, to a borrower, to do so it need only have £15 of its depositor's money, or whatever the 'safe' ratio may be.
>
> "Thus, dealing throughout with averages, against the original depositor of £100, £15 of legal tender must be kept in the till (or at the Central Bank), leaving £85 available to be lent to a borrower. *It is true this borrower might demand it in cash*, but, on the average for him no less than for the original depositor, only 15 per cent. of the cash, or £12 15*s*. is necessary, leaving £72 5*s*. free to be lent to a second borrower. Of this, 15 per cent., or £10 17*s*. again suffices to be retained, leaving £61 8*s*. available to be lent to a third borrower. So it goes on until each £100 of original cash becomes a total of £666 13*s*. 4*d*. Of this, £100 are due to the depositor and £566 13*s*. 4*d*. is owing to the bank from the borrowers.

"... The bank charges interest upon these fictitious loans. At a modest 5 per cent. bank rate, the interest on £566 13*s*. 4*d*. is £28 6*s*. 8*d*. per year. . . .

"If the truth were known, it would probably be found that this estimate is altogether too modest. At least since, if not before, the War, the figures suggest rather a 7 per cent. "safe" limit than 15 per cent. On this basis a client depositing £100 of cash in current account enables the bank to loan £1,330, which at 5 per cent. brings in £66 10*s*. 9*d*. per annum."

Which is, as Professor Soddy goes on to say, "not a bad return" on £100 which the original "depositor" *has not lent*, but only deposited for safe custody.

When it is remembered further that these fictitious loans are claimed as the property of the bank, that they must therefore be "repaid", and that property deposited as collateral will be confiscated if they are not or cannot be repaid, echo can only answer—not bad, not bad, indeed !

## *CHAPTER XI*

# THE MECHANISM OF MONEY CREATION

IT will be remembered that, in spite of the existence of these " not bad returns ", it has been pointed out that it is not the easy profits of the bankers which are resented, but the fact that he now controls and owns all money, in or out of circulation. " The root of the trouble is not so much that the moneylender thereby lives comfortably and ghoulishly on the life-blood of the Body Politic, as that the heart of the system (the pump which controls the issue and withdrawal of credit) is outside the industrial organism itself " (see page 68). " The banker not only holds the ladle in his hand, but he makes the ' gravy ' " (see page 82).

To establish this, it is now necessary, unfortunately, to describe the mechanism by means of which these entirely fictitious loans are created. " Unfortunately ", because it involves describing a procedure which is now a commonplace of economic theory, but " necessary " because orthodox economists have failed to come to the extraordinary conclusions which derive from it, and because the general public are neither aware of this procedure nor of these conclusions.

As far as the public is concerned, the most important thing is to destroy the popular idea that the function of the banks is, firstly, to take care of " their " money, and, secondly, to make profits by lending " their " money to other people at a higher rate of interest than they themselves allow on deposits or checking accounts. In the true sense of the word, ***the public do not own any money at all***, and the phrase bank " deposit " is a legal euphemism. Seeing that all money comes into existence as a debt created in favour of the banking systems of the world, the plain truth is that bankers must always lend their own (created) money, however much it may be criss-

crossed between private " debtors " and " creditors " subsequently. No one really has any money to " lend " to the bankers on " deposit ", because all money " owned " by depositors derives from a loan made by the banks to somebody else.

This state of affairs, which has now become a commonplace of economic theory, was not admitted or " discovered " by bankers in general until about twenty years ago, whereas the fact is that this has always been the case—even before the establishment of the bank credit system, i.e., when the currency was controlled by the bankers' note-issue. It is characteristic of both the system and its administrators that it should take them hundreds of years to discover or admit what is the true basis of this organized moneylending, about which the whole of civilization revolves. In the face of this " discovery ", the " line " still taken by bankers when publicly explaining any new move in policy, is that they have done so to protect their depositors' money. This is sheer technical hypocrisy. Their much-advertised anxiety for the safety of " deposits " is simply an anxiety for what is, in the last analysis, their own property. At the same time, the paradox for the public is that the banker's care for public " deposits " is the public's only guarantee for the safety of what they consider to be their own deposited " property ". So that, in this, as in every other monetary crisis in the whole history of finance, we must starve or fight, unless some new financial policy can be found which will be profitable to the banks. The net result is that the public is still unaware of the true state of affairs, and has not been informed, in any particular sense of the word at all, of this new " discovery " in economic theory.

The situation is simply this. Seeing that all credit is created by bank loans, for every " deposit " in a bank, there is an equivalent loan somewhere else in the banking system, so that the sum total of " deposits " is equal to the totality of bank loans.[1] Under these circumstances, it will be seen that the

[1] These generalizations are only true, if the totality of bank loans is considered to include (as it should do) the discounting of bills and the purchase of investments by the banks. But as both of these processes generate the same mutual relationship between banks and the public, the

*banking system, as a whole, is in the unique position of being legally entitled to write up all its transactions as assets and* liabilities simultaneously; still having a claim on the whole of its interest-bearing assets, but only being legally "empowered" to redeem its liabilities up to a fraction of their total. If the currency is expanded by the amount of a loan to some individual or business, the "deposits" of other individuals who are in business contact with the borrower gradually accrete as the borrower puts his loan into circulation by drawing checks on the bank which granted it. If a loan is called or repaid, these contacting "deposits" automatically contract to an aggregate amount equal to the extinguished loan. The amount of money in existence is increased if the aggregate of loans granted is greater than the aggregate of loans repaid or called in (credit expansion); it is decreased if the aggregate of loans granted is less than the aggregate of loans called in or repaid (credit contraction).

Although the whole situation was admirably summed up and issued as a now familiar dictum by the Rt. Hon. Reginald McKenna, the able Chairman of the Midland Bank, during a speech at the Shareholders' Annual Meeting in January, 1924, the dictum and its consequences in economic theory and practice have been ignored or misunderstood by the majority of bankers and the public. "Deposits" are still regarded as the basic feature of the banking system, in spite of the now admitted fact that they all derive from bank loans.[1] The familiar dictum referred to is reproduced below:

> "The amount of money in existence varies only with the action of the banks in increasing or diminishing deposits. Every bank loan creates a deposit and every repayment of a bank loan destroys one."

Even here, Mr. McKenna's banking training forces him to define the basis of the currency in terms of "deposits". If, in the first sentence of his definition, the word "loans" were

implication in this statement is true. The mechanism of these two processes, which is now also a "commonplace of economic theory", is described in Appendix B.

[1] See footnote, page 89.

*substituted for the word "deposits", so as to read, "The amount of money in existence varies only with the action of the banks in increasing or diminishing* loans,*"* [1] the emphasis would be placed on the primary, as opposed to the secondary determinating factor.

The extent to which a bank can make loans is determined by its "cash" holdings, which, in England, varies with the amount of its balance at the Bank of England, as Mr. McKenna laid down at a January meeting of the Midland Bank Shareholders, three years later.

> ". . . variations in the quantities of money are due to variations in the total of bank cash . . . the total of bank cash is determined solely by the action of the Bank of England."

The authority of the Bank of England in fixing the amount of money in England is therefore absolute. The genesis for all inflations or deflations of the currency comes from a private corporation whose policy is not controlled by Parliament; the authority of the government being limited, in practice, to protective measures during crises.

> "Under the central bank system, which exists in this and most other highly developed countries, the 'cash' of the joint-stock banks is simply the obligations of the central bank, the Bank of England. By extending or restricting those obligations, the Bank of England can induce the joint-stock banks in turn to extend or restrict credit" (R. G. Hawtrey, British Treasury economist).

In the United States, the authority of the Federal Reserve, although paramount throughout the Federal Reserve system, is subject to more direct control by the United States Treasury, as described in pages 57–58. This authority only affects the National Banks indirectly, however, so that the power to issue credit throughout the National Banking system is to some extent decentralized. This simply means that the totality of bank credit in the United States cannot be fixed by any central banking authority in all its components, so that sporadic currency expansion and restriction (as opposed to controlled

[1] The word "loans" being here intended to include all investments purchased and bills discounted by the banks.

Federal Reserve inflation and deflation) occur in the United States to an extent that would not be possible in England.

> "It is true that in the United States, again for psychological reasons, the central banks proved unable to regulate the value of money in consequence of its excessive use in speculation." (Rt. Hon. Reginald McKenna, speech at Ordinary Meeting of Shareholders of the Midland Bank Ltd., Jan. 29th, 1932.)

*From this it will be seen that the desire of certain sections* of American bankers to centralize all control in the Federal Reserve, and to make the authority of that body as absolute as that of the Bank of England, is essentially a move to get control of the issue and ownership of the whole of the American currency. While the bank "crashes" which now obtain as a result of the present decentralization of credit issue would be lessened and the banking system would attain to the "stability" of the English banking system, the final result would be an absolute conformity of credit to existing gold stocks in the accepted "safe" ratio. Loans and "deposits" would therefore be protected by regulations for the issue of "sound" money, but the blood-stream of American industry would nevertheless conform to gold and not to its own expanding dimensions. The "wild cat" banks of the United States, whatever their status 'qua' banks, are evidence of America's dynamic need to burst the straight-jacket of its gold-worshipping bankers. In any case, they got a dirty deal throughout, in spite of the scorn heaped upon them by more fortunate and more orthodox bankers, such as Senator Glass, who proclaimed that he would be quite happy to see them all "go down the sewer". Although there was undoubtedly gross mismanagement and "graft" in many cases, they were meeting intensely local needs for credit expansion, and, in the process, were loaded up with securities which the bigger banks knew were or would be worthless, and therefore passed on to them. Then, when the big national crash was developing, they were refused or were unable to get the protection of the centralized gold stocks because the big banks were desperate for gold themselves. Naturally, these smaller isolated banks were the first to go, while the bigger banks threw stones from the glass

house of the Federal Reserve, and were able to renew their frantic appeals for a centralized banking system.

In the last analysis, the unstable and "irrational" banking system of America, by exercising its scattered opportunity to extend credit beyond the "safe" ratio and by supporting "excessive" speculation, has followed bounding industry rather than a slowly increasing gold stock, and has done the world a back-handed service by precipitating the present crisis and so *exposing the gold-backing fallacy in world proportions.* For the time being the world suffers acutely, but at least in the hope that man's vision will be so sharpened by despair that the illusion will be seen and destroyed.

The situation has been well summed up by Professor Soddy, in the foreword to the American edition of his "Wealth, Virtual Wealth and Debt" (New York, Dutton, 1933).

> "Since the British edition has appeared the financial system has undergone in America another of those periodic collapses which are the inevitable as they are now the most conspicuous feature of modern so-called banking. The choice is now actually before the American nation whether to make this kind of 'banking' safe for the banker, according to the strictest canons of British, Continental and International systems, or safe for the American nation.
>
> "The two things are not the same thing, as is so easily assumed by the banking interests, but are in fact exact opposites. The only way banking to-day can be made safe for the banker and the nation is for the nation to be the banker."

## *CHAPTER XII*

# 'REDUCTIO AD ABSURDUM'

IN the course of the following argument, the references throughout are to industry, *as a whole*, and not to any individual business, unless so stated. What prevents any general realization of the controlling financial factors in the industrial situation is the tendency to regard the possibility of the individual business to attain true solvency (i.e., pay back both principal and interest of their loans) as a possibility for industry, as a whole. *No such possibility exists.* Seeing that all money is now created as a loan, complete industrial solvency, involving the repayment of all bank loans, would automatically wipe out all bank " deposits ", i.e., virtually all the money in existence.

In spite of this fact, it is vaguely imagined, and we are in fact brought up from the cradle to believe, that any or all businesses, by hard work and driving methods, can somehow or other make enough profit to pay back both interest and loan capital. *Loans are repaid in money, not goods, and no more money can come out of the system than is put into it.*[1] If a certain proportion of businesses manage to pay back both principal and interest of their loans, the possibility or actuality of bankruptcy is automatically intensified for the whole of the remainder. It is intensified, moreover, in a ratio roughly equal to that between the total of such loan repayments and the totality of bank deposits.

[1] This fact is obscured because financial values, called loan and share capital, are developed through the industrial circulation of bank deposits. These developed values are of much greater dimensions then the totality of bank deposits, but are nevertheless controlled absolutely by the creation and decreation of the latter. This is fully discussed in succeeding chapters.

It cannot be too often repeated that all money comes into existence as a debt. And if we consider the situation in its general aspects, two extremes of possibility, which bracket the actual situation, emerge.

As the banks are now the sole issuers of new money, and have already issued more than nine-tenths of all the money in existence, it is obviously impossible for society to pay back more than is issued (i.e., total loan plus interest), *without having further recourse to the banks themselves.*

If these loans are *not* called, these interest charges are and can only be met

(*a*) by payment from part of the original loan, in which case the money in existence is reduced by that amount. The principal of the loan being unaffected by this, the liability of society is now *greater* than the total amount of money in existence;

(*b*) by the issue of further loans from the banks.

The continuance of method (*b*) is known as credit expansion and is normally associated with wars and "boom" periods.

If, now, a certain portion of these loans *are* called, it is mathematically certain, seeing that the debt structure has been extended by the circulation of these bank deposits [1] and therefore depends on the continued existence of the whole of it, some combination of the following developments must and will occur:

(*a*) mutual default amongst individual members and businesses;

(*b*) default to the banks, in which case the individual debtor loses his "privilege" of borrowing again;

(*c*) confiscation by the bankers of property to an extent determined by the amount to which the loans called are not or cannot be repaid;

(*d*) partial or total repayment, in which case an equivalent amount of money is taken *clean out of existence.*

At the same time, mutual obligations amongst individual members and businesses have been contracted on the assumption and are desperately con-

[1] See Chapter XIII, following.

tinued on the assumption—now fatally erroneous—that the whole of the original loan currency is still in existence.

These developments, associated with " slumps " and depressions, are the invariable results of credit contraction, and their disastrous effects on society need not be re-enumerated here.

Keeping these controlling issues well in mind, let us examine the pretensions of industry to solvency and prosperity during " boom " periods, i.e., during credit expansion. It is clear that the more individual businesses repay their loans and wipe out an equivalent number of " deposits ", the more credit will be contracted and the more both " boom " and " prosperity " for the whole of industry is retarded. Considered as a whole, *industry can only remain " prosperous " by getting more and more into debt.* Conversely, the repayment of bank loans, voluntary or involuntary, it matters not which, is the actual machinery of deflation,[1] and can only bring about the progressive bankruptcy of industry and the collapse of collateral security into the hands of the banks. *So that industry is faced both ways with an eternal and impossible paradox : prosperity means the increase of debt ; the progression towards solvency is the progression towards bankruptcy.*

It need hardly be added that this is the inverse of common sense and that individuals and businesses work on the opposite formula, viz., that prosperity means the repayment of debt, and that the progression towards solvency is the progression towards prosperity. Their common error and misfortune is in imagining that business as a whole works along these sensible lines. It would like to be able to, but with a currency called into existence as an interest-bearing debt to private banking companies, it obviously cannot.

Under these circumstances, it is clear that current conceptions as to " solvency " and " insolvency " must be fundamentally modified. In the accepted sense of the word, any trader, business, limited company or corporation is not " insolvent " so long as he or it makes sufficient gross profit to cover all administrative and distributive charges, as well as all interest due on bank overdrafts and on all loan and share capital. In

[1] See page 90 and Appendices B and C.

the case of any one of these concerns, the fact that a realization of its total capital assets at current market value (not book value) would not be sufficient to cover their total liability, will not necessarily precipitate insolvency. Possibly the majority, and certainly a very large proportion of all large concerns, including the government, are in this category. They maintain what is conveniently known as a *running solvency*.

If the gross profits are not sufficient to cover all the charges enumerated above, the business is in a state of actual or potential bankruptcy. If no improvement is forthcoming, its assets, such as they may be, will eventually be realized and appropriated by its creditors.

On the other hand, solvency, in the true sense of the word, can only be applied to

(*a*) concerns whose gross profits cover all administrative and distributive charges, and which are not liable for any bank overdraft or loan capital;

(*b*) concerns whose gross profits cover these charges, and the realizable market value of whose assets will cover all bank and loan capital liability.

On the rough basis of these definitions (and bearing in mind the fact that no true appraisal of the "assets" of the whole of industry can be simultaneously arrived at, in practice, owing to the fact that industry is maintained by the circulation of a progression of fictitious bank loans), society and industry, in every country in Western civilization, can be divided into two classes:

Class A, which includes all concerns (including municipalities and the government) which function as running solvencies, as defined above, as well as all firms in a state of actual or potential bankruptcy.

Class B, which includes all individuals and concerns which are solvent, in the true sense of the word, as defined in sections (*a*) and (*b*) above. It can be extended to include the following categories which conform to the spirit of the definition:

(1) All wage and salary earners, all civil servants, public and municipal officials, all artists, musicians, writers

and entertainers, and all professional men. (The proportion of these individuals who are in a state of actual or potential bankruptcy, automatically belong to Class A.)

(2) All traders and farmers who own their own capital, who have never "borrowed a penny", and whose capital development is entirely based on accumulated profits.

This fast-diminishing category, which conforms essentially to the requirements of section (*a*) above, nevertheless includes concerns of the dimensions of the Ford Motor Company.

(3) All people living solvently on unearned income, i.e., on interest from investments acquired or inherited: the 'rentier' class.

Class A is composed of the "capitalists" so much abhorred by modern socialists and communists. This class possibly holds a large percentage of the working "capital" of the country, but if the criss-cross of interlocking indebtedness within the limits of this class were resolved and cancelled out, it is plain that there *must be* a residuum of loan liability held against it, and that *this residuum is and must be held by the banks and class B in combination.*

The liability of class A is made up of two components: a liability to the banks for *the whole* of the deposits in circulation,[1] and a liability for all the loan capital held by the banks and class B against them. If we refer to the first component as a deposit liability and the second as an industrial liability, it is clear that the running solvency of class A, maintained during inflation but becoming increasingly impossible during deflation, is simply the extent to which their gross profits will support themselves (as well as that proportion of wage and salary earners of class B, section 1, which gets its livelihood from class A's activities) and also pay the interest due on the whole of their deposit and industrial liability. As already

[1] Class A may be considered to be liable for the whole of the currency in existence (i.e., the totality of bank "deposits"), because class B by definition, is in a position to liquidate all bank loans outstanding against it.

stated, the paying off of the bank loans as well as the industrial liability, is a mathematical impossibility, which, if attempted, would wipe out the whole of the currency and automatically bring industry to a standstill. All that class A can do with regard to this deposit and industrial liability is, increase it (during inflation), or default (during deflation).

Before proceeding, it should be emphasized that the banks here function in a double capacity. Firstly, as the holders of the whole of the deposit liability, and, secondly, as holders of part of the loan residuum referred to above. These latter holdings derive from the investment of the interest paid to them as owners of the deposit liability and from the acquisition of collateral security because of default or bankruptcy. The industrial holdings of class B derive from the investment of savings.

It should also be understood that the division into class A and class B is not static. If any member of class A, working on loan capital and a bank overdraft, repays, or is in a position to repay both, he is truly solvent, and automatically leaves class A and joins class B; and 'vice versa'. Also, all individuals who save and personally buy up investments, automatically become members of class B, section 3—the 'rentier' class. But, under modern conditions, class B is a diminishing category, while the numbers in class A correspondingly increase. Thus, a large proportion of farmers, particularly in America, have left class B and joined class A since the World War. And, as far as the original members of class A are concerned, once a "capitalist", always a capitalist. This is now a matter just as much of circumstance as of temperament.

The basis of this argument is that the development of all capital values (essentially the ownership of debt-claims), subsequently held by class A, class B and the banks in combination, derives from the progressive issue and circulation of currency in the form of bank loans. These capital values expand and interlock amongst all three classes to such an extent that the financial mechanism which determines and controls all these developments is obscured.

But, in any case, although difficult to determine in practice, a division into class A and class B is absolute, and from it,

the precarious equilibrium of modern society should appear. The industrial shares[1] held by the banks and class B are, in the *financial* sense of the word, an involuntary gift from class A out of the proceeds of a loan-currency created by the banks. The assets of class A are now less by the amount of this " gift ", but its constant liability is for the totality of bank " deposits ", plus the residuum of industrial shares held by the banks and class B.

As the whole of this liability is interest-bearing, and, in practice, irredeemable, and as the socialist party is mainly composed of various elements from class B, it follows that the " capitalists " of class A, who have necessarily accepted a hopeless liability on behalf of the whole of society, deserve the sympathy and not the aggressive hostility of the modern proletariat.[2]

[1] Industrial " shares " here include the capital values represented by the possession of fixed assets.

[2] This statement refers to conditions to-day. In the nineteenth century, particularly, an expanding foreign trade (the industrial exploitation of " undeveloped " countries) provided class A capitalists with an extraordinary opportunity for profit-making which literally does not exist to-day. This point is fully dealt with in a later chapter.

## *CHAPTER XIII*

# THE CIRCULATION OF BANK DEPOSITS

TO realize the position a little more concretely, let us imagine a functioning industrial entity in which no capital values of any sort have been created or are owned by any members of the community.

The banks hold 600 units of gold and are authorized to issue 6,000 units of currency [1] against it to motivate plant and personnel. The "liability" of the banks to redeem these loans in gold is dismissed for the fiction, which, it is hoped, it has been proved to be. The true liability, involving complete repayment with interest, say at 5 per cent., is accepted by six industrialists, whom we will call class A, who each accept loans of 1,000 units each.

In actual practice, although the total bank loans outstanding may remain at an average figure of 6,000 units, this will be effected by a constant withdrawal and reissue of these loans. The 6,000 units are decreated and recreated many times throughout the year, the average amount of deposits (loans) outstanding at any time being approximately 6,000 units. The whole process is thus a constant flow which is usually referred to as a circulation of these deposits.

It is legitimate, however, to imagine this flow as a respiratory process in which the whole of the original inhalation (loan of 6,000 units) is exhaled (repaid) in a series of breathings; the average amount of each intake and each exhalation, as well as the average amount of air in the system at any one time (totality of bank loans, or bank deposits) being the same, i.e., 6,000 units.

[1] Throughout the course of this argument, the currency is supposed to be "convertible", in the bankers' sense of the word. The industrial consequences of an "inconvertible" currency are discussed in Appendix C, under "Inflation and Deflation".

In practice, of course, no such division into complete respirations, or cycles, takes place. But the fact that the whole process is a continuous flow, in which one deposit-circulation cycle merges into or is superimposed on another, does not affect the validity of this argument. It is entirely legitimate to follow out the resolution of these imaginary cycles, for such resolution must, in effect, take place, if the equilibrium of mutual indebtedness between individual members and between all members and the banks, is to be maintained.

This respiratory process is, of course, a mutual affair between two breathing mechanisms—industry and the banking system. Industry breathes in when a business accepts a loan, and breathes out when it draws a cheque on it: the banking system breathes out when industry breathes in, and 'vice versa'.

[In Great Britain, for instance, the deposits in the joint-stock banks amount to about £2,000,000,000. The annual cheque clearings of the clearing banks are about £60,000,000,000.[1] We may therefore assume that deposits circulate, on the average, about thirty times a year. The British banking and industrial system, that is to say, makes about thirty complete mutual respirations per year, the volume of financial "air" at each inhalation and exhalation, as well as the amount of "air" in the system, being the average totality of bank deposits. This rough working principle of thirty complete breathings will be taken as typical during the course of the argument. In practice, the rate of breathing—i.e., the velocity of circulation of deposits—varies with inflation and deflation and the condition of internal and external trade. These variations will be, for the moment, neglected.]

As we are starting from "scratch", and no fixed assets or debt claims are in existence, the first circulation of these 6,000 deposits must simply be the paying out of wages and salaries on the one hand, and the creation of plant and commodities

[1] The aggregate value of cheque clearings in 1930 for the ten clearing-house banks in England and Wales was given in the Macmillan Report as about £64,641,000,000. This total does not include the figures for branches of these banks outside England and Wales, for non-clearing banks affiliated to or owned by a clearing bank, and for non-clearing banks. (See C. M. Hattersley, "This Age of Plenty".)

on the other. If we assume that, as a result of this first (generating) circulation, 6,000 commodity articles, all of equal value, have been produced (in a variety designed to satisfy the diverse needs of employers and employees alike), it is obvious that the six members of class A must charge a price of one unit per article if they are to recover their total costs [1]—which costs, of course, include their own earnings and "profits".

The industrial process, like the circulation of bank deposits, is, of course, a continual flow, and goods are not necessarily purchased by incomes generated in the cycle or cycles in which they were produced. But if, at this point or any other, production was entirely suspended, it is certain that producers would attempt to recover their total costs (in this case, 6,000 units) by the only means left to them, i.e., by the sale of commodities produced.

The wages and salaries distributed in this process are received, and also spent, in varying proportions. In general, those who receive most, spend less (in proportion to their earnings), while, on the other hand, the number of people who receive little (and spend more in proportion) greatly exceed the number of those who receive more and spend less. Let us suppose that of the 6,000 wages and salaries distributed, 5,000 units are spent by all classes in the purchase of 5,000 articles. These spendings will be received by the six members of class A in varying proportions according to their business success or failure. But, however received, they will ultimately be paid back into bank accounts,[2] and will clearly function, as far as the banks are concerned, to repay five-sixths of this first deposit-circulation.

The remaining 1,000 units, which have been saved by various members of all classes,[2] also appear ultimately as deposits and therefore liquidate, as far as the banks are concerned, the

[1] This is their *only* means of recovering their costs, internally. They cannot, as will be shown, recover them all by this means, and the extent to which the remainder is recovered, is by foreign "trade". This process is fully dealt with in a later chapter.

[2] The amount of money remaining in circulation as coin or notes is neglected, firstly, because it is extremely small relative to the totality of cheque transactions; secondly, because it remains more or less constant; thirdly, because the majority of cash transactions derive from an original cheque transfer between employer and employee. See footnote to page 126.

remaining one-sixth of the cycle. Of these 1,000 units, 100 units, say, now appear as deposits in the bank-books of people *who did not accept any part of the original* 6,000 *loan.* This is the genesis of class B.

The first deposit-circulation cycle, as far as the banking system is concerned, may be represented as below:

| *Cheques drawn* | | *Money paid in* | |
|---|---|---|---|
| Wages and salaries | 6,000 | By purchase of commodities | 5,000 |
| | | By class A savings | 900 |
| Total | 6,000 | By class B savings | 100 |
| | | Total | 6,000 |

If we refer to the six original borrowers as A, B, C, D, E, and F, and make allowance for their varying success in the sale of commodities and the fact that class B now holds deposits (through savings) in the banking system, the end of the first cycle may be expressed by some such arrangement of gross takings as below:

| *End of cycle* | |
|---|---|
| A | 1,000 |
| B | 1,000 |
| C | 1,000 |
| D | 1,050 |
| E | 950 |
| F | 900 |
| Class B (*profits*) | 100 |
| Total | 6,000 |

It is clear, seeing that each of the original borrowers still owe 1,000 units to the banks, that A, B, and C are not much "forrarder"; that D has now gone over to the class B category, and that E and F will be overdrawn.

At the end of this cycle, 5,000 articles have been sold, the diverse needs of employers and employees have (let us hope) been satisfied, and the six original members of class A, overdrawn or otherwise, now own between them the whole of

the plant created, as well as a "surplus" [1] of 1,000 articles marked up at a price of one unit each.

Disregarding, for the time being, the important fact that a commodity "surplus" has already been created (a "surplus" which can only be purchased, apart from foreign trade, by earnings received in the second deposit-circulation cycle), it is certain that the purchase of five-sixths of the commodities takes an equivalent of created wealth out of the system into consumption and effects the liquidation of five-sixths of the financial cycle; but that the remainder of the created wealth, i.e., the whole of the plant and one-sixth of the commodities *remain in the system*, as well as the financial equivalent of the latter, held in the proportion, class A 900 units, class B 100 units.

It is important to realize that plant is accounted for, industrially and financially, in the mechanism of the deposit-circulation cycles. The cost of plant construction and maintenance is written into the sale-price of commodities produced. The capital values associated with fixed assets are therefore entirely fictitious. Under the present system, plant is essentially a medium, transferable through sale and purchase, for the realization of profit on capital. This point is fully dealt with in Part III, in the chapter on "Plant and Land".

If we assume, as already suggested, that thirty such cycles are completed within the year, and that the same proportion is maintained between spendings and savings by class A and class B alike, the position at the end of the year, as far as the banks are concerned, will be:

| *Total cheques drawn* | | *Total money paid in* | |
|---|---|---|---|
| By total wages and salaries, 6,000 × 30 = | 180,000 | By purchase of commodities, 5,000 × 30 | 150,000 |
| | | By total class A savings, 900 × 30 | 27,000 |
| Total | 180,000 | By total class B savings, 100 × 30 | 3,000 |
| | | Total | 180,000 |

[1] The importance of this "surplus", its effect on internal business accounting and on external trade, will be considered in detail in later chapters.

In practice, the savings of both class A and class B are, to a large extent, invested so as to create the existing debt structure. This consists of loan and share claims mutually supported. These savings, subsequently appearing largely as loan and share capital, may be developed within the year to any amount, according to the velocity of circulation and the ratio between savings and investments, on the one hand, and community spendings on the other. It is irrelevant to protest that investments simply represent capital put into industry, and therefore generate further incomes (as they do), for the ultimate purchase of commodities. The point is that these invested savings, or investments purchased out of loan proceeds, are needed to liquidate the costs in the cycle in which they themselves were generated as income, i.e., through the purchase of commodities, *pertaining to that cycle*, to an equivalent amount. This matter is fully dealt with in Chapter XIV.

It should be realized, therefore, that the industrial process is not so much a matter of the original borrowers and producers, the six members of class A, recovering their costs (for, as a whole, and apart from foreign trade, they obviously cannot do it as long as people do not spend the whole of their earnings) but of the balancing of cheque outpayments and cheque inpayments by the banks in each deposit-circulation cycle, and so for the whole of the yearly flow. Whatever the rate and whatever the volume of circulation, whatever goes out, must come back. This financial circle, which controls industry absolutely, cannot be broken, and no re-arrangement of deposits or juggling with values developed can possibly affect it. The faster the rate of breathing and the larger the volume of the breaths, the greater the " capital values " created, however distributed. And at the end of one year, when this vast respiratory process is completed, class A still owes its original 6,000 units to the banks, and is now due to pay them 300 units as interest.

And here, it is important to notice the following distinction. Whereas the mutual indebtedness between individuals and businesses is created by the investment of savings from earnings or from the proceeds of loans circulated in the deposit-

circulation cycles, the industrial holdings or government stock acquired by the banks through the investment of interest on their loans, represent the investment of "earnings" which were not distributed in any deposit-circulation whatever. They constitute a fixed claim on the gross incomes developed in the cycles of succeeding years. Once brought into existence as interest charges, they will function, through investment, in the circulation of some future cycle, but *they did not have their origin, as do all other investments, in any.*

In practice, again, the process is obscured by several complicating factors. On the one hand, all savings are not necessarily invested; some of them, particularly those saved by class B, remaining on deposit with the banks. On the other hand, firms which, on a true reckoning, have lost on the year (such as E and F, on page 104) may buy investments by depositing evidences of tangible security with the banks against their overdrafts. Again, a class A member may invest in his own business, another class A business, or in a class B business; while all class B businesses have a parallel choice of alternatives. The banks, who will subsequently invest part of their 300 units of interest, may similarly buy shares in class A or class B businesses; while members of class A or class B may take up bank shares. Lastly, all loan and share values, whether bought by solvents, running solvents or actual and potential bankrupts, are expanded and contorted by stock market speculation—particularly by the device, excessively practised in America, of buying shares "on margin". [1]

In order to establish the relative position of class A, class B and the banks, it is only necessary to discover the true disposition of investments in this year. At the beginning of the second year, class A holds investments of 27,000 units and class B 3,000 units, while the banks are owed their 6,000

[1] In practice, this is essentially a device to make a further fictional expansion of a currency already on an entirely fictional basis. As long as the present system obtains, this may be condemned, as it undoubtedly increases the intensity of succeeding "slumps"—when an involuntary effort is made to partially resolve this fiction. But, as a human expedient to expand a currency which is grossly inadequate as well as fictional, it is ingenious and evidence of industry's dynamic urge to burst the invisible strait-jacket of the banker.

units, plus interest, 300 units—which latter, we will presume, is invested. It should be obvious that, if we cancel out all investments held by class A within its own limits, and similarly all investments held by class B within its limits, we will be left with a *net* debt-structure of 6,000 units, in which class B and the banks now have an incontrovertible share.[1] But as class A has already accepted this liability in its entirety, and class B, by definition, is in a position to liquidate all bank loans outstanding against it and still own assets, it follows that class A, the running solvents, accept a hopeless liability to the banks on behalf of the whole of society. It may take the passage of years, or the cataclysmic effects of innumerable wars and "depressions", to prove this to industrialists, but the actual evidence of it is everywhere to-day and will be assembled, to some extent in the next chapter. It should be remembered that this process—the acquisition of assets by class B and the banks at class A's expense—is cumulative; and that it takes no account whatever of the fact that the banks acquire further shares and industrial assets through the collapse of collateral security into their hands when (particularly during deflations) loans are called which it is mathematically impossible for class A, as a whole, to repay.

In this one year's circulation of 6,000 units of debt owing to the banks, class A has accumulated investments or interest-bearing savings of 27,000 units, and class B, 3,000 units. If we assume, for the moment, that bank deposits remain at the same figure, that the velocity of circulation remains the same, and that industry is paying a flat rate of 5 per cent. on all investments,[2] then class A and class B are collectively in a position to demand 1,500 units as interest (5 per cent. of 30,000) out of the gross payments of 180,000 units made in the succeeding year. This claim of 1,500 units will be augmented by the banks' claim of 300 units as interest on their loans.

[1] The banks thereby have an *actual* claim on part as well as a *potential* claim on the whole of the loan and share capital which constitutes the debt-structure.

[2] This flat rate should be taken as the average return on all forms of "capital"—i.e., on all industrial loan and share capital, all government stock and on the mass appraisal of all fixed assets and businesses in relation to "goodwill". The rate of 5 per cent. has been chosen for convenience only.

As there is nothing to prevent, and, indeed, everything to encourage both classes, as a whole, adding to their investments, or re-investing the interest due on them; and as production and gross payments with respect to production can only be increased by an increase in bank deposits or by an increase in the rate of their circulation, or both; and as both these possibilities give both class A and class B a parallel extension of their opportunity to increase their investments; and as an increase in bank deposits will automatically increase the banks' interest charges and therefore the dimensions of their investment "portfolios"; it is inevitable that investment (i.e., debt claims) must always increase at a much faster rate than production. This is the explanation for Mr. Bassett Jones's statement, on page 52, that, in the United States, production is increasing as the third power of time, and debt as the fourth power of time.

The fact that goods are thereby "put in hock" (i.e., go into pawn) faster than they are produced, does not become apparent until the debt-structure relative to the dimensions of production, has accumulated beyond the point at which the latter can pay interest at 5 per cent. (or whatever the average rate may be) on the whole of it. Thus, in less than twenty years (making allowance for the re-investment of interest), at the rate of acquisition of investments posited for class A, class B, and the banks, the debt-structure will have risen to over 600,000 units, demanding fixed interest charges of about 30,000 units, i.e., one-sixth of the gross payments made throughout the year (180,000 units) with respect to all the costs of industry.

At this point, or before, industry will be unable to meet these interest payments, and stock and share values will begin to fall. This fall reacts directly on industry and the spiral of "depression" is initiated. Wages are reduced in an attempt to lower production costs, purchasing power declines, prices fall, interest payments and mortgage claims begin to be settled by the transfer of actual property to the creditors, bankruptcies multiply and banks acquire fixed assets and collateral security in the process; economists begin to look for "causes" in "lack of confidence", "over production" and

sun-spots, and to advocate drastic economy, increase of taxation, and restriction and reduction of output.

The point about investments and the much-advertised fact that they do ultimately create incomes, is that they participate, to some percentage of their totals, in the deposit-circulation cycles which generate gross payments throughout the year, but demand increasing payments as interest, which, in their totality, begin to approach, as they did in America in 1933, the dimensions of the gross national income from all sources. The inevitable result of a financial system based on usury is the progressive accumulation of debt and a complementary decrease in the ratio between consumption and production. Between 1922 and 1929, for instance, debt-claims in the United States increased 76 per cent., against an increase in manufactured output of only 33 per cent. and distribution of consumer goods, only 4 per cent. (see page 255, following). As " consumption is the sole end and purpose of all production ",[1] it is reasonable to claim—as is done throughout this book—that debt is nothing more or less than a fantastic abstraction, called up out of the depths of man's subconscious, ultimately to confound debtor and creditor alike.

The whole process of capital development is, in fact, an enormous bubble which is blown up by the respiratory process of deposit circulation. If any attempt is made to probe it, it immediately bursts.

This can be proved by considering what would happen if an attempt were made to realize all the so-called assets, which make up the debt-structure, at market value. If all obligations were resolved in favour of the final creditor, it is certain that the criss-cross of mutual indebtedness between individuals and businesses, however expanded and contorted by instalment buying, stock market speculation, and the like, would largely cancel out, as already described. The fact that such an imaginary process of universal liquidation would automatically drive down all so-called market values progressively, and thus defy appraisal in the ordinary sense of the word, does not interfere with the validity of the argument. On the contrary, it is the index to the true situation : that goods and fixed assets

[1] Adam Smith.

would gradually decrease in financial value to the dimensions of and finally attach themselves to those individuals and concerns who had an ultimate claim on bank deposits. But as the banks would be " legally " prevented from issuing more than about one-tenth the currency tokens needed for the complete redemption of these deposits, we would be left with a world in which about 90 per cent. of all the wealth in existence had been confiscated as the legal property of the banks. The world, in fact, would get about ten cents on the dollar in actual wealth as well as in currency, and would stand revealed for what it really is—a bankrupt from top to bottom.

