

Chapter 4

The Exeter Experiments

The Exeter experiment began on my return from California in April, 1973. Once the experimenting began, the number of different kinds of experiments needed to establish the feasibility and the acceptability of the idea kept increasing.

What became plain as they proceeded is that all three of the forms in which money is issued—bank-money, paper money, and coinage—called for experiments of many kinds if the proper method of issuing them was to be established. It was this fact which made it necessary to change almost everything we did from time to time until experience finally made clear the best way of doing it.

What also became plain when I began to plan the experiments was that two problems had to be solved before even the first experiment could be conducted: (1) the problem of eliminating political control and government interference, and (2) the problem of how to support a bank which issued a currency based upon a commodity reserve without turning for support to ulterior interests either corporate or governmental in nature.

The idea of a commodity backed currency has always labored under two disadvantages. The "Proposals for an International Commodity Reserve Currency" submitted to

the conference at Bretton Woods by the Committee for Economic Stability of which the two Grahams were leading members—Frank D. Graham who wrote "Fundamentals of International Policy" and Benjamin Graham who wrote "World Commodities and World Currency"—labored under both disadvantages.

The first was that all of the advocates of such a currency, including the Grahams, took it for granted that the currency would be issued and controlled by the same kind of central banks which now issue the money used everywhere in the world.

The second was that the cost of storing a commodity reserve was plainly prohibitive. The cost of providing a reserve of gold or silver, because they took up little room, was so low that their use seemed practicable. The cost of storing a reserve which included commodities such as wheat and rice was so that their use as a reserve seemed utterly impractical.

Both disadvantages disappeared in the approach to the problem upon which the Exeter experiments were based. The first disappeared when the plan adopted for the experiments rejected the idea that governmental central banks should have anything to do with the issuance of the new currency. The second disappeared when the cost of storing the reserve was eliminated by arbitraging it whenever possible instead of storing and immobilizing it. Instead of burdening the bank-of-issue with costs of storage, the costs of storage would be borne, as is the case today, by the users of the commodities—by the mills and industries which process basic commodities and by the importers and exporters who ship them from producer nations to consumer nations. When a mill buys wheat to process it into flour, it pays for the cost of storage during the time it was stored by the growers and includes this cost in the price it charges to the consumers of flour. When an importer in Britain buys wheat from an exporter in Australia, the cost not only of

storage in Australia but also of "storage" while it is in transit, is included in the price the importer pays for the wheat.

The elimination of government central banks eliminates political considerations and national interests from the issuance of money. The elimination of costs of storage by resorting to arbitrage not only makes the use of commodities as a reserve practicable but provides an income which will help to make the bank-of-issue self-supporting. Unless such a bank is entirely independent and completely self-supporting, it would have to turn to the government for support or to other ulterior vested interests. Instead of being free to render a necessary service, impartially it would find itself being used either to promote private special interests or to promote what the politicians in control of the government call the national interest.

This plan eliminates both of these objections. It eliminates political considerations and national interests from the issuance of money. It makes it possible to avoid taxes and other hindrances in nearly every country, including the United States, on the movement of funds from one country to another. By substituting an independent bank-of-issue chartered in some country like Luxembourg (which does not interfere with currency movements) for a government controlled central bank, the needs of trade rather than the needs of the government would be served. There are several countries like Luxembourg and the proposed bank-of-issue might actually incorporate in several of them so that it could move from one to another if one of them tried to interfere with its operations.

Initially I believed that all the essential experiments could be finished within a year. This might have been possible if my resource had been large enough. Working only as fast as my limited resources permitted, it took another six months to reach the point when it was no longer necessary to think of the creation of an alternative stable monetary unit such as the constant as experimental in nature.

To include a detailed account of all the experiments is not a part of the plan of this book. But to give the readers of it some "feel" for what took place, I believe the best thing is to include one of the best of many stories which appeared in various magazines and newspapers both here and in England. What follows was a feature story written by Mel Most, the Financial Editor of *The Bergen Sunday Record*, of Hackensack, New Jersey. It occupied a full page in its issue of February 4, 1973. Mel Most took a particular interest in the matter because I used to live in his neighborhood and he knew something about me. This is his story, word for word:

Would you believe—a new, worldwide, inflation-proof money? Pensions, insurance benefits, and annuities paid in the dollar value of the day they were signed for? Imports and exports that arrive with prices unaffected by shifts in exchange rates after they were ordered? Wages that adjust by themselves to the rising cost of living?

Ask Dr. Ralph Borsodi, an author-economist who shook up Rockland County with his social experiments when he was a mere 50 and is doing the same to Exeter, N.H. at 86.