## *CHAPTER XIV*

# THE DEBT-STRUCTURE

THERE is no means of discovering at what rate either the banks or class B acquire industrial holdings at class A's expense. But it should be obvious that the only thing which can save class A, and that only temporarily, from ultimate insolvency (apart from foreign trade, which does not affect purely internal developments, such as we are considering) is a continuous expansion of credit—and that in some sort of geometrical progression. At the same time, this will be class A's geometrical progression into further debt.

It is impossible for the banks, as a whole, not to make profits, whether distributed to their shareholders or not, every year. If class B, as a whole, loses in any year, this simply means that a certain number of its members may have been forced over into the class A category, thereby creating a larger number of running solvents to pay interest to a smaller number of solvents.

Keeping these things in mind, the figure below will give some idea of the development of the debt-structure and its relationship to "credit" issue over a period of six years.

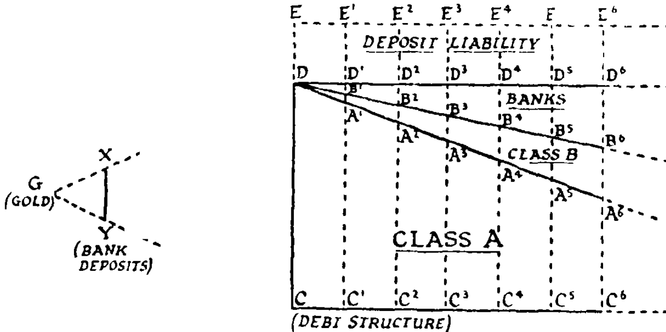
G represents the gold basis, one-tenth of the totality of bank deposits at XY. The fan-spread to DC represents the development of the debt-structure to four times [1] the totality of bank deposits. The rectangle on DC shows the distribution of loan and share capital during the six years of the progression; this rectangle being cut through by the lines DA and DB, the

[1] Loan and share capital in the figure are shewn on a scale about four times the totality of bank deposits, as the figures given by both Mr. Bassett Jones and Professor Irving Fisher on page 51 suggest a debt-structure (in the United States) in the neighbourhood of 200 billion dollars, as opposed to bank deposits of about 50 billion dollars.

direction of which shews the rate of acquisition of assets by class B and the banks respectively. The six dotted verticals cut these lines to shew the actual distribution of these assets at the beginning of each year. Thus the holdings of the banks at the beginning of the second year are represented by $D^2B^2$, class B's by $B^2A^2$, and class A's by $A^2C^2$; at the beginning of the sixth year they are represented by $D^6B^6$, $B^6A^6$, and $A^6C^6$ respectively, and so for each year.

The deposit liability of class A is extended at DE ( = XY) *outside* the rectangle of the debt-structure, to shew itself at

*Gold, Bank-Deposits and the Debt-Structure*



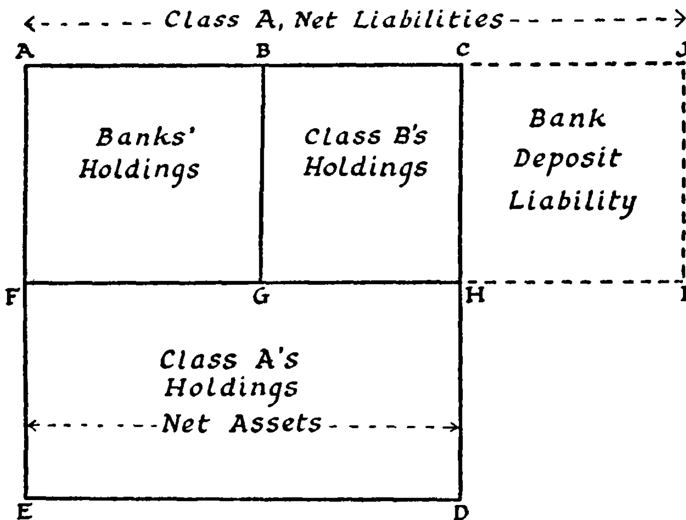

the beginning of the second year as $D^2E^2$, at the beginning of the third year as $D^3E^3$, and so on for each succeeding year. The ratio of class A's assets to liabilities is consequently $A^1C^1$ to $A^1E^1$ at the beginning of the first year, $A^2C^2$ to $A^2E^2$ at the beginning of the second year, and so on.

If this illustration is qualified by the knowledge that the lines DA and DB are indications of direction only, and cannot be expressed as straight lines—since the rate of acquisition of assets by the banks and class B is not regular; that the propulsion base, XY, varies with each contraction and expansion of the currency; and that the fan must be widened or narrowed according as to whether the rate of deposit-circulation is quicker or slower, or the ratio between savings-investments and gross

incomes is larger or smaller, then it can be taken as a rough static presentation of the creation and distribution of assets in the debt-structure.

If we take the position at the end of the sixth year, class A's assets and liabilities account may be represented by the following diagram, where the square CJIH, being class A's deposit liability, is one quarter of the debt structure, represented by the square, ACDE. Class A's liabilities are represented by the sum of the rectangles, ABGF (banks' industrial holdings), BCHG (class B's industrial holdings and savings), and CJIH (deposit liability), i.e., the rectangle, AJIF. Its assets are represented by the rectangle, FHDE.

*The Debt Structure*




It will be remembered that the situation shewn above was developed from "scratch" (i.e., from a position in which no debt claims were in existence). This is a situation which has probably never existed since the dawn of civilization. For, as soon as class A's loans are put into circulation, we arrive at a position in which the total national liability (AEDHIJ)

is always greater than the whole of the loan and share capital held by the banks, class A and class B (AEDC), i.e., the whole of the debt-structure. The ridiculous anomaly of a nation being in debt to itself (which has rightly puzzled every sensible schoolboy) existed long before the situation was crystallized by the institution of National Debts and central banks.

If this complicated process has been understood, it will be seen that class A, the running solvents, "accept a hopeless liability on behalf of the whole of society" simply to bring money into existence. During expansions of the currency, the ratio of class A's assets to liabilities is decreasing, though at a much smaller rate than during contractions of the currency; while, during the latter periods, it also loses collateral security heavily to the banks when loans are called. There is more money about during expansions of the currency, capital values grow at a greatly increased rate, goods are produced in larger quantities, foreign markets, if there are any, can be "captured", and business is "prosperous"; but the true situation is quite obviously a "geometrical progression into debt", which will be shewn up in its real proportions during the next currency contraction.

In practice, this is borne out by the fact that "prosperous" periods are now always associated with a mounting National Debt, this process being simply a case of the government, a class A concern, accepting huge liabilities so that the currency may be increased (see pages 47–51). On the other hand, depressions can be characterized as periods in which the government attempts to stem this increase in the National Debt.

The extent to which the running solvency of the members of class A is being desperately supported is illustrated by the case of Dorman, Long & Co., a large British steel company. In August, 1933, some of the shareholders met to consider the directors' proposals for "drastic reconstruction" before amalgamation with South Durham Steel. The situation at present (November, 1933) is that share capital will be reduced from about £11 millions to something between one and two million pounds. A similar investigation into the affairs of the Royal Mail Steam Packet Company has disclosed a situation which already involves the loss of the whole of its share capital

of something between eight and nine million pounds, although the " full extent of its liabilities " has not yet been discovered. Under these circumstances, which are far from being peculiar to the two firms under consideration, Professor Soddy's query, propounded on page 85, may well be repeated. As Dorman, Long and the R.M.S.P. have not got the money, and as the shareholders have not got the money, and as the banks have not got the money, where is it? Obviously nowhere! As in the case of the fictitious bank loans, already discussed, and as in the case of international capital generated by foreign loans and foreign " investment ", to be considered, it has been " imagined to exist for the purpose of charging interest upon it ".

Here the writer considers it opportune to say a word in defence of the Hatrys, Kylsants and Kreugers of our times. Honest or dishonest, they were all victims of a financial system more mad than unjust. Engaged as they were in the impossible task of balancing fictitious debts of enormous proportions against each other in a rapidly falling world market, they were the unfortunate scapegoats for the whole breed of financiers throughout the world. In the human sense, Kreuger was an extraordinary man, whose only trouble was that he was fundamentally honest. And if he committed suicide, he did it for other reasons than those usually given. If financiers, as a whole, knew " what they were at ", and, like Kreuger, had any " proper regard for the use, or end, or nature of things " (see heading to Chapter XXI), they would all commit suicide. Baron N. E. Bruggen, an eminent Swedish economist and a friend of Kreuger, made the following remarks in an article in the " Goteborgs Handel och Sjofarts " for March 11th, 1933:

> " (Kreuger) did what many had done before him, and what so few, although some, will do after him. He took debts for riches in the same way as the orthodox economists, forgetting the universal law that for every plus there is an equivalent minus. . . .
>
> " Tied by an economic system, which was built on misunderstood economic laws, Ivar Kreuger was selected by fate to give the world a proof that the system is a physical impossibility. His death threw a final sad light on an epoch, whose fate it is to die."

There can be no doubt but that most of the large business and industrial undertakings in Great Britain and America, and indeed class A concerns throughout the world, are in a similar predicament to that of Dorman, Long and the R.M.S.P. The Reconstruction Finance Corporation, formed at the end of Mr. Hoover's regime, was simply a bankers' pool to keep such class A concerns afloat by inflating the debt-bubble still further.

Seen in its general aspects, the situation is this. That when class A draws a cheque, whether to pay wages or salaries, pay for goods or buy an investment, it simply circulates as currency the evidences of its debt to the banks. The purchase of an investment by class A, for instance, is a purchase made out of the proceeds of an irredeemable loan, and simply effects a transfer of deposits, the liability for the whole of which it has already undertaken. The debtor status of this class is clearly not affected whether its investments are held or sold. A profitable accretion through investment may appear to reduce the liability, but the aggregate of such accretions simply raises some of its members into the class B category, thereby leaving a smaller number of running solvents to support a larger number of solvents. There is no escaping this circle, and the division into class A and class B, although difficult to determine in practice because it is not static, is absolute.

On the other hand, when class B or the banks make a payment for any purpose whatsoever, they do so, in effect, *by drawing a cheque on class A*, which accepts the full ultimate liability for all such cheques drawn. The sum total of class B's deposits and investments is its authority to draw on class A to this amount.

Now whereas class B's assets are obtained by hard work, a conservative policy with regard to loan acceptances from the banks, business ability or luck, or by acquired or inherited investments, the banks are in an entirely special category. When a bank buys an investment, for instance, it literally gets it for nothing, as the purchase is effected by a cheque drawn on itself—a cheque, of course, which it never fails to honour. The situation is exactly that of the old lady in the story, who, when reminded by her banker that her account was overdrawn, immediately sent him a cheque drawn on her account for the

amount. As Professor Soddy says, "her misfortune was merely that she was not her own banker".

In practice, the banks draw these cheques on themselves (which class A, in effect, endorse) to any extent that it is profitable or politic for them to do so. If business is expanding, the banks will buy securities, and loan out the extra credit created. This, as explained in Appendix B, is part of the actual machinery of credit expansion, and, of course, the time of class A's "geometrical progression into debt".

If business is poor, the banks will tend to sell, rather than buy, securities, thereby contracting credit and forcing class A's loans. This, conversely, is part of the machinery of deflation, and invariably results in the transfer of further industrial holdings and fixed assets from class A to the banks owing to the inevitable default of the former.

The extent to which this results in their acquisition of collateral security is impossible to determine, but there can be no doubt that, during "depressions", these acquisitions increase by leaps and bounds. The present claims of banks, exercised or unexercised, on firms in a state of actual or potential bankruptcy, must be enormous, and it is certain that the position of the American railroads, the Lancashire cotton industry, and the particular cases of Dorman, Long and the R.M.S.P. referred to above, are typical of vast sections of industry throughout the world to-day. The whole of the Cuban sugar industry and thereby the whole of the island, as has already been pointed out, is now in the bailiff hands of New York and Canadian bankers.

With regard to bank profits in general, the quotation below should be illuminating. It is from evidence given by Mr. Arthur Kitson before the Macmillan Committee on Finance and Industry in London on May 15th, 1930, and refers to the policy of deflation, which, with a few minor intermissions, has been pursued by the British banks, since the World War.

> "You have an illustration in the fact that since this deflation policy started, the banks have made greater profits than they have ever made in the history of the country, at the very time when industry has been hardest pressed, and I say that any banking

system or any financial system that can flourish when trade is depressed is not a safe system for the country."[1] (Minutes of Evidence, vol. 1, page 355.)

By means of the other method, i.e., the writing of cheques on themselves for the purchase of investments, the British banks have increased their investments from about £250,000,000 in 1927 to over £470,000,000 in 1932. In the United States, the financial side of the Industrial Recovery Act was being partly instrumented (October, 1933) by the "purchase" of Government securities by the Federal Reserve Banking system at the rate of $30,000,000 per week! This, in itself, is an extraordinary comment on a prosperity programme, and a glaring instance of the prime absurdity of the modern financial system. The Federal Reserve, in which the United States Government "does not own a dollar of proprietary interest" (Senator Carter Glass, see page 57), is being forced to *give* itself United States securities by drawing and accepting cheques on itself at the rate of thirty million dollars a week, so that industry can get itself in debt to it in an equivalent amount! If it is the "intolerable debt burden" which is crippling industry, why add to it by giving away Government securities to the very institution which created that debt burden? The curdled cream of this ghastly jest is that the system has brought both industry and the financial mechanism which controls it to such a dangerous pass that the banks know that the circumstances are such that industry will never be able to pay back the interest on these loans—still less the principal. It is therefore as unwilling to grant them as industry is to contract them; and so "prosperity" is retarded!

While it is thus obvious that the banks get it both ways, to an undiscoverable extent, whether by writing cheques on themselves for the purchase of securities, or by the acquisition of collateral security through bankruptings and default, there is equally no means of knowing what the magnitude of class B's savings and industrial holdings may be. The solvent trader and 'rentier' class exists in varying proportions in different countries, but there is definite evidence that the ranks of this class are to-day being swelled by the rise of a vast army of

[1] See Appendix C.

small investors, who acquire industrial and government securities by savings from wages and salaries. Sir George Paish, speaking at a dinner in connection with the National Savings Movement at Nottingham, England, on September 15th, 1933, quoted an estimate that the small savings in Great Britain now reached a sum of just on £2,400,000,000, but he himself was of the opinion that the aggregate was "greatly in excess of this sum" (London "Times", Sept. 16th, 1933).

Class A is thus beset within and without by a rising tide of debt claims from both class B and the banks. And knowing that its only means of creating further assets is by accepting further loans from the banks, so as to extend the basis of the currency on behalf of the whole community—thereby giving both the banks and class B an extended opportunity to increase their positive holdings at its expense—class A, in self-defence, has been driven into wholesale amalgamation and rationalization.

In their book, "The Modern Corporation and Private Property" (New York, Macmillan, 1933), Messrs. A. A. Berle and Gardiner C. Means went to great pains to show that a few giant corporations, controlled through interlocking directorates by a comparatively few men, had been growing at a much faster rate than any other form of business enterprise in the United States. Already they completely dominate American business, and, if the present rate of growth continues, in forty years they will completely absorb it. This development has been viewed with great misgivings by socialists, who see in it another move of the "capitalists" to further enslave the proletariat.

Nothing could be further from the truth! The class A capitalists have been forced into this situation by the inexorable progress of the process described in the last two chapters, and are now fighting a battle with the banks and class B in mass formation, and on behalf of society in general. In fact, the benevolent State fascism, now being conducted by President Roosevelt under the sign of the Blue Eagle, is nothing more or less than a combination of the "capitalists" and the Government (i.e., a united class A) against the banks. And, as has been said before, unless the President sees right through the moneylenders' game (for the bankers mainly do not see through it themselves), and if the whole fabric of American industry

and finance does not collapse during the struggle, he is bound to lose, for the simple reason that the banks are bound to win.

The most significant fact about Messrs. Berle and Means' book is the fact that a large proportion of the capital in these giant corporations is owned by an army of small investors similar to those referred to in Great Britain by Sir George Paish. The gross capitalization is consequently so enormous that, in only a very few cases, do wealthy shareholders own majority holdings, while the holdings of the (no doubt highly paid) directorates, are proportionately negligible. In America, at least, private ownership of capital and the exercise of traditional property rights against the direct interests of the masses, is passing, if it has not already passed. The giant corporations represent the socialized use of capital deriving from the wealthy, the middle classes and wage earners alike, in which skilled technical directorates work in the direct interests of millions of shareholders.

In Great Britain, the tendency is substantially the same. The Pigs Marketing Scheme, the Milk Marketing Scheme, the increased rationalization and amalgamations in the cotton, steel and coal industries, the merger between the Atlantic steamship companies, the recent amalgamation known as the London Transport Board—all these developments may succeed in driving the small trader of class B out of business, to some extent, but they are not designed to do so, and are essentially measures of *protection*, not aggression. Behind these developments, and moving parallel with them, there is the growth of an army of small investors, whose savings are invested in these amalgamations and in government stock. The situation is referred to more specifically by Sir George Paish as below:

> " to-day we are witnessing a revolution in the financial sphere in which the few wealthy capitalists who used to control the world's financial life are being replaced by a vast army of small investors whose savings are supplying the capital which a generation ago was provided almost entirely by the well-to-do ".

In fact, far from there being any evidence of capitalistic exploitation in the contemporary scene, the evidence all goes to prove that the socialization of industry is already very far

advanced, and that the only thing which is needed to complete it is the socialization of finance, which, in its present position, undoubtedly perverts industrial policy at its very source.

Without making any comments, at this juncture, on the historical ideology of socialism, it seems fairly clear that the decline of the Trade Unions and the moribund condition of modern socialist policy, is due to the universal failure of socialist leaders to realize, or at any rate, admit these facts and these developments. As far back as 1850, when the proletariat had a genuine grievance [1] against the aggressive policy of the capitalists of class A, Karl Marx saw the beginnings of an anomaly in the establishment of the joint-stock companies of his day. That anomaly is now rapidly becoming the established order in the industrial organization of our times. A pertinent passage from "Das Kapital" is appended below:

> "In the joint-stock company (capital) directly assumes the form of social capital in contradistinction to private capital. Here we have the suppression of capital as private property within the limits of the capitalist mode of production itself."

Marx then goes on to admit that

> "this is equivalent to the abolition of capitalistic production within the capitalist system of production—a glaring anomaly which already at first sight *appears as a transitional stage to a new form of production*".

The modern socialist, in fact, takes his Karl Marx much too literally and has failed to see that "Das Kapital" is essentially a historical analysis which needs a new technical interpretation in the light of modern financial developments. The ethics of its ideology need not concern us here, but it is true

[1] This is not to say that the proletariat to-day do not have a genuine grievance. They most obviously do. But it is fundamentally a grievance against a financial system, and, as such, one which they now share with virtually the whole of society. There is little sense in insisting on priority of grievances, now or at any other time. The fact that the "wealthy" capitalists of class A still contrive to ride round in expensive automobiles is, in fact, just about the working classes' only guarantee to existence, under the present system.

that the enemy of the proletariat has now receded still further into the shadows, where he now exists as the enemy of the whole of mankind. *Industrial exploitation has given way to purely financial negation.* And whereas the proletariat still have their fundamental grievance against the whole system, what the capitalists of class A refused to concede to them in 1850, they literally cannot concede now. If, before, they kept the workers in a condition of wage-slavery because they were bent on the accumulation of profits in a rising world market, now they cannot increase wages because they are losing in a falling one. If the proletariat were the first victims of the system and are still held in subjection, the democratization of education which "engenders overcrowding and sharpens competition within the commercial profession" ("Das Kapital", vol. III, part I) has long since succeeded in completely victimizing the middle classes; while now, the joint-stock capitalists who first ruined the English handloom weavers and the native cotton industry of India by the development of the Lancashire power-loom mills, have themselves been ruined by finance. If, as Karl Marx held, the Middle Ages handed down two distinct forms of capital, usurers' capital and merchants' capital, the latter has now definitely succumbed to the former. The trader, even when operating on the scale of the giant corporations of America, has now been or is being broken by usury and the usurer.

For, apart from the fact that the banking systems of the world remain "the eternal creditors of nations down to the last shilling advanced", finance has now secured, through its industrial holdings, an internal control over industry to an extent which defies comprehension. Messrs. Berle and Means did not concern themselves with this development, but independent research in America has recently disclosed the fact that the directors of eight large New York banks now hold two thousand industrial directorships between them !

In the light of all this, the following passage from the Communist manifesto of Marx and Engels is specially significant:

"The advance of industry, whose involuntary promoter is the bourgeoisie, replaces the isolation of the labourers, due to competition, by their involuntary combination, due to association.

> "The development of modern industry, therefore, cuts from under its feet the very foundation on which the bourgeoisie produces and appropriates products.
>
> "What the bourgeoisie therefore produces, above all, are its own gravediggers."

The continuance of a narrow class-war, completely beneath the dimensions of the historical Marxian analysis, and the traditional hostility to the "wealthy", has prevented the modern proletariat from realizing that, in the falling world-market of to-day, their gravedigging spades are now being reinforced by the steam-shovels of the class A capitalists. The continuance of this hostility, now symbolized roughly as Fascism and Communism, is driving both classes further into the clutches of the usurers. And unless capital and labour unite against a common enemy, finance, which still keeps the latter in slavery and is now driving the former precipitantly into bankruptcy, they will both fall, and civilization with them, into a vast grave of their own digging.

## *CHAPTER XV*

# INVESTMENTS & INDUSTRIAL "SURPLUSES"

THE argument in the two preceding chapters is based on a dissection of the debt-bubble—admittedly a delicate and difficult matter. The special elucidation of the position of class A in industry to-day was only ventured on so as to throw the position of the modern socialist (as opposed to the historical socialist of the original Marxian analysis) into relief. In order to consider the general position of industry, irrespective of the special fortunes of class A and class B, the argument in connection with the circulation of bank deposits must be resumed.

In the thirty deposit-circulation cycles which took place in the year under consideration, costs of 180,000 units were developed by the distribution of wages, salaries (and " profits ") to this amount, but only 150,000 were spent, by all classes, to liquidate them through purchase. The bank accountancy cycles were resolved by the appearance of the remaining 30,000 units as savings on deposit (or transferred to other accounts in the purchase of investments), but *the cost-accountancy cycle of industry was not and could not be.*

If the rate of circulation of deposits is accelerated, or the ratio of savings-investments to spendings is increased, the bank-accountancy cycle will be balanced by the appearance of a greater volume of savings and transfers for the purchase of investments, but the " surplus " not purchased internally will also increase in equal amount; while the cost-accountancy cycle, which is the unfortunate concern of industry, will be still further away from resolution. A greater proportion of producers will be forced into bankruptcy, and the banks, incidentally, will acquire a greater proportion of fixed assets and industrial shares in the process.

The situation is complicated, but not altered in the slightest

by the fact that costs eventually present themselves in a bewildering variety to producers and distributors as wages and salaries, dividends, plant charges—including depreciation and obsolescence—costs for semi-manufactures and intermediate products, bank charges, insurance charges, taxation and all other forms of overhead. Each payment with respect to all these costs is made by cheque [1] and is therefore part of the flow of the deposit-circulation cycles, and every payment which creates these costs, is the source, directly or indirectly, of all incomes, whether spent, saved or invested.

This fact is admitted by orthodox economists. The sum of all payments with respect to production is the sum of all costs, and these costs are, or are supposed to be recovered, through the agency of price. But if all the incomes, which are generated by, and which, directly or indirectly, make up the totality of these costs, are not spent in the purchase of commodities produced, it is obviously immaterial what prices are charged, or what proportion of the goods produced are sold (or destroyed)—these costs cannot and will not be recovered. As we are not here considering the "ameliorating" influence of foreign trade, but are concerned with the internal possibility for production and consumption under the terms of the present system, some proportion of producers may make profits or maintain a precarious solvency, but the certainty of bankruptcy for the remainder will be thereby intensified. The present wholesale impulse to destroy goods and to restrict production and thereby artificially increase the "market" price of the remainder is essentially a blind attempt to increase the possibility for profit-making for a proportion of producers. *It can have no effect on the possibility for industry as a whole.*

More specifically, class A's total costs in *each* deposit-circulation cycle (which includes all payments with respect to its own salaries and "profits") were 6,000 units, whereas the

[1] Payments by cash are neglected throughout in the course of this argument; firstly, because the aggregate of such payments is negligible when compared with the totality of cheque transactions, and secondly, because all wages and salaries, which may be paid in cash and from which all subsequent cash transactions derive, are themselves preponderantly derived from cheque transactions between employers and the banks.

amount spent *in each cycle* for the purchase of commodities produced, was only 5,000 units. It is obvious that, as a class, it cannot recover these costs internally, whatever price it may subsequently charge for the articles produced.

If, for instance, the six original members of class A each produce 1,000 articles in every cycle, corresponding to their original loans of 1,000 units each, and A, B, and C sell all their commodities at one unit each (thereby paying themselves their salaries, but earning no profits, in the accepted sense of the word), while D sells his superior article, produced for the same cost, at 1¼ units each, thereby receiving 1,250 units and making a profit, above salaries received, of 250 units, it follows that E and F are now faced with the impossible task of recovering their joint 2,000 units of costs with only 750 units (5,000—3,000—1,250) left for the purchase of 2,000 articles on hand. When it is remembered that, at the end of thirty such cycles, the banks will claim 300 units as interest, and that class B (who are solvent as a class and therefore not ultimately liable for any of the original 6,000 loan or the interest due thereon) will acquire part even of these 750 units as their profits, it will be admitted that true solvency for class A, in any country, is fundamentally impossible.

The running solvents of class A should also realize that the situation, as a whole, is not altered whether A, B, or C produce less than 1,000 articles and sell them for more, or whether E produces more than 1,000 articles and sells them for less, or whether specially successful producers sell more than 1,000 articles for more, or unfortunate producers sell less for less. The inescapable fact is that 6,000 units of cost are created in each deposit-circulation cycle, and that—so long as this same ratio of spendings to gross income is maintained—only 5,000 units liquidate them through purchase in each cycle. Industry is thus invariably and inevitably in debt, while the books of the banks are balanced, as they must be in this and every other cycle (except for the original 6,000 loan-units always outstanding) by the appearance of the remaining 1,000 units as deposits of class A and class B—later largely invested to create the debt-structure.

The unavoidable conclusion is that, as far as all internal

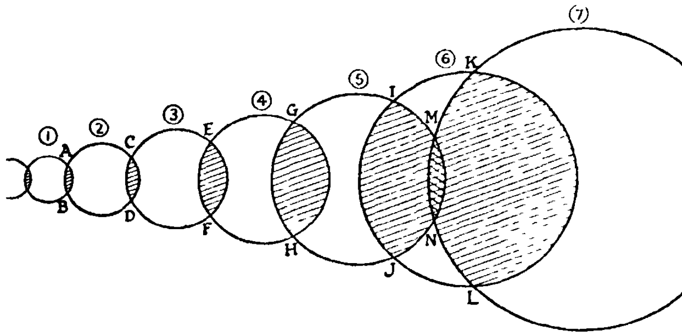
situations are concerned, *savings in any shape or form* (*i.e., whether kept in a stocking, left on deposit or invested*) *are fundamentally inconsistent with a price system.*

It is useless to protest, as do most orthodox economists, that investments simply represent capital put back into industry, and therefore generate further incomes (as they do) for the ultimate purchase of commodities. The point is that these invested savings, or investments purchased out of loan proceeds, are needed to liquidate the costs in the cycle in which they themselves were first created, i.e., through the purchase of commodities, *pertaining to that cycle*, to an equivalent amount. Investments function in the flow of some future deposit-circulation cycle, thereby participating in the creation of incomes equal to another set of costs, but also generating a further " surplus " whose dimensions will be increased by a corresponding increase in savings and investments in that cycle—which are themselves subsequently invested to create a still larger " surplus " in some still more remote cycle. The accumulation of savings and investments is therefore balanced by a progressive increase in the dimensions of the " surplus " which cannot be purchased internally. Further, the interest on investments simply constitutes a claim to that amount on the total incomes generated during the " corresponding " deposit-circulation cycle of the following year. An increase in investments, representing an increasing claim to income in the succeeding year, is essentially an increase in the investors' *choice* to save or invest an increasing proportion of gross income in each succeeding year. The successful trader, saver or investor, who normally exercises this choice to *increase* this proportion, thereby functions to intensify the fallacy on which the whole debt-structure is based.

The issues developed by the creation of interest-bearing savings and investments have called forth an extraordinary amount of ingenious but entirely specious explanation from the professional apologists of the present system, but the diagram opposite will give some indication of the true situation.

The circles represent the total amount of industrial payments made in the circulation of deposits in each of seven succeeding years. They correspond, therefore, to the total

volume of production each year, and also to the totality of all disbursements, wages, salaries, dividends and overhead, made with respect to that production—to be recovered by the sale of commodities produced or to be produced. The shaded sections represent the total amount saved or invested each year. As such, they are not applied to the purchase of commodities produced or pertaining to that year, but participate in the flow of deposits in the succeeding year.[1] Thus, in the second-year circle, ACDB, the segment AB represents savings and investments derived from the circulation of deposits in the first-year circle; while the segment CD, at one and the




same time, derives from the circulation which now includes the segment AB, and participates in the flow which creates the segment EF. And so on for the segments GH, IJ, and KL.

The unshaded segments, therefore, represent the financial value of home production bought and consumed internally, while the shaded sections in each circle represent the money equivalent of exports available to create a " favourable balance " of trade abroad. This process, involving an excess of exports over imports, brings into existence, as will be explained in detail in succeeding chapters, a paper claim, as foreign " investment ", due from the various other trading countries con-

[1] This is not strictly true, as an investment may function in another deposit circulation-cycle in the same year as that in which it was created. But it is immaterial to the argument whether the period of time under consideration is one year or the average time in which one complete circulation of deposits is effected.

cerned. Under present insane developments in international finance, new foreign investments, created by further "favourable balances" or by direct credits to importing countries, are taken up so as to enable the debtor countries to pay interest on those already in existence (i.e., the debtors are lent more money so that they can pay interest due on what they already owe). This demands a continuous increase in foreign "investments", and therefore a continuous increase in the volume of exports which create them.

These investment and savings segments are, therefore, cumulative from year to year. They include, also, both domestic and foreign investments. The income deriving from these investments, whether from home or abroad, will itself increase the dimensions of the succeeding shaded segments if more of it is reinvested than is spent in the purchase of commodities; and 'vice versa'.

It is obvious that this process can only be maintained so long as the circles continue to expand, and that at a rate in some sort of conformity with the increase of the "surpluses" available for export (i.e., with the increase in savings and investments). This, as will be explained in detail, is only possible in a rising world market, i.e., when a number of industrially undeveloped countries can accept permanently "unfavourable" balances of trade of sufficient dimensions, by incurring an equivalent debt, or by paying in gold—which gold, of course, is used to increase the propulsion basis of the currency in the country which is throwing out these "surpluses". In a falling market, as at present, the circles (i.e., volume of production) cannot be adequately increased because the "surpluses" created cannot be disposed of. At the same time, these "surpluses" must be created and must be disposed of abroad, if interest payments on existing investments and new savings and investments, in process of formation, are to be paid. This is the impossible paradox which faces all industrially developed nations in the world to-day.

In the preceding diagram, for instance, internal consumption has decreased from the area GHIJ in the 5th circle to the sum of areas IMK and JNL in the 6th circle. At the same time, the "surplus" segment KL in the 7th circle is demanding an

extraordinary increase in the dimensions of an 8th circle, so that interest can be paid, through increased foreign trade, on its own increased dimensions. Not only, however, can this 8th circle not be increased (except through the mediumship of a depreciated currency and fiercer competition in the world market at cut-throat prices, 'vide' Japan), but the double-shaded segment, MN, is now demanding interest payments *both ways*.

This is exactly like asking a dog to eat its own tail, and it is at this point that interest on investments, domestic and foreign, is paid, if at all, by the transfer of actual property to the creditor (see page 168). This is the situation in the United States to-day. For, as Mr. Bassett Jones pointed out, debt is increasing at a faster rate than production, while the interest due on accumulated debt is fixed and total national income is falling rapidly. According to Professor Irving Fisher's testimony, the debt structure of over $200 billions demands a fixed yearly charge of $34 billions, while the total national income has fallen from $89 billions to $40 billions in a few years, and is still falling (see Chapter V).

America and Great Britain, in particular, developed their "seventh" circles by an internal expansion of bank deposits during the World War, and by enormous increases in foreign "investments" since the War. These now demand resolution in an "eighth" circle of still more enormous dimensions, so that correspondingly enormous "surpluses" may be created and sold abroad to pay interest on the seventh-circle investment segment, KL. This "surplus" cannot be disposed of, largely because of the aggressive commercial retaliation of the East (see Chapter XIX, following). Domestic and foreign investments, in both countries, necessarily relapse into wholesale default, and interest payments begin to be paid, if at all, "by the transfer of actual property to the creditor".

It is also useless to protest, as do most industrialists and inheritors who have attained competency and complacency through the bankruptcy or slavery of large sections of the community, throughout the world, in past or present generations, that savings, whether invested or not, represent past or present voluntary abstinence from consumption, and that, therefore, they are entitled to receive, for ever and ever, amen,

payments as interest from the remainder of the community. A more pharisaical or more brainless argument was never put forward in the cause of self-righteousness. In the financial resolution of an internal situation, such as we are now considering (and will shortly be faced with, throughout the length and breadth of Western civilization), not only will less and less "interest" be forthcoming, but an increasing proportion of the community will be driven into bankruptcy as the direct result of this "voluntary" abstinence; while (with no help from foreign "trade" and foreign "investment"), an increasing proportion of goods produced will be destroyed to restore a desperate equilibrium.

In the long run, and throughout history, interest on savings and investments has been paid by the exploited classes at home or by some poor dog of a foreigner, usually of a yellow or black colour, who has had to live like an animal and work like a slave that the Western virtue of "abstinence" may be rewarded. It is no mere coincidence that organized Christianity, long ago adopted and perverted by a political economy based on usury, should have so consistently preached the virtues of abstinence, economy and self-denial, and have maintained it, in the face of the truly desperate position of large sections of the community, throughout the course of the present depression. The cultivation and enjoyment of the fruits of the earth, according to the evolutionary stage of man's desires, is implicit in Christ's saying that he came that man might have life more abundantly. These fruits will only be precariously received, and certainly will not and cannot be enjoyed, if man is not actuated by love and charity in his relations with his neighbours. This is impossible for man under a financial system based on usury—which is itself the genesis of all aggression, fear, suspicion, hatred and war. The present turn of the wheel from West to East after two hundred years of oppression by the former, is evidence that the accumulated forces for evil are now operating on an organized world scale. The solitary figure of Christ is all that remains of the wreck we call Christianity, and if his teachings are emotionally and intelligently reinterpreted with reference to the present situation, it will be seen that they have an economic, as well as an ethical basis.

## *CHAPTER XVI*

# IMPERIAL POLICY AND ITS RELATION TO INDUSTRIAL "SURPLUSES" AND FOREIGN "TRADE"

THIS process, the automatic accumulation of "surpluses" which cannot be purchased internally because of a corresponding accumulation of interest-bearing bank loans, savings and investments, is fundamental to all transactions within the limits of the present price-system, and sets at nought all the classical theories of the so-called law of supply and demand.

The supply develops costs which, as far as all internal economies are concerned, are always and increasingly greater than effective internal demand—i.e., the total amount of money that can or will be spent in each cycle. In practice, this is not apparent, firstly, because the debt-structure in every country is constantly being enlarged by the continuous circulation of bank deposits of increasing dimensions, and, secondly, because, while the possibility of recovering costs (including or not including "profits") exists for every individual member of class A, no such possibility exists for this class as a whole (see page 94).

Under these circumstances, it is obvious that class A, imperatively, and class B, optionally, will be driven abroad to sell their goods to recover their costs—which include, of course, interest charges on debt-claims which are being piled up against them from all angles.

Here, it is important to realize that foreign trade, in the sense of its being, as it most certainly should be, a mutual exchange of surplus commodities, will not help the situation in the slightest. If "surpluses" are exchanged to an equal amount, no money will be due from the foreign country, and industrialists at home will still be faced with the sale of a surplus

of a different composition, but of equal financial value, and therefore equally unpurchasable. The essential condition of foreign trade under the modern price-system based on loan-currencies, is that *every* industrially developed nation must export more than it imports. This, of course, is a mathematical impossibility; but it is, nevertheless, the situation which all countries in Western civilization (and a large proportion of Eastern countries) are faced with to-day.

For, by exporting more than is imported, an impossible tension is loosened at both ends. If more goods are sent out than are received, the unpurchasable "surplus", now composed of a mixture of domestic and foreign goods, is reduced by that amount; at the same time, the foreign country pays or owes the financial equivalent of the balance, and thereby helps the home industrialist to recover his margin of costs which cannot be liquidated internally.

Even under conditions such as existed in the eighteenth and nineteenth centuries, when the industrially developed countries, particularly Great Britain, were able to export their "surplus" to industrially undeveloped countries, and so always maintain what is called a "favourable" balance of trade, the interest on the debt claims created in the foreign countries was not wholly used to restore purchasing power at home and so distribute the "surplus" to citizens, but

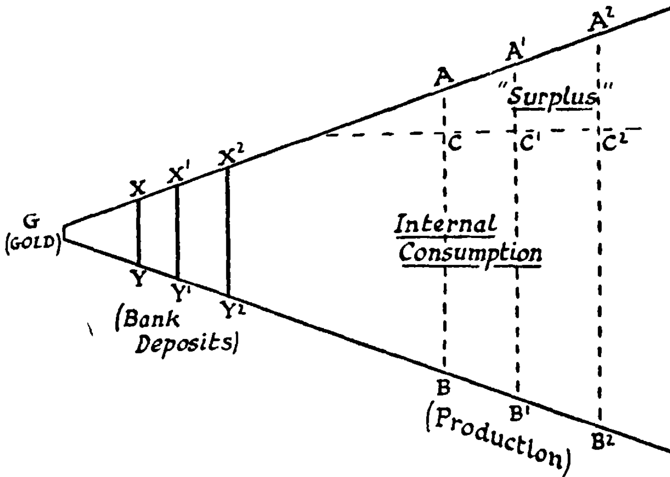
(*a*) to expand the currency basis (i.e., issue more loans to the capitalists of class A);

(*b*) to relend to the foreign countries as foreign loans or foreign investments held at home.

Now although the second method is only used extensively when the first, and more direct method, is not developing quickly enough to absorb an increasing "surplus", it will be seen that the result, in both cases, is not to short-circuit the gap between internal costs and internal spendings, but to expand the propulsion basis of the deposit-circulation cycles, thereby creating a "surplus" of still greater dimensions. This increase in the "surplus" demands a corresponding increase in foreign trade and foreign investment, the successful prosecution of which expands the loan-currency at home still further, thereby creating a still greater "surplus" and the

necessity for the establishment of a still greater "favourable" balance of trade. And so on, and so on.

The figure below, which is an adaptation of that on page 113, will give a rough idea as to how this process develops. G is the gold basis, XY the loan currency built on it, and AB the commodity values created by the industrial circulation of these loans. BC represents the proportion of these commodities absorbed and taken out of the system by internal spendings, while AC represents the "surplus" available for




foreign trade. The interest on debt claims deriving from the disposal of this "surplus" abroad, operate to increase the currency to $X^1Y^1$. The commodity-values created by this, $A^1B^1$, contain the surplus $A^1C^1$, which is applied to increase the currency to $X^2Y^2$. The commodity-values thereby created contain the surplus $A^2C^2$, which is applied to expand the currency still further.

It will be realized that, although an increasing surplus must be extruded, an increasing number of commodities is consumed at home, thereby raising the standard of living. As the debt-structure increases with each expansion of the currency, the banks and class B can continue increasing their industrial holdings, while class A recovers its margin of costs

from abroad, at the same time creating a bigger margin to be so recovered in the next cycle.

The basis for the grievance of the proletariat, on which the historical philosophy of Karl Marx is founded, is simply that class A, instead of trying to reduce the margin between total production costs and total spendings, tried and succeeded—by continually increasing the proportion of investments to spendings—in continually increasing it. In this way industry was expanded so as to encompass the whole world, but consumers at home were able to buy an increasingly smaller proportion of an increasingly larger output. The standard of living was raised, but at a rate much less than that of the increase in production. For example, if home production was increased from 100 to 200 over a period, but home consumption declined from 75 per cent. to 50 per cent. of these totals, home consumers would nevertheless receive 100 as against their original 75, while the "surplus" for profit-making (through debt-creation) would increase from 25 to 100. In this way, although production has been doubled, internal consumption and the standard of living have only been raised by one-third.

The chief exponents of this system of expanding circles, each resolving into a larger circle demanding resolution into a still larger circle, were Holland in the seventeenth century, Great Britain in the eighteenth and nineteenth centuries and Great Britain and America in the twentieth century. It is no exaggeration to say that the British Empire (as well as the Roman Empire and probably most other empires) were built up on these money-lending cycles which automatically created the *necessity*, as opposed to the desire for industrial expansion: the exploited industrially undeveloped countries being necessarily also their victims. Once the money-lenders have initiated the first cycle, the process must go on. Any pause invariably results in inconceivable hardships at home because of the piling up of an unpurchasable "surplus" (quite apart from the sufferings of the exploited countries), while an almost complete stoppage, such as we are witnessing to-day, can only result in international disaster.

In the plainest terms, the historical development of the British Empire has been essentially a successful attempt to

create an increasing " favourable " balance of trade abroad so as to force her possessions, particularly India,[1] to disgorge their gold in payment. This gold was, of course, used by its moneylending banking system at home and abroad, to expand the currency by the creation of debt, thereby engendering bigger surpluses which were used to force still larger quantities of gold out of the East. And, just as Pompey was sent to Asia, Cæsar to Gaul, and Crassus to his defeat and death in Parthia to get gold, slaves and tribute to pay the interest on an enormous debt-structure built up by Italian moneylenders, so the heroes of the British Empire have been sent out to all parts of the earth to get gold, by trade and war aggression, so that the unliquidatable costs of the home " surplus " could be recovered and the vast loans of her banking system supported and extended. And as the Bible has always followed the sword in these expeditions, her missionaries have gone forth, not in the name of angels and archangels, nor of thrones and dominations, but in the name of usury and the gold-idol.

When it was discovered that this direct acquisition of gold by foreign " trade " was not proceeding fast enough for the money machine, the era of foreign " investment " began. This process (when the technical smoke-screen put up by the Quai d'Orsay, Lombard Street, and Wall Street has been cleared away) is essentially either,

(*a*) the re-investment in the debtor country of debts due to the creditor country owing to the " favourable " balance of trade of the latter;

(*b*) the export of goods on new credits.

In either case, the aim of the financial system is not to distribute the " surplus " commodities at home, but to get foreign countries into debt, and insist, if possible, that these debts—or rather, the interest payments due on them—should ultimately be paid in gold, or currencies " based " on gold. It is for

[1] The recent efforts of bankers to put India on the gold standard are directed to this same end. As a result of this, and other moves, the price of gold has risen so enormously that India has " disgorged " £150,000,000 of her hoarded gold since 1931. (London " Daily Mail ", Oct. 9th, 1933.) Most of this has since been acquired by and hoarded in Europe !

this reason that the traditional policy of Great Britain during the industrial development of the nineteenth century was Free Trade and the maintenance of an open market for gold. In this way, payments due on her exported " surplus " as well as on her foreign investments based on it, could be paid in gold rather than goods, and so give her the opportunity to expand her currency (i.e., create further *internal* debt) and thereby engender bigger " surpluses " for foreign export so as to create bigger *external* debts. The international gold standard and the developing gold-exchange standard were designed specifically to facilitate this process of simultaneous internal and external debt creation.

It will be seen that the internal and international economic system is thus fundamentally perverted—home consumption being deliberately restricted so as to leave as large a " surplus " as possible for the creation of external debts through foreign " trade ". The true purpose of an economic system—which should be the complete distribution of home production, plus the complementary and equal exchange of goods with foreign countries—thus becomes entirely incidental to the financial process, which undoubtedly is the creation of internal debt (through necessary currency expansion) and the creation of external debt (through foreign " trade " and foreign " investment ").

In this way, finance has succeeded not only in the apparently impossible task of getting nations in debt to themselves, but also in getting the whole world in debt to itself. It is scarcely credible that sensible people should tolerate this fantastic situation (quite apart from the human misery involved), but it is through this process that the subtle quibble as to " creditor " and " debtor " nations, referred to on page 46, has been maintained. If the inescapable fact is that the two most " prosperous " nations, Great Britain and the United States, as well as every other country which wears the " creditor " label of international finance, are themselves in debt internally to an extent that almost defies comprehension; while every debtor country is in debt internally as well as in debt externally to the " creditor " countries, the mysterious and invisible creditor, functioning outside the entities we call nations, and to whom the whole world is in pawn, is—Finance. And Finance itself

is simply the mechanism of the modern idolatry, which, through the mediumship of the gold idol and its shadowy psychological derivatives based on gold-debts, will demand, as it is demanding to-day, the continuous and increasing sacrifice, on an international scale, of plant, commodities and human life, through sabotage, restriction of output, the rationalization of industry, wage slavery and war, so that its insane but terrible "wrath" may be appeased.

## *CHAPTER XVII*

# FOREIGN " INVESTMENT "

" Inevitably, like the prodigal son, England went forth into the world and squandered its inheritance among the harpies of world trade and debt creation."—HOWARD SCOTT.

NOW, although the general situation, as outlined in the last chapter, will be admitted by all who have made an impartial study of the actual facts and circumstances of the development, it will be necessary to submit specific evidence in this chapter, however tedious this may prove to be.

Foreign investment, on a large scale, coincided with the rise of the Industrial Revolution, particularly in Great Britain, in the middle of the last century. A considerable portion of these investments were sunk in American railroads, which, after the Civil War, were largely developed by British capital. Here, as ultimately in the case of nearly all foreign investment, at that time or subsequently, a large portion fell into default.

Lawrence Dennis is flatly of the opinion that, as a practical matter,

> " foreign loans cannot be repaid under the business system, except in the event of war or some wholly unforeseeable new economic development creating an abnormal demand for consumption goods ".

If the analysis in the preceding chapters has been understood and appreciated, it will be seen that all that can be done about foreign debts is to increase them during the commercial exploitation of undeveloped countries by the re-investment of commercial debts due to a continued " favourable " balance of trade ; and that, in the contracting world market which follows such aggressive expansions, these debts must inevitably fall into wholesale default.

It has been estimated that, in Great Britain, the totality of foreign investments (investment or re-investment of debts

accruing from her "favourable" balance of trade) amounted to something like £6,000 millions before the World War.

Sir Arthur Samuel, in his book, "The Working of Bills of Exchange" (London, Pitman, 1933), made a "cautious estimate" to the effect that of this total, Great Britain,

> "has lost not less than £2,000 millions in overseas investments during the last sixty years . . . it is not unlikely that the loss has been much heavier, perhaps even £4,000 millions".

Under these circumstances, it is clear that, over a period, Great Britain has exported £6,000 millions worth *more* goods than she has imported, in return for which she has received loan certificates issued by the borrowers, half of which, say, are now worthless, while the remaining half is relapsing into default or rapidly depreciating. In effect, this simply means that half of these exports (whether as goods, or as capital invested and re-invested on account of these goods), as well as an increasing proportion of the remainder, have been a *free gift by* Great Britain to the borrowers. This free gift incidentally includes a large part of the American railroad system.

Now although this is ridiculous enough, the effect on both borrowers and lenders is ultimately disastrous. P. C. Loftus, writing in the "New English Weekly" for November 10th, 1932, quotes Professor Bowley to the effect that the economic crisis of 1873 was caused

> "by the new countries (chiefly America, north and south) borrowing their capital from manufacturing States and finding the process very profitable . . . they soon flooded the markets of the old countries with more produce than was required for consumption or manufacture".

Mr. Loftus goes on to say that, in spite of this, there was another great spurt of export of British capital with the same inevitable result—the collapse of prices in the early 'nineties, and the ruin of the British farmer. He further quotes Sir George Paish to the effect that,

> "The injury to credit resulting from the over-borrowing of the new countries in the 'eighties . . . was felt by every country. The price of food fell to a level which reduced the farmers of all nations to poverty."

In spite of this double-edged boomerang effect demonstrated so disastrously on these two occasions, " international lending " (though necessarily practised during a World War which was undoubtedly largely brought about by this very practice itself) was resumed with unparalleled intensity after the War.

During the War and after it, the United States, with characteristic impetuosity, telescoped into the short space of twenty years the whole process which developed in the British Empire, as described in the previous chapter, during, say, the preceding two hundred years.

Before the War, the United States was a " debtor " nation to the tune of about four billion dollars. During the War, as is universally known, she exported enormous quantities of goods to Europe, and finished up, in 1919, as a " creditor " nation with a balance of something like fourteen billion dollars in her favour. Of this gained total of eighteen billion dollars, a comparatively small proportion came into existence as War Debt—i.e., as the direct loans to the belligerent countries which are causing so much trouble in international politics to-day. The larger proportion is evidence of Europe's commercial indebtedness to the United States—i.e., as a gross total of the " favourable " balance of trade established by that country in its war-time trading with European countries, who necessarily bought these goods on credit.

After the War, America insisted on payment in gold for the simple reason that her own gigantic productive mechanism had been so expanded and perfected by technological development during the war period that she was not only able to supply goods sufficient for her own " extravagant " needs, but also for the demands of a large part of the outside world as well; and for the further reason that the importation of these goods would have intensified an unemployment problem which was then beginning to show itself and which has since assumed alarming proportions. Her gold stocks consequently rose to more than $4,000 millions—a record for all time for the accumulation of monetary gold in any one country.

In this short space of time, the United States forced gold out of Europe in exactly the same way as Great Britain had forced gold out of the East during the eighteenth and nineteenth

centuries. It then became apparent that the importation of further gold would seriously imperil the fictitious "backing" to the currencies of the debtor countries and so endanger the international credit structure. A lightning period of foreign investment began. In this, America was joined by Great Britain, and, between 1919 and 1929, these countries lent to other nations approximately $20,000,000,000 !

Here, again, a telescoping of the British nineteenth-century policy of foreign investment occurred. The debtor countries being now prevented from paying in both goods and gold, the two creditor nations were forced to reinvest interest payments and to extend new credits, while new outlets for American "idle" capital were sought in every corner of the globe. As the interest payments on these rapidly increasing investments also could not be or were prevented from being repaid in goods or gold, there was nothing left to do but roll the snowball in the snow and keep on rolling it—as illustrated in the diagram on page 129. From 1924 onwards, it is not too much to say that the United States literally begged governments and municipalities in South America, Germany and elsewhere to accept their loans, while foreign bond issues were floated by banks and investment trusts through the agency of literature and high-pressure salesmanship which seriously misrepresented the situation and the facts to investors.

During this period, debt creation in South America proceeded at an entirely unprecedented rate, while "restoration of international confidence" in Germany (essentially the injection of further loans to meet reparations and interest payments on a rising flood of foreign investments),

> "led private finance houses in Great Britain and the United States almost to implore the German State and municipal authorities to accept short term credits" (J. W. Wheeler, "The Wreck of Reparations"; London, Allen and Unwin, 1933).

The Chilean, Peruvian, and Brazilian credits advanced by New York banks and the loans floated by irresponsible investment trusts and "security affiliates" in these and other countries were similarly loans to pay interest on previous investments, while carpet-bag methods to create the debts and the same disgusting high-pressure salesmanship to float these bond

issues were used as in the case of the German loans. As Lawrence Dennis says:

> " *the essence of the foreign loan system, after it has been in use for any length of time, is exchanging (Brazilian coffee) for interest receipts or bond coupons* " (" Is Capitalism Doomed?" New York, Harper, 1932).

And just as it would have been much better for American investors to have " consulted gipsy fortune tellers than to read circulars on the credit of South American countries " whose securities they were thinking of buying, so,

> " at the end of 1931, Germany was all but in name in default on over 6 billion dollars of commercial debts contracted with foreigners since 1924 and was quite as incapable of paying reparations as in 1924. All of this any sane person who took a disinterested view of the situation in 1924 was bound to foresee."

And there can be no doubt at all that these loans were created and maintained through the efforts of

> " insincere statesmen, mainly in America and France, who, together with banker-subsidized scholars, falsified facts, prostituted their intellectual integrity and deceived the people in sustaining a contrary thesis, which events have at last proved conclusively to be false in every particular " (Lawrence Dennis, idem.).

Now this enormous international debt-bubble has burst, and the result has been exactly the same, although on a much larger scale, as it was in 1873 and the early 'nineties. The whole world is saddled with a fantastic load of internal and external debt, while prices, owing to the vast dilution of purchasing power involved, have been driven down to levels at which it is absolutely impossible for producers, particularly of primary products, to recover their costs and so pay the collective interest charges on these debts. As in the case of individual businesses described in Chapter XIII, the possibility for true international solvency (i.e., the repayment of the principal of these loans) *literally does not exist.* So that, just as the double paradox for internal industry is: " prosperity " means the increase of debt (through currency expansion), and depressions are the periods of attempts to decrease it (through deflation),[1] so the international position is: " prosperity " is

[1] See page 96.

the increase of external debt (through foreign " investment "), and international paralysis is the result of the attempt to discharge or decrease these obligations. The word " attempt " in this last sentence is used deliberately, as no such attempt can succeed; and the present international deadlock is due to a world inability to pay the interest charges on existing external debt without the help of further foreign " investment ".

In the face of the precedents of 1873 and 1896 (and others too numerous to mention), as well as the unparalleled disaster of the present situation, it is scarcely credible that politicians should be persuaded by the monetary and economic experts to the World Economic Conference, that the " resumption of international lending " is a necessary preliminary to world recovery and world prosperity. It is obvious that these " experts " can and will learn nothing, and that if, by some miracle, civilization manages to survive this crisis on their terms, they will see to it that another of still more terrifying proportions is created and precipitated.

Some idea of the mental attitude of these experts may be gained from the fact that the official meeting of the financial experts in 1919 to fix the figure for German reparations, and presided over by the Governor of the Bank of England, solemnly came to the conclusion that Germany was able to pay an astronomical figure of more than six thousand million pounds. After causing an incalculable amount of international discord this figure was reduced, in a series of stages, and finally to the common-sense figure of zero !

It makes no difference whether these financial experts are irresponsible or reputable servants of the system: we are all, from the smallest hot-dog stand proprietor to the giant corporations of Messrs. Berle and Means' book, the unwitting victims of the crazy involutions of their policy.

## *CHAPTER XVIII*

# INTEREST DUE ON FOREIGN DEBT A PRIME INCENTIVE TO WAR

LET us now consider this 'impasse' into which foreign trade and foreign "investment", sponsored by the administrations and hired apologists of the money-lending system, have led us.

International debts can only be paid in goods, gold, or by the creditor taking up further investments in the debtor country. This latter, as we have already seen, is really not a method of repayment at all, but simply a case of the debtor nation trying to borrow itself out of debt; a proposition which is just as impossible and disastrous for a nation as it is for the individual. In spite of this, international finance will undoubtedly try to prolong the nightmare by this method, but we may dismiss it entirely as a means of repayment.

We are concerned with the possibility of the payment of interest only, as the hypothetical repayment of the principal of these external loans would automatically wipe out the international currency and bring foreign trade to a complete standstill, just as a hypothetical repayment of all bank loans would automatically wipe out all bank deposits. International currency created through foreign investment, comes into existence as a debt just as do all internal currencies through the creation of bank loans. *The medium of exchange, externally as well as internally, is the circulation of the evidences of debt, not of wealth.*

If gold payments are made in respect of the interest on these international debts, the "creditor" nations, who already hold the lion's share of the world's gold stocks, will have their reserves still further increased. In this case, the debtor nations will be left with currencies which are still more "unsound",

even from the point of view of the bankers' illusory gold-backing. This, in any case, is a development which cannot be contemplated by international finance, as it is the present unequal distribution of gold stocks, which, according to their own interpretation of the system, is largely responsible for the present crisis. Any increase in this disparity (although it may be "rectified" later by the automatic working of the gold standard—see Appendix A) would be disastrous, under the present circumstances.

Of the $12,000 millions in gold now held by the central banks of the world, about two-thirds is kept in their vaults as "backing" to internal currencies, and is solemnly retained there by note-reserve regulations which are now entirely obsolete (see Chapter IX). Apart from the general situation—the sinister stupidity of gold "backing" to any currency—the peoples of the world never see the colour of gold nowadays; yet two-thirds of all the monetary gold in existence is held in the central banks "against" currencies, and is, in effect, buried in the earth from which it came.

As a consequence of this, the remaining one-third is altogether inadequate as a free-agent for the settlement of international balances of far greater dimensions, and the competition for its possession drives down world prices and forces producers into bankruptcy. The banker, in his attempts to work the monetary system according to rules of his own formulation, is thus between the devil and the deep sea. The top and bottom of the matter (as far as he is concerned), is that his total gold stocks are not nearly sufficient to maintain his one-to-ten illusion of gold-backing to his greatly expanded internal currencies, and function as the means for the settlement of greatly increased international debts as well. The bankers of the world have, in fact, under the pressure of war and technological advance, greatly exceeded the "traditional" safe ratio of the moneylenders, by debt-creation internally and internationally; and in this, a comparative new-comer into the game, America, has been the most careless offender.

If, as has often been suggested recently, the banker uses his gold for the settlement of foreign debts exclusively, internal currencies will be unsupported, and the peoples of the world

will begin to ask awkward questions as to what, if anything, their currencies are based upon. Apart from the fact that the banker would not be able to give his immemorial fictitious answer to this question, such a procedure would be the beginning of the break-up of the absolute power which he undoubtedly exercises in the world to-day.

Unless gold is immediately discovered in very large quantities, there is no solution to this problem, under the rules of the money-lending game, except the devaluation of the gold content in all currencies. Although this now exists as a method of procedure in America, the banker is very unwilling to do this, for two reasons. Firstly, because once a start has been made with currency devaluation, there is no end to it: the effect would be one of simultaneous international inflation, and the prospect is very properly dreaded by banker and industrialists alike. Secondly, because it would make the commodity in which he has a corner, and on which the whole of his debt-creating operations are based—namely, gold—less valuable and subject to continuous depreciation in value in terms of commodities.

In this second objection, the banker receives the powerful support of the gold-miners of the world: and if any further proof were needed that the financial system runs directly counter to the interests of industry and society, it is afforded by the fact that the professional instinct of the banker and the gold-miner is towards monetary deflations, which are invariably followed by internal and external bankruptcies and all the familiar miseries of "depression" periods. This was well expressed by Lord Milner:

> "Just as productive industry welcomes rising prices, the moneyed interests must always be in favour of falling prices because they render its own wares—money—more valuable."

The monstrous simplicity of the money game, which all mankind is forced to play, should become apparent if we again refer to the evidence given by Mr. Arthur Kitson before the Macmillan Committee to the effect that the British banks made greater profits than they had ever made before in the history of the country during the prolonged deflation which

followed the World War, at the very time when industry was hardest pressed (see page 119 and Appendix C). Even if these profits had been less in *volume* than during some previous inflationary period, they are obviously of much greater *value* during those periods of falling prices which are so disastrous to industry in general and agriculture in particular.

The gold-miners' interest in keeping money scarce relative to the volume of debt, is even more obvious. The price of gold has risen, during the course of this present "depression" to the unprecedented price of £6 16*s*. per fine ounce [1] (May, 1934), while gold-mining shares, on an average, rose from about 80 in 1929 to about 170 to-day. The price of gold, at all times, is a purely artificial creation, which is maintained at the expense of society, for the benefit of gold-miners directly, and the benefit of debt-creators indirectly.

> "Gold is supposed to give value to local currencies. In reality the value of gold is given to it by the obligation, which Governments have imposed upon themselves, to buy it in unlimited quantities, at a fixed fancy price. The local currencies therefore give value to gold and not gold to the local currencies. The value of the local currencies in terms of commodities depends upon the quantity in which they are issued, and not upon the materials of which they are made." (A. de V. Leigh, Secretary of the London Chamber of Commerce, in the "Times" Trade and Engineering Supplement, March 25th, 1933.)

Under these circumstances, the only eventuality which would secure the interests of the gold-miners and the bankers and maintain the existing debt-structure, is the discovery of more gold: and it is undoubtedly true that this present depression has witnessed an extraordinary increase in gold-mining activity throughout the world. In the middle of 1933, a big expansion in the African gold-mining industry took place. Some 7,000 new claims were involved in the Witwatersrand; at Vogelstruisfontein, some 1,600 claims were leased to the Anglo-Transvaal Gold Mining Company, while "actual operations were expected to begin soon, involving an expenditure of approximately

[1] See footnote to page 137.

£1,000,000" (London "Times", July 25th, 1933). From the same source, it appears that,

> "Tenders have been submitted for the lease of 2,360 claims in the Boksburg Gap by the Newfontein and East Vogelfontein companies, and for 1,726 claims by the Nigel Gold Mining Company. The Crown Mines are acquiring 829 claims in an adjoining property, while the East Rand Proprietary Mines have applied for 422 claims at Driefontein. Other applications have been made by . . ."

If and when gold is discovered in sufficient quantities, all that will happen will be that existing debts will be refloated (not redeemed), "frozen assets" (debt claims) will be released, and other cycles of debt-creation will be organized on "surplus" gold stocks, if any. At some future period, when National Debts and foreign "investments" have been forced up to new fantastic levels, the bubble will burst again and another "depression" of still more appalling dimensions will be precipitated.

Foreign "investment" being a device to increase, not to redeem, debt, and the possibility for gold-payments being deadlocked as described above, the only remaining means for the payment of interest on international debt is payment in goods. Here, again, the position is desperate for "creditor" and "debtor" nation alike.

Interest payments on international debts can only be transferred by the debtor nation having an annual excess of exports over imports (i.e., a "favourable" balance of trade) equal to the amount of such interest charges from all sources. But the creditor nations are, 'ipso facto', the most highly developed countries industrially and consequently have a greater "surplus", which cannot be purchased internally, than the debtor nations themselves. The "creditor" nations, therefore, at one and the same time, have the largest "surpluses" of all, and yet must accept the "surpluses" of "debtor" nations, if interest on their foreign investments is to be paid.

The annual interest payments due on America's "favourable" balance of about $14 billions might conceivably be something like $800 millions. Without considering the diffi-

culties of the debtor nations, thereby required to export this amount of goods every year in excess of their combined imports (or to help out with gold bought in the international gold-market at the fancy price so profitable to gold-miners) and all simply as interest on an irredeemable debt, and with nothing whatever to show for it but a good conscience, the effect on America itself would be equally disastrous. Technological development in the United States, the enormous resources of natural wealth, all motivated by an internal debt currency of far greater proportions than that of any other country, automatically create an industrial "surplus", unpurchasable internally, also of far greater dimensions than that of any other country in the world. To receive $800 millions worth of goods gratis would be to increase technological unemployment on a still larger scale than exists at present, and to force the home "surplus" into an impossible competition with the authorized dumping of free foreign goods to this amount.[1]

There is no escape from this situation, except the export of goods on credit, i.e., by an increase in foreign "investments"; and this, as we have seen, only prolongs the process by increasing the dimensions of the problem. The ultimate resolution, when it comes down to payment of interest in goods, will be the same impossibility, only on a still larger scale.

The writer, as a schoolboy brought up on the British doctrine of Free Trade, as opposed to the traditional American policy of high tariffs, was never able to understand how a "favourable" balance of trade—the sending away of more goods than are received—could possibly be construed as evidence of commercial success. He is still of the same opinion, and there can be no doubt that finance, which creates a debt-currency at home through the issue of bank loans and an international debt-currency through foreign "investment", has completely perverted domestic and foreign trade from its true function as the internal and external exchange of goods against goods. *Finance is concerned entirely with the "surplus" or balance of such exchanges as the means for the payment of the interest on the internal and external debts of its own creation.*

[1] See editorial in the "New English Weekly" for May 4th, 1933.

This, unfortunately, being the situation in every civilized country to-day, whether wearing the "creditor" or "debtor" label of international finance, the universal effort to establish a "favourable" balance of trade is explained. By giving away, in exports, more than it receives in imports, the "successful" trading nation gets rid of a "surplus" which its half-starved people cannot buy, while, at the same time, it receives money (or an equivalent paper claim as foreign "investment") from its rival to back up its inadequate buying power at home. But, as every nation is now in the same condition with respect to "overproduction" (more especially the "creditor" nations), and must secure a "favourable" balance so as to dispose of its "surplus" to other nations, the "success" of one nation simply means the intensification of an already impossible condition in another. This mad situation, which maintains semi-starvation at home so as to export a "surplus" to other nations who are forced to adopt the same suicidal policy, is at the root of all difficulties in international politics to-day. It will defeat all efforts to promote "goodwill" amongst nations or the international "co-operation" advocated by uniformed idealists, and *can only end in war.*

## CHAPTER XIX

# THE MENACE OF THE EAST

THE following quotation from the 1933 annual report of the Manchester Association of Importers and Exporters on world trade, is based on statistics and direct observation, and goes to confirm the diagnosis of the preceding chapter.

> " Distrust and animosity prevail everywhere, making it akin to destructive military warfare. Every country is feverishly devising methods to decrease imports and increase exports, the cumulative effect being an all-round shrinking of trading and industrial operations, which, if continued to its logical conclusion, means that *each country is clamouring to give away its production for nothing*, a process which must finish up in absolute bankruptcy." (" New York Times ", May 15th, 1933.)

On the largest scale, this desperate development has been brought about by the fact that industrial progress, motivated by internal and external debt-currencies, can only be maintained through the continuous and increasing exploitation of commercially undeveloped nations. As in the case of the historical rise of the British Empire, described in Chapter XVI, this progress was maintained, in the first instance, by the Eastern countries being content, or being forced to accept, a permanent " unfavourable " balance of trade, and make payment in gold; and, in the second instance, by the development of progressive countries, such as the United States, through British foreign " investment ".

Now, however, the United States, largely built up on British capital, has become the greatest productive country in the world, and is demanding a large and increasing share in the world market, not so much as a right or as a reward for her industrial dynamic, but as a *financial necessity*. This necessity, as in the case of the British Empire, can similarly only be

satisfied by commercial exploitation of other countries and by increased foreign "investment". At the same time, the East, which has suffered this exploitation for centuries, has gradually become more and more self-supporting, in the industrial as well as in the agricultural sense, and, in this century, has turned, and is now demanding a share in the world market. So that, while production has been developed at an unprecedented rate in an increasing number of countries, and unpurchasable "surpluses" are now being generated in the East as well as the West, the profitable world "market" (i.e., that proportion of nations who are content to or are forced to accept a permanent "unfavourable" balance of trade) has steadily decreased. China, in fact, is about the only large country which remains for exploitation under the traditional rules of the money game; and the competition for her market by the big industrial nations has now become dangerously keen. Japan, among them, has recently made a successful attempt to capture it (or rather, part of it) by force; and while her aggression may be resented on ethical grounds, as presented so eloquently but impotently by the League of Nations, the real grounds for the objections of, say, Great Britain and the United States, come from the fact that she has taken away from them part of the only remaining outlet for their "surpluses".

Capitalistic exploitation is motivated by usury. To secure interest payments on expanding internal and external debt-currencies, the capitalist nations must have an increasing area for exploitation as bigger industrial "surpluses" are created. The world, however, being a self-contained entity, the area for exploitation automatically decreases as the means to exploitation (industrial "surpluses") increases. This is the basis for the following prophetic quotation from the Communist manifesto of Marx and Engels.

> "Modern bourgeois society with its relations of production, of exchange and of property, a society that has conjured up such gigantic means of production and of exchange, is like the sorcerer, who is no longer able to control the powers of the nether world whom he has called up by his spells. . . .
>
> "It is enough to mention the commercial crises that by their periodical return put on its trial, each time more threateningly, the

existence of the entire bourgeois society. In these crises a great part not only of existing products, but also of the previously created productive forces, are periodically destroyed. In these crises there breaks out an epidemic that, in all earlier epochs, would have seemed an absurdity—the epidemic of overproduction.

"Society suddenly finds itself put back into a momentary state of barbarism; it appears as if a famine, a universal war of devastation, had cut off the supply of every means of subsistence; industry and commerce seem to be destroyed; and why? . . . The productive forces at the disposal of society no longer tend to further the development of the conditions of the bourgeois property; on the contrary, they have become too powerful for these conditions by which they are fettered, and as soon as they overcome these fetters they bring disorder into the whole of bourgeois society, endanger the existence of bourgeois property. The conditions of bourgeois society are too narrow to comprise the wealth created by them.

"And how does the bourgeoisie get over these crises? On the one hand, by enforced destruction of a mass of productive forces; on the other, by the conquest of new markets, and by the more thorough exploitation of the old ones. That is to say, *by paving the way for more extensive and destructive crises, and by diminishing the means whereby crises are prevented.*"

The crisis which has now come upon us, and which is characterized by the absurd "epidemic of overproduction" and the complementary destruction of "previously created productive forces" and of "existing products" (the vast organization for the restriction and sabotage of plant and commodities described in Chapter III) is no ordinary one. It is similar to all others as defined by Marx and as recorded in the economic history of Western civilization during, say, the last 300 years, but it is final. The wheel has now come full circle. The East can not only prevent her further exploitation, but is now in a position (still only tentatively felt in some places) to exploit the West under the rules of the moneylending game.

The chief portents in this development are the present serious unrest in India and China and the spectacular rise of Japan in this century.

Japan now has shares in and has representatives on the board of the Bank for International Settlements. Already she is a past master in the money game; and she has acquired her

experience under the guidance and at the ultimate expense of her Western rivals. Industrially, she is fully equipped. Sheffield, for instance, has been selling her cotton machinery [1] to help her drive the Lancashire cotton industry into total bankruptcy. British and American engineers have taught her how to operate them and how to build more for herself. Business experts (for a consideration) have parted with information concerning mass production and industrial efficiency. Hired European scholars have given her the superficial elements of Western manners and culture. British lawyers have made her familiar with the labyrinthine processes by means of which property rights acquired under a capitalist regime may be perpetuated and protected. Experts in international law are employed by her Emperor so that she may acquit herself creditably and effectively in the parlour game of political intrigue, and temper her military and industrial aggression with the dubious arts of diplomacy. Japanese students and scholars in all these various fields of financial, industrial, engineering, social, cultural and legal enterprise, have been sent and received abroad so that they may learn about them at first hand. In the coming sordid and suicidal struggle for world " markets ", Japan is now unquestionably in a position to beat all her Western rivals with her left hand, and still have plenty of energy to spare. She is new to the game, but is therefore enthusiastic and vigorous, and she has an agelong score to pay off.

Like all the nations of the East, the Japanese have been exploited during the last two centuries by the industrially developed countries of the West, and have been driven to live under conditions which are akin to slavery. Now that she has the full measure of the opponents whose policy brought about these conditions, she is content to accept their continuance, now imposed by her own industrialists, as the necessary preliminary to a bold bid for world economic supremacy. Being inured to long hours of work drudgery and an unbelievably low standard of living, she can now undersell all the

[1] The President of the British Board of Trade announced in Parliament on December 5th, 1933, that the aggregate value of the domestic exports of textile machinery to Japan during the twelve years 1921 to 1932 was £14,332,000.

Western countries in the world market; thereby exporting an ever increasing " surplus " and securing a " favourable " balance of trade without fear of serious competition.

If, as explained in Chapter XIV, the joint-stock capitalists of the nineteenth century were usury's agents for the destruction of the English handloom weavers and the native cotton industry of India, usury's agent in this century for the destruction of the joint-stock capitalists' creation—the power-loom mills of Lancashire—is Japan. Finance, like the international armaments racket which is its blood brother, knows no frontier; and if the end of the latter is universal destruction, the result of the former is universal slavery.

The following figures, published by the International Cotton Federation in September, 1933, for the six months ending July 31st, of that year, will give some idea as to how Japan's victory in the cause of world slavery is to be accomplished.

In the period reviewed, the British consumption of raw cotton was 1,168,000 bales, an advance of 88,000 on that of the previous half-year, but 6,000 bales less than in the first half of 1932; whereas Japanese consumption went up from 1,380,000 to 1,512,000 during the same period. To convert these totals into cotton fabrics for the world market, Japan has only 8,209,000 spinning spindles for her larger consumption, as against 49,001,000 in Great Britain. This disparity is accounted for by the fact that while British mills work a maximum of 48 hours a week, those of Japan work 120 hours a week.

It is idle to argue with these figures, and all the cotton conferences held in Bombay and Manchester for the definitive allotment of export quotas in this, that and the other country, cannot prevent the Japanese from capturing the entire world market for cotton, sooner or later. Add to this the fact that the Jap does his work mainly on rice and fish, which (owing to " over-production ") can now be bought for less than its normal low price, and that the British or American mill-worker will eat expensive beef steaks whenever he can get them, and it will be seen that the situation is quite hopeless. The people of Lancashire, who, in spite of their desperate plight, somehow manage to maintain their customary good humour and courage, have already summed up the position for the benefit of their

conference experts. They know that if they are ever to succeed in competition with Japanese cotton goods, they must " learn to live on the smell of an oily rag ".

This, however, is by no means the end of the story. Mr. T. D. Barlow, a former president of the Manchester Chamber of Commerce, told the members of that Chamber, in August, 1933, that, dangerous as was the Japanese attack on the overseas cotton markets which Lancashire had hitherto considered to be peculiarly her own, *it was as nothing compared with what was shortly coming from China.*

This development, as well as others so far unforeseen, was also anticipated by Mr. Otto Bankwitz, a director of the Poznanski Cotton Mills, at Lodz, Poland, in a report submitted to the International Cotton Congress held in August, 1933, at Prague and Carlsbad. Mr. Bankwitz found that, " notwithstanding the exceedingly low costs (as at present), the Japanese and Chinese cotton industry can work on an even lower basis ". He was consequently of the opinion that, " in face of the three factors of double-shift working, cheap labour, and inflation (of the yen), the European industry is powerless ".

The report was essentially a world survey, and, according to Mr. Bankwitz, Russia will shortly have to be reckoned with as another insurgent Asiatic force in the world cotton industry.

> " In view of the organized programme of the U.S.S.R., it may be anticipated that not only will the raw cotton production be increased beyond the limits of what is needed for the Russian industry, but also that the latter will export at dumping prices the surplus of cotton goods which are already a feature of the U.S.S.R. programme. . . .
>
> " Indeed, a beginning has been made in this direction, particularly in Egypt, *where some Russian goods sell even cheaper than Japanese.* Some day Russia will swamp the European markets. . . . Russia will . . . work out her own salvation as best it may seem to her dictators. We may therefore be prepared to witness surprising actions from that quarter."

India, too, is more than a rising industrial force in the cotton industry, as Lancashire already knows to her cost; but, at the present moment, Indian millowners are equally upset by the invasion of Japanese goods and have persuaded the Govern-

ment of India to impose what is clearly intended to be a prohibitive tariff to keep them out. Africa, according to Mr. Bankwitz, will shortly follow the lead given by Asiatic countries, and start a cotton-mill industry.

Mr. Bankwitz' conclusion is that the cotton industrial requirements of all the industrially undeveloped countries of the world will be more than supplied by Asiatic producers very shortly, and that the desperate state of industrialism in America, Central Europe and Great Britain will be further aggravated.

Although this report is concerned specifically with the state of the cotton industry throughout the world, there can be no doubt that many other industries, equally threatening to American and European interests, are already in existence, or in process of rapid formation. Mr. Bankwitz' investigations have, in fact, led him to the general conclusion that the main cause of all the economic troubles of Western countries is " the migration of industry from Europe and the United States of America to Asia ".