He's been quietly testing a currency designed to keep pace with prices — suddenly spotlighted by recent headlines:

President Nixon's lifting most wage-price controls; a 20-year record, one month jump in wholesale prices; the cost of food expected to go up 50 per cent higher than forecast for the first half of this year.

For seven months, Borsodi has had Exeter shoppers, merchants, banks, and schools paying and receiving with monetary units he calls "Constants" used like dollars.

Thousands of dollars of bank money orders and personal checks for Constants have circulated like money, been used for buying and selling, and have been cashed by tellers.

The big difference is that regular money buys less and less as time passes, while the Constant is pegged in value to the government's cost-of-living index. That means one Constant should always buy the same amount of goods on the average.

For example, people who bought Constants from Borsodi's organization at say, \$2.18 a 10-Constant note, were surprised later when the bank gave them \$2.19 for it. That was because the cost of living index had risen by a half-percent or so in the meantime.

The experiment worked so well in the sleepy New England town of 8,892 inhabitants that the University of New Hampshire Press in Durham is printing a first issue of 275,000 Constants in currency form.

Now worth about 22 cents a Constant, the bills will go into circulation next month—with coins to follow—in denominations of C1, C5, C10, C25, and C100. The Constant is designated by "C" crossed with an 'equal' sign.

"We need something more stable than all the paper currencies today which are really nothing but overdrafts," Borsodi said. "The Constant will be pegged to the price of commodities."

Backing it, he said, are enough capital reserves—\$100,000—to cover an unheard of, sudden 10-point rise in the cost of living index. The interest alone has undoubtedly been enough to pay for the test runs, although it won't provide the permanent basis of operation. Backing the project, too, has been a lot of confidence—the indispensable ingredient that make currencies rise and fall in value.

Even the staid, wealthy Philips Exeter Academy prep school paid in Constants for thousands of dollars of printing and supplies.

Joining his following among businessmen, volunteers come halfway across the country from Borsodi's other disciples—the youth.

Youths rebelling against the urban-suburban rat race have rediscovered his book on homesteading in Rockland County, *Flight from the City*, republished almost 30 years after it spurred a back-to-the-land movement in the Suffern area during the Depression. Borsodi left Rockland County in the early 1950's.

Another book written by Borsodi during his 33 years of homespun living in Rockland warned that "Inflation is Coming" and led to the Constant.

"Inflation is the meanest of all tragedies", he said. "It strikes the old who have counted on their savings."

Borsodi, an energetic, wiry man, walks every morning to his office at Independent Arbitrage International, his non-profit organization which issues and redeems the Constant. He almost always goes home for lunch with Mrs. Borsodi, whose picture is prominent on his desk.

As conservative in dress as he is radical in his monetary theory, Borsodi was flanked by two college-age office volunteers and admirers, Richard Sexton from Memphis, Tenn., and F. Paul Salstrom from Rockport, Ill.

Up to now, the Constant has been backed by the \$100,000 reserve, which is on deposit at banks in Exeter, Boston and London. The plan is funded by users themselves, since they pay or deposit money with the organization to get their Constants.

First National Bank of Boston and two Exeter banks confirmed that Independent Arbitrage International (IAI) was a substantial depositor and was considered responsible. Besides Borsodi as chairman, its advisory committee includes bankers, brokers, editors, attorneys and economists.

In a new phase, the organization has incorporated in Luxembourg—

where there are no restrictions on movement of money—to form an international banking institution which will be completely free of any government's needs.

"The difficulty with the International Monetary Fund is that they use it to finance the government's deficits. We'll be doing a banking job instead," Borsodi said.

In place of capital based on payments and reserves, he plans to base the Constant on goods—and instead of being pegged to the government price index, it will be pegged to the world price of those goods.

Here's how the idea works. Suppose a farmer puts aside a \$1,000 profit on his summer harvest to pay for cattle feed next winter. By the time the winter comes, the feed may cost \$1,100 and he is short \$100.

Instead, if he got title to the feed right away, he'd have it in the winter at no extra cost, no matter what the price then is. In fact, he would sell his title for \$100 more than he paid for it.

Arbitrage proposes to make each Constant a title for a tiny share, not just in a single commodity such as feed, but in the 30 top commodities in world trade.

What these commodities sell for ultimately affects most world prices, and as their price average went up, so would the value of the Constant based on it.

IAI doesn't intend to store any goods, or to speculate in commodities futures on the markets. Commodities arbitrage (rhymes with "garage") is a form of simultaneous trading in different places. It serves buyers and sellers as an international clearinghouse and saves on shipping goods back and forth, if they can be supplied locally.

"We're interested only in spot (immediate) commodities—no storage expense, no speculation," Borsodi said. "You make money, you have an income from it."