The sum of the whole matter is that the agricultural countries of the East are rapidly emerging into a state of awareness with regard to the processes of industrial development. Finding their " surplus " agricultural produce practically unsaleable at prices enabling them to buy the foreign manufactured products they need to satisfy a rising standard of living, they are determined, not only to supply their own industrial needs, but to reverse a process, possibly 200 years old, and flood the world with the infinitely cheaper products of Asiatic industry.

International trade, equally with internal industry and the affairs of private individuals, can only be conducted, in the long run, on tolerance, goodwill and fairplay. Commercial aggression and exploitation will receive their deserts, even if it is a case of the sins of the fathers being visited on children beyond the third and fourth generation. It is the exploited who finally exploit the exploiters, until the wheel comes full circle again and the same punitive justice comes into play. And, inasmuch as fairplay is impossible under a moneylending system which demands continual and increasing exploitation for its maintenance, the Bankwitz report is prophetic with regard to the world-evil of usury.

## CHAPTER XX

# THE URGE TO DESTRUCTION

WITHIN the rules of the game, the "solution" is the further destruction of "existing products" and "previously created productive forces" to an extent even beyond that already organized by the co-operation of banker-driven international combines in tea, coffee, wheat, sugar, tin, etc., as described in Chapter III. The blind but hopeless impulse behind these suicidal developments is an effort to raise prices, particularly of primary products, so as to preserve the running solvency of a proportion of class A producers, and so that the East and the comparatively undeveloped countries will be able to dispose of their agricultural surpluses, in the traditional manner, at prices which will enable them to buy the industrial "surpluses" of the West. But if the full implication in the Bankwitz report has been understood, it will be seen that the East is determined to have it both ways, and is now definitely in a position to do so.

Quite apart from the fact that the workers of the West will be expected to sit still while the products of their industry are destroyed at an ever-increasing rate in front of their eyes, they will be forced into competition, in their own markets, with the products of Japanese, Chinese, Russian and African labour at impossibly low prices. The end of this will be increased work-drudgery and a standard of living on a level now unthinkable to European and American workers. If prohibitive tariffs, as at present, continue to be imposed to keep out Asiatic products, the countries of the West will be driven more and more in on themselves until a point is reached when they will have to consume or destroy their own "surplus". Internal consumption is, of course, an easy and much-to-be-desired physical possibility; but it is an absolute financial impossibility under the present system.

If an open or semi-open market is maintained, there can be no doubt that the East will soon acquire a " favourable " balance of trade with respect to the West; and, if the latter is foolish enough to allow the continuance of the moneylenders' game, the East will ultimately force gold out of the West, just as the British Empire forced gold out of the East during the seventeenth and eighteenth centuries, and as America has forced gold out of Europe in this century.

The writer has no idea as to what extent this, or any other equally disastrous development, may be forced on the world by the powers of usury. But, long before any of them have assumed serious proportions, war will have appeared as the only " solution " and as the only monster whose appetite for destruction is likely to be equal to the occasion. A generous banquet is even now being prepared, and the seeds of war are already sown as between East and West, and between individual countries in both hemispheres. One has only to think of the situation existing between France and Germany, Russia and Japan, China and Japan, Japan and the United States, and the present internal position in Austria, Spain, Iraq, Palestine, India, Siam and Cuba to realize that it requires just a little more international co-operation through the mediumship of a finance-suborned League of Nations, to set the whole world ablaze. (See Chapter XXI, following.) At the same time, large sections of the populations in all the countries engaged in the last World War are so much set against any possible recurrence of it, that general strikes and internal revolutions on a large scale are likely to coincide with such an outbreak.

The writer does not think that he has exaggerated the desperate possibility before mankind. Although certain palliatives and makeshifts, such as sabotage, tariffs, and export-quotas, will be applied and may succeed for some period of time, he is convinced that all efforts in national or international politics which attempt to rectify the situation by political means, or by co-operation or arrangements, orthodox or unorthodox, between central bankers, and which involve the flotation of further internal or international loans, will only succeed in postponing the issue by enlarging the dimensions of the problem.

To be still more specific, the pietistic haverings of Prime Minister MacDonald (disguising, as they do, no doubt innocently, the traditional British bid for the financial control of the world), the dictatorship of Mussolini, the austere French instinct for further world-deflation, the desperate communism of Soviet Russia, the revolt of adolescent Germany under Hitler, the military aggressiveness and will-to-power of Japan in the East, the serious unrest and rioting in Austria, China, India, and Cuba, and the benevolent State fascism of Roosevelt, are all varied *symptoms* of a vast, world-wide economic disease which has been induced and intensified by the barbarous anachronism of the present monetary system.

The distribution of these vast artificially created " surpluses " is not, as is ordinarily supposed, an economic or industrial problem, but a purely financial one.

Indeed, the writer is of the opinion that no purely industrial problem exists, nor, probably, ever did exist. He has been at great pains to show, in the early part of this book, what every person must realize to be true ; namely, that capable and willing men, machinery, materials and power are available to-day in quantities sufficient to produce and distribute goods in an abundance the like of which was never before seen or contemplated. As the function of a financial system is, or ought to be, to effect the mutual exchange of these goods, internally and abroad, and as production is now being deliberately inhibited or actually destroyed, and distribution interfered with, it is a sheer waste of time and temper to consider " improvements " or alterations in the physical processes of production or distribution. If and when finance functions to effect, and not to interfere with this exchange, proposals for such improvements might reasonably be considered.

In general, a condition of comparative prosperity in any nation (quite apart from ethical considerations as to the equitable distribution of created wealth) has existed when the financial mechanism has managed to function. The breaking down of the financial mechanism is the beginning of misery and the genesis of depressions. It is to run in the face of the most obvious facts to maintain, as do nearly all financial and economic

experts, and as do a large proportion of industrialists and politicians, that bad planning, excessive expansion of industry resulting in " overproduction ", and a host of other purely industrial causes, have brought about the failure of the financial mechanism.

Any internal financial mechanism, under the present system, can only be maintained by the continuous expansion of its basis, i.e., by an ever-increasing creation of debt; and the true function of the modern financial system, now and always, when all professional irrelevancies have been swept away, *is* the creation of debt, not of wealth. The production and distribution of needed goods is entirely incidental to the financial process. In fact, the production and distribution of Real Wealth is only tolerated in so far as it will facilitate the payment of interest on a previously created debt. If (as, for instance, in a falling world market) a further production of wealth tends to interfere with, or prevent, the payment of interest on existing debt, that Wealth, or a portion of that previously created, will be destroyed. This has been the especial experience of the whole world during and since the War. It has failed to come to what is, in effect, a most obvious conclusion with respect to it.

If more debts can safely be created—internally (through currency expansion based on the acquisition of gold) and externally (through foreign " investment " based on a " favourable " balance of trade), and both at an ever-increasing rate—more goods will be produced and distributed. This, of course, is only possible in an expanding world market. In a stagnating or contracting world market (itself brought about by purely financial causes), internal and external debts of this nature cannot be created at an ever-increasing rate, and the production and distribution of goods will be inhibited. If this condition of insufficient expansion, stasis, or attempted contraction of debt is continued, existing products and previously created productive forces, must and will be destroyed.

In general, the dynamics of the international productive process is pruned or expanded in general, or modified in this direction or the other, in particular, solely for the purpose of facilitating the interest payment on an ever-increasing and irredeemable internal and external debt. And no country (not

even the United States, which can grow and manufacture enough to support its citizens like a race of gods) can become self-supporting under the present system, for the simple but entirely irrelevant reason that its financial system *must seek its necessary resolution abroad* in so-called foreign trade and foreign investment. Even if its present array of productive equipment, " the greatest ever at the disposal of man ", were increased to ten times its present dimensions and functioned ten times as efficiently to support only half, say, of its present population, America would be still less able to support even this half, because she would need a correspondingly greater *financial* outlet abroad. In fact, under present conditions, when competition for a dwindling world-market becomes fiercer and more suicidal every day, the richer and more productive a nation becomes, the more insoluble its financial problem will be.

The only possible, as distinct from the only ethical, solution —which will be considered in detail in Part III—is the internal distribution of these vast artificially-created " surpluses ", and the complementary exchange of goods against goods in foreign trade. This would not only solve all internal domestic problems by distributing needed goods to half-starved consumers who have an inalienable right to enjoy the fruits of their own industry, but it would take away the prime cause of internal and external bankruptcy and thereby dissipate the terrific commercial competition which is perverting individual and national psychology throughout the world to-day. By the same token, it would remove the chief, if not the only, provoking cause for an international war, which every country dreads and which no country (with the possible exception of Japan) wants.

To anticipate for a moment, this would involve the complete reversal of existing financial processes and the abolition of usury in all its forms.

## *PART III*

# FREE MONEY

SHYLOCK :

I hate him for he is a Christian;
But more for that in low simplicity
He lends out money gratis, and brings down
The rate of usance here in Venice.
If I can catch him once upon the hip,
I will feed fat the ancient grudge I bear him.

("Merchant of Venice", Act I, Scene 3.)

## CHAPTER XXI

# SAVING AND SPENDING

BY whatever process of reasoning these conclusions are arrived at, there can be no doubt that the technical cause for this " depression ", as well as for all other depressions and crises in the past, is the chronic insufficiency of community spendings in relation to total production costs. This insufficiency is usually referred to as inadequate purchasing power; and before proceeding to a consideration of the matter, evidence will be given in support of this general conclusion.

The " Social Trends " report, already quoted very heavily in the earlier part of this book, sums up the matter in the following way:

> " There is scarcely a trade or profession in the country which has not formed an association to safeguard its economic prospects. Every member of every one of these associations is also a consumer; that is the only characteristic we all have in common. But we give not a tithe of the thought to this basic common interest which we give to the individual task of getting more dollars for our individual selves."

And again,

> " Our emphasis upon making money is reinforced by the technical difficulty of spending money. . . . Yet our interests as consumers constitute our fundamental economic interests. Or are we mistaken when we say that most men work in order that they and their families may enjoy a comfortable living? "

The following quotation appears under the name of Allan R. Brown in Bulletin No. 16, issued by the " New Economics Group of New York ":

> " . . . mass production in an age of plenty necessitates and assumes mass consumption, or it is meaningless and valueless.

> . . . As it would be futile for the owner to apportion to himself more consumption goods than he can use, so it would be meaningless for him to accumulate capital goods unless their products can be bought. . . . Therefore it is to his advantage that the purchasing power of the community be as extensive as possible, because it is only by supplying effective demand that the capitalist can make a profit."

Mr. Bassett Jones, one of the original members of the group of American engineers who published the results of their researches under the name of "Technocracy", has proved the existence of the chronic shortage of purchasing-power inductively. Since 1921, payments of debt by industry in America began to be made, not out of money collected in prices, but out of "reserves". Since these reserves are held, not in cash, but in securities, these debts are paid, if at all, not through the agency of loaned bank-credit, but by the transfer of actual property to the creditors.

A speech by General Johnson, the director of the American Industrial Recovery Administration, on June 25th, 1933, contained the following sentence:

> "That unfortunate something which first throws people out of work takes different forms, but it all comes down to this: that the ability of the people to buy is not as great as the total cost of what there is to sell."

After the industrial recovery programme had been working for about three months, the American Federation of Labour produced statistics to show that whereas factory production increased by about 35 per cent., the workers' income rose by only 7 per cent. Further, a large proportion of the increased wages was not realized as buying-power, but was absorbed in the repayment of debts. General Johnson thereupon issued a warning that if production got too far ahead of purchasing power, another collapse would be precipitated, and he "shuddered to think what would happen if we have another collapse".

Finally, the Social Credit theory of Major C. H. Douglas, which has met with an extraordinary response in Great Britain, the United States, Canada, Australia and New

Zealand, is based on the contention that, under present methods of bank-accountancy, no community can ever buy what it produces. Production costs are always greater than what is spent in consumption, not as a matter of choice, but as a matter of necessity. So that outside the classical theory of the so-called law of supply and demand, there is an invariable situation created in which supply is always (and increasingly) greater than effective monetary demand.

Now, while a large number of people (including the author) disagree with the process of reasoning which has brought Major Douglas to these conclusions, and mistrust his reconstruction proposals (involving, as they do, the selling of goods below financial cost and the reimbursement of retailers through the agency of a National Credit Account based on the progressive appraisal of the Real Wealth of the community), it is certain that, by means of his original diagnosis, he was the first to expose a fundamental and invariable error in the price-system, convincingly and definitively. This has led him to some remarkable conclusions with respect to it, and, as far back as 1918—long before the present depression was even foreshadowed—he made many disastrous prophecies which have all been fully substantiated by subsequent events. It is certainly the disconcerting nature of his analysis, his unfailing consistency and the unorthodox directness of his attack which have enabled him to speak as one having authority, and not as one of the scribes of professional economic theory.

The writer does not agree with Major Douglas when he says that purchasing power is not distributed in sufficient quantities to liquidate total production costs. He does not agree, therefore, with any of his reconstruction proposals, involving, as they do, the giving away of purchasing power to consumers to make up for an inadequacy which does not, in point of fact, exist. It is not that purchasing power is not distributed equal to total production costs, but that *it is not spent.* It is not that the community *cannot* buy what it produces, but that, with usury's carrot hung straight in front of its nose, it dashes blindly forward in an unending gallop; it saves and invests the purchasing power it could spend, and so, in effect, it *does not* buy what it produces.

But whether the community does not have, or does not use, its purchasing power to buy what it produces, the effect is the same, and the theory of artificially-created "surpluses" which is developed throughout this book has its origin in Major Douglas's remarkable analysis. Production costs are always in excess of total spendings, and, under present fictitious methods of bank-accountancy, the former larger total appears as industry's debt to the banking system, while the smaller consumption total is industry's only means of "repaying" it. The community, in fact, is credited with the financial equivalent of its consumption, and is debited with the financial equivalent of its production. The large and increasing gap [1] between *these two totals is, at one and the same time, the measure of* the Wealth which it has on hand (the "surplus" of the preceding analysis) and of the extent of its debt to the banking system. Major Douglas would institute a reasonable system of bank-accountancy in which total production costs, created through the circulation of bank-loans, would be written *up* to the credit of the community, while all "repayments" of bank loans, representing, as they do, the communal consumption of Wealth, would be written off against it. The balance would exist therefore as a credit to the community, and not, as at present, as an irredeemable debt to the banks.

This the writer holds to be incontrovertible, and a contribution to economics and finance of the first order of importance. It marks, in fact, the advent of elementary common sense into a field which has hitherto been completely devoid of it.

For, at present, production costs accumulate at an increasingly greater rate with respect to total spendings, so that, necessarily, consumers receive an increasingly less proportion of what they produce, while an increasingly large number of producers are thereby forced into a condition of actual or potential bankruptcy. In a rising world market, such as existed in the eighteenth and nineteenth centuries, the purely financial cause of this was obscured owing to a continually expanding volume of bank credit (really bank-debt) and the presence of

[1] The extent to which, and the manner in which, this gap may be closed up by foreign "trade" has already been discussed in detail, and need not be considered here.

"adequate" foreign markets financed by foreign loans and foreign "investments". The insufficiency of community spendings in and relative to each cycle of production costs, and the automatic creation of "surpluses" to equivalent financial value are not apparent because larger volumes of money (debt) are created and circulated in the next. This, of course, is also a "geometrical progression into debt", the accumulation of which will be defaulted on in a falling world market for the simple but very terrifying reason that it cannot be increased.

## *CHAPTER XXII*

# PRICE, PROFITS, AND USURY

> " Whether this capricious tyrant (the desire to get money) which usurps the place of reason, doth not most cruelly torment and delude those men, the usurers, stockjobbers, and projectors, of content to themselves from heaping up riches —that is, from gathering counters, multiplying figures, from enlarging denominations, without knowing what they would be at, and without having a proper regard for the use, or end, or nature, of things ? " (BISHOP BERKELEY, " Queries Proposed to the Consideration of the Public ", 1735.)

THE Technocrats' objection to the capitalistic system is essentially that it is a price-system based not on wealth but on debt. The unit of measurement of positive values, existing as Real Wealth, is a money-unit based on the negative evidences of debt.

> " Under a price-system, wealth arises solely through the creation of debt. . . . National income under the price-system consists of debt claims accruing annually from the certificates of debt already extant. Individualism is therefore favoured under a price-system, since individualism can obtain a monetary equivalent proportional to the individual's ability (and opportunity ?) to create debt." (Howard Scott, in the " Living Age ", December, 1932.)

Being engineers and scientists, they also object to the fact that the unit of measurement, based on debt-creation, is a variable, one. They therefore seek a positive unit, based on energy-conversion, which would be invariable.

> " Any unit of measurement under technological control would be a certification of available energy converted . . . into use-forms and services *over and above* the operation and maintenance of physical equipment and structures of the area." (Idem.)

Now, while the straightforwardness of their destructive analysis, their uncompromising line of cleavage between wealth and debt, and the high socialistic implication in the last sentence (which may be, and very probably is, prophetic with regard to the future production and distribution of the basic necessities of this life) must be respected, the Technocrats have not yet determined their constant unit for energy-conversion, nor, in the writer's opinion, are they likely to do so. Even if they succeed in establishing some intermediate compromise, and even if, for the present incredible hodge-podge of poverty, destruction and unemployment, they substitute a beneficent technological mechanism delivering goods and services to mankind without let or hindrance from debt and other pathological fixations of the mass consciousness, the ultimate sources of man's power, which are spiritual, not material, would be overwhelmed, simply because they cannot be measured in terms of any constant, variable or invariable.

The socialistic objection to the capitalistic system is essentially that it is a profit system, and that profits, whether deriving from investments brought into being and inherited from previously created productive forces, or from the control and ownership of productive forces functioning to-day, are at once the cause for its extraordinary rise in the past and its breakdown in the present.

From this generalization, the analysis of Marx has been degraded, in the popular imagination, to the level of the conception that the poor are poor because the rich are rich. The cure for this is therefore supposed to be a more equal distribution of income. The thesis already developed should make it plain that the whole product of industry will not be distributed to rich or poor, however incomes are re-allocated, because the total of all incomes received will still be the same, and the proportion that is spent will not be sufficient to buy what is produced. In fact, if the proletariat received larger incomes all round, it is quite certain that they would begin to save and invest like any common capitalist, so that the proportion spent would be still less. A more equal distribution of income would therefore tend to create a larger unpurchasable "surplus", and the prospect of bankruptcy for a still larger number of producers would be intensified.

The objection here put forward, in its simplest terms, is not that it is a price-system, nor that it is a profit-system, but that it is a system based on and entirely motivated by usury. Mr. Arthur Kitson, in his evidence before the Macmillan Committee on Finance and Industry on May 15th, 1930, said emphatically:

> " I am against usury in every form. Usury has been the curse of the world from the beginning; it has broken other Empires than this, and it is going to break this Empire. There is not a single great moral or religious teacher who has not denounced it." (Minutes of Evidence, vol. 11, page 355.)

No attention, of course, was paid to this evidence by the "experts" who made up the committee; although, in its widest possible aspect, Mr. Kitson has summed up the situation exactly. What is needed to-day, far more than any history of art, sociology, industry, political intrigue, military campaigning, or ethnological development, is an account of the rise and fall of civilizations as *episodes* in the history of usury. A reading of G. Ferrero's great work, " The Greatness and Decline of Rome" (already referred to and quoted from) will make it plain that this empire, at least, was broken by usurers and usury.

The fall of Julius Cæsar was essentially brought about by his inability to cope with and cut through

> " the desperate competition for wealth in which all Italy was engaged . . . (and which ended) as it seems that such competition will always end, in a gigantic accumulation of vested interests, which it needed nothing less than a revolution, a cataclysm, to break down" (translation by A. E. Zimmern, 5 vols., London, Heinemann, 1907).

In those days,

> " Italian society had become an inextricable labyrinth of debit and credit, through the agency of ' Syngraphæ ' or letters of credit, which were renewed as soon as they fell due; they were negotiated in the same way as securities and bills of exchange to-day, because the scarcity of capital (relative to the debt-structure?) and the frequent oscillation in prices would have made it ruinous for them to be redeemed too frequently."

The parallel with the condition of the modern world is altogether too close to be comfortable, especially when we are told that, despite Cæsar's last efforts in Parthia,

> "the age of expansion seemed definitely closed . . . before long there would be no more unexpected importations of gold and silver captured in war".

In Cæsar's time they were a little more direct in their methods, and, instead of forcing hoarded gold out of the East, as did the British Empire, by the exportation of industrial "surpluses" and the creation of enormous "favourable" balances of trade, they sent out their legions and captured it: to the end that their moneylenders at home might get them further into debt by "credits" based on the newly acquired gold, and so force them out on an endless quest for more and more of it. When gold (and silver) could not be captured in quantities large enough in proportion to the debt-structure, the inevitable result was a progressive depreciation of the currency, which, in the case of the silver coins, was effected by the actual putting of more and more lead into them. The slaves in the mines were shackled to their tasks, but silver and gold could not be produced in sufficient quantity; depreciation went on, until the Roman imperial coinage became almost valueless.

This was the actual mechanism of the decline of the Roman Empire, and, here again, the parallel with the modern situation is exact. As has already been said, the only possibility for temporary salvation to-day, under the rules of the moneylending game, is the discovery of gold in enormous quantities, or the devaluation of all currencies. If the first method fails, in spite of the feverish activity in gold mining throughout the world to-day, the second will and must be tried. The present proposals with regard to the devaluation of the gold content of the dollar are exactly the same, and will have the same effect on international enterprise, as had the putting of lead into the Roman silver coinage on the welfare of Rome and her provinces. The only difference will be that the decline and fall of modern democracies will be swifter, more extensive in scope and still more disastrous in effect.

Cæsar, in his position as dictator,

> "would not have shrunk from any measures, however high-handed, that were necessary, had he only known it, to save, not only himself, but the combined labour of a whole generation, the civilization of his people and the spiritual future of Europe".

But Cæsar "could see no further than the other men of his day", and he did not dare, although the moneyed classes persistently accused him of meditating it, to institute 'novæ tabulæ', the abolition of debt. Seven years later,

> "under far less favourable conditions, entailing much greater hardship and suffering, the abolition of debt was finally adopted, like a surgical operation which is the more dangerous and painful the longer it has been delayed".

Unfortunately, although existing debts were abolished, usury was not, and the next surgical operation on the new growth of debt was performed by the Goths, Huns and Vandals several hundred years later (see also page 69).

It is a curious fact, and evidence of the consuming power of usury, that if Cæsar failed because he did not oppose the power of the usurers, Napoleon failed because he did. Napoleon was the last great champion of the common people against the growing power of finance, as even a superficial study of his Continental System will show. The hostile forces that ringed him round and finally brought him to ruin were financed by usury; and, Wellington among them, were fighting usury's battle.

> "It cannot be too strongly insisted that finance and not territorial aggrandizement is the key to Napoleon's reign. Had the French Emperor consented to abandon his financial system in favour of the system of London—that is, in favour of loans by the money market—he could have had peace at any time." (R. McNair Wilson, "Napoleon's Love Story"; London, Peter Davies, 1933.)

It should be unnecessary to add that historians, writing in the interest of modern democracies based on usury, have completely falsified this situation. Napoleon, according to them, was a romantic figure who was nevertheless "dangerous" to

the peace of Europe. Napoleon was only "dangerous" to the dominance of the usurers, and the most significant thing about him is that he was loved by his people and served by his soldiers with a loyalty and devotion which is probably unequalled in all history. He was with them and was fighting for them, and they knew it.

Lawrence Dennis, in a speech before the Bureau of Personnel Administration, New York City, on January 19th, 1933, was even more emphatic.

> "Aristotle, the Roman Catholic Canonists, the Jewish Torah—all forbade loans at interest, or denounced interest as usury. Lending at interest took its rise in the medieval centuries largely as a matter of accommodating princes who needed and could not raise enough money for war and other public purposes.
>
> "Contrary to current ideas, lending was not originally developed as a way of financing commerce. The Venetian, Dutch, Hanseatic, British and other merchants up to the 17th century financed their operations with partners' capital contribution."

Mr. Dennis then went on to say:

> "The Catholic Canonists did not disapprove of profits on commercial ventures, rent for the use of land, or of the sale of the fruits of the land or other capital. *They disapproved of money interest on money lent.*
>
> "During the Reformation period, interest came to be rationalized mainly by the Protestants in a way to get around Canonist objections. The Catholic Church never abandoned its attitude towards usury, but it acquiesced in, or tolerated, loans, on the basis of certain assumptions.
>
> "This moral acquiescence by the Catholic Church and positive endorsement by the Calvinist traders came to be embodied in laws and thoughts and behaviour patterns of modern societies."

The now universal adoption and complete legal ratification of the principle of usury, against the authority of these high precedents, has caused money and credit, as well as the gold on which it is based, to be regarded as a highly priced, interest-bearing commodity, which can be bought and sold in the national and international money markets. This trafficking in the money commodity is the true and sinister function of international financiers and the heads of central banks, whether

they realize it or not. It is this trafficking, and usury's emphasis upon it, which has brought about the progressive decline of money as a medium of exchange, which is its true, and which should be its only function.

As has already been stated, money and credit is the blood-stream of the Body Politic. It cannot, therefore, be regarded as the property of, or be hoarded, through investment by any of its members. Goods are not exchanged because the medium of exchange is restricted through investment, the interest payments on which chiefly go to feed a permanent blood clot in the diseased brain of society. This is the socio-biological explanation for the excessive "intellectual" rationalizing activity, and the choking academicism which exists in all forms of sociology, art and industry to-day.

It is clear, therefore, that money should, and indeed must, be regarded simply and solely as a claim on goods and services, and, as such, a thing of no value in itself. In the light of this conception, money as a claim should be issued and circulated so as to make that claim effective on all the goods and services created by the community.

## *CHAPTER XXIII*

# FREE MONEY AND THE ABOLITION OF DEBT

> "Whether money is to be considered as having an intrinsic value, or as being a commodity, a standard, a measure, or a pledge . . . And whether the true idea of money, as such, be not altogether that of a ticket or counter. . . . And whether gold, silver, and paper, are not tickets or counters, for reckoning, recording and transferring?" (BISHOP BERKELEY, "Queries Proposed to the Consideration of the Public", 1735.)

TO bring about a situation in which money will come to be regarded purely as a medium of exchange, the financial mechanism must be altered so as to prevent people from saving and thereby creating interest-bearing debt through the investment of these savings. They must be prevented from saving and creating debt, and forced to spend and consume.

A moment's thought will make it clear that people save for one or two reasons, or for both. They save because they get interest on their savings, whether left on deposit or invested, and they save because of the general feeling of economic insecurity, which, under usury, now exists in an age of unparalleled plenty even more than in the days of actual scarcity.

As both the promise of interest payment and the artificially created scarcity in an age of plenty, are brought about, as has been shewn, by the operation of the principle of usury in its major and minor forms, this practice must be abolished, not only in the relationship between the banks and the public (the major form), but also in the relations of mutual indebtedness between individuals and businesses (the minor form).[1] It is only because the banks are legally entitled to claim interest on their fictitious loans, that they are expected to pay interest

[1] See Preface.

(albeit at a much smaller rate), on " deposits ". And as capital can also be borrowed privately, through loans or investments, the lender is equally entitled to charge whatever rate of interest he can get.

In order to cut this situation clean away, the writer considers the following propositions to be essential.

(1) Governments must resume their control over the issue and ownership of all forms of currency, whether in coin, notes or credit. The banks would be left in charge of all administration, and would be recompensed for doing so, as explained in section (6) below.

(2) The government must be required to hold, through the agency of its banks, or be fully empowered to demand, the minting, printing, and issuing, of currency tokens —in such proportion between bronze, nickel, silver, gold, or notes as may be discovered to be best in practice—in whatever quantities they may be demanded by the public.

In practice, they would probably be demanded and circulated in less quantities than at present, as payments would tend, more and more, to be made by cheque.

(3) All these tokens, whether bronze, nickel, silver, gold, or notes, must have the same status as currency, up to the full amount of their denomination, and must be accepted equally as legal tender for all transactions, irrespective of the amounts in which they may be separately or conjointly presented.

(4) The gold standard, in both its internal and international aspects, as a basis for currency creation and as a basis for the creation and resolution of internal and external debt, must be abolished absolutely and in all its forms.

Gold might be used for the minting of metal coin, but it would be purchased at its market value as a commodity.

All existing external debts would be paid, if they were ratified, in goods.

To these four, the two following, of special significance at this stage of the argument, are added:

(5) Loans must only be granted against the deposit of evidence of fixed assets owned by the borrower. The accumulation of these assets, by the community as a whole, should be the only authority for the expansion of a currency.

These loans should be repayable, and property should be distrained on, as at present, if they are not repaid. As, however, these loans are held by the government, acting through the banks on behalf of the community, all such distrained effects would revert to and would become the property of the State.

These loans should be free, however, and *subject to no interest charge whatever.*

(6) All deposits and *credit* balances should be taxed. This would take the form of a combined yearly charge for service, safe custody and punitive taxation.

This charge should be greater than that necessary to pay the entire cost of all bank administration, and should be increased, if possible and if necessary, so as to form part of the permanent machinery of taxation.

It is obvious that under this new form of taxation proposed in section (6), savings would be reduced to a minimum. As, however, savings in any deposit circulation cycle automatically create an unpurchasable "surplus" of commodities relative to that cycle to an equal amount, it is only fair that savings should depreciate in amount, as the unconsumed commodities they represent deteriorate in quality or usefulness through storage.[1]

Securities, and all other instruments of debt, would cease to exist, as individuals and businesses would not borrow privately at interest when they could obtain government-issued bank loans free.

All buying and selling of gold at fancy prices and all trafficking in the money-commodity would automatically cease, as well as all buying and selling of shares, bonds, debentures and all

[1] It should be remembered that we are here concerned with the complete *internal* distribution of production, under a system in which foreign trade would not take away "surpluses" by forced absorption, as at present, but would be the complementary and voluntary exchange of goods to mutual advantage.

the absurd paraphernalia of the present debt-structure; all the sordid bargaining of brokers and investment trusts and all "bulling" and "bearing" in these transactions; all financial corporations and underwriting companies and all the pyramiding of these corporations and the fictitious expansion and contortion of the capital values involved through stock market manipulation; all commissions and rake-offs on these transactions; all discounting and re-discounting of bills and successive bidding for them; all National Debts and interest payments thereon; all offering and competing for Treasury bills, "hot" or cold; and all the disastrous transferring of short-term capital for speculation in foreign exchange.

In short, all debt (except bank loans, extended to and held in trust by the government for the people) and all the present machinery for its negotiation, would automatically disappear. The entire accounting of industry and society would be organized from a centralized, responsible institution, and would consist solely of book entries. An impartial and expert monetary research authority would compile statistics from this accounting, in relation to the rise and fall of industry, and would advise modifications and improvements. Brokers and speculators would be taken away from the prosecution of what is, in effect, a vast, legalized racket, and would be free to participate in the material and spiritual reconstruction of society. All the present interference with and the ghoulish sucking away of the blood-stream of the industrial organism would cease. The money-changers would be driven from the Temple, which, in this sense, is the material welfare and the free opportunity for the development of the human entity, individually and collectively.

As a precautionary measure, all forms of private lending at interest would be forbidden and punishable by law. The Catholic Church would reassert and re-enforce its traditional ban on usury.

The general tendency would be to borrow rather than save, so that the volume of money in existence (although largely a matter of book entries) would continually increase, and the volume of wages, salaries, and "profits", as well as the volume of goods, with it. This would not result, as at present, in

inflation and a rise in prices, as the increase in the volume of money would always be balanced by the appearance of an increased volume of goods, marked up at a price which would invariably recover all production costs, for the simple reason that all these costs, distributed as wages, salaries, overhead and " profits ", *would be spent.* The rise in prices, which, under the present system, always accompanies inflations and expansions of the currency, is due to the fact that the expansion itself creates a corresponding increase in savings, investments and the unpurchasable " surplus ", and so raises the price of that which *is* purchased.

To get the situation completely into focus, it should be realized that a certain proportion of goods is always physically unobtainable because it is in process of delivery. All the channels of distribution, from the factory and the retailers' shelves which store the goods, to the vans which actually deliver them to consumers, contain, and, under the most efficient conditions, are indeed full of goods in the process of delivery. If they are not full, delivery is retarded, and the whole productive mechanism thrown out of gear. Inasmuch as, under the terms of the analysis in this book, " surpluses " (i.e., goods not bought and therefore not consumed internally), are created by savings and investments, deposits must always be in existence in an aggregate amount at least equal to that proportion of the production flow which, at all times, is in transit to the consumer. As the productive mechanism expands, the financial equivalent of this wealth in transit as well as the total of savings in existence, must increase proportionately ; and ' vice versa '.

The main function of the monetary research authority, already referred to, should therefore be to regulate the tax on deposits so that the aggregate of savings is equal to the financial value of this " wealth in the pipes ", as Professor Soddy calls it. If the tax tends to decrease savings to such an extent that total savings fall below this running aggregate of wealth in transit, then it must be lessened ; and ' vice versa '. This fluctuating taxation rate on deposits, fixed from time to time by an impartial monetary authority, would exist as a true bank rate, calculated specifically to facilitate the internal distribution of the whole product of industry to consumers.

If, in practice, it is found that the tax on deposits, which is necessary to keep aggregate savings and wealth in transit in equilibrium, yields an amount greater than that required to run the banking system efficiently, the margin will be passed on to the Treasury *to spend.* If it is less, it will be supplemented by direct taxation of income.

As, however, some form of saving for individuals and business will be necessary—probably in excess of that which, in the aggregate, is equal to the total wealth in process of delivery—it is essential that these savings, and particularly those coming under the head of insurance,[1] should be held in trust and then *spent* by the government in the interest of the community in general. As the government will create and control the whole of the currency and will not, as at present, be working under an external and ever-increasing debt to its banking system, all forms of taxation will be concerned, on the one hand, with the mobilization of all savings, personal and commercial, and, on the other hand (through the spending of them), with the (indirect) distribution of the corresponding commodity "surpluses" to the community.

Seen in this light, it is obviously immaterial whether these community savings, collected through taxation, are re-distributed as insurance benefits, old age pensions, or in the promotion and maintenance of social services of all kinds. If an individualistic, rather than a socialistic basis for insurance in all forms is favoured, an account of all savings recovered through taxation might be kept with respect to every individual, so that he or she might receive disbursement, during disability or retirement, in proportion to his or her contribution through taxation. The most important thing, however, is that these savings should be spent, and that as soon as possible, so that the community shall receive all that it produces as soon after it is produced as possible. With all incomes spent as soon as,

[1] In the writer's opinion, all systems of insurance, under any system, ought to be controlled by the government, and all profits spent in the interest of the community. Insurance companies work under a system which makes it mathematically certain that they make large profits, and, as such, the whole network of private insurance to-day is another vast legalized racket.

or as soon as possible after, they have been received, loans will quickly be repaid. New incomes will immediately be generated by the circulation of new loans—themselves based on the continuous accumulation of fixed assets in each succeeding cycle. All assets acquired by the State by distraint on loans not repaid, will be sold in the open market as soon as they are acquired (see section 5 above).

Under these circumstances, it is clear that, through this continuous taxation of savings (supplemented, if necessary, by direct taxation of income), the government can finance, *without the creation of any public debt whatever*, not only all forms of insurance and poor relief as at present administered, whether privately or publicly, but also advanced schemes—

(*a*) for the building and entire maintenance of all hospitals, " workhouses ", lunatic asylums and prisons;

(*b*) for all public works, whether of a commercial, social, artistic or ethical nature;

(*c*) for the voluntary retirement from active participation in industry and the maintenance of all adults above a certain age;

(*d*) for the education and maintenance of all juveniles until such time as they may be thought to be fit—under the continuous evolution of all social standards—to participate actively in industry.

Here it should be understood that no particular emphasis is intended for governmental, as opposed to private or municipal organization and support of these social services. So long as these services are created and maintained by savings (in direct contradistinction to their financing by loans, as largely at present), it is again immaterial whether they are financed by deposits privately held or by municipal or government taxation of those deposits. In general, the extent to which these services will be supported and administered publicly rather than privately, will depend on the extent to which savings are persisted in, in face of municipal or government taxation progressively increased against them.

It is difficult, indeed, to imagine a government or municipal Treasury free from all debt, and free, therefore, from the necessity of increasing it through the continuous flotation of

new government or municipal loans, whether as long- or short-term issues. Under the conditions outlined above, the sole function of all municipal and governmental bodies would be to recover through taxation, all savings (beyond that necessary to equal the value of all wealth in transit); to supplement this yield, if necessary, by direct taxation of income; and to spend *all* of it in social services, as described above, on behalf of the whole community.

With such an automatic mechanism in operation, the miser will involuntarily benefit the community in exact proportion to the scope and extent of his avarice. And here it should be understood that the word "miser" includes all hoarders of currency, whether in gold, coin, notes or credit. The historical miser, who accumulated and gloated over his collection of visible gold or coin, is in *no way* different from the modern miser—essentially a financier in a private or public capacity—who invariably spends a fraction of his income and re-invests the remainder.

The circulation of money, in all its forms, is, at present, the circulation of the evidences of debt, and the hoarding of it, whether in coin or notes, or in the piling up of securities originally derived from loans or savings, constitutes a prime interference with the flow of the very life-blood of industry. Under usury, the social system is nothing more or less than a vast, organized legalization of this fatal principle of interference.

Under the system outlined above, the central bank, which would receive the totals from all individual banks in the system, would thus contain a summarized record of all internal transactions. As explained on page 170, all loans from the banking system, inasmuch as they will initiate the creation of plant and commodities, as well as the complementary distribution of wages, salaries and profits to this amount, would be written *up* to the credit of the community. All repayments of these loans, effected, as they are, by the purchase and consumption of these commodities, would be written off against the total of all loans outstanding. The net balance, at any time, representing commodities held in the system and not consumed, would therefore stand, as it should, to the credit of the State.

The function of the monetary research authority would be

to regulate the tax rate on savings so as to keep these two totals, loans issued and loans repaid, as far as possible in equilibrium —not forgetting, of course, the necessary reservation to balance the wealth in process of delivery. This, although an important, should not be a very difficult matter. The main function of the government would be to determine to what extent this constant source of income should be supplemented by direct taxation of income for the maintenance of such social services, on the lines already indicated, which it, as representing the wishes and as guardians of the welfare of the people, might consider advisable.

With regard to foreign trade, all that would be necessary would be for the banking system to finance the importation of goods by a similar extension of free loans to home traders (and not through the discounting and selling of bills of exchange, as at present). These loans, representing the ultimate importation of Real Wealth into the country, would automatically, as in the case of all other loans from the banking system, be written *up* to the credit of the community. Proceeds from the sale of reports, representing foreign consumption of internal production, would be used, of course, to repay these loans, and would, through the mechanism of the deposit-circulation cycles, automatically be written off against them. *In this way, imports would stand, as they should, as a credit to the community, and exports as a debit.*

There would then be no suicidal onus on any country to acquire either a " favourable " balance of trade or suffer an " unfavourable " balance, as at present understood. The effort would be, as in internal accounting, to keep the national trading account more or less in equilibrium, so that internal production, through such a complementary exchange of goods against goods with other nations, would be altered as to diversity and quality, but not as to financial value. The problem of distributing this mixture of domestic and foreign produce to citizens, collectively of equal financial value at all times with that of internal purchasing power, would thus remain absolutely the same.

## CHAPTER XXIV

# PLANT AND LAND

THROUGHOUT the whole of the analysis in the preceding section, and the reconstruction proposals in this section, no more than casual references have been made to the creation of plant, and the position of plant as a determining factor in the financial system. In order to establish this, the reader is asked to reconsider, for the last time, the mechanism of the deposit-circulation cycles. In the cycle or cycles in which the plant is created, wages and salaries are distributed in an aggregate equal to the cost of its creation, functioning and maintenance. These costs, together with others subsequently developed as wages and salaries in the production and distribution of intermediate and final commodities, can only be recovered by producers if all these wages and salaries are spent in the purchase of those commodities. If they are not spent, these costs will not be recovered (except through foreign " trade " and foreign " investment "), because they cannot be. The appearance of savings on deposit (or transferred to other account through investment) will liquidate the financial-accountancy cycle administered by the banks, but it will not liquidate the cost-accountancy cycle, which is the unfortunate concern of industry. In either case, however, the cost of building and assembling plant is written into the price of the commodities produced, so that plant is accounted for in the mechanism of the deposit-circulation cycles, through the production and sale of ultimate (and intermediate) products. Plant, that is to say, in respect of both the labour and material which went to its construction and assembly, represents consumed wealth. It therefore represents *debt*, not wealth, to the community, in spite of the fact that it may exist as a means to the production of wealth for years to come.

For, when a producer sells his plant to another and so redeems capital "sunk" in it, all that he really does is to transfer an opportunity to earn profit on capital to another. This opportunity, whether realized or not, can be transferred to a third person by the same process, so that plant, so far as the producer is concerned, is simply a transferable medium for the realization of profit on capital. Plant, in itself, will not be bought out of the financial system voluntarily (except as scrap); and unproductive plant is consequently a dead loss to the *last purchaser*. If he keeps it in running order, and it continues to be unproductive, he will increase his loss; if he sells it as scrap, he will only realize a negligible fraction of it.

The fact that plant really represents consumed wealth, and therefore debt to the community, is forgotten during a rising market, when, if it is functioning productively and progressively, each succeeding buyer redeems the capital of his predecessor for larger and larger amounts. It is remembered somewhat bitterly, during depressions such as this, when redemption sales yield less and less, until some purchaser owns plant which does not yield productively and which is finally put out of commission. If it is dismantled and sold as scrap, it is this man, and this man alone, who really buys the plant, takes it out of the financial system, and thus redeems a standing debt on behalf of the whole community.

Under a free money system, combined with the taxation of all savings, plant would come to be regarded, like money, as a thing of no value in itself. Capital would not be "sunk" in the creation of plant, but *spent through it* on behalf of the whole community. It would exist, as it should, simply as a medium for the creation of commodities, on the one hand, and as a means for the distribution of wages and salaries for the complete purchase of those commodities, on the other.

The writer is concerned primarily with the distribution of the whole product of industry to the consumer, in whatever proportion it may be received by various individuals or sections of the community. He is unwilling, therefore, to discuss the social ethics of equal, or even organized, distribution of this product. But, as far as he can see, the individual or

firm which contracts a government loan, which thereby ensures the creation of further commodities and the distribution of wages to purchase them, and which thereby functions to raise the standard of living throughout the whole of the community, is entitled to receive a " profit " in proportion to the extent of his responsibility and achievement, and to regard the plant involved as his own " property ".

In point of fact, under such a system as we are now considering, the plant is really only leased to him by the State, for the successful administration of which he receives a *reward,* and not a penalization (rent or interest), as at present. It will be withdrawn from his possession (through distraint) if he fails to operate it efficiently and in accordance with the demands of the community expressed through purchase. The " possession " and productive maintenance of plant will be his only means of securing loans (see section 5, page 181). If he increases his plant, and manages to run it productively, he is entitled to increase his loans (and thereby his opportunity to make " profits "), as the accumulation of such assets, by the community as a whole, is the " only authority for the continuous expansion of a currency " (page 181). If he repays each loan, as it is increased through the creation of more fixed assets, it is evidence of the fact that he is administering his property efficiently and in accordance with the demands of the community expressed through purchase.

If he fails to repay his loans, it is direct evidence to the contrary, in one or both particulars. His property will be distrained on in favour of the community, while he himself will lose his opportunity to create a personal income by this means. This property will then be sold in the open market to the highest bidder, who will augment, retain or lose it according to his success in using it in the best interests of the community. If he loses it, and the trouble is that his plant is obsolescent, it will be sold for less and less until it is finally scrapped. In this case, the increasing loss in value will be borne by the community as a whole; and when it is scrapped, the dead loss to the community is borne, as it should be, by the whole of society. The debt, which is implicit in all plant, is spread over consumers and producers alike. The " last

purchaser" (see page 189), who "redeems this standing debt on behalf of the whole of society", is the State.

The unsuccessful producer must then be content, in the meantime, to work under another producer who is employing government loans more successfully. But equally for him and other employees, he need not remain so if he really wishes to change his status back to that of employer again. He could evade the tax on his savings from earnings, by spending them (possibly in conjunction with one or two of his fellows) in the purchase or construction of productive plant, thereby abstaining from the purchase of use commodities, to that extent, in favour of the rest of the community; to the end that he might produce more on his own behalf, in particular, and on that of society in general. With such organs of production in his possession, he would then be in a position to apply for free loans to run his plant, and employ, if necessary, extra labour to do so.

The Roman Catholic Canonists made an uncompromising distinction between profits and usury. They approved of the former, but condemned the latter absolutely. The writer finds himself in complete agreement with this pronouncement. Once usury is admitted, profits and interest become inextricably mixed; which is possibly why Socialists and others find it impossible to distinguish between them, and therefore condemn them both. With free money, profits are simply higher wages paid to those whose initiative increases the supply of commodities throughout the whole community. With all the products of industry distributed to consumers, society as a whole is thereby enriched, while the producer receives an extra payment, *in kind*, as a reward for his special service and enterprise. Under usury, interest is paid *in money* or debt claims, and this, as has been shewn, is the root cause for all interruptions in the flow of the medium of exchange and therefore in the distribution of commodities to consumers.

If, in spite of this, some sort of socialistic regime is desired, it could no doubt be effected. All plant, by legislation, might become the property of the State, administered by individuals and concerns on behalf of the community. All produce could then, no doubt, be centralized, and then distributed by some

rationing scheme, with or without distinction. The writer is not in favour of any such development, and is convinced that the agitation for it springs not from an independent conception of sociology free from usury, but from long experience of and blind resentment against the evils and stupidities generated under it. The active Socialist is reminded that the following passage occurs in the Communist manifesto of Marx and Engels:

> "Communism deprives no man of the power to appropriate the products of society; all that it does is to deprive him of the power to subjugate the labour of others by means of such appropriation."

In any case, the socialization of industry would undoubtedly take away all the personal initiative and responsibility involved in the incurring and administering of government loans for the creation of goods and services on the borrower's own behalf and that of society in general. In the last analysis, the communal will is the summation or resolution of all individual wills, *so long as those wills are capable of a free and effective expression.* Under usury this is, demonstrably and in practice, impossible. With free money, it would not be.

The provision of services, as opposed to goods, has not been specifically considered in this book, because, from repair plumbing to surgery, they all form a special category of the social services. All services are eventually paid by industry in kind, and, in the controlling financial aspect of the matter, it is entirely immaterial whether they are administered privately or publicly. As long as all wages and salaries received in respect of services, public or private, are spent, either in the purchase of commodities or in the hiring of other services, they function effectively within the mechanism of the deposit-circulation cycles and participate in the flow. The savings of doctors and working plumbers will be taxed equally with those of distributors and producers.

In the case, however, of income deriving, as at present, from the possession of land, the writer supports the socialist point of view absolutely. In fact, under this or any other system, he is emphatically of the opinion that all land ought

to be in the absolute possession of the State; and, as such, should be rented out to manufacturers, distributors, agriculturalists and residents alike. If it is let out for productive purposes, i.e., to an agriculturalist for cultivation or pasture, or to an industrialist as a site for plant, the benefit to society is direct in two distinct respects—in the receipt of rent, and in the creation and distribution of commodities. If it is let for unproductive purposes, i.e., for residence in town or country, on whatever scale, the community receives a yearly rent, which the rentpayer can only pay by abstaining from the consumption of use-commodities (in favour of the rest of the community) to an equivalent amount each year.

Under these circumstances, a person living on a large country estate could only do so as the result of some exceptional individual effort in increasing the supply of commodities in some direction in which the community had expressed its approval by free but extensive purchase: he could only continue to pay the large rent involved by personally abstaining from the use of commodities of equal financial value every year, in favour of the rest of the community.

The position here seems clear and incontrovertible.

## *CHAPTER XXV*

# SOCIOLOGICAL POSSIBILITIES UNDER FREE MONEY

" Systems were made for men, and not men for systems, and the interest of man, which is self-development, is above all systems, whether theological, political or economic." (MAJOR C. H. DOUGLAS, " Economic Democracy ", London, 1920.)

THE author considers it to be both unprofitable and unnecessary to consider any further detailed aspects of the system which he has outlined. In effect, it is a principle or working mechanism whose sociological results would be unpredictable, except beyond the generalization that it would free the community from debt, and would create a natural and spontaneous outlet for the material and creative impulse in man. Speculation as to the possibility for individual cases is equivalent to that of a contemporary of George Stephenson's asking him what might be the shape of the footplate on the three-o'clock express which now runs between New York and Philadelphia in this year of our Lord, nineteen hundred and thirty-four.

In a general way, however, certain objections which are the reflection of prejudices induced in the common mentality by the operation of the present financial system over hundreds of years, will be anticipated and discussed. It will at once appear, for instance, that the foregoing outline promises something " too good to be true ". This is largely because the present situation is too hard to be borne. The general public naturally mistrusts all proposals to achieve peace, progress and uninterrupted prosperity, because, in the past, it has seen so many enthusiastic movements for the betterment of the lot of mankind, come to nothing. Under usury, all such schemes,

of whatever scope or pretensions, will, sooner or later, come to nothing.

The present position is comparable to that of a number of people being huddled together on a narrow ledge above a precipice, and being so horrified by the continual crumbling away of the communal foothold and the periodic disappearance of their fellow-unfortunates into the abyss of debt and bankruptcy, and being themselves so occupied in fighting for a foothold on an ever-narrowing ledge, that they are unable to realize that the safety and freedom of the top of the cliff is only a hand-hold above them all.

With free money, the abolition of all the marketable evidence of debt, and the taxation of savings, expansions of the currency would be generated solely by the communal desire to produce —this in itself being determined by the extent and the directions in which the community did purchase (its choice being free and comprehensive), and the extent to which producers were thereby encouraged, or rather empowered, through the complementary augmentation of fixed assets, to increase their borrowings and so expand the currency still further. Under all circumstances, the cost-accountancy cycle of industry as well as the financial-accountancy cycle of the banks, would be completely liquidated internally, and the dimensions of the currency, directly expressing the magnitude of the wealth in process of production and distribution, would express the extent to which the community *chose* to create wealth, at all times. If, far from expanding, the currency contracted even to a point below its present inadequate level (relative to production and the debt-structure), there would be no fall in prices (as at present during deflation), no bankruptcies due to this contraction, and none of the familiar miseries of depression periods. A contraction of the currency would simply mean that the community preferred a modicum of leisure to what is, at present, a perfectly meaningless round of perpetual activity and competition.

The writer has no idea to what extent, under these conditions, any community, either in the East or West, might choose to exercise itself in the production and consumption of enormous quantities of goods. Under free money, the

East might conceivably develop a new industrial dynamic, and the West shew an unsuspected desire for contemplative experience. In neither case would the choice of one interfere with, or militate against the success of the other, as the modern commercial dilemma (between the disposing of "surpluses" and national bankruptcy) would not exist. On the contrary, the hard-earned experience of each in the opposite direction in the past, together with the free and developing experience of each in the new direction in the present, would form a basis for the mutual exchange of spiritual and material values. It is only by means of such an uninterrupted exchange of free experience among nations, that the destiny of man on this planet can hope to be realized. Under usury, the bureaucratic exchange of embittered opinion and mutually destructive policy, as at present effected through the League of Nations, constitutes a blasphemous parody of this possibility (see Chapter XXVII, following).

Undoubtedly, however, the chances are that the West would continue to exploit the infinite possibility of the machine in the present Power Age. And here we may conveniently follow the Technocrats in their quantitative survey of the North American continent and the degradation of almost unlimited energy resources into "use-forms", and make a modest estimate that the labour of the adult population of the United States, between 20 and 50, working existing technological equipment for, say, four hours a day at full capacity, would be able to supply the average American family with goods to the present value of about $15,000 per annum. Whether this is an under-estimate or an over-estimate, is absolutely beside the point, as it takes little or no account of the technological inventions which are now being withheld through the interference control of the present obsolete financial mechanism, and therefore of the potential capacity of technology to supply goods to consumers.

At present, by means of mass production and high-pressure salesmanship, the public is forced to buy what it can of what is produced whether it wants it or not, simply and solely to enable industry to carry its eternally rising obligations to finance. It can, of course, never *repay* these obligations,

although the majority of otherwise well-informed persons somehow vaguely imagine that it can. Even in the case of the commodities which are being destroyed at an ever-increasing rate, there is no evidence to show that the public did or did not want them; all that is certain, is that it could not buy them. The law of supply and demand, which would function naturally and effectively under free money, is thus fundamentally perverted by usury. The fact that the community is prevented, through the fatal sop of "interest" on savings and investments, from buying what it does produce, obviously means that the producers, as a whole, are engaged in a perpetual scramble to recover their costs from a chronic and ever-increasing insufficiency of community spendings.

All that a producer can and does do is to proceed on a basis of guess-work called business acumen, and then force the public to buy what he, in particular, produces. As some producers, as a mathematical certainty, must go to the wall, the strongest pusher with the loudest voice, other things being equal, wins. This is the basis for the entirely unethical perversion of the doctrine of the "survival of the fittest" in the commercial struggle for existence. It ought to be unnecessary to add that it encourages the development, through material reward, of some of the most undesirable and retrogressive elements in human character. Meanwhile the consumer takes it, and pretends he likes it—because he must.

The writer himself is absolutely convinced that what the consumer does, in fact, receive under usury, has no more relation (either in quantity, quality or diversity) to his material and psychological needs in his present stage of evolution, than have cross-word puzzles to his fundamental intellectual desires. As for so-called ethical and artistic values, their relation to the psychical needs of mankind is still more perverted. Under a free money system, utility, in the high sense in which it was apparently regarded in the Middle Ages, would coincide with beauty, and industry, art and ethics would tend to merge. As Mr. Eric Gill, the letterer and sculptor, has written, mass production, under present conditions, cannot produce anything beautiful, while the artist is prevented or discouraged from producing anything useful. The miserable compromise

we call commercial art to-day is the illegitimate product of an arty prostitute and an industrial fornicator.

It is at this point, and under the shadow of this implication, that the author parts company with the Technocrats. If the conditions for free development are to be established, the consumer, and not the producer (not even an efficient and beneficent body of scientists and engineers) must be in an absolutely inalienable position to determine what is or is not produced; and that by virtue of his sovereign power to buy all that is produced, and to curtail, expand or modify production through the ownership and spending of purchasing power equal to total production costs, at all times and under all circumstances. Engineers and scientists, like business men, should receive orders, not give them. And the orders as to what and how much should be produced should come from the community in its capacity as consumer; which, in this sense, of course, includes the engineers themselves, as a small and relatively unimportant component.

Under free money, it is quite certain that, as far as the satisfaction of material needs is concerned, the problem will be very easily solved. This can only be done, however, by the acceptance of increased leisure, firstly as an economic necessity under technological expansion, and secondly as the culmination of man's immemorial effort to free himself from unremitting labour. Under usury, the problem of satisfying even elementary human needs in any community, however rich or poor in resources and power, will never be solved, and leisure will never be indulged in, except precariously or involuntarily, as with the unemployed in Western civilization to-day. It cannot be solved, because fortuitous luxury trades and public works must be developed to bridge the gap in the cost-accountancy cycles pertaining specifically to the creation of necessities. The gap in the cost-accountancy cycles pertaining to luxury trades and public works can only be bridged by . . . more luxury trades and public works . . . and so on, in an ever-widening circle of meaningless activity which entirely precludes the conception of leisure as an internal possibility. The extent to which the West has achieved leisure has been at the expense of the slavery of the East. With free money, the cost-

accountancy cycles relative to the provision of food, clothing and shelter, as well as those relative to all other forms of industrial activity would be completely liquidated internally, and the extent to which society developed luxury trades and social services would depend entirely on the extent to which it valued them above leisure.

In any case, it seems likely that society, as a whole, would be able to achieve its present standard of living at the cost of something less than half its present number of working hours. It need not be supposed from this that large numbers of people would get away without doing any work at all. A certain quota of work, although much smaller than at present, would be expected from every member of society, within the age limits, as long as he was considered fit to contribute it. As at present, this would be his only means to securing an independent economic existence. In fact, seeing that the government would be able to take care of all incapables without loading up the community with impossible debt, and would release all men, above a certain age, from the necessity of earning their own living (subject to their own approval), it would be in a much stronger position to coerce shirkers, if it thought fit, than it is at present.

It is certain, too, that quality of production would improve immeasurably. Seeing that producers, as a whole (and not just some, as at present), would be in a position to recover their costs, and that no interest would be charged on loans, production would be a reasonable affair, and not a blind competitive race to destruction, as nowadays. Moreover, the consumer, with purchasing power commensurate, at all times, with total production costs, would be in a position to satisfy his personal tastes to a much greater degree than at present. To-day, the emphasis is on mass production and cheapness: firstly, because of the competition for the disposal of "surpluses" in the foreign market; secondly, because large financial combinations and department stores, who normally have ready access to bank "credit", can make large profits by perpetually increasing the dimensions of their running solvency; and thirdly, because the consumer, speaking generally, cannot afford a Grade A automobile without jeopardizing the baby's

chances for Grade A milk. With the consumer always in possession of an effective monetary demand on the whole of the products of industry, it is fairly certain that quality will again reassert itself as the chief "selling point", probably for the first time since the Middle Ages. If the increasing tendency to-day is towards *quantity*, cheapness and standardization, the emphasis, under free money, would be on quality, distinction and diversity.

This latter development would also be encouraged by foreign trade. No country, for instance, which is in a position to produce and consume its own meat, will import frozen meat from abroad, simply to give the exporting country an opportunity to get a "favourable" balance of trade, and so get foreign currency to pay interest on its foreign debt. It is both stupid and criminal that goods in general, and canned and frozen food, in particular, should be transported round the world to meet "obligations" on international capital. This, equally with the declared incapacity of British agriculture to support its present population, is why British people eat New Zealand and Argentine, rather than their own beef and mutton—the more the New Zealanders and Argentines can undersell British producers in the British home market, the more foreign currency these two countries can obtain to pay interest on their external debt, in general, and that owned by British financial interests, in particular. The decline of British agriculture is thus largely due to the foreign "investments" of its own financiers. With the exception of those countries, such as Great Britain, which, at present, are not entirely self-supporting agriculturally, the necessities and most of the elementary amenities of this life would be produced and consumed internally. It then follows that foreign trade, in its new and true sense of the complementary exchange of goods, would tend to become, more and more, the exchange of specially attractive goods, with certain unique characteristics due to the climate and general conditions of the country in which they were produced, or the specialized skill and working temperament of its inhabitants. This, again, would tend to emphasize quality, distinction and diversity in international exchange and trade.

The gradual elimination of usury in various countries would eventually bring about a more sane distribution of population throughout the world. With the progressive decrease of internal bankruptcy, the cessation of all interest payments on foreign debt, and the possibility for free development in every country, emigration to the less populous but physically rich districts of the world, from the present overcrowded industrial nations, would automatically take place. One of the many glaring anomalies under usury is the fact that, even within such a close commercial entity as the British Empire, 40 or 50 million people are still packed in England, while Canada, with an area 40 times as great and incomparably richer in natural resources, has only one quarter of this population. Emigration to the Colonies and Dominions has taken place when the financial mechanism throughout the Empire, facilitated by the exploitation of the East, has managed to function. It has virtually ceased to-day, when that mechanism, due to the present aggressive economic policy of the East, has broken down. Canada is comparatively undeveloped because it does not have anywhere near the population necessary to develop it. Its present population is small, obviously not because it cannot physically support a much larger one, but because it is financially prevented from doing so.

Under free money, England, in the end, might possibly support some twenty million people in the leisured and dignified comfort which the more cultured and mature elements in its population have come to expect. The more adventurous and dynamic elements (which tend to develop criminal tendencies during monetary crises) would emigrate to Canada and elsewhere, there to participate in the task of making that country support a vastly increased population, both materially and culturally. At the present time, the exportation of Canadian, and other Empire manufactures to a home country already over-developed industrially, to pay interest on foreign debt, is just as senseless and unnecessary as the exportation of "cultural elements" from the home country in the opposite direction. Every country needs to develop its own culture along with its industrial production, and both should be "consumed" internally. Ideally, culture should coincide with and

become inseparable from the productive process. Foreign trade, freed of all financial implication in the matter of paying money as interest, would then become an exchange of values, *both material and spiritual, in the interests of diversity*, development and the diffusion of a universal experience. Cultural values, equal with production values, should be exchanged—not sold for "profit", as at present, to pay interest to the licensed appropriators of national and international currency.

Another development, which would have extraordinary, but unpredictable sociological results, would be the complete economic independence of woman. The efforts in this direction in this century may be prophetic with regard to the future, but they cannot be successful, so long as usury obtains. Man has still the first cut at and the largest slice out of the economic loaf, but, even in his case, economic independence has not been, nor will it be achieved under usury. The modern cry for equal economic rights for women is entirely justified, but it is essentially, at present, a demand to participate in man's form of slavery, rather than the form which woman has been long accustomed to, but which she is increasingly growing to dislike. The age-long cry for freedom is, under usury, like crying for the moon; and the American Revolution, the French Revolution, the American Civil War, the Russian and German revolutions of this century, equally with the individual struggles of poets, musicians, and artists, are all attempts to break the invisible chains of the moneylender. It may be that this struggle will succeed, and that the world revolution, which is openly or secretly in process of formation to-day, will finally free men and the new Prometheus of the Power Age. With the distribution of the boundless products of industry and agriculture to consumers, not accompanied, as at present, by a parallel accumulation of debt-claims, man and woman would achieve their true independence, for the first time in recorded history, *and together*.

Given economic independence, woman, in her present temper, would quickly put an end to all the masculine complacence and vanity which have brought about and which seek to perpetuate present conditions. Free to follow her

instinct and inclination, she would inspire man to be worthy of her love. At present, driven by economic necessity, she is compelled to put up with all the pompous vacuities of the successful men of her " choice ", and has to seek the illusion of love and romance in a miscellany of flirtations and illicit relationships.

For just as man, under usury, cannot freely exchange the products of his labours, so woman cannot freely extend her love to man. If producers are forced to withhold or destroy to force up prices in the cut-throat game of commerce, woman is forced to advance and retreat, in an endless series of feminine inflations and deflations, so that man will bid the higher for her love. The complete economic independence of man and woman, under free money, would allow both freely to give and freely to receive in love. Masculine arrogance and feminine coquetry would disappear.

If it were possible to sum up all the evils which accumulate under usury in one word, that word would be—slavery. Under usury, success in any department, and on any scale, can only be achieved by the complementary enslavement and degradation of others. Business firms can only succeed through the bankrupting of other firms; the leisured classes in modern society are supported by the wage slavery of the working classes; " creditor " nations, under a functioning gold standard, batten on " debtor " nations. Under Christianity, so-called, the West has lived at the expense of the East. All empires in the past, and the empires and successful democracies of the present, as well as the aristocracies of wealth, title or estate, developed within them, have been built up on slavery. Slaves then dug and still dig out the gold which enables the moneylender to get Emperors, Kings, governments and peoples in debt to him and to each other; whole sections within successful nations and whole nations outside them have been driven into and kept in slavery so that the money interest on these debts might be paid; gold, acquired through war or industrial aggression, has been used by the moneylender to intensify his stranglehold and to extend it, until now the whole world struggles desperately but impotently in his grip.

Slavery is twice cursed. It curses him who enslaves and

him who is enslaved; and it is the exploited who finally exploits the exploiter, as has already been proved. The plight of the slave, in ancient and modern society, needs no special elucidation here; but it takes the passage of hundreds of years and a full historical perspective to realize that the fate of the aristocrat is sealed as soon as it is assumed. The leisure itself obtained through the exploitation and slavery of others is subtle but sure as an influence for disruption.[1] The fall of the Roman Empire and the invasion of the Goths is popularly explained as being due to the effeteness and "pleasure-loving" degeneracy of the Roman aristocracy. All human beings are and should be "pleasure-loving", but the pleasures afforded to an aristocracy based on the slavery of other components are transitory and instinct with the essence of decay. To-day, the courage, patience and good humour of the working classes stand out in vivid contrast to the finickiness, neuroticism and utter boredom of the wealthy classes. Slavery is the major social evil of all time, but it derives directly from usury. *Man has no desire to enslave his fellows, but, under usury, he must.*

Wars, as have already been explained, are largely caused by the impossible necessity for nearly all countries to dispose of mounting "surpluses", developed by internal debt-currencies and foreign "investment", in the world market. The international co-operation advocated by political bodies and the League of Nations is (as will be shown in Part IV) due, to an increasing extent, to pressure from international finance. The practical end of international "co-operation" is the formation of political, commercial or purely financial combines which result, as Lawrence Dennis says, in "bigger and holier wars". It is not claimed that free money would remove the causes for war entirely, but it would at least bring about the conditions conducive to smaller and more honest fights.

With regard to the commercial war, in its purely internal aspects, it is certain that, if some of the results which are inevitable under usury, were realized and publicly admitted, nearly all the major social and psychological problems of our time would be explained and would become capable of resolu-

[1] Cf. Bernard Shaw's play, "Too True to be Good", and the preface thereto.

tion. If a certain proportion of people must be made bankrupt, in any case and under all circumstances; if poverty and privation must therefore be the eternal portion of some; and if slums and an untouchables class are a necessary corollary to affluence and leisure under usury, how can moral exhortation, social work, or even spasmodic philanthropy be considered to be anything else but hyprocrisy and an intolerable insult? Enforced poverty is at the root of nearly all disease and crime. But if poverty must exist in large sections of the population under usury, how can disease and crime be averted? Why condemn something which is and must be there, when the thing which brings it about, namely usury, is tolerated and indeed enforced by public consent and full legal authority? If a certain number of souls, in the complacent jargon of the Church, are "reclaimed", if a certain number of diseased persons are given medical treatment and are cured, or if a certain number of criminals and prostitutes are made "respectable" and get jobs, other unfortunates—other lost souls, other diseased organisms, other criminals, other women—must and will take their place. To refer again to the analogy made at the beginning of this chapter, a foothold on the ledge which assures the promise, at least, of health, competence and respectability, cannot be vouchsafed to everybody under usury. The ledge is not big enough to hold them all. If then, one unfortunate is dragged up from the depths and placed on the ledge from one side, another will automatically be pushed over into the abyss on the other side.

Now, at long last, there is the possibility for a true aristocracy of health, leisure and plenty, based on the slavery of the Machine. It is against this possibility that finance, no doubt largely unconsciously, is working. If this opposition is successful, civilization will relapse once more into chaos and barbarism, simply because interest payments on debts, which the creation of the Machine has largely called into existence, cannot be paid by industry. But Man will not fail because he has become the slave of the Machine of his own invention (although he is rapidly in process of becoming one), but because Money has enslaved Man.

To those diehards of a passing mentality who affect to be

horrified at the prospect of the mere working man having "nothing to do" for a large part of his time, the following quotation from the Presidential address of Sir Frederick Hopkins, before the British Association at Leicester in September, 1933, may be reassuring.

> "Most of us have had a tendency in the past to fear the gift of leisure to the majority. To believe that it may be a great social benefit requires some mental adjustment, and a belief in the educability of the average man or woman.
>
> "But if the political aspirations of the nations should grow sane, and the artificial economic problems of the world be solved, the combined and assured gifts of health, plenty and leisure may prove to be the final justification of applied science. In a community advantaged by these, each individual will be free to develop his own innate powers, and, becoming more of an individual, will be less moved by those herd instincts which are always the major danger of the world."

To be more specific, it is only fair to point out that the working man has, so far, at any rate, never been educated for or led to expect leisure. The British Empire, like all empires in the past, has supported a leisured class, which, even under usury, has somehow managed to function as reasonably as its working component. The upper classes in all ages have borne their "dangerous" burden of leisure tolerably well, simply because they have been bred and trained to expect it. As things are at present, the lower and middle classes are trained at school, college and university, to prepare themselves, with the encouragement and unctuous approval of the church, for the "battle of life"; and the prospect of hard work and long hours at dull jobs with little or no prospect of leisure is eternally before them if they mean to "succeed". In the working classes the boy is put to trade or service, as soon as (before, if it can be managed) he leaves school, so that the pitiful economy of his family may be improved by the addition of his mite. If he is born into what are called the upper strata of society and is intended for a profession, he is sent, perforce, to a college or university, where again, if he is to succeed, he must work unremittingly at the accumulation of academic facts and figures, which are in no way related

to life or possible development, but, as with the working boy, to the desperate problem of making a living, albeit on a higher scale, in the meaningless jumble of activity we call commerce. Life, in fact, is not living, but making one.

The fact that many modern universities, as well as some of the oldest in Europe, have instituted " degrees " in commerce and technology, shews the extent to which this dangerous confusion between education in the liberal sense, and education as a preparation for the " battle of life ", has begun to encroach on free adolescent development, even in the case of the more favoured classes.

With the possibility of increased leisure, it need not be feared that the morale of youth would disappear with liberal education and the prospect of a comparatively " easy time " afterwards. It by no means follows, for instance, that they would accept the leisure that was offered them. They might conceivably prefer to refine and improve on work which had become a pleasure. Only the artist can realize the extraordinary strength of the hold which satisfaction in work which interests him has over man. Free money makes no claim to solving man's eternal problem on this planet; but it does insist that his material problem can and should be put behind him for ever, so that his creative impulse may be liberated to explore his real possibility. This search will be a struggle a good deal more intense than the present disheartening battle for subsistence, but it will be concerned with positive elements in free development and discovery, and not with the active co-operation in and the unconscious competition towards universal slavery which makes " life hard ", as at present.

Even under usury, a liberal education does not make life any easier for the dubious recipient, especially if he has to earn his own living afterwards. On the contrary, it usually makes his life a neurotic conflict between the ideals developed in his comparatively free adolescence and the sordid experience of " real " life which follows. This struggle is normally of a character and intensity which is entirely incomprehensible to the successful business man, who accepts the pawnbroking ideals of commerce at their face value, and who grows at once complacent and aggressive in the enjoyment of his just

reward. Real education, which is, or should be, a matter of free and uninterrupted contact with mature minds, would result in the continuous evolution of higher types, who would concern themselves progressively with the solution of problems on an ever rising plane of possibility. The evolution of high types, at present, is largely a self-destructive process, because such types are, to a large extent, automatically precluded from active participation in industry. With liberal education under free money, the advent of these evolving higher types into an unfettered and debt-free industry, automatically purged of all the barbarous cut-throat competition of to-day, would undoubtedly influence the progress of industry in a parallel direction, so that industry, art and education would tend to merge into a new and higher synthesis.

What the end of this might be, it is not given man to know. His satisfaction and his happiness is in this struggle and in this quest.

*PART IV*

# OPPOSING AND ENDURING FORCES

The present struggle is not " accidental, unnecessary, or the work of fanatical agitators and therefore ephemeral ", but the beginnings of another " irrepressible conflict between opposing and enduring forces ".

(Phrases in quotation marks from a speech made by SEWARD, Secretary of State under Lincoln, at the beginning of the American Civil War.)

## *CHAPTER XXVI*

# THE BID FOR WORLD POWER

IN view of the desperate position of the world to-day under usury, and the existence of the positive possibility for a world of unparalleled plenty, financed by some system of free money such as the author has outlined, the most sinister development in this century is the rise of finance to an unprecedented position of internationally co-ordinated power. It is as if the powers of usury, consciously or unconsciously, had long ago anticipated the situation which has now arisen, and had been marshalling their vast forces to meet it.

Since the War, twenty-six new central banks have been founded. " Each one of these contains in its constitution an article specifically placing it outside the control of the government of the country in which it is situated " (Major C. H. Douglas, in a speech at Ipswich, England, April 4th, 1933). With the advent of Hitler, it further transpired that the former president of the Reichsbank, Dr. Hans Luther, was secured in his position by a clause in the constitution of the Reich, that he could not be removed *without his own consent* and a majority vote of the board of the Bank for International Settlements. It took a Nazi revolution to abrogate this clause.

At the time of writing (October, 1933), central banks are in process of formation in Canada, New Zealand and India. In each case, an attempt is being made to pull the wool over the eyes of the non-banking members of the organizing commissions by insisting that political control of a banking system is " dangerous " because it might be used to further party ends. There is a danger attached to every enterprise in this life, including that of crossing the street, and the selection of the least dangerous from a group of alternatives is a function of common sense.

The alternative of leaving the issue, control and ownership of the whole of the money circulating throughout Western civilization to-day to an internationally organized syndicate of moneylenders is surely not one which common sense, in any country, would choose. The true answer to the specious arguments of bankers to support the choice of their alternative, was nobly given by William Jennings Bryan in his famous "Cross of Gold" speech, delivered at Chicago in 1896.

> "We say on our platform that we believe that the right to coin and issue money is a function of government. . . . We believe that it is a part of sovereignty, and can no more with safety be delegated to private individuals than we could afford to private individuals the power to make penal statutes or levy taxes. . . ."

In the case of India, it looks as if the arguments in favour of a central bank, free from political control, are likely to succeed. Sir George Schuster is now (October, 1933) in process of persuading the uninitiated members of the Indian commission that it is their "ignorance" which is causing them to obstruct this "notable advance" in Indian banking policy. Some day, if a universal cataclysm does not intervene in the meantime, and so obscure all issues, Sir George and his fellows will be convicted out of the mouths of these same financial babes and sucklings.

In Canada, a recently concluded committee presided over by the ubiquitous Lord Macmillan, and composed almost exclusively of bankers, has all but persuaded Prime Minister Bennett to support its proposals for the establishment of a central bank. Mr. Bennett is "well satisfied" with the Canadian banking system as it is, but in supporting the findings of the Macmillan Committee, he has overridden the strenuous objections which came from the common-sense elements in the industrial, and more particularly, the farming sections of the community.

In New Zealand, finance has not had a very comfortable or successful passage. In January, 1933, when Sir Otto Niemeyer first suggested a central bank for New Zealand linked to the Bank of England, Captain Rushworth, M.P., speaking in a budget debate in the New Zealand Parliament, said:

> "If the Government is proposing to set up a central bank that will be beyond the control of this Parliament, I suggest that *it* is contemplating an act of high treason."

The Reserve Bank Bill has been introduced several times subsequently, in each case with some modification towards State control. In its present state, three of the seven shareholders will be nominated by the Government, although, even at this,

> "indications are that . . . attempts will be made to amend the Bill principally in the direction of making it a State institution, or assuring a dominant State control" (London "Times", Oct. 20th, 1933).

But the most sinister development towards the consolidation of finance throughout the world came with the granting of an international charter at the Hague for the formation of the Bank for International Settlements on January 20th, 1930. A report on the constitution of the bank appeared in the "Journal of the Institute of Bankers" for May, 1930, from which the following is quoted:

> "The Charter, as well as certain fundamental articles of the Statutes of the Bank, can only be altered by a fresh law passed in agreement with the other signatory powers [1] . . . (who) agree that the Bank, its property and assets and its deposits shall be immune as regards their respective territories from any seizure or confiscation, in time of peace or war, and of any prohibition or restriction of exports of gold or currency."

From this, it will appear that although finance may have received a minor rebuff from vigorous New Zealanders, it has managed to establish in Europe a central organization completely outside the control of its governments. When this

[1] The original signatory powers were Great Britain, Germany, Belgium, France, Italy and Japan of the one part and Switzerland of the other. The original shares were issued to the central banks of the above powers, as well as to a banking group acting for J. P. Morgan & Co., the First National Bank of New York and the First National Bank of Chicago.

Shares have subsequently been issued to the central banks of Austria, Bulgaria, Czechoslovakia, Danzig, Denmark, Finland, Greece, Hungary, Holland, Poland, Rumania, Sweden, and Switzerland.

is coupled with the fact, already referred to, that Dr. Luther, the former president of the German Reichsbank, could not be removed without his own consent and a majority vote of the board of the Bank for International Settlements (other and similar protective reservations may have been made with respect to the election of the governors of other central banks), it will be seen that finance is here deliberately attempting to set up a central body which will acknowledge no authority above it on this planet.