Now the Constant will be backed by actual commodity values in arbitrage, adjusted monthly to a price index based on world trading prices in the 30 commodities since the mid-1960's.

Prof. William R. Hosek, IAI economist at the Whitmore School of Business Administration of the University of New Hampshire, has just completed computer work on a sort of "Dow Jones" index of the 30 commodities price averages.

Gold and silver prices, which used to be the sole basis of most of the world's currencies, come back merely as two of the nine most traded metals, including aluminum, copper, iron, lead nickel, tin and zinc.

The index also includes the world's 13 main food staples—barley, cocoa, coffee, copra (dried coconut meat), corn, cottonseed, oats, peanuts, rice, rye, soybeans, sugar and wheat. Its other commodities are cement, cotton, hides, jute, petroleum, rubber, sulphur and wool.

Hosek is enthusiastic about prospects.

"The idea of the scrip is to have a currency that doesn't depreciate as prices go up," he said. "It's a test to see whether or not it would be acceptable and whether the people would hold and use the stuff. It clears through the bank like a check written in dollars."

Asked if a savings account wouldn't appreciate as much just on bank interest, Hosek shook his head: "You can't use a savings account for carrying out transactions. You use a checking account. A checking account in dollars today, with just enough in it to buy a TV set, won't buy a TV set three months from now."

But some bankers are less than enthusiastic about the new issue of scrip, although they participated in the earlier system of using Constants as a money-of-account.

Edwin R. Baker, Vice-President of Exeter Banking Company, which participated in the initial tests, said: "I do think there's some basic merit in Dr. Borsodi's original concept. If you're dealing in dollars with a foreign business that may take three months to deliver, a businessman signs a contract for \$2,000 and finds he has to pay \$2,200. Or, if not, it's the seller who has to lose money on it."

He added: "Dr. Borsodi doesn't expect a recession this year, but he believes it's bound to come. If it does, maybe we'll all find he's right about money. Part of the merit of the dollar is that it's based on faith—when the faith is a little bit shaken, the fate of the dollar is affected."

One merchant put it more baldly: "Maybe people will call it a funny money scheme, but the question is whose money is funny—his or ours?"

Baker's bank won't be involved in the scrip issue, but he told how Borsodi's two-state tests worked.

The first was a check device, with amounts printed in Constants—10, 50, or 100. They circulated in town in thousands of dollars worth. Nobody questioned them. When they were cashed against the IAI account, the check was endorsed and we filled in the dollar amount, around \$2.18 for \$10, to start with.

"Sometimes people filled in their own and made mistakes. With 50's, the mathematics can get a little hairy."

Borsodi then tested individual checking accounts in Constants, which are continuing.

"Each person maintains an account in his own name with IAI," Baker explained. "Dr. Borsodi takes care of the individual accounts. As far as the bank is concerned, we treat them all as one account with many signatories. There are close to 50, mostly local, but we've also got some scattered around—New Jersey, Maryland, even one in Alaska."

"It worked perfectly all right because the system for clearing checks has been part of our financial system for many years."

The problems with the scrip will be that there is no individual endorser, Baker said. He also wondered about how the capital gains would be taxed as it went up in dollar value—presumably like a bearer bond, to be taxed when the gain is realized.

The biggest legal headache for a small bank, he said, was whether the scrip could circulate as currency. "Technically, they're promissory notes."

However, no objection was seen by Deputy Chief Counsel Westbrook Murphy at the Office of the United States Controller of the Currency, when reached in Washington:

"They can circulate clamshells or pine cones if they want to, as long as people accept them. There's plenty of Canadian money circulating in Northern New Hampshire."

"The law only provides that you have a right to demand payment in US currency as legal tender if you want to."

Murphy did dig up an old law, intended to protect the coinage, which makes it a misdemeanor to issue anything intended to circulate in place of money, for less than \$1.

That would affect only the 1-Constant denomination if carried out. But it would also prevent, for example a New York newsstand dealer from accepting or making change in subway tokens, and other common practices.

Borsodi is taking no chances.

"We're assuming that once this thing gets started," he said, "this is going to frighten the Treasury and the Federal Reserve System. It's going to reflect upon the fact that we Americans are issuing a currency that's being inflated."

What had made him think of the idea?

"In one study, I found some people had lost between five and ten percent of the purchasing power of savings they put into government savings bonds, which could only buy less at maturity than when they were acquired."

When I decided that I had to discontinue the experiment I had started, I prepared a series of position papers which those who wanted to carry on with the idea might find useful. I can think of no better report on the results of the experiments than these position papers. All of them are here included, revised only enough to make them fit into a book which any intelligent layman, and not only a monetary economist, can understand.

The first dealt with the nature of inflation.