Called into existence specifically to deal with the practical matter of international transfers due to German reparations payments, the Bank continues to function now that these reparations payments are cancelled. Writing about possible developments for the Bank, C. M. Hattersley says:

> "In the same way that central banks to-day, by advances and investments, create the 'bank-cash' upon which the commercial banks operate, so the Bank for International Settlements will be in a position to create a kind of super-bank-cash upon which, in turn, the central banks will rely." ("This Age of Plenty", London, Pitman, 1933.)

A reading of the evidence given by the Governor and Deputy-Governor of the Bank of England, and by the American, Dr. O. M. W. Sprague, then financial adviser to that institution, before the (London) Macmillan Committee on Finance and Industry in 1930, will shew that it is only the present chaotic condition of the international exchanges and the wholesale abandonment (technical but not actual) of the gold standard,[1] which has prevented this development from actually taking place.

If this is ever effected, there can be no doubt that the Bank for International Settlements will then be in as autocratic a position with regard to world finance as the Bank of England is now in with regard to British finance. This bankers' dream would certainly make for a "stable" banking system for the world. With the whole of the world's gold stocks centralized, and with each country's internal banking system co-ordinated under an all-powerful central bank, bank crashes and bank

[1] See page 233.

"runs" (whether on a localized or national scale) would be impossible; an illusory gold-backing to a world currency could be successfully maintained, and international gold-tokens issued and "redeemed" in any quantities which suited the policy of the board of the World Bank. At the same time, all hope of freedom and plenty—for the individual, for industry, and for nations—would automatically disappear, and the world would be relentlessly driven into complete helotry under an international gold-idol. The actual graduation of power would then arrange itself as below:

Gold

Bank for International Settlements
(World Bank)

Central banks of the World

Joint Stock Banks
(Members Federal Reserve Banking System)

Branch banks of the above

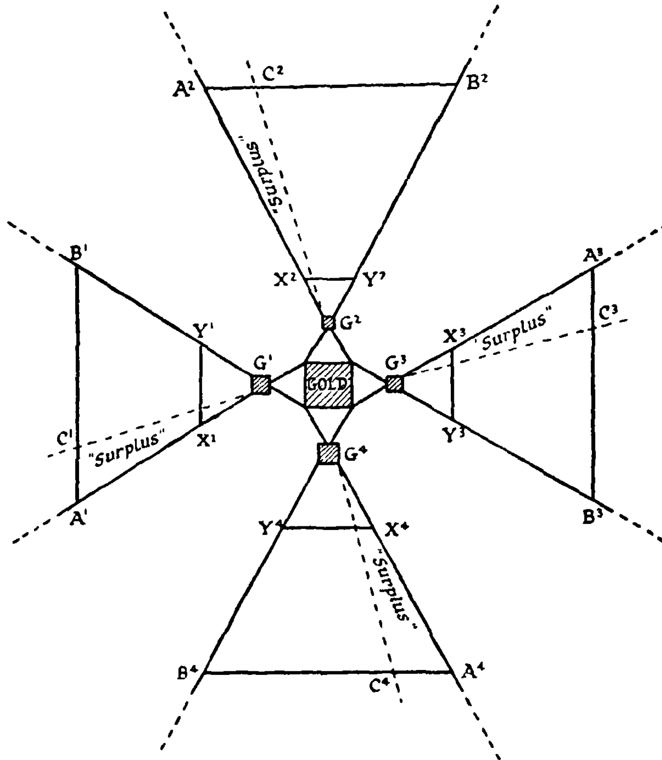
Industry

Public.

The spider-web on the following page, extended from the figure on page 135, will show the position under a world gold-currency, interest bearing and "repayable", and how the automatic creation of "surpluses" in every country will force the world, through competition for their disposal, into slavery and destruction under the gold idol.

The Gold at the centre of the figure represents the total world gold stocks at the Bank for International Settlements (World Bank). The position is developed for four countries with the gold-bases of their currencies (their "super-bank-cash" held at the World Bank) at $G^1$, $G^2$, $G^3$, and $G^4$ respectively. The gold-token currencies at XY, based on these "bank-cash" entities, develop production totals of the dimensions of AB, of which BC is consumed and accounted for internally, and AC is the "surplus" available for export and the creation of foreign "investment".

The countries which secure a " favourable " balance of trade with respect to the other countries will automatically be credited with foreign debts or an increase in their " bank-cash " to this amount, at the expense of the others. This, of course, will serve as a basis for the further expansion of their internal curren-




cies at XY, the " successful " country thereby being able to create still larger " surpluses " for export (see Chapter XV). At this point, the automatic working of the gold standard (or gold-exchange standard) will come into play (see Appendix A); with the added refinement that these transfers of gold and debt will be effected by means of simple book-entries at the

World Bank. Those countries which have been " unsuccessful " and have lost gold will necessarily raise their internal interest rate. This will encourage investment in these countries, thereby stimulating production and the creation of fresh " surpluses " for competition in the world market.

It is nauseating and unprofitable to follow out this vicious see-saw any further, except to point out that this is the true position for all countries mutually operating under the much-lauded symmetry of a gold standard. There is no escape for any country. An initial " success " can only be obtained through a " favourable " balance of trade acquired by the creation and export of vast " surpluses " at cut-throat prices—instrumented by mass production, long hours, work-drudgery and low wages. An " unsuccessful " country can only reverse its position by means of the same methods, operating with the " advantage " of a depreciated currency. The effect of " success " or " failure " is precisely the same, namely, a progressive decrease in the ratio between home consumption and home production, and a competitive race for the disposal of mounting " surpluses " in the world market by and increasingly towards work-slavery and international industrial suicide.

## *CHAPTER XXVII*

# THE LEAGUE AGAINST NATIONS

PARALLEL with these developments, and the birth of a possibility, at least, for the complete centralizing of world gold stocks, the most distressing feature in international politics to-day is the extent to which a so-called League of Nations has been used by finance, consciously or unconsciously, to further its schemes for world domination. However disinterested the League may or may not be in the sociological and purely political spheres, there is now no doubt, in the public mind, that, even if machinery for the furthering of international progress now exists, the spirit for its operation is notoriously absent. The League has initiated a series of useless and disheartening conferences, culminating in the vast fiasco of the World Economic Conference, which, presumably called to give man bread, produced nothing but chaff for him to eat.

It is apparent to anyone who has studied the matter that this is because the board of the League, equally with the personnel of the individual governments it is supposed to represent, are entirely at the mercy of financial " experts " who necessarily force them into this or that policy in the interest of " sound " money and the maintenance of the international credit structure. The preservation of the international " credit " structure is nothing more or less than the continuous re-disposition of international capital to secure payment on international *debt.* " Creditor " nations, who wish to float further foreign loans, and " debtor " nations who are desperately in need of them, therefore " co-operate ", through the mediumship of the League, to create international debts beyond those ordinarily arising from foreign trade ; the discharge of the interest payments on which is, as has been shewn, disastrous for " creditor " and " debtor " nation alike, and is, indeed, the root cause for most of the terrible discord in international politics to-day.

The League is afraid to risk any independent financial action —even if it could think of any—because it would increase, it is told, the financial chaos and economic distress which now exist in every country in Western civilization. The only men who have so far dared to resist the world combine of money-lenders which now functions through the Bank for International Settlements and the League of Nations are Hitler and President Roosevelt; and of these two, Hitler's representative, Dr. Hjalmar Schacht, President of the Reichsbank, is a brilliant but somewhat unorthodox financier who is naturally largely in sympathy with finance, while Roosevelt profoundly distrusts finance but does not fully understand it.

It has already been pointed out that the preliminary agenda to the World Economic Conference were drawn up by a committee largely composed of officials or appointees of officials from the Bank for International Settlements and the financial advisers to the League, and it was shewn, as indeed is fairly well realized, that Roosevelt proved the rallying point for forces which were instinctively against proposals concerned almost entirely with the preservation of the international debt structure and the resumption of international lending. Some day it may occur to politicians and the board of the League that their concern is, or should be, with wealth, not debt, and with the distribution, and not the destruction, of goods to a bankrupt and half-starved world.

In October, 1922, the League of Nations approved a scheme of "financial reconstruction" for Austria, and in June, 1923, a loan of £26,500,000 was floated, taking the form of 6 per cent. bonds, made in Great Britain, the United States, France, Italy, Switzerland, Sweden, Belgium, Holland, Czechoslovakia, Spain and Austria itself.

> "The London portion consisted of 14 million pounds, out of which over 3 millions went to the British Government in satisfaction of outstanding claims, the balance being readily taken up by the public at the price of 80." ("Midland Bank Review", London, May–June, 1928.)

Issuing at 80, and taking into account the premium on redemption, this makes the actual interest rate approximately 8½ per

cent. It is scarcely surprising, therefore, to read that the balance was so "readily taken up by the public", but it would certainly be interesting to know what proportion of this "public" were directly concerned with banks, insurance companies or brokerage houses; or what proportion was composed of friends and powerful contacts of the financial "experts" who drew up the scheme, and who were let in on the "ground floor" of this deal. More especially as this ruinous rate, which is normally associated with speculative ventures, was secured

> "by a lien on the *gross* receipts from the (Austrian) customs and tobacco monopoly",

and secondly, by a more sinister safeguard, by means of which

> "the League was empowered to appoint Trustees to control the service of the bonds. . . ." ("Midland Bank Review", May–June, 1928).

Most of the above details are taken from C. M. Hattersley's "This Age of Plenty" (London, Pitman, 4th ed., 1933), and a reading of section 104 in that book will show that before this "financial reconstruction" was imposed on Austria, the country was making a recovery from war conditions by means of novel currency legislation which, however, did not conform to the principles of "sound" finance.

This successful attempt to bring the country back to the purgatory of financial orthodoxy was undoubtedly the ruin of Austria, and it is highly suggestive that the present breakdown of the international "credit" structure first showed itself in Austria. (At the Credit Anstalt at Vienna—six years after this financial "reconstruction" under the auspices of the League was completed.) There is more than poetic justice in this coincidence!

In September, 1933, a £4,500,000 Austrian Government International Loan was floated, and it transpired that the loan was secured on the Austrian customs and tobacco monopoly subject to the prior charges of the loan referred to above, a Czechoslovakian Conversion Loan, another International loan floated in 1930 and "certain relief bonds"!

It is obvious that the financial " reconstruction " of Austria has gone on apace, in spite of the desperate condition of the country. It is hard to see how a really disinterested League of Nations could possibly sanction such a series of transactions, involving, as they do, the increase of an already enormous external debt in Austria, and the mortgaging of the whole of the receipts from her tobacco and customs monopoly to pay high interest charges on a new string of loans. It is strange that the League officials representing even " creditor " nations, whose Treasuries are all engaged in desperate struggles to balance their budgets, should not stop to consider what would happen if the whole of these receipts in their own countries were mortgaged up to the hilt to pay interest on foreign debt.

Perhaps it is only a coincidence, too, that throughout the length and breadth of Austria the products of the " Oesterreiches Tabac Regie Traffik " are advertised with such unfailing energy and persistency; or that, even in Budapest restaurants, when the cigarette-waiter pushes round his trolley, crying " Traffik, Traffik," Austrian cigarettes and tobacco should occupy such a prominent place in his collection. As the Austrian people —except to the small extent to which Austrian businesses and individuals have bought up these loans—do not get a cent of benefit from this organized pushing of their tobacco industry, it is hard to come to any other conclusion except that the League of Nations has been instrumental (perhaps innocently) in putting in a gang of international bailiffs into Austria (the Trustees empowered by the League to " control the service of the bonds ") to the end that the country may be driven still further into poverty in the interests of the bondholders.

There can be no doubt that the present precarious position (November 1933) between France, Italy and Germany, relative to Austria, has been largely brought about and aggravated by this deliberate interference of finance in the internal " reconstruction " of the latter country; just as the root cause for the Nazi revolution and Germany's leaving the League was the British, French, and American financiers' efforts, through the agency of the Dawes and Young plans, to put international bailiffs into Germany herself. France, in particular, has been " co-operating " with the League of Nations, in the flotation

of loans, not only in Austria, but in the Danubian States and, indeed, in most countries, which hem in Germany. Germany not only resents these developments as political moves engineered, to her own danger, through the supposedly impartial offices of the League; but she is particularly interested that Austria, at least, should attempt to shake herself free of foreign (particularly French) control, obtained through the flotation of further international loans. Hitler, in effect, has declared a tentative war against international finance and all foreign loaned capital, and it is certain that a large amount of the opposition generated against his manifestly sincere internal reconstruction policy in Germany is due to this fact. France is working hand in hand with international finance, using the catspaw of the League of Nations, to tighten her stranglehold on Germany through the financial control of the surrounding nations, and a servile and finance-suborned press has been deliberate in its efforts to discredit Germany throughout the world by the dragging of red herrings of all shapes and smells across the trail. The policy of the Nazis is instinctively rather than factually in opposition to international finance, but the seeds of a conflict of tremendous dimensions are already sown; and it looks as if the powers of usury will force Great Britain to join France in an effort to crush Germany to-day, just as they forced her to fight a battle for usury, in combination with Germany against the Continental System of Napoleon in the last century.

An international loan to Hungary under the auspices of the League was floated in 1924. Bonds to the value of £10,500,000, with interest at 7½ per cent. were issued at 88, redeemable in 1944 at par. "On money invested, and allowing for the premium on redemption, this loan yielded a rate of interest of nearly 9½ per cent." (C. M. Hattersley, "This Age of Plenty"; London, Pitman, 1933).

It might be thought that, with the eventual promise of such an unusually high rate of interest, the loan would be rather precariously safeguarded; but, as in the case of the Austrian issue,

"the loan was secured on specific revenues, namely those arising from customs duties, sugar tax and tobacco monopoly, together

with the net revenue from the salt monopoly" (Midland Bank Review," London, May–June, 1928).

while also,

> "... the League was empowered to appoint trustees for the bondholders, while the fulfilment of the programme of *financial reform* with the aid of the loan proceeds was placed under the supervision of a Commissioner General. . . ."

The Hungarian exchange was artificially stabilized in relation to sterling, and the waiting bondholders who were to receive this financial manna from a Hungarian heaven were impudently assured that "the revenue . . . at the time of the loan far exceeded the amount required for the service of the loan".

Unfortunately the strain of providing this financial manna proved too much for Hungary. The once "ample revenues" rapidly dwindled away feeding this nest of cuckoos until, in December, 1932, officials of the Bank for International Settlements were forced to grant extension to a further $20,000,000 loan subsequently made to Hungary by a "consortium of ten governments", which fell due at that time.

It was, however, feared that

> "because of the difficult situation in Hungary . . . this extension would be insufficient to make any material difference in the status of Hungarian finances, which are known to be so precarious that, even though she does not demand a moratorium, Hungary may find herself unable to meet her obligations before the end of the year" ("New York Times", Dec. 16th, 1932).

Less than a week later, a moratorium was declared, apparently to "preserve the small reserve of *borrowed* gold which Hungary still has to support its weakened currency".

Approximately two-thirds of all Hungarian foreign loans were affected by the moratorium, but it is highly suggestive, to say the least, that the financial manna was still vouchsafed to the faithful under the benevolent auspices of the League, for the official announcement included a statement to the effect that "*the League of Nations loan of 1924 and certain others are exempted from the decree*" ("New York Evening Post", Dec. 19th, 1932).

Since the War, international loans, directly or indirectly controlled by the Loans Committee of the League of Nations, have similarly been floated in the Danubian States and the Balkan countries. The writer has made no detailed study of these transactions, but a reading of the newspapers during the last year or so has proved to him that the payment of interest on these debts has brought added misery to these countries during a period of unparalleled international deflation, and that most, if not all of them, are now necessarily in partial or total default. In spite of the fact that the principal of these loans can never be repaid, and that the interest can only be transferred by the acquisition of foreign currency through a " favourable " balance of trade, and that the difficulty of disposing " surpluses " to acquire this foreign currency is increasing every day, the notice of the debtor countries' inability to pay had invariably met with an organized protest from the Council of Foreign Bondholders and the Loans Committee of the League of Nations. In most cases, an " expert " from the League has been appointed to investigate the finances of the debtor country so as to prove that the debtor country can pay more than she is able to offer. These investigations have usually resulted in suggestions for internal economy and increased taxation in the debtor country, so that the " service " on these foreign loans can be " facilitated ".

As the economic situation in these countries is specially desperate, and internal discontent is increasing every day, it is difficult again to come to any other conclusion except that the League is directly furthering the cause of war rather than of peace; and that, not in the interests of various countries concerned, but in the interest of an international consortium of foreign bondholders. Although a certain proportion of these loans may be held by private persons who are naturally disappointed that the interest on their bonds is not forthcoming, and who therefore support the bailiff activities of the Council of Foreign Bondholders and the Loans Committee of the League of Nations, there can be little doubt that the bulk of it is held by international financial interests which are entirely indifferent to the fate of the individual countries, whose declining industries they have battened on in the past, and which they

still hope to exploit, in the absence of all evidence as to its possibility, in the future. At the same time, the international moneylender, operating through the mechanism of the Wall Streets and Lombard Streets in all countries, and who recognizes no boundary to his activities, political or ethnographical, has contrived, with infernal ingenuity, to suggest that the default on an American loan, floated (say) in Germany, is due to the dishonesty and evasion of the latter, and that "American" capital (i.e., the property of the American people) is in jeopardy. Suspicion and discontent is thus generated in both countries; in America, due to its fear for the loss of its "own" capital, and in Germany, because of the attempt to increase an already impossible burden of taxation in the effort to pay interest on it.

If the main implication in the preceding paragraphs is doubted, perhaps the following evidence will serve to justify it. On August 30th, 1933, the Bulgarian government announced

> "the early arrival of M. Charron, former commissioner of the League of Nations to Bulgaria, to ascertain if the recommendations of the League Committee regarding financial reorganization are being carried out. If not, Geneva will send an expert to supervise the enforcement of the measures voted" (London "Times", Aug. 31st, 1933).

This announcement followed a declaration of the Bulgarian Government to the effect that it was impossible to include in its budget "the present non-transferrable debt service" and suggesting a revision in favour of Bulgaria of some agreement made in 1926, relative to it.

Similar representations made by Greece for the reduction of interest payments on its external debt were countered by a 'communiqué' which contained the following paragraph:

> "The Council of Foreign Bondholders and the League Loans Committee (London), after carefully studying the recent report of the League of Nations Financial Committee on Greece, and after considering the further arguments put forward by the Greek Ministers, are of opinion that these are not proposals which they can recommend the bondholders to accept." (London "Times", Aug. 11th, 1933.)

In August, 1933, a deadlock was reached in connection with the default on Rumanian external debt, and a conference was suggested between representatives of the bondholders and the Rumanian Government. As a preliminary to this conference, the bondholders suggested that

> "a League of Nations financial expert should be appointed to examine Rumania's position and that his recommendations should be made the basis of discussion at the conference" (London "Daily Mail", Sept. 1st, 1933).

In general, one of the purposes of this book has been to show that

(1) The principal of foreign loans can never be repaid, as this would automatically wipe out the whole of the international "currency" by means of which foreign "trade" is carried on;

(2) the interest on foreign loans can only be paid in a rising world market, i.e., during large wars when consumption is increased at the expense of mounting national debts in the belligerent countries, or through the industrial exploitation of commercially undeveloped nations;

(3) the interest on loans can *not* be paid in a falling world market, i.e., when no large wars are in progress, or when previously undeveloped countries have developed and are themselves seeking a share in the world market.

Under these circumstances (which obtain at present), all that can be done about foreign loans is,

(*a*) default,

(*b*) increase them through further foreign "investment".

As an increase in foreign "investment" only postpones the problem by increasing its dimensions, and as, under the present condition of world trade, foreign investment is declining because debtor countries are now just as unwilling to accept further loans as creditor nations are to supply them, it follows that the recommendations of the League Loans Committee and the Council of Foreign Bondholders fly in the face of the most elementary logic, and are calculated to increase suspicion and resentment in every quarter.

If specific evidence is needed to support these general conclusions, the following extract from a letter written to the London "Times" of September 12th, 1933, by Kalman de Buday, Vice-President of the Danubian League Society, and Secretary of the National Hungarian Industrial Mortgage Institute, Budapest, should supply it conclusively—

> ". . . the total annual service of the foreign debts of Austria, Bulgaria, Greece, Hungary, Rumania and Yogoslavia is about £39,000,000 at par, and their *combined* balance of trade, far from producing a penny for the payment of foreign debts, even showed, in 1932, a deficit of £9,000,000, invisible exports being included.
>
> "Allowing for the reduction of interest, the postponement of interest, and amortization payments, the internal utilization of the blocked amounts, and the possible transferable parts of the debt service, there will remain probably at least about £16,000,000 at par which will be non-transferable for the time being and which should accumulate to £48,000,000 in three years."

The individual difficulty in coping with debt service under these impossible conditions was forcibly expressed for Rumania by M. Madgearu before a Sub-Commission at the World Economic Conference.

> ". . . in order to meet her foreign obligations, Rumania has to export in terms of wheat twice the amount before prices fell; in terms of mineral oil three times as much; and in terms of barley five times.
>
> "The burden of her public debt has thus been made intolerable, and the domestic private debts of her citizens have been magnified in the same way and through the same cause."

With "surpluses" in every country, and with the growing imposition of tariffs and quotas to keep them out, how on earth is Rumania, or indeed any other country, supposed to be able to get the necessary foreign currency to pay interest on her foreign debts—except, indeed, through wage slavery and cut-throat prices for her exports so that she can undersell resentful home producers in the creditor countries themselves? This desperate vicious circle, which automatically creates dissension amongst creditor and debtor nations alike, has already been discussed in detail in an earlier chapter. M.

Madgearu has since stuck to his point, as the following quotation from a speech at Bucharest will show.

> " Rumania cannot make the (debt) payments in foreign currencies until markets have been assured abroad for our surplus products. This has not been done up to the present, and to make things worse, prices of the products which Rumania exported have fallen considerably.
>
> " Rumania cannot leave its officials, widows and invalids to starve in order to pay debts abroad which have become burdensome. . . ." (London " Times ", Sept. 12th, 1933.)

The League of Nations has not confined its efforts for financial " reconstruction " entirely to Europe. Sir Otto Niemeyer, a member of the Financial Committee of the League and also a member of the board of the Bank for International Settlements, whose activities have already been referred to, has been indefatigable in this cause in Brazil, New Zealand, Australia and elsewhere. He has left a trail of economy, increased taxation and a lowered standard of living behind him in every country which he has visited. The twenty-six odd central banks formed since the War, essentially to " facilitate " the service on internal and external debt, have, in most cases, been brought into existence, directly or indirectly through the mediumship of the League, many of them under Sir Otto's direction.

The position is plain. Officials of the Bank for International Settlements, the Financial Committee of the League of Nations, the Council of Foreign Bondholders, representatives of such private banking houses as J. P. Morgan & Company, and certain independent but powerful financiers and financial combinations, have used the League of Nations first to create, and then press for interest payments on, international debt whose very existence, in a falling world market, is at the root of all trouble in international politics to-day. In a world positively aching for peace and progress, the League has, no doubt unwittingly, been active in the promotion of war and universal unrest. Under these circumstances, the policy of the financier, as Mr. Geoffrey Biddulph, writing in the " New English Weekly " for May 18th, 1933, says, has been " Never

explain, never apologize!"; while the public is forced to acquiesce in the

> "central banks proceeding, from their position of complacent detachment, to generate depression, unemployment, bankruptcy, budget deficits and defaults, with all the resulting political and social upheavals, while Government after Government is broken because it can neither stem the flood of ruin, nor even provide tolerable palliatives to alleviate the consequences."

Quite clearly, with these debts weighing upon a system less and less able to support them, all countries concerned, creditor and debtor alike, suffer reciprocally, and the only thing which benefits—and that more and more precariously—is a vast nexus of international capital whose only excuse for existence is that interest should be paid on it. As this interest can only be paid by a desperate competition for the disposal of mounting "surpluses" in an ever-dwindling world market, this nexus of capital, which manœuvres behind the screen and with the co-operation of the international machinery at Geneva, definitely exists to promote wage slavery and a lowered standard of living in all countries, as a prime incentive to war, and as an organized menace to world civilization.

Early in 1933, the minority report of the League's Gold Delegation predicted that

> "millions of people in this economically interlocked world must inevitably die of starvation, and it is indeed doubtful whether our present civilization can survive".

The possibility of such supine insanity, seriously and solemnly predicted by an organization calling itself a League of Nations, and that in a world afflicted with poverty because of abundance, suggests, as Mr. Biddulph says, that a "society which submits to the hegemony of its bankers, and tolerates their moralizing, is hardly fitted to survive".

## *CHAPTER XXVIII*

# THE GOLD IDOL IN ENGLAND

THIS organized array of forces for the destruction of civilization may well seem to be incredible to the average man, accustomed as he is to think of domestic and international policy largely as a mixture of muddle, intrigue, and graft. But it need not be supposed that finance is deliberate in its policy to enslave mankind. Students of economics who have not been brought up on the unbelievable pap which generations of gold-standard Beckmessers feed to their offspring, but who, like Hans Sachs, have thought the whole matter out for themselves, are divided on this point. Whether or not there is or has been in existence an international Financial Conspiracy to enslave the world is immaterial: for it is just as certain that finance works automatically to this end, as it is that the majority of bankers and financiers administer the system which supports them with great ability and integrity. Indeed, it is doubtful whether, particularly in Great Britain, there is anything in the industrial field which can compare with the banking system for efficiency and departmental integrity. Even the vast profits and income tax evasions of America's leading financiers, as brought to light by the activities of the present Senate Stock Market Investigating Committee, have all been effected within the letter of the law, while no one can possibly dispute the efficiency and enterprise of American finance—although millions of bondholders in New York and elsewhere, as well as many desperate debt-ridden communities in Germany, South America and Cuba have good reason to resent it.

In the writer's opinion, it is doubtful whether there is any man in this century whose policy has had such a malign influence in European and world affairs as the present Governor

of the Bank of England, Mr. Montagu Norman. At the same time, it is undoubtedly true that Mr. Norman is a man of scrupulous personal honesty and outstanding ability. The task of maintaining the world fiction known as the gold standard (although not seen as such by the Governor and his fellow central bankers), and that during a period when the fiction is transparently breaking down in front of an agonized world, is no easy one; and Mr. Norman has worked at his desperate task with a skill and devotion which it would be hard to parallel in any sphere of political or industrial activity.

It was Mr. Norman or his predecessor who presided over the meeting of the financial experts in 1919 to fix the figure for German reparations, a meeting which "solemnly came to the conclusion that Germany was able to pay an astronomical figure of more than six thousand million pounds". After causing an incalculable amount of discord which has now culminated in Germany's leaving the League of Nations, this figure was reduced, in a series of reluctant stages, to the common-sense one of zero (see pages 144–5). It was Mr. Norman who led Mr. Baldwin to the British settlement of war debts to America which has similarly caused acute dissension in Washington and London, and which, in another series of stages, is gradually being reduced to the same figure of zero. It was Mr. Norman who persuaded the ebullient Winston Churchill, then Chancellor of the Exchequer, to put England back on the gold standard, so that, forsooth, the "pound might look the dollar in the face". The resulting deflation, at one and the same time, increased the profits of the British banks,[1] paralysed British industry, sent up the bankruptcy and unemployment figures by leaps and bounds, and finally brought on the General Strike of 1926. This latter development alone is reputed to have cost the nation something like £100,000,000!

Again, in 1931, when it became evident to Mr. Norman that his molten calf, reinstated at such enormous cost to the nation, was about to fall once more, Mr. Snowden, a hard-headed Yorkshire Chancellor of the Exchequer and a Socialist to boot, was persuaded to throw over the convictions and friendships of a lifetime, and buckle to the task of putting this

[1] See Appendix C.

idolatrous Humpty Dumpty back again. A short-term credit of 50 million pounds, soon increased by another 80 millions, was advanced by French and American bankers, with the usual injunctions about balancing the British Budget and increasing taxation. Taking into account the subsequent depreciation of the pound when England was finally forced off the gold standard (in spite of these efforts to keep it there), the repayment of the loan, principal and interest involved a sum of something like £180,000,000. So that, in an unsuccessful effort to again save this relic of barbarism, the British taxpayer lost the huge sum of £50,000,000 in a few weeks. The ultimate cost to the nation, in terms of human values, will be properly appreciated when it is pointed out, as was done in the London "Evening Standard" for July 6th, 1933, that this is a sum equal to "more than a year's expenditure on old-age pensions, three times as much as is spent on housing grants", and nearly as much as is spent every year to support the nation's unemployed.[1]

With his idol fallen again, Mr. Norman was so scared of the consequences that he persisted in the bankers' traditional attempt to continue the deflation. For the whole of the succeeding five months money was kept "tight" by artificially raising the bank rate to 6 per cent., so that Great Britain was unable to use the advantage of her depreciated currency, and thus compete successfully in the foreign market, under the rules of the money game. At the same time, another £150,000,000 of public money was commandeered (by increasing the floating debt by this amount) to anchor the pound to the American dollar idol, which was then still on its feet. This sum, which was mobilized under the name of the Exchange Equalization Fund, was subsequently increased up to and after the fall of the dollar in March of the following year. To revert to technical language for the moment, the pound was then "pegged" to the French franc, as the only remaining gold idol of sufficient bulk to hold it. This second anchoring was

[1] These events, incidentally, define the policy by means of which the present National Government "saved" the country from financial chaos. The National Government is still congratulating itself on this "achievement".

also managed by the Exchange Equalization Fund, which, during the process, increased to something like £350,000,000! As long as France remains on the gold standard, and British currency, or any other currency "off" gold, is used to buy gold or gold francs to peg that currency to the franc, the departure from the gold standard in that country is purely technical, and not actual.

During the whole of this period, this vast fund has been administered with the greatest possible secrecy, so that it has been difficult, if not actually impossible, to discover how exactly it has been mobilized or how it has been administered. But what does transpire is that, largely through its agency, the Bank of England has been able to increase its gold holdings, in the first half of 1933, from £120,566,933 to £190,584,121. So that while the gold idol is fallen and discredited in public, this Aaron of the British molten calf has somehow managed to acquire and bury with it another seventy million pounds of gold.

To realize the full fanaticism of this action, it should be remembered that, during the recent fall in prices, the market value of gold appreciated enormously. During the period of these vast purchases by the Exchange Equalization Fund, the price of gold stood at an average of about £6 10*s.* per fine ounce—a price very satisfactory to the gold-miners and holders of gold-mining shares throughout the world. But, under the terms of its charter, the Bank of England is compelled to enter all gold bought by it at a fixed "mint" price of £4 4*s.* 11½*d.* per fine ounce. An apology is here appended for dragging in these absurd details of the bankers' abracadabra, but it has only been done to shew that the Bank really paid about £6 10*s.* to increase its gold holdings by £4 4*s.* 11½*d.* So that the £70,000,000 added to its gold holdings in the first six months of 1933 really cost the nation more than £100,000,000 in hard cash. Which means that this second sacrifice—this time to a fallen idol—involved a sum almost equal to the combined cost of the nation's old-age pensions and the whole of the cost of maintaining its unemployed for a year.

The writer is in no position to trace out the effects of Mr. Norman's policy in Europe in general, although there is no doubt that the close "liaison", discussed in the previous chapter,

between the League of Nations, the Council of Foreign Bondholders and the Bank for International Settlements, has been promoted largely through the efforts of Mr. Norman and the other central bankers on the Continent. The following paragraphs may help, however, to convey some impression of the attitude of the Governor and his friends, who, from their position of complacent detachment, " generate depression, unemployment, bankruptcy, budget deficits and defaults ".

A reading of Mr. Norman's evidence before the Macmillan Committee on Finance and Industry, particularly with regard to the possible functions of the Bank for International Settlements, gives a fair indication of the Governor's attitude. He is consistently vague about the possible repercussions of central-bank policy on industry in the various countries concerned, but he is emphatic with regard to the necessity for rigid international control of monetary policy.

> *Lord Macmillan.* " Is an international policy really necessary now with a proper financial system ? "
> *Mr. Norman.* " It is imperative, I think."

The fact that the maintenance of a fixed international standard of value necessarily involves continued fluctuations in the purchasing power of internal currencies does not seem to worry Mr. Norman unduly. It is not a matter of concern for central bankers, apparently, that debts can be contracted in money units of low purchasing power and may have to be repaid in units of considerably higher value. Mr. Norman's reply to the following question of Mr. J. M. Keynes was in the affirmative:

> " What you are proposing is really an alternation in the value of money for all domestic purposes . . . while keeping it the same for international purposes ? "

With regard to the B.I.S., the chief concern of whose monthly board meetings is the maintenance of this international standard of money value, Mr. Norman considers it to be

> " a method of conference, or a club, among central bankers, which . . . *without comment from outside* . . . has allowed many of those who are interested in the common problems of central banking to meet regularly once a month ".

Mr. Hartley Withers, one of the most astute and agile of the professional economic apologists, in his book, "The Meaning of Money" (London, Murray, 5th ed., 1930), was sensible enough to realize that the then proposed establishment of the Bank for International Settlements was "fraught with serious dangers". He then lightheartedly became a little more expansive about the "club life" referred to by Mr. Norman.

> ". . . it ought to be able to provide the governors of central banks with a pleasant club house, where mellowed by good cheer —the cuisine and cellar will be of the highest importance to the future of humanity—they may discuss the development and modification of banking principles in the interests of the workers and consumers of all nations."

Such fawning and servile pleasantry with regard to a deliberate attempt to impose a bankers' dictatorship throughout the world, comes naturally from one of the most active and versatile of all the professional economic dithyrambists. Mr. Withers' works on banking and finance are one long pæan of praise for a system which has brought mankind to universal bankruptcy and the brink of another great international war. The eternal theme of his song is that "the only defect in the system is its perfection" ("The Meaning of Money", page 72).

## *CHAPTER XXIX*

# THE AMERICAN BANKER

THE situation in the United States, although substantially the same as far as the general power of finahce is concerned, has developed differently, while the issues have been thrown up into more violent relief because of the more direct and more instinctive opposition of the American people to the growth of this power. The authority of the American banker, although enormous, is not absolute, as in England, and it has been (as it is now being) resisted at every stage in its consolidation. Finance, in America, is interlocked with, derives and has been extended from the European system, and the mutual effort, at both ends, has been towards the development of a dual control throughout the world.

The American people, however, in spite of all superficial evidence to the contrary in the matter of regimentation and mass production in industry, were always, and still are, the most liberty-loving people in the world. Their strong instinct in this direction is derived from a succession of peoples who have sought refuge there, from the Pilgrim Fathers onwards, against poverty and persecution in other parts of the world. Throughout the whole history of its colonization, comparatively small communities have developed the richness of the land, more recently in the West, and have seen the wealth which they have created, pass away from them to the East, more particularly to New York, through the agency of the private ownership of credit and the machinations of finance generally. At the same time, the industrial and agricultural development of America has been so rapid that the consciousness, and indeed the knowledge, that it was they themselves, i.e., the people of America, who created this visible wealth and that it was Eastern finance which has somehow appro-

priated it, is still strong in the present generation. Indeed, in large sections of the community, the creation of Real Wealth began no more than two generations back.[1] In Europe, these origins of development are so remote that the present generation, while subconsciously aware of a similar process of appropriation, is inclined to accept it as inevitable.

Further, the historical rise of the American people has not been obscured by the superficial but more dramatic military and political issues which have completely monopolized the foreground in the European situation. Indeed, the history of the American people, is essentially the story of an attempt to develop a free sociology, in the face of all European precedents in a contrary direction. Even a casual study of such popular sources as Charles and Mary Beard's story of the "Rise of American Civilization" will show that the crucial stages in her history have not been concerned with military domination, political intrigue or the maintenance of a balance of power, but with a struggle against internal and external economic factors. The genius of her people has been matched against the growing power of the bankers of the world; first against European bankers, then against her own, and now against a combination of both which seeks to control and restrict her development. The names of Washington, Jackson, Jefferson, Lincoln and William Jennings Bryan symbolize the most important stages in this struggle. Her present President is in direct line with this tradition, and the future freedom of his people, and, to a large extent, of the world, depends on his vision and courage. The struggle against finance, which is now working up to a stupendous climax in the United States, is essentially the same as that in which Abraham Lincoln joined and died. And as Seward knew then, so America should know now. The clash is not "accidental, unnecessary, or the work of fanatical agitators and therefore ephemeral". It is the beginnings of another "irrepressible conflict between opposing and enduring forces" which may finally engulf not only the American continent but the whole of Western civilization.

The writer does not propose to trace the economic history

[1] See page 268.

of the United States from this angle; but will give the following broad indications. He would restate an opinion, now held by many independent historians, that the American revolution was brought about by purely financial causes. The American colonials were fighting for liberty, individual and political, but they were fighting for a liberty which it was impossible for England to give, under the exigencies of the money game. The American colony, like the rest of the British Empire then formed or in process of formation, was *necessary* as a dumping-ground for British industrial "surpluses", whose enforced acceptance in America, and elsewhere, made possible the interest payment on British capital invested there.[1] It is no mere coincidence that the immediate cause of war was a "Boston tea party" calculated to give an emphatic popular protest against British imperial dumping.

In the Civil War, the most important development, from the point of view of this argument, was that both North and South were forced to help out their war financing by money of their own printing. The issue of "greenbacks" precipitated the struggle between State-issued money and bankers' money. And if "greenbacks" have since fallen into disrepute, it is because American bankers have used every means in their power to discredit them in favour of the notes of their own issuing. The "dangerous inflation" due to greenback issue has been regularly blamed for the horrors of the deflation which inevitably followed when bankers succeeded in withdrawing this government-issued money from circulation. If any doubt at all is entertained as to the attitude of banking authorities (American or European), to the issue of government notes, perhaps the following extract from a circular issued by the American Banker's Association to individual banks some ten years after the Civil War (1877) will remove it.

> "It is advisable to do all in your power to sustain such newspapers, especially in the agricultural and religious press, as will oppose the issue of greenback paper money, and that you also withhold patronage or favours from all applicants who are not willing to oppose the Government issue of money. . . .
>
> "To repeal the law enacting national bank-notes, or to restore

[1] See page 130.

> to circulation the Government issue of money, ***will be to provide the people with money***, and therefore seriously affect your individual profits as bankers and lenders."

This open threat, to withdraw patronage or favours, no doubt referred to banking practices similar to those revealed by the present Senate Stock Market Investigating Committee as well as to the granting of loans; while the emphasis on the special need for propaganda against greenback issue in the agricultural and religious press will not be lost on anyone who has the slightest knowledge of the opposing factors in the American situation.

Between the time of this circular and 1890, the struggle between bank-issued and government-issued money was uncertain, when the situation was once more crystallized by the rise of William Jennings Bryan as a new champion of the liberties of the American people. The real issue in the historical Bryan-McKinley election was not, as is commonly supposed, a fight to maintain silver, as well as gold, as a metal to be purchased for "backing" to the American currency, but a fight between forces for government and bank control of credit. The story of this struggle, which brought about the complete ruin of the Western States, largely built up on silver, and which culminated in the desperate panic of 1893, is one of the most dastardly in the whole history of finance. This story was told by Mr. Arthur Kitson, an Englishman, at that time in business at Philadelphia, in his evidence before the Macmillan Committee on Finance and Industry at London, May 15th, 1930.

> "Cleveland was elected professedly for the purpose of repealing the McKinley Act, which had been passed under the Republican administration of General Harrison. The first thing Cleveland did after his election was to summon a meeting of Congress, not for the purpose of repealing the McKinley Bill, for which he was elected, but to repeal the Sherman Silver Bill, a subject which had not been a special election issue.
>
> "This bill had also been passed under the former administration for the object of increasing the currency by the issue of $6,000,000 of Treasury notes against an equivalent amount of silver. The Southern and Western States, to whom Cleveland owed his election, were in favour of bimetallism and therefore refused to repeal this Act.

"Then the bankers of New York called a meeting and they said, 'We shall have to give the country an object lesson; we shall have to frighten the people in order to get the repeal of the Sherman Bill.' I have a copy of one of the letters that was sent to all the National Banks calling upon them to curtail credit and bring about a financial crisis, and then lay the blame on the Silver Coinage measure.

"Within a few weeks of the issue of this letter, we had the most terrible panic that had been known up to that date and several millions of people were thrown out of employment. Thousands of merchants and manufacturers were made bankrupt, and we had a period of industrial depression far worse than we are having here now. I had at that time about $30,000 on deposit at the Chestnut Street National Bank in Philadelphia and the bank officials refused to honour cheques in currency. We were paid in clearing house certificates.

"I then began studying this question in common with many others, and I came to the conclusion that there was something radically wrong with a system of finance that enabled a few bankers to get together and bring about this terrible crisis in industry.

"The crisis lasted for some years and it was during that period that . . . I met Mr. Bryan, the nominee of the Democratic Party for the Presidency in 1896. Mr. Bryan came from Nebraska to Philadelphia to see me; we had two or three evenings conversation. I put the question to him: 'Mr. Bryan, do you think that bimetallism is going to solve the economic problem?' He said, 'No, certainly not. Metallism is merely a symbol; the real fight is for the control of the national credit. If McKinley (the nominee of the Republican Party) wins, this country will be governed by the most unscrupulous set of speculators the world has ever known. If I win, the Government will control its own credit.'

"So I joined Mr. Bryan. I spoke for him at hundreds of meetings. In fact, I stumped the State of Pennsylvania on his behalf. . . ." (Minutes of Evidence, Vol. I, page 355.)

The letter referred to, which was "sent to all the National Banks", is subjoined below. Mr. Kitson is still alive, and the author has been personally assured by him that the letter is still in his possession.

"Dear Sir—

"The interests of National Bankers require immediate financial legislation by Congress. Silver certificates and Treasury notes

must be retired and the National Bank notes upon a gold basis made the only money. This requires the authorization of from $500,000,000 to $1,000,000,000 of new bonds as a basis of circulation.

"You will at once retire one-third your circulation and call in one-half your loans. Be careful to make a money stringency felt among your patrons, especially among influential business men.

"Advocate an extra session of Congress for the repeal of the purchase clause of the Sherman law; and act with the other banks of your city in securing a large petition to Congress for its unconditional repeal, as per accompanying form. Use personal influence with Congressmen; and particularly let your wishes be known to your Senators.

"The future life of National Banks as fixed and safe investments depends upon immediate action, as there is an increasing sentiment in favour of Governmental legal tender notes and silver coinage."

As Mr. Kitson, in his book, "Industrial Depression" (1905), says:

> "This conspiracy—one of the cruellest and most scandalous in the history of the Republic—was successful. Credit, upon which industry is built, was shaken, and the public—ignorant of these questions—particularly such an abstruse one as the currency—accepted the reasons offered by the Press and demanded their Congressman to vote for the repeal of the bill.
>
> "In the Autumn of 1893 the Silver Purchasing Bill was repealed."

It should be remembered that, during deflations, whether brought about automatically by the workings of the present monetary system, or by the deliberate calling of loans by bankers, as in this case, the owners of debt-claims are directly benefited at the expense of the debtors. The falling prices, which accompany these periods, generate bankruptcies and unemployment, on the one hand, but raise the purchasing power of dollars held by solvents and creditors, on the other. As already stated, in a quotation from Lord Milner,

> "the moneyed interests must always be in favour of falling prices because they render its own wares—money—more valuable".

Indeed, Professor Irving Fisher has produced statistics which, taking the "pre-war" dollar of 1860 or 1913 as a

normal one of 100 cents purchasing power, show that the inflated dollar at the end of the Civil War declined in purchasing power to about 40 cents; while, during the long deflation which followed, and which was climaxed by the infamous operations referred to above, the dollar rose to a maximum of some 150 cents purchasing power. It is thus beyond all question that bankers are in a position, by extending or restricting credit, to "arbitrarily change the denomination of coin" and so institute what Bishop Berkeley called a "public cheat". Inflations, usually associated with war periods, are the periods of the accumulation of huge public and private debts, which are resolved in dearer and dearer money units during the succeeding deflation. Inflation, in fact, is the web of the financial spider, and deflation the mastication of the human fly (see Appendix C).

So that, when Bryan, in his famous "Cross of Gold" speech already referred to, said that the right to coin and issue money is a "part of sovereignty" which could "no more with safety be delegated to private individuals than we could afford to private individuals the power to make penal statutes or levy taxes", he was doing no more than stating what ought to be a most obvious truth. If ever a country was at the parting of the ways, and if ever a country blindly took the wrong turning, that country was America at the time of the Bryan-McKinley election. Bryan, with all his faults and all his limitations, was a great American in the true tradition of his country; and, since that time, the country, and the rest of civilization with it, has certainly been run to a standstill by the "most unscrupulous set of speculators the world has ever known".

Every President since that time, with the exception of the two Roosevelts, has been cowed by big business, with Finance behind it. It was Wall Street which got America into the World War, in which it had no real concern. As Lawrence Dennis says:

> "A neutral has a valid grievance and even a cause for war when a belligerent exercises military measures which deprive the neutral of needed supplies. We never even intimated such a grievance. Fighting, as we did, for the right of neutral traders to sell supplies—mostly on credit—to a belligerent, we avenged

Germany's challenge to our traders' right to profiteer on war trade, financed by American credit."

All that really happened, during the World War, was that new debts were created, through credit expansion at home and abroad; so that banks and financial houses could charge interest on these debts, and certain sections of big business could profiteer through the industrial circulation of them. The taxpayers, of course, paid and still pay interest to these debt-creators and suffered exploitation at the hands of profiteers in all countries concerned. In Europe, at least, the belligerent countries had mutually provoked and joined against each other, although it should be understood that the World War was itself brought about by purely financial causes, and, as such, was a symptom and not a cause of the present breakdown. In America, no such situation was created until Germany, in desperate self-defence and after repeated warnings, torpedoed the "Lusitania", and so challenged the right of American financiers and business men to profiteer through the export of goods, on credit, to the Allies. The loss of the lives of innocent Americans and Europeans in the "Lusitania" disaster was used as a lever to force America into a war which was no concern of hers, but her final participation in which enabled her debt creators and profiteers to continue their infamous practices.

Since then, and up to the time of the first Stock Market crash, "unscrupulous speculators" have been busy with debt creation and profiteering in every corner of the world. The details of British and American foreign "investment" since the War, to the tune of about $20,000,000,000, have been given in an earlier chapter. As explained, it was essentially an attempt to maintain the debt bubble by constantly increasing its dimensions, i.e., by the creation of further foreign "investments" to pay interest on that which was already in existence. Such pitiful stupidities, motivated by licensed avarice, can scarcely be imagined, even in the personal money relations of preparatory schoolboys. And it is to such "experts", supported by "insincere statesmen and banker-subsidized scholars", that America has entrusted the control of her destiny!

Even when the bubble did burst, the policy of the administration remained exactly the same. The improvised creation of the Reconstruction Finance Corporation, under the direction of the originator of the Dawes plan, was then no more than a huge bankers' pool to maintain the internal debt structure by inflating its dimensions still further. And it would be interesting to discover what, if any, proportion of the original $80,000,000 (?) loan from this fund to the Baltimore and Ohio railroad went to the "house" of Morgan in payment of interest or capital charges. Or what percentage of the original $2,000,000,000 which made up the pool, went directly to banks throughout the country, or indirectly via other bankrupt concerns besides the railroads. Or, conversely, what fraction went directly to ameliorate the desperate condition of the American public, which *still* pays interest to its bankers for the whole of this creation.

## *CHAPTER XXX*

# A PLAN OF ACTION

THIS struggle between bank and government control of credit and note issue, which has been punctuated, in succession, by the appearance of the crises known as the American War of Independence, the American Civil War, the Bryan-McKinley election, and the World War, has once more been precipitated by the election and subsequent policy of President Roosevelt. In this case, however, the interests concerned are vastly more extended than ever before, and the currencies of the world are so variously interlocked through exchange parities, foreign " trade ", and foreign " investments ", that the whole of the American continent directly, the whole of the European currencies indirectly, as well as those of Japan and other countries of the East, may eventually be involved.

As at the time of the Bryan-McKinley election, the controlling factors in the situation are not commonly realized, nor have they, as yet, been fully revealed. The contemporary struggle in America, in its present stage of development, is essentially one between inflation and deflation, and, as such, is relevant but not fundamental to the real issue (see Appendix C). Senator Key Pittman's recent efforts towards bimetallism are paralleled by the enactment of the Sherman Silver Purchasing Bill, while Senator Thomas' stand for out-and-out inflation is a recrudescence of the same forces which sent Grover Cleveland, but which failed to elect Bryan, to the Presidency. The instinct behind this movement, then as now, is sound and just, especially in reference to the position of the now fully aroused American farmer. But it is concerned only with a readjustment of the present iniquitous relation between debtor and creditor in the United States, rightly in favour of the

former, and not with the fundamentals of a system which automatically creates that maladjustment, and which will recreate it, even if the price and debt relationship of 1926 is fully restored.

For, while the attitude of President Roosevelt and that of many influential men, in or out of public office, is determinedly against the banking and financial interests in the country, and is firm in its contention that in finance, and finance alone, are to be found the causes for this present "depression", little or no legislation has so far appeared (November, 1933) to shew that any of the President's advisers see the situation so completely in perspective as did Bryan. *As long as it is permitted that credit, with money-interest due on it, may be issued by the banking system, no governmental "control" of this issue, either by inflation, revaluation of the dollar, or by gold purchase in the domestic or international market, can possibly affect the ultimate situation.* In the last analysis, the banker's policy, as has consistently been maintained, is controlled by his gold reserves, and by his outstanding obligations, internal and external, on debts based on so-called gold payments. It is gold, and not the banker, who is the final master in this world, and all governmental efforts to "control" a banking system, which is itself controlled by a superstition, will not only be abortive, but dangerous.

Although it seems that the President and his advisers do not fully understand the mechanism of moneylending, signs are not wanting that they are alive to the existence of this superstition. A commodity dollar has been proposed, while Speaker Rainey has given it out that Congress is at last beginning to realize that it is goods, and not gold, which matter. Also, the resolution of Congress, on June 5th, 1933, abolishing the "gold" clause in bonds and securities, and, at the same time, fully legalizing their discharge by payment, dollar for dollar, "in any coin or currency which at the time of payment is legal tender for public and private debts", is directly aimed at and cuts at the very root of the sinister relationship between gold and debt. As such, it is the first sane pronouncement from any government with regard to a legal quibble which has bedevilled mankind for centuries, and can

be taken as an official intimation that the struggle to break the world bondage to gold has begun.

The first practical result of this materialized a month later, when the New York Stock Exchange decided not to list any bonds

> "if expressed to be payable either absolutely or in the effect of any change in the existing laws of the United States or upon any other condition or contingency, *in gold or a particular kind of coin or currency* of the United States, or in an amount of money of the United States, measured by gold, or by a particular kind of coin or currency of the United States".

*In view of this situation in America, and the fact that the British Labour Party has now committed itself to take over the whole of the British banking system, if and when it is returned to power, the writer feels emboldened to make the following suggestions towards direct action.*

*It will be of no effect if the banking systems are merely taken over or "controlled" by the governments in each country, so that the profits gained therein may accrue to the State and not to a mesh of private corporations, as at present. No reallocation of profits or income, on any scale whatever, can possibly affect the fundamental situation so long as those profits and incomes, individually or collectively, are generated under usury. The writer suggests, therefore, that not only should greenbacks or Treasury notes be issued to supplement the Federal Reserve, National Bank or Bank of England notes now in existence, but that they should be issued and controlled as to* entirely replace them. *Further, that direct action should be taken to substitute government credits for all bank deposits outstanding in both countries.*

*Before doing this, each government should approach its banking authorities and suggest that they co-operate directly in effecting this change so that they may be left in charge, with due recompense, of all administration, under the new conditions. If, as is fairly certain, they refuse, each government should then proceed as follows.*

*They should immediately authorize the redemption of National*

*Debt in new government money, whether in coin, notes or newly created credits, up to (and to any extent beyond they may subsequently discover to be necessary) the total amount of bank deposits outstanding. This would call for the issue of new money to the extent of some £2,000 millions in Great Britain and $50,000 millions in the United States. National Debt, in an amount far in excess of these totals, exists in both countries. This new issue will not result in inflation, as it is designed, in this first instance, not to extend but to replace existing money of all categories.*

*All holders of War Loan, Liberty Loan, and government securities of every denomination, should be notified that their bonds, over an indefinite period, will be subject to redemption in coin, Treasury notes or by credits in some government controlled banking institution.*

*These bonds might be redeemed at a premium which would be disbursed in yearly interest payments for any period that might or might not be considered equitable in this emergency: and the amount of such credits should be the bondholders' full authority to draw on it by cheque in the settlement of debts and the furtherance of his business. This process should speedily be prosecuted until government securities have been redeemed in an amount at least equal to the totality of all bank loans outstanding, all bills discounted, and all securities held by the banking systems.*

*At the same time, it should be announced that the government will make a small charge (say 1 per cent.) for service and custody on all such credits allocated, and that it is further prepared to advance free loans to borrowers of repute upon the deposition of evidence of tangible security (fixed assets) with the officials of government controlled financial institutions.*

*In face of these proposals, it will be impossible for the banks to offer interest on current (checking) or deposit accounts, or to charge interest on their loans. All holders of government credits, obtained through the redemption of their bonds, will immediately pay off their interest-bearing bank loans, and will deposit their excess credit holdings, if any, with the banks for them to pay interest on. Those whose bank loans exceed the amount of their holdings in government stock will transfer their collateral security from their bank to the government banking institution and will*

*pay off the residue of their bank loans out of the proceeds of free government loans advanced on this security.*

*Under these circumstances, the banks would quickly be forced to come to terms. The government could then continue to redeem National Debt in new money if and when industry expanded under this stimulus, until all public debt was liquidated. Municipal debt could then be resolved by individual arrangements with local authorities. The government might then proceed to liquidate all private debt (as unfairly accumulated under usury) by a specific tax on all existing debt-claims under a people's mandate in Congress and Parliament.*

*This tax would function as described in Part III. As the government will now not be under any debt to bondholders or to its banking system,*[1] *all such money mobilized by this special scheme of taxation for the abolition of private debt would be spent in public services and in insurance benefits and poor relief as outlined on page 185.*

*When this is completed, the government would be in a position to institute some permanent system of free money, such as the author has outlined in Part III.*

[1] The floating debt would similarly be redeemed, and all outstanding Treasury bills cancelled, by new issues of government money, against them.

## *CHAPTER XXXI*

# FAIR IS FOUL, AND FOUL IS FAIR

THE writer is aware of the apparent " audacity " of these proposals, more particularly in the direction of their attack on the sacrosanct power of the banks. But he protests that no such " audacity " is intended, and that these proposals derive from an impartial examination of the present system. But it is high time the general public in Great Britain, in particular, realized that banks are, or should be, nothing more or less than the bookkeeping mechanism of the nation, whose officials should be recompensed adequately for performing what is a valuable and indispensable service to the community ; but that the banks, in their position as licensed moneylending institutions, have grown all-powerful, and now exist as a direct menace to man and his material and spiritual possibility. It is exactly as if an old-established and very wealthy firm had allowed its accountant to acquire control to such an extent that he adjusted the working capital at will, and dictated to all the directors and all the shareholders, not only on all matters of policy, but also on the matter of what salaries and what profits they should or should not receive. And the present situation is that of allowing this same accountant to dictate to everybody concerned, when he has quite patently, by his policy, run the firm into financial chaos and complete industrial disaster.

The writer therefore points out once more that it is not the profits but the power of the banker which is challenged in these proposals. The quotation from the Communist Manifesto on page 192 may be paraphrased, in this connection, to the effect that these proposals

" deprive no (banker) of the power to appropriate the products of society : all that they do is to deprive him of the power to

subjugate the labour of others by means of such appropriation".

Individual bankers, that is to say, would be in a position to rise in an assured and honourable profession, guaranteed in its continuance by the State, and would be allowed to "appropriate the products of society" according to their success in their profession, to their own advantage, but to no one else's disadvantage. What more could any man want?

At this point, the writer once more disassociates himself from any specific suggestion that financiers are necessarily deliberate as a force for world destruction and slavery. That the financial mechanism works to this effect, he has no doubt whatever, and hopes that the information and argument assembled in this book will convince readers that it is so. But he is unwilling to believe that any section of the financial hierarchy, however unscrupulous, could knowingly persist in a policy which, while assuring them of personal power and affluence, is dead set against the material and spiritual welfare of mankind. The only possible conclusion is that the bankers themselves do not understand the fundamentals of the system which they so efficiently administrate. A financial mechanism based on usury is automatic in its functioning, and will reward one set of men at the expense of another, in every circle, big or small, in which it operates. If for three hundred years the West has been living fairly comfortably, on a rising scale, at the expense of the East, it is simply because the West, by fair means and foul, has somehow obtained the free gold which has enabled money-lenders to build up her "credit". The forces of usury are now automatically set to serve the East at the expense of the West; [1] and if money lending, "based" on gold, is persisted in, not only will the East be "successful", but the world will live, under the machine, in a more desperate state of material and psychological privation than ever before.

The world, of course, is not going to acquiesce in any such development without a struggle, and the writer believes that the universal unrest and dissension which have been generated by the present "depression" are merely the outward signs that this struggle has begun.

[1] See Chapter XIX.

It is important, therefore, to realize who and what are the opposing forces in this coming struggle. The conscious or unconscious support, both materially and psychologically, for the continuance of usury, is enormous, and evidence of the "consuming power" of this support has been assembled, it is hoped with some vividness, in this book. Mr. Reginald McKenna, Chairman of the Midland Bank, is one of the few bankers who have been straightforward enough to admit publicly that "the time has gone for the child-like belief that as long as a country is on the gold standard all is well" (speech at Ordinary Meeting of Shareholders, January 29th, 1932). For his own part, Mr. McKenna is

> "unable to attach any meaning to the phrase ('sound money') except that a 'sound' unit of currency would always be of the same value measured in the aggregate of the things on which our money is spent. . . . Viewed in this light, could any standard have failed more signally than the gold standard in recent years?" (Idem.)

He is therefore of the opinion that the "most rational answer to this question would seem to be that, if the gold standard cannot work without depressing and even ruining trade, the proper course would be to seek another and better one". At the same time, he utters a warning that

> "the financial authorities of the world, with their deep-rooted traditions and long-established practice, will not be easily moved to consider the question on its merits".

Mr. McKenna no doubt speaks from direct personal experience, and it is from these same financial authorities that all opposition to free development has come in the past, and may be expected to come in the future. At the same time, it is necessary to realize, and only fair to admit, that the vast majority of public officials and other "pillars of society", whether in politics, the church, law, or education, as well as the landed and investing classes, are, consciously or unconsciously, in league with them. The "insincere statesmen and banker-subsidized scholars", who supported British and American foreign "investment" in Germany and South America since the World War, were, no doubt, in large part, persuaded that they were

helping in the financial " reconstruction " of Europe and the world, even if they were also managing to feather their own nests at the same time.

But in this, as in every other struggle on fundamental issues, who is not for us, is against us. And, on this count, 90 per cent., at least, of the press throughout the world, is on the side of usury and the usurer. Under these circumstances, it is difficult, if not almost impossible, for the ordinary man to get a true view of the real situation, and his instinct for fair play and common sense is either bludgeoned or subtly influenced towards toleration of, and even co-operation in, a vast unconscious conspiracy against his real interests. At the same time, the desperate stupidity of the present situation is becoming so transparently obvious, that this instinct is roused not only to a new consciousness, but to the need for assertion.

The extraordinary public response to the findings and destructive analysis of " Technocracy " is evidence that this instinct towards common sense and fairplay, in spite of all conditioning and bludgeoning from Wall Street, is deep and widespread in the American people. There is no smoke without fire; and certain facts, as a result of the publicity given to them, are now ineradically impressed on the general consciousness of the American people. Put briefly, they amount to this. That whereas the power machinery of the United States, working at full capacity, could supply goods and services to the average American family at the rate of (say) $15,000 per year, an average distribution of the income of citizens, including that of Mr. Ford and Mr. Mellon, as well as that of the iceman and the roadside hot-dog stand proprietor, would work out at something like $2,000 per family per year. The absolute or relative accuracy of these figures is immaterial. A tremendous disparity exists. Technically, it is a disparity between total production costs and total income *spent*. What causes this disparity? Technocracy has said to America that it is the " interference control of an obsolete financial system ", and the writer believes that a large and increasing proportion of the American public know this to be true.

The American press fanned the Technocracy blaze simply to profit by the increased sale of papers and pamphlets

relating to it. But when the interests which controlled these papers discovered that the public was responding, not only out of curiosity, but fundamentally, to an analysis which was aimed directly at themselves, they decided to "kill" Technocracy. Howard Scott, the inventor and founder of the new cult, was personally discredited in every quarter, and the phrase "as dead as technocracy" was invented and circulated.

Technocracy, however, is very far from dead. Not only does it go marching on in the consciousness of the American people, but the original group, although now split up, is as active and determined in the prosecution of its thesis as ever before. Mr. Bassett Jones, one of the original founders, as well as other Technocrats, who work with him, have redoubled their activities since the break. Much of Mr. Jones's evidence, as well as some of his uncompromising conclusions, have been referred to in this book. Another group, operating as the Continental Committee on Technocracy, is now entering upon a "new period of activity with a national organization and an intensive educational campaign" (report of Committee released June, 1933). The following sentences are abstracted from this report:

> "Inflation cures nothing, and curtailing production, while a part of the population lacks the essentials of life, is as criminal as it is stupid. . . .
>
> "Later, as the goal of technocracy, plenty for all, is approached, the need for differential spending powers would likely disappear, and money would cease to be the symbol of success. . . .
>
> "A society must be anticipated in which every man will have the leisure and the privileges now accorded to the favoured few, a society such as has never been recorded by history. . . ."

About the same time, a committee headed by Mr. Walter N. Polakov submitted a report on "The Significance of Technocracy" to the American Society of Industrial Engineers. This report was based on independent research, as well as statistical data obtained from such sources as the Hoover Report on Recent Social Trends, the National Industrial Conference Board and the U.S. Census. This committee takes the general position that Technocracy is correct in its facts as to the tremendous *increases in production in relation to man-power utilized,* and

that the criticisms of accuracy in particular instances (such as were broadcast by the press in its attempt to " kill " Technocracy) were entirely frivolous. The report shows that, regardless of the number of persons employed, total purchasing power is becoming increasingly unable to buy the products of industry, so that the trouble is not primarily " technological unemployment but the *unemployment of technology* ". And that, whereas the earlier advances were in the direction of spending time to gain power, in the present age the machines spend power to gain time. In direct support of Mr. Bassett Jones' statement, quoted on page 52, the report finds that in the United States,

> " between 1922 and 1929, debts increased 76 per cent., against an increase in manufactured output of only 33 per cent., and distribution of consumer goods, only 4 per cent.".

Their general conclusion is that the Machine Age of the nineteenth century has now been replaced by the Power Age in this century, and the Committee " sounds an unbiassed note of warning ", substantiated by objective facts to the effect that—

(*a*) The Machine Age relations between productivity and the length of work periods no longer exist in the Power Age.

(*b*) The Machine Age relations between investment and profit no longer exist in the Power Age.

(*c*) The financial structure of the past Machine Age is undermining the markets and purchasing capacity in the present Power Age.

(*d*) The Machine Age methods of wage determination are based on factors which no longer exist in the present Power Age.

Parallel with these, and other and similar developments in the United States, is the extraordinary progress of the Social Credit proposals of Major C. H. Douglas in Great Britain and many parts of the British Empire. The writer has made it clear that he does not agree with Major Douglas's reasoning, nor the reconstruction proposals based on his analysis, but there can be no doubt that his discovery and emphatic statement that, under the present system, no community can buy what it produces, has been instrumental in calling hundreds of

thousands of people into a new consciousness with regard to the conditions and possibilities of this existence. Douglas, like Howard Scott, is a prophet, and even if, at present, they are both like voices crying in the present wilderness of poverty and "over-production", their supporters make up in enthusiasm and conviction what they lack in weight and numbers. At the same time it should be said that, from its beginnings with a mere handful of men in Glasgow about fifteen years ago, the Douglas movement has spread, so as to include a large and growing body of supporters in England and Scotland, some two or three hundred thousand in Australia, and a body of people in New Zealand so large and powerful that Mr. Spooner, the New Zealand Minister for Local Government, has announced quite definitely that "the next Federal and State elections will be fought upon the (social credit) issue".

The Social Credit proposals are well known in Canada, where they receive considerable, if rather scattered support. They have recently penetrated the United States where, particularly in New York and California, they have made extraordinary progress in a very short space of time. There are now at least four periodicals in England entirely devoted to the advance of Social Credit. Major Douglas's writings are known in many European countries, and have been translated into Japanese.

The remarkable writings of Professor Soddy, so heavily drawn on in this book, have attracted considerable attention, in spite of their difficulty. The Technocrats have, to some extent, adopted him as an economist who thinks in terms of energy and not the fictitious loaned "credit" of the banking system.

The London Chamber of Commerce has recently shewn considerable activity in this field, and has made a direct attack on the antiquated mechanism of the present financial system. At the thirteenth Congress of the Chambers of Commerce of the British Empire, concluded at the Guildhall, London, on July 7th, 1933, Sir Geoffrey Clarke, on behalf of the London Chamber, moved a resolution which referred to the changes in the social and economic conditions of the world brought about by the application of scientific discovery to agriculture, indus-

try, and means of transport and communication, and deplored the lack of any corresponding advance in the monetary system, both nationally and internationally. The problem of any monetary reform, he maintained, must be to increase purchasing power, and the resolution called upon the Governments of the Empire to concentrate upon finding a monetary system,

> " which would enable the peoples of the world to enjoy the vast abundance which technological improvements had made available " (London " Times ", July 8th, 1933).

The resolution was carried.

On December 15th, 1932, Lord Melchett moved the following resolution in the British House of Lords:

> " That, since under modern scientific conditions productive capacity is unlimited, and since the existence of indigence and unemployment throughout a large portion of the population demonstrates the fact that the present monetary system is obsolete and a hindrance to the efficient production and distribution of goods, in the opinion of this House the Government should bring forward immediate proposals for the economic reform necessary to enable the subjects of this Realm to enjoy the benefits to which their present productive capacity entitles them."

This resolution was defeated by 14 votes to 10.

The general situation in the United States and Great Britain, as specifically brought about by the attitude and policy of the Roosevelt administration and the British Labour Party respectively, have already been discussed in detail. In the United States, although all the orthodox economists, such as Professors Sprague and Kemmerer, have lined up with Wall Street and a reactionary money power, many other distinguished economists have rallied behind President Roosevelt. Among them, Stuart Chase, one of the most vigorous and independent, gave out the following opinion in an article in the New York " Nation ", in August, 1933:

> " The creation of money, the allotment of purchasing power, is a social function of the first importance and should be restored to the Federal government, in whose hands the Constitution placed it. It is forever impossible for the private banker, working for private ends, adequately to finance the consumer. . . .

> "The consumer, therefore, cannot adequately consume until the private banker, as the chief executive of the nation's credit, is lifted gently but firmly out of the picture. It is unfortunate that Mr. Roosevelt did not seize the unparalleled opportunity to lift him out, to the applause of a grateful nation, on March 4th last."

In Great Britain, the economists, with few exceptions, have stood behind the banks. Mr. J. M. Keynes, probably the most able of them all, is an exception. He has recently shewn unmistakable signs that he is in general sympathy with the new movement, as an article in the London "Daily Mail" supporting President Roosevelt's policy during the World Economic Conference proved. The following declaration will shew that Mr. Keynes is a man of sense and right feeling, as well as a brilliant economist.

> "I see us set free, therefore, to return to some of the most sure and certain principles of religious and traditional virtue—that avarice is a vice and the exaction of usury a misdemeanour, and the love of money is detestable; that those walk most truly the paths of virtue and true wisdom who take least thought of the morrow. We shall once more value ends above means, and prefer the good to the useful."

Mr. Keynes then betrays himself by the following extraordinary addition:

> "But beware! The time for all this is not yet. For at least another hundred years we must pretend to ourselves and to everyone that fair is foul and foul is fair; for foul is useful and fair is not. Avarice and usury and precaution must be our gods for a little longer still."

The world will certainly "hover through the fog and filthy air" for more than another hundred years if leaders like Mr. Keynes take up such puny attitudes. Virtue shines brighter in darkness than in light. To see the light and then not bear witness to it, is an unforgivable sin; and a premonition that the light may not dawn in our time may explain Mr. Keynes' hesitancy, but it cannot excuse it.

We await your testimony, Mr. Keynes!

## *CHAPTER XXXII*

# POPULAR OPINION

IN the foregoing chapter, the writer made an attempt to assemble some evidence of the concrete forces behind the general principles of the New Economics. In this chapter he will endeavour to suggest the existence of a mass of undeveloped and unco-ordinated opinion, which supports these principles intuitively rather than actually and actively.

The following quotations from an article written by Chester T. Crowell in the " New Republic " (New York) for September 6th, 1933, may be humorous in effect but they are serious enough in implication.

> " All I have ever been able to gather from learned expositions of the gold standard is that you issue more paper than gold, and it works very well so long as no one bothers about it, but the moment they go and demand gold for their paper, you go off the gold standard and put them in jail.
>
> " In short, you are never on the gold standard, and that is why you have to talk and talk and talk to explain it."

The last sentence coincides with an opinion expressed by Mr. Jesse Bryan of Decatur, Illinois, who, in a remarkable pamphlet called " The Economic Wilderness ", said that " economics claims to be a science because there is so much of it ". The following remarks by Mr. Crowell with regard to foreign trade and barter, are acute:

> " Foreign trade closely resembles a poker game: it is the object of each player to accumulate as many chips as possible, but if you happen to get all, or nearly all of them, the game suddenly ends. That is excellent for the card player, because he can begin chewing a clove and start home, but for the foreign-trade addict it means closing up shop and taking a seat on a park bench

where he can while away the time reading about foreign currencies and bonds going sour.

"At such time he believes all trade is based on barter and that money got him into trouble; however, he will not resume trade until money is stabilized. You see how simple it is? Well, neither do I."

The whole of internal and international trade is a poker game in which the bankers own and issue all the chips. These chips are issued under an extraordinary contract which binds the poker players to return 21 chips for every 20 issued. Nations gamble at different tables in the same room. They keep bookkeeping accounts of all debts incurred under a system called foreign investment; which debts they periodically attempt to settle by means of the chips. Class A, of our original analysis, are the individual gamblers, while certain members of class B serve cigars and drinks and are given a few chips for doing so. Class A players take on the complete liability for all the chips, and sign the impossible agreement to pay back more than are issued. The bankers reserve the right to demand the return of the chips from any player at any time. If he cannot do so, he is either thrown out of the room or set to work serving drinks until he can. In spite of these suicidal conditions, class A gamblers pile up mutual debts far in excess of all the chips in existence, and pay the waiters and also the bankers for the privilege of being allowed to issue the chips. When the game is going badly, they either chew a clove and start home or increase the stakes by keeping larger and larger book debts in suspension and by borrowing more chips from the bankers. The aim of international finance is to play one table off against the others, and to issue all the chips from a central table in the middle of the room.

To anyone who has ever played poker with chips, this must seem sheer madness. So it is. All that free money proposes to do is to play the game under the usual conditions. The chips in the bank *belong to nobody*, until they are issued to some player, who thereby undertakes to pay them back into the pool, if and when a settlement is called for. He undertakes to pay back exactly what he borrowed—no more and no less. The banker who deals out the chips and makes an account of all

going out and coming in with respect to each player, is paid for doing so. He will also cancel individual I O U's against each other. The class B waiters will be paid by individual gamblers if they insist on personal attention, or by the banker, on behalf of all the players, if they are content with staff service. This is the issue between free democracy and communism.

Early in 1933 a story was going round New York which is well worth re-telling. The bankers of the world were supposed to have pooled all their gold stocks and placed them on an uninhabited island in the middle of the Pacific. A few officials were left in charge with a wireless set which could receive messages but which could not transmit any. When individual nations wished to make payments to each other, wireless messages were sent to the officials on the island who redisposed the gold stocks accordingly—either by actual transportation of bar gold or by "earmarking on foreign account". This system worked excellently for the bankers, until a consortium —bankers always taking important action in "consortiums"— visited the island and found that it had disappeared, gold stocks, officials, wireless set and all. A "grave international situation" was precipitated, which, upon consultation, was resolved by a simple agreement to say nothing whatever about it to the rest of the world. Gold then continued to be bought in the international market as a "basis" for currency at the fancy prices so profitable to gold-miners, and was then shipped out to and sunk in the Pacific. For sentimental reasons it was sunk at the exact map location of the vanished island.[1] Wireless messages for gold transfers and "earmarking" continued to be sent out to a now mythical receiving station, and a "sound" currency was maintained. This is about all there is to the international bankers' game; and God knows the world has suffered for it!

As a schoolboy, the author was always unable to understand how a nation could possibly be in debt to itself, or how a

[1] It might be thought that the bankers would land the gold in some other country and then re-sell it in the world market. Not at all! Apart from professional etiquette and the sentimental considerations already referred to, this would bring down the world price of gold and endanger the "credit" structure.

" favourable " balance of trade, involving the sending away of more goods than are received, could possibly be construed as evidence of commercial success. He has since discovered that large numbers of people were, and always have been, in the same difficulty; a difficulty which is exemplified in accountancy practice, in the extraordinary confusion between debtor and creditor. Debt, in any case, is a minus quantity, and there are only positive values in the physical world of wealth. There is no such thing in existence, for instance, as minus three cows, and yet the whole of the " credit " structure is fundamentally based on a multitude of such assumptions, in relation to every conceivable variety of consumable or non-consumable commodity.

It also seemed to him quite extraordinary that artisans and farm workers, although engaged in occupations of the most vital concern to the community, should have such to do to " make ends meet ". He remembers, specifically, the unremitting hard labour in the blacksmith's shop where he spent so much of his childhood; and the long half-yearly accounts to farmer clients which he wrote out, and which covered pages and pages of billheads, but which added up to such pitifully small amounts in pounds, shillings and pence at the end of the Whitsuntide and Martinmas quarters. Equally amazing was the contrary fact that a sugar broker, operating a telephone in an armchair at Liverpool, say, could make large amounts of money by disposing of a cargo *before* the ship had actually docked in the harbour. Such situations are not so much unjust, as an offence against all public sense and decency.

The practice of bankers and stock exchange speculators in armchair profit-making and in (legal) income-tax evasions on the colossal scale recently disclosed by the Senate Stock Market Investigation Committee, are only simple extensions of the same stupid principles. Mr. Morgan and his partners, as well as Mr. C. E. Mitchell and a host of others drawing enormous salaries, have paid little or no income tax for many years, owing to the U.S. Income Tax Law; the van Sweringens have accumulated gigantic fortunes and have obtained extraordinary control of the American railroad systems by means of bookkeeping operations based on ridiculously small holdings of personal

capital; Mr. Albert Wiggin, the former head of the Chase National Bank, one of the very biggest financial houses in the world, and once an official of the German Reparation Committee, has made profits for a private corporation of more than $10,000,000, in a few years, by trading in the stock of the bank of which he was the head. And while a poor man, in a world of abundance, will be imprisoned if he steals a loaf of bread to feed his children, the legislature has no "power" over Mr. Mitchell, the van Sweringens, or Mr. Morgan and his friends. The Law, surely, is more than an ass; it is a madman and a knave to boot.

It is the widespread general realization that such, in effect, is the situation which the Law not only tolerates, but enforces, which has brought about the major social revolution of all time. In this sense, certainly, history is the history of class struggle. At the same time it is not necessary, nor advisable, to make this struggle deliberate. The consciousness of the struggle, although submerged, is always with the proletariat. In "normal" times the poorer classes do not resist, because when there are a sufficient number of bellies full, or thereabouts, they know that no overpowering mass support for a social revolution would be forthcoming. Under these circumstances, indeed, with the majority of them, the sugar broker is "smart" and the farmer, or blacksmith, is a fool. It is only when the *stupidity* (rather than the injustice) of the system has been made apparent, that the instinctive resistance is likely to become militant.

When the workings of the system, in the area under consideration, become an offence against common sense—when human beings, for no reason whatsoever, except the effort to preserve the system, are deprived of the comfort and happiness which they could have—then opposition organizes and a revolution becomes imminent. As Denis Saurat wrote, common sense is the privilege of the good; and the real issue in major revolutions is the opposition between the common sense of the exploited masses (expressed on however broad and simple a basis) and the organized lunacy of "experts" who seek to control them.

In this world emergency, possibly the strongest manifestation of this common sense has been the rise of the scrip and barter groups in the United States. In the early part of 1933 the

writer was in touch with some 200 odd such groups, involving, as far as it was possible to discover, more than one million people. Formed, for the most part, in areas where the evidence of physical abundance, particularly in the matter of food, was everywhere apparent, but where the medium of exchange (i.e., U.S. currency) was circulating in amounts altogether inadequate to effect the mutual exchange of this abundance, these groups very sensibly decided to create their own medium of exchange. The exchange of available goods was effected either by direct barter, by the allocation of credits at some central bureau against the deposition of goods for exchange, or by scrip issued against these goods.

Regarded with sentimental interest by politicians and publicists as a case of " poor people " being forced to go back to barter, it was really a case of going back from the present financial system, and forward to barter. The fact that the devices were spontaneous, immature, and only precariously developed, does not interfere with the truth of this statement. The writer will go further and say that they were, and still remain, the only genuinely *constructive* measures which have so far appeared in this emergency. The barter and scrip groups instituted an unconscious boycott of the financial system, and their strength is that they are operating by means of tokens or devices outside the control of that system.

Considerations of space alone prevent the writer giving more detailed account of these groups, and he will content himself with a few examples drawn from various sources. The Unemployed Relief Association of Compton, California, had some 5,000 persons registered on its books in the beginning of 1933. The operating record of that institution for the month of January, 1933, showed the exchange of 234,764 lb. of vegetables, 10,958 lb. of bread, 9,970 lb. of meat, 33,240 lb. of dairy products, and 812 lb. of miscellaneous commodities. 30,065 persons were served.

It is necessary to emphasize the fact that these commodities were exchanged without the mediumship of U.S. currency, and that, except for this exhibition of common sense, they would have been regarded, by financial " experts ", as part of the vast American " surplus ". They would, for the most part, either

have rotted away, or would have been destroyed to " keep up prices ", while the hungry unemployed of Compton and district would have been rendered more desperate: or they would have been transported to and sold in other " markets " at ruinous prices, to the despair of Compton producers and the resentment of producers in those other markets.

But by far the biggest, and probably the most important organization, was developed under the name of the Natural Development Association at Salt Lake City, under the leadership of Benjamin B. Stringham. Early in 1933 there were nineteen units of this organization operating in six states: eight in Utah, one in Washington, five in Idaho, one in Arizona, one in Wyoming, and three in California.

> " There are about thirty-thousand bona-fide members, and the association has benefited directly more than two hundred and fifty thousand persons. Its channels of trade extend deeply into the farm sections and even to West Coast fisheries. It works a coal mine and oil well. It has within its reach members of all professions, from barbers to doctors . . . It operates a carefully controlled scrip system as a medium of exchange. It even has a fortnightly newspaper." (" Men Without Money ", by Wayne Weishaar and Wayne W. Parrish, New York, Putnam, 1933.)

Behind the Natural Development Association is " a whole minor philosophy of government and economics ". In an explanatory booklet sent round to all centres, Mr. Stringham shews, that in his plan,

> " the financial system is removed, because we have made our choice between science and invention, and the financial system. One or the other must be abandoned. . . .
>
> " (Our) system will destroy the evils which are bred by the money system, such as graft, greed, fear, confusion, war and all kindred evils. The money system has wrecked every nation or civilization on the face of the earth since the days of Adam. The rise and fall of nations has come about as a single unit in past history. Three American civilizations rose and fell; Egypt, Rome, Tyre, Sidon and Babylon fell. But now international trade and our modern means of communication and transport have interwoven the whole civilized world into a network, and it is going down as a whole."

The temper of these new pioneers can be gathered from the following paragraph:

> "From the materials and services of earth and humanity, we will build a civilization that will surpass any that the world has yet seen. The old order of world will be done away with and a new one established."

The general impression gained from a large correspondence is that the "poor people" who make up these scrip and barter groups know a good deal more about the fundamentals of the present financial system than is commonly realized. They think of its defects as organized exploitation, and are unanimous as to the general direction from which reform must come. The Peoples' Exchange of Kansas City, Missouri, were a little more explicit, as the following extract from one of their letters will show.

> "Since the international bankers have what is equivalent to a blanket mortgage against all future production, by reason of their control of the world's securities now concentrating in the Federal Reserve Banks, and since they have the majority of the board of directors of the Federal Reserve Banks, it begins to look like the present administration played right into the hands of the big boys, whether they recognize the fact or not.
>
> "Anyway, there is not the slightest possibility for production to ever pay the interest which the government is guaranteeing on all production on all the concentrated security, even on a 3 per cent. basis, therefore the future production of our nation is mortgaged to the international banking group forever, unless our financial system is modified considerably."

A pamphlet issued by the American Society of Martians, Brooklyn, New York, Samuel Bottomley, President, and dated February 25th, 1929, is even more emphatic. This society is not a barter or scrip group, but the paragraphs quoted below are given simply to show that the situation is thoroughly understood in all sorts of unexpected quarters.

> "The simple truth regarding the vast indebtedness of nations and the continuous exploitation of peoples by the Money Oligarchy is that there is no more need of Governments borrowing money and paying interest to bankers for its use than there is of Governments paying tribute to bankers for the use of air and sunlight.

"Simply through general public ignorance on the subject of money . . . we have worked in bondage while standing on the threshold of financial independence and economic freedom. . . .

"The Money and Debt-creating Oligarchy is the most powerful and rapacious institution the world has ever known. It holds more people in slavery to-day than were ever before held at any time in History. It has even secured control over its own masters, Governments, which gave it life and power and which to-day protects it with law, armies and navies against the interests and at the expense of the very people it plunders.

". . . the American people are still paying the cost of the Civil War of sixty-four years ago; originally about three billion dollars. They have already paid four times the original sum and still owe some $600,000,000 with interest, which means at least another billion dollars."

The last two sentences of this remarkable pamphlet sum up the most important issue that is before the peoples of the world to-day.

"There can be no practical solution (of the world's problems) until Governments assume their natural prerogative to control and operate their respective national monetary and banking systems. When this greatest of all fundamental reforms has been established, virtually all the social and industrial reforms of which economic and religious idealists have dreamed will be made possible of realization, *but not before.*"

It is undoubtedly this same Money and Debt-creating Oligarchy which has saddled the American farmer "with mortgages to a gross total of something like $10,000,000,000 . . . on which he is expected to pay interest at 5, 6, 7, 8 and even 9 per cent.—apparently by growing crops and selling them at a dead loss all round" (see page 42). At the same time the American farmer, and the American rural industrialist, as explained on page 236, are well aware that they themselves created the visible wealth of the agricultural districts and that Eastern finance, through the private ownership of credit, has somehow managed to appropriate it. Farms and industrial plant, in both town and country, have now become the perquisites of banks and insurance companies.

Under these circumstances, the eviction of farmers and

tenants, under mortgage claims, has been terribly resented in all parts of the United States. The attitude of farmers was vividly expressed in an interview with one of them recorded in the "Progressive Independent", the "Official Organ of the Natural Development Association, a New Economic System: for Human Welfare—Man above Money", the fortnightly newspaper already referred to in connection with the N.D.A.

> ". . . it is different with us farmers; city people can move from house to house, from town to town, with the lightheartedness of gypsies even, if the home they bought on the easy payment plan is sold over their heads. But they are pulling us farmers up by the roots.
>
> "My grandfather pulled weeds and stumps till he died, my father built this brick house where grandfather's log house stood. I, the oldest boy, helped dad. I handled every stone in the foundation and every brick in the walls. I shingled the roof. We dug the well and built the barn. This was our homestead. It has given three generations bread and meat, our clothes and schooling. . . . We never had a mortgage on our farm, before this crisis. Yes, we are so honest we let a usurer make laws. They are made by the usurer for the usurer, until we are sold and pulled out like weeds to wither and die." (Salt Lake City, Utah, March 24th, 1933.)

In this present emergency, such stupid evictions do not even help the usurer to solve his sordid problems; while, in the process, the farming elements, from which the basic mental and physical health of nations derive, are reduced to impotence and unfathomable misery. The story of the barter groups, largely composed of such elements, is one of the most poignant the author has ever come in contact with. And a genuine realization of their position, in relation to the monetary system which brought it about, reduces all the petty sentimentalities of this life, associated with "personal" problems and a sycophantic art and culture, to a position of utter irrelevancy.

The scrip and barter groups have experienced and are experiencing all sorts of opposition and difficulties. Their scrip has depreciated or become discredited by exploitation from without and by lack of knowledge and confidence within. But, "practical necessity has led them to attempt the most important

departure in the exercise of economic rights made since the American Revolution. They have attempted to exercise the rights of every society freely to exchange and freely to consume the products of its labours. To whatever degree they have succeeded, they are the only communities exercising those rights in the United States to-day. All other communities, rich or poor, can exercise these rights *only dependent* on their supply of money."

"If that supply fails them, they cannot exercise these rights. To whatever degree the efforts of the barter and scrip groups have been successful, they have proved that the exercise of these rights need *in no way* be dependent on money, but *only* on the ability and willingness of a society to produce, exchange and consume whatever goods and services it desires. By demonstrating the practicability of this truth, they have made effective a second Declaration of Independence—a Declaration, economic, not political—a Declaration of Independence of Money." [1]

An idol is a Thing which rewards increased allegiance with increased hardship, so that, on an international scale, internal misery under the gold superstition is not now alleviated whether a nation is stuffed with gold (as are France and the United States), or whether it is working on a "dangerously inadequate" ratio of gold stocks to bank deposits (as is Germany). A negative climax of impossible tension is now rapidly descending upon the world. The desperate pursuit of gold, or fictitious money based on it, in which the whole world is now engaged, will be continued under circumstances in which such a pursuit, whether by individuals, businesses, or nations, will itself increase this already impossible tension.

Free money, functioning as a true medium of exchange for the whole of his present and potential productivity, would be the greatest blessing ever bestowed upon man. Bankers' money, as at present administered, is the root of all evil.

[1] Adapted from a broadsheet issued and circulated by the New Economic Group of New York, March, 1933.

## *CHAPTER XXXIII*

# THE MODERN IDOLATRY

" These archaic ideas are propagated and defended with an almost religious fervour. The worship of the Golden Calf, the cult of Mammon, has not only its simple devotees, but also its high priests, its prophets, and inviolable dogma." (" Stable Money ", by ROBERT EISLER. London: Search Publishing Company, 1932.)

THE desperate effort of individuals, businesses and nations to repay or support a fantastic aggregate of private, national and international debt, which, in a falling world market, is incapable of any resolution whatever, is at the root of all the miseries and social problems of our time, and is the driving force behind the colossal machinery for destruction and sacrifice described in Chapter III. With this explanation, it is possible to understand why wealth to-day, in the form of both plant and commodities, is being deliberately sacrificed to satisfy bankers' and bondholders' demands with respect to interest charges based on so-called gold payments; and why biological necessities which are *not* under human control, but which involve the prosperity and happiness of millions of people, are ruthlessly jettisoned in favour of alleged economic necessities, which *are*.

This fetish of sacrifice and atonement, which derives directly from the " economic " basis of all idolatry, ancient or modern, has been one of the chief features of all organized religions: and it is the scarcity mentality already referred to and encouraged by this " religious " tradition, which provides the mass psychological support for the financial system of to-day. At the same time, it prevents and even resists any general recognition of the possibility of plenty in this world. For while a certain proportion of people do realize that this possibility now exists, large numbers of these will oppose its coming about on the

curious grounds that it would be "injurious" for mankind to live in a state of continued and increasing prosperity. Work drudgery, hardship, insecurity and struggle apparently exercise a strengthening influence on character, whereas leisure and security tend to sap all "moral" fibre away. It is instructive to recall that the same argument was once the stock defence of the now discredited institution of war.

In the meantime, the poorer classes, who do not concern themselves with such metaphysical attitudes, have been for so long the victims of the vagaries, stupidities and the monstrous injustice of the monetary system, that, without understanding the why and wherefore of any of it, they have come to regard "even the acutest forms of material and psychological misery as part of the natural order of things" (see page 12).

The truth is that hardship and insecurity, unremittingly imposed by an idolatrous financial system over generations of human beings, eventually obliterate or repress all the natural resentment to such conditions which springs from the creative impulse in man, until they are conditioned to accept or even encourage their continuance. Those who, whether by birth or training, become most quickly and easily inured to such conditions ("adjusted to life", in the jargon of modern psychology) and are prepared to sacrifice exceptional talents to obtain power, naturally become the most successful men of their generation and receive the material rewards which this civilization has to offer. By the same token and by virtue of the special intensity of the conditioning which takes place in their case, they are best fitted to carry on the idolatrous tradition to still further extremes of stupidity and destruction.

For it is undoubtedly the development of such "character" which makes otherwise reasonable and just men actively cooperate in a system, which, in a world of unparalleled physical plenty, creates an "untouchables" class of destitutes and slum-dwellers and an increasing body of unemployed who are automatically deprived of all independent economic rights; which, in the face of this monstrous anomaly, still keeps a large proportion of the remainder at work drudgery for long, monotonous hours at cut-throat wages with the same sword of unemployment hung above their heads; which decrees that

one industrialist's " solvency " shall be the *cause* of another's bankruptcy—as it is literally impossible for all to be " solvent " simultaneously; which exploits weaker nations in the name of industrial " progress " ; which builds empires based on such exploitations ; which fights wars, on an enormous and increasing scale, to maintain and extend them ; and which, as a last contemptuous gesture of its humiliating power, finally conditions a sycophantic church to tolerate and even prosecute these practices in the name of Christianity.

A study of the financial system, historically, and in the agony of its present breakdown, discloses hundreds of millions of voluntary or involuntary worshippers throughout Western civilization, a numerous and highly developed hierarchy of high priests, priests and servitors, and an increasingly complex involution of dogma and incantation ; with the added fact of destruction and sacrifice possibly to a degree of intensity and certainly on a scale so far unknown to the world.

The present situation is literally and actually the same as that symbolized for us in the myths relating, directly or indirectly, to the idolatrous worship of gold. As such, it pertains not only to the worship of the Golden Calf and the cult of Moloch and Mammon, but also to such stories as that of Midas and the gold of the Nibelungen in the Volsung saga. The present-day worship of Mammon may never be realized in myth or story, but that *all of us are now living participants in a vast psychological drama of idolatry*, the writer has no doubt whatever. The fact that the primitive scene included priests, incantations, living sacrifice, and the worship of a visible image of gold, in no way differentiates it from the modern situation, where the idol is simply a universal psychological fixation whose name is—Debt.

Whereas the circumstance of primitive idolatry and the frenzy of the worshippers seem scarcely credible nowadays, the actual facts of the present situation—could they be assembled and looked at dispassionately from the distance of another two thousand years—would seem equally incredible. The fact that there is little concrete evidence of idolatry, as popularly understood, and that what is evident is obscured by complexes which have been induced in the common mentality by the

operation of the present financial system over hundreds of years, makes it extremely difficult to realize, still less admit, that this ancient barbarism still survives in the mass psychology of mankind. It is necessary, therefore, to equate the mechanism of primitive idolatry with the personalities and circumstances of the economic situation as it exists to-day.

If primitive idolatry demanded the fashioning of an image of gold which was exhibited in public and attended with extravagant external ritual, the modern system of debt-religion operates in human psychology through the agency of figures. The external symbol is now hidden away, for the most part, in the gold vaults of the Central Banks of the world, and the ancient ceremony, in its literal aspects, has consequently been buried with it. But the modern idol, which now survives mainly, although by no means entirely, in the subconscious, still derives directly from it.

The priests and high priests of the old idolatry are replaced by a modern hierarchy whose function in the new religion is to maintain a "sound" currency in which debts and interest due thereon can be "redeemed" in gold. This hierarchy is now developed in a definite and well-ordered succession as international financiers, heads of central banks and heads of the larger private banking houses in Europe and America, the heads of individual banking institutions in every country, and the managers of the branch banks of the latter. These, in turn, are served by a less important and miscellaneous, but very numerous and dynamic order, which derives from brokerage firms, underwriters, acceptance houses, insurance houses and the like. The public activity is marshalled and controlled by industrialists and business men, whose operations are nevertheless restricted by the financial hierarchy through the agency of the brokers and the bank managers. The modern ritual, such as it is, is devised by politicians on the one hand, and by bishops and educators on the other. The dogma and circumstance of this ritual are enforced by the police and military authorities, but are actually administered and intoned by an order of judges and lawyers, whose chief function, in this cycle, is to intensify the helpless fears of humanity by an interminable jargon and dumb show.

And whereas each of the lesser orders—the industrialists, statesmen, bishops, educators and lawyers—has a special circle of dogma and repression which it is his duty to develop and enforce on the community, each of these circles is comprehended within and controlled by the fixed incantation of financial theory; which, in turn, revolves ceaselessly round, and, in actual practice, is modified or expanded by the amount and relative distribution of the gold in the central banks of the world. This fixed incantation of the outer circle is the theme of the professional economists, the Levites of the modern idolatry, and the medicine men of the major incantation, whose mesmeric function it is to vary their song eternally round it in apology, explanation or fervent glorification.

The temple of administrative worship has shifted from the grove of trees or plateau in the open country, and is now actualized for us in the bank or insurance building which occupies the most important corner site in every modern city.

> " Have we not raised in every hamlet and at every street crossing in this desert wilderness of civilization a statue of the Golden Calf, and commanded all men to bow down and worship it?" (" The Progressive Independent ", Salt Lake City, Utah, March 24th, 1933.)

The councils of the priests and their active acolytes occur when the committee of the Clearing Bankers meet at the central bank of the country in question: the meetings between the central banks and the Treasuries are attended by fewer and more important luminaries: while the higher decisions of the financial hierarchy are determined at the monthly assemblies of financiers and central bankers which now take place at the Bank for International Settlements at Basle.

This monstrous survival has been maintained throughout the centuries because generations of this financial hierarchy have been successively born, bred and trained to preserve and perpetuate the barbarous mysteries of its processes.

It is not suggested that the position and function of our modern financiers is deliberately sinister (although there is some evidence to show that a small proportion of the modern hierarchy may be conscious in its policy), because the majority of

bankers demonstrably administer the system with determination, efficiency and obvious integrity. But inasmuch as the system itself is a Thing which automatically functions in a way which has only a chimerical and gruesome relationship with the creative and material needs of mankind, the financial hierarchy is consciously (in small part) and unconsciously (in its major part) the agent of a universally organized crime against the whole of humanity.

The system, as has been shown, is based on a simple but sinister fallacy, which can only be supported by the continuous absorption and exploitation of new areas, and the compulsory regimentation of new worshippers from other countries and districts all over the world. Now, in this twentieth century, when all possible countries and peoples that would be profitable additions have been enrolled and sacrificed, further evolution, even in the elementary sense of growth in size, has been made impossible. Its progress during this century has consequently been one of a desperate involution, in which the only advance has been towards an intensification of World Economic Insanity. Confounded, as it now is, by a universal fixation based on gold-debts, the world has exhibited the same symptoms as does the human mentality when it is ridden by some untenable obsession. It has sought to justify and rationalize an impossible position, and its recent actions, as well as the explanatory theories of the professional economists, show that it desperately needs the advice of some International Alienist.

Just as the mental processes of the developing lunatic are extremely subtle and complicated, so the technical involutions of present economic theory and practice have become so highly elaborated in their obstinate perversity that it is almost impossible for the ordinary sane intelligence to make head or tail of it. However distasteful and unprofitable a study of these same perverse developments may seem to be, it is now compellingly necessary for the ordinary intelligence to undertake it. The ordinary intelligence must become its own diagnostician and its own physician, as nothing except a further intensification of the malady can be expected to follow from the advice of those who are its active cause.

For it is unfortunately this developing and insane complexity

of economic "theory" which has prevented the Body Politic —badly served in this respect by the uninitiated understanding of its elected statesmen—from controlling the policy (not the administration) of its own monetary system, which, in all equity, it should and ought to do. But if it is not so understood and controlled, this unseen Moloch, whose mute commands are obeyed implicitly and enforced through the mediumship of a diseased financial hierarchy, will continue to operate with terrible and unremitting intensity on the destinies of mankind: with the added hardship that whereas the savage worshippers had the pathological satisfaction of witnessing the sacrifice and smelling the blood which was sweet in the nostrils of Moloch, we, the unfortunate victims of the Golden Calf of to-day, are denied this, and are expected to endure and suffer uncomprehendingly and in silence.

But there are limits to human endurance, and signs are multiplying that these limits have now been reached. The crisis that is rapidly descending upon the world is no ordinary one, and, in the coming struggle, the opposition will be between material and psychological forces that are indeed enduring. The effort in this book is not to encourage revolution, but to dissipate it by forcing a realization of the issues which make that revolution inevitable. In world psychology, as in personal psychology, to know the trouble is to overcome it. Without this knowledge, the world will be driven to take arms against it knows not what.

An understanding of the economic factors which underlie and control all human activity brings about a realization that man has been completely perverted by usury, and is, indeed, not responsible for his actions under it. With this comes also the certain knowledge that if this generating source of evil were removed, he could and would enter upon an entirely new era of unlimited possibility. The psychological vista opened up by a study of the New Economics is extraordinary, and there is born into the student a powerful belief in the essential goodness and high destiny of mankind. The definition between good and evil becomes sharp and concrete.

The mentality induced under existing conditions to-day is

at once the cause of present miseries and the chief stumbling block to the realization of this new possibility. We are starving and drudging in the cold, not because we cannot step into the sun of peace, leisure and plenty, but because we are persuaded by custom and conventional authority that it is inevitable, and, in any case, " good " for us to suffer in fortitude. Before we can have peace on earth and goodwill in all nations, man must undergo a complete mental and emotional revolution with regard to his position and potentiality on this planet. He must come to admit that whereas he thought the earth to be flat, now he knows that it must be round. If he respects the sources of his spiritual power, he will be driven to realize that the time has now come for every man to choose between the " riff-raff of social institutions "[1] which depend on a Ptolemaic system of financial theory, and the infinite possibility held out by the Galileo of the New Economics. The world of finance is popularly supposed to revolve, as indeed it should, round the sun of commerce. Under usury, commerce revolves round finance. Money is or should be the medium of exchange for goods and services. Under usury, goods become the medium of exchange for money. When this elemental adjustment has been made in the field of financial astrology and almanack-making, a new Renaissance will burst upon the world.

To come to a full realization of this, the modern situation must be apprehended emotionally and spiritually, rather than intellectually. The facts and sequence of argument in this book are, therefore, not so much an attempt to present a case, as to sow the seed for an ultimate conversion to these beliefs. The new world awakening will come through a positive assertion from all those who have voluntarily embraced suffering on behalf of " impracticable " ideals which are sentimentally lauded in theory, but which, in practice, are scorned and ruthlessly suppressed by society organized under usury; and from the life and testimony of those who have involuntarily rejected the rewards of " real life ", to whatever degree, by respecting instincts and feelings which proceed from essential goodness within.

[1] Howard Scott.

# *APPENDIX A*

## THE GOLD STANDARD IN ACTION

THE following extracts are quoted from the interim report of the Cunliffe Committee on Currency and Foreign Exchanges (1918).

> " When the exchanges were favourable, gold flowed freely into this country and an increase of legal tender money accompanied the development of trade. When the balance of trade was unfavourable and the exchanges were adverse, it became profitable to export gold. . . .
>
> " If (this latter) process was repeated sufficiently often to reduce the ratio (of the Bank of England's reserves to its liabilities) in a degree considered dangerous, the Bank raised its rate of discount. The raising of the discount rate had the immediate effect of retaining money here which would otherwise have been remitted abroad and of attracting remittances from abroad to take advantage of the higher rate, thus checking the outflow of gold, and even reversing the stream. . . .
>
> " . . . the raising of the Bank's discount rate and the steps taken to make it effective in the market necessarily led to a rise of interest rates and a restriction of credit. New enterprises were therefore postponed and the demand for constructional materials and other capital goods was lessened. The consequent slackening of employment also diminished the demand for consumable goods, while holders of stocks of commodities carried largely with borrowed money, being confronted with an increase of interest charges, if not with actual difficulty in renewing loans, and with the prospect of falling prices, tended to press their goods on a weak market.
>
> " The result was a decline in general prices in the home market which, by checking imports and stimulating exports, corrected the adverse trade balance, which was the primary cause of the difficulty."

It will be noticed that this report, as well as all other official or private explanations of the gold standard in action, grotesquely fails to consider the human implications in the fact that an " adverse " trade balance can only be " corrected " by " the postponement of new enterprises ", by " slackening of employment ", by " increased

interest charges ", by " the difficulty of obtaining loans ", by " the diminished demand for consumable goods ", and by " a decline in general prices ".

It also fails to consider the sinister fact that a " favourable " balance in one country necessarily implies a complementary " unfavourable " balance in another country or countries. So that, at all times, an " unfavourable " balance is being " corrected ", in some country or countries, by the sacrificial ritual of industrial stagnation, unemployment, decreased consumption and falling prices referred to in the report. This " correction ", of course, eventually forces an " adverse " balance of trade on another country or countries, which will then be under the necessity of going through the same sacrificial ritual.

This vicious see-saw is inevitable under the gold standard as described in this report, as well as under the gold exchange standard which has developed since then and under the managed currency and gold bullion standard now being tentatively advocated by bankers. There is not the slightest doubt that the automatic working of the gold standard, if subject to no check from outraged society, would and could only result in the progressive lowering of the standard of living in all countries concerned and in an accelerating race towards universal slavery.

## *APPENDIX B*

# BANK DEPOSITS

THE totality of bank deposits are determined entirely by the capacity of the banks to lend, under the terms of their charters. This capacity is defined by four factors:

(1) Their cash holdings, i.e., the till money or legal tender in their possession, plus the amount of their balances at the central bank.

(2) Their capacity to create credit as specific loans to individuals and to industries, and as day-to-day loans to brokers, etc.

(3) Their capacity to discount bills in favour of traders who buy or sell abroad. This capacity, conjointly with their capacity to create domestic credit, is determined by the extent of their cash holdings as described in section (1) above.

(4) Their capacity to buy and hold industrial or government securities.

Section (1) defines the extent to which the banks lend their own money, and sections (2) and (3) the extent to which they create money to lend. Inasmuch as all money is thereby created and owned by the banks, the extent to which they buy or sell securities increases or restricts credit. For if a bank buys a security it draws a cheque to this amount on itself. This is credited to the account of the seller who uses this addition to settle his debts or further his business, thereby increasing the amount of money in circulation. When a bank sells a security, it is paid for by a draft on public deposits. The amount of money in existence is thereby reduced by this amount.

The fact that the totality of bank deposits is determined by these various processes is borne out by the following figures for the English joint-stock banks between 1927 and 1932. They are adapted from a table in C. M. Hattersley's "This Age of Plenty" (London, Pitman, 1933):

*Bank Cash, Loans, Discounts, Securities and the Totality of Bank Deposits.*

(000's omitted)

| | Dec. 1927 | Dec. 1928 | Dec. 1929 | Dec. 1930 | Dec. 1931 | Dec. 1932 |
|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ |
| 1. Bank cash | 205,978 | 207,127 | 204,906 | 207,477 | 184,379 | 206,519 |
| 2. Loans | 929,684 | 961,360 | 987,503 | 930,998 | 903,179 | 776,447 |
| 2. Day-to-day loans | 159,991 | 166,488 | 148,020 | 145,517 | 120,996 | 128,086 |
| 3. Bills discounted | 237,126 | 261,007 | 229,028 | 321,500 | 246,381 | 407,892 |
| 4. Securities held | 249,293 | 259,477 | 250,204 | 284,717 | 296,467 | 472,389 |
| Total £ | 1,782,072 | 1,855,459 | 1,819,661 | 1,890,209 | 1,751,402 | 1,991,333 |
| Total bank deposits £ | 1,766,172 | 1,843,404 | 1,810,701 | 1,875,762 | 1,737,049 | 1,983,073 |

The relatively small difference between the totality of bank cash, loans, bills and securities and the totality of bank deposits roughly represents the amount of notes and coin in circulation.

## *APPENDIX C*

# INFLATION AND DEFLATION

DURING monetary crises the relative " merits " of inflation and deflation are widely discussed in books, in the press and on the platform. The arguments for and against are invariably complicated, contradictory and unconvincing—*vide* the present discussions, in the American and English press, as to the ultimate efficacy of public works, carried out by an expansion of credit under direct or indirect government regulation. In the midst of this the public has come to the correct conclusion—now based cumulatively on bitter experience—that both are equally disastrous, and that, apparently all the financial system can or does offer is a vicious alternation between the two extremes, with a desperate trough of " depression " as a dividing line. It is always a case of the frying-pan or the fire.

This subject is treated in an appendix, for, although it is relevant, it is not fundamental to the situation.

If the reader will refer back to the chapter on " The Genesis of the Moneylender " he will see that the illusion of gold backing to the goldsmith's note circulation was based on his experience that not more than nine of his hundred notes were presented for redemption in gold at one and the same time. As he was normally in possession of ten gold units, his illusion of gold backing could be preserved. If, however, he issued more than one hundred notes against his ten gold units, or if one or more of his gold units were taken out and hoarded (and therefore not acquired by some other person and redeposited with him for " safe " custody), the chances would be that, sooner or later, notes whose combined value was greater than his total gold stocks would be presented for redemption at the same time. This, of course, would precipitate a " run " on his gold, and ruin his reputation as a moneylender.

The goldsmith therefore must not issue notes beyond his " safe " ratio to gold stocks ; and, if his gold stocks, for any reason whatever, show signs of permanent shrinkage, he must withdraw notes from circulation equal to about ten times the amount of such shrink-

age. An over issue of notes results in inflation. The withdrawal of notes is the mechanism of deflation.

It should be noted, that as far as the goldsmith is concerned, both inflation and deflation are dangerous. If there is an over issue, the chances for simultaneous presentation of notes beyond the total value of his gold stocks are increased in proportion. If notes are withdrawn, the resulting scarcity of money promotes hoarding, thereby forcing the goldsmith to deflate still further.

The " art " of the banker, equally with that of the goldsmith, is in so regulating his note and credit issue that a nice balance is maintained between these two extremes of disastrous possibility. During war periods, circumstances force bankers to extend credit beyond their " safe " ratio between gold stocks and bank deposits. Such sudden increases in the volume of money in existence encourage " excessive " industrial activity and stock market speculation. The net result, apart from an increased production of commodities for use or destruction, is a corresponding increase in the dimensions of the debt structure.

On the cessation of hostilities, or whatever the circumstances may have been which forced this expansion of credit, the instinct of the banker is to re-establish his " safe " ratio. Apart from the fact that this may be rectified by the banking systems acquiring gold through a " favourable " balance of trade (see Appendix A) or by buying it in the gold market, this can only be effected by the withdrawal of notes and credit, i.e., by deflation. Even if the interaction between these two possibilities does not actually decrease the dimensions of bank deposits, insufficient credit expansion (relative to the dimensions of a rising debt structure) produces the effects of deflation, equally though not so disastrously, as actual credit contraction.

In either case, the effect is industrial stagnation, increase in unemployment, falling prices, and all the other familiar features of " depression " periods. Now, whereas it should be clear that the banker, acting to preserve the system, has brought this about, wars are regularly blamed for the civilian horrors of post-war deflations. The country is told that it must " pay " for the War, and, in this admonition, the bankers' lead is swelled by a chorus proceeding from economists, politicians, church dignitaries, and other pillars of society.

In America, the alternations between inflation and deflation (whether because of wars or " excessive " industrial activity or stock speculation at home or abroad) have been much more violent, and a large proportion of her people, particularly in the West, have come to see inflation and deflation for what they really are, i.e., as criminal

instruments of financial policy. For, during inflations, money is plentiful, prices rise and the purchasing power of money declines. Debts therefore are contracted in terms of " cheap " money. During the succeeding deflation, money is scarce, prices fall, the purchasing power of money increases and debts contracted in the " cheap " money period of the previous inflation are repaid in " dearer " and " dearer " money units.

Taking the dollar before the Civil War and the World War as a normal one of 100 cents buying power, Professor Irving Fisher, of Yale University, has produced statistics to show that the inflated dollar of 1865 and 1920, at the end of the Civil War and the World War respectively, declined in purchasing power to approximately 40 cents. On the other hand, the inflated dollar of 1865 gradually increased its purchasing power throughout a prolonged period of deflation until it reached a maximum of 152 cents at the time of the Bryan McKinley election in 1896. This deflation was climaxed by the infamous operations relating to the repeal of the Sherman Silver Purchasing Bill described in the chapter on " The American Banker ". The 40 cents inflated dollar of 1920 similarly appreciated during the post-war deflation until it had risen to about 72 cents in January, 1922.

The general situation with regard to inflation and deflation was summed up by Mr. Arthur Kitson in his evidence before the Macmillan Committee on Finance and Industry.

> " I do think there was a temptation, there has been in every country a temptation, on the part of bankers to revert to a standard which puts money at a higher value than it was during a crisis. You had it after the Napoleonic Wars; you had it after the American Civil War; you have had it after every great crisis. And always the moneylenders have benefited. Having got through the War crisis, they say ' let us return to the good old system '. During these crises you issue your War bonds. These bonds are purchased with the cheap inflated currency . . . and yet the very men who bought these bonds advise the Government to compel the taxpayers to redeem those bonds for twice the money they paid for them, and pay the interest in money of twice the value of that borrowed. . . . Both inflation and deflation are dishonest and ought not to be practised." (Minutes of Evidence, Vol. I, page 355.)

It should be remembered, too, that an undiscoverable amount of collateral security is acquired by the banks during deflations because a proportion of the loans called literally *cannot* be repaid.

In his evidence before the Macmillan Committee, Mr. Kitson made a direct reference to the policy of deflation, which, with a few minor

intermissions, had been prosecuted by the British banks since the World War.

> " . . . since this deflation policy was started the banks have made greater profits than they have ever made before in the history of the country at the very time when industry has been hardest pressed, and I say that any banking system that can flourish when trade is depressed is not a safe system for the country."

Below is a list of the total profits, abstracted from the banking supplements of the London "Economist", of the combined English, Scottish and Irish banks during and since the War.

*Bank Profits in Great Britain*
(In millions of pounds)

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1913 | 13·3 | 1918 | 16·2 | 1923 | 14·8 | 1928 | 16·3 |
| 1914 | 12 | 1919 | 18·4 | 1924 | 15 9 | 1929 | 17·3 |
| 1915 | 12·9 | 1920 | 21·5 | 1925 | 16·8 | 1930 | 15·2 |
| 1916 | 13·8 | 1921 | 17·7 | 1926 | 15·8 | 1931 | 13·2 |
| 1917 | 15 | 1922 | 16·3 | 1927 | 16 5 | 1932 | 12 |

It will be seen that the banks made little increase in their profits during the War. This was a period of expanding industry, "prosperity" and high prices. After the War, when deflation began, bank profits rose from an average level of about £13 millions during the War, to an average level of £18 millions for the five years succeeding it, reaching their highest point in 1920 at £21,500,000. These profits then fell to about £15 millions in 1923 and 1924, when the return to the gold standard in 1925 and the succeeding deflation so disastrous to industry raised the average level during the next five years to about £16,500,000. The temporary drop in 1926 was due to the General Strike of 1926, itself brought about by the return to the gold standard in the previous year: just as the temporary increase to over £17 millions in 1929 was due, in part, to the special deflationary effect of the Bank Notes and Currency Act of 1926 (see pages 55–6).

It should thus be beyond all argument that bankers throughout the world clamour for a return to the gold standard for a more obvious reason than that of "sound" money, even in their own interpretation of that phrase; and also that, by virtue of their power to extend or restrict credit by inflation and deflation, they are in a position to arbitrarily change the value of money and so institute what Bishop Berkeley called "a public cheat". Moreover, as during deflations the debts owed to creditors are of more value in purchasing power than during inflations, and as banks automatically acquire

collateral security during deflationary periods, it will be seen that the professional instinct of the banker is automatically set against industry. This was well expressed by Lord Milner:

> "Just as productive industry welcomes rising prices, the moneyed interests must always be in favour of falling prices because they render its own wares—money—more valuable."

In a general way, it should be perfectly obvious that "extravagance", whether shown in the extension of private and public utilities or in the development of luxury trades, is inevitable when bankers' money is plentiful in inflationary periods, just as bankruptcies, involuntary economies, increased taxation, and a general lowered standard of living are bound to occur when the calling of loans which deflations involve takes part of this money out of circulation and *clean out of existence.* To regard the evils and hardships of deflations as a sort of penance for the "extravagance" of a previous inflation, brought about by war or any other cause, is an unfortunate legacy from the mentality of Medieval times—from which period the mechanism and ethics of the present monetary system historically and actually derive. Deflations, in fact, are the economic counterpart, and are just about as humane and sensible as the Medieval practice of bloodletting.

*Inflation is the web of the financial spider, and deflation the mastication of the human fly.*

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