

## Chapter 7

# On the Issuance of Money

All the different kinds of money<sup>1</sup> in use today (the dollar, the pound, the franc, the mark) and all the different kinds used since money was first invented (coins, paper-money, bank-money), have obviously had to come into existence and have had to be issued in some way. Inflation will never be properly dealt with and the evils for which it is responsible never corrected until the way in which money is now issued and the way in which it should be issued is understood.

To understand what is right and wrong in the issuance of money, it is of the utmost importance never to forget that it came into existence for only one reason, to make it possible to replace bartering with buying and selling. The fact that this is habitually ignored by both the masses of people who use money and by the central bankers and the treasury department officials who issue it, is responsible for most of the monetary confusion and most of the monetary evils which call to high heaven for correction.

In bartering only two parties are involved. Each barterer has something the other party wants, and the transaction is consummated when each exchanges what he does not want

for what he does. But in buying and selling three parties are involved: the buyer, who pays for what he wants with money, the seller, who accepts the money, and the issuer of the money used. In such a transaction, the seller exchanges the goods which he sells not for other goods but for a claim (evidenced by the money) which he can later use to buy what he then wants.

What will be called commerce in this book will refer to transactions of this kind. For the sake of ending the existing confusion about money, the word commerce ought to be used for no other purpose.

That in modern nations this third party, the issuer of the money, behaves like an unscrupulous scoundrel is proved by the fact that he not only inflates the money but sometimes deflates it; by the fact that this cheats the holder of the money when the holder finally spends it.

The process of cheating begins when the money is issued. This is what makes understanding the issuance of money so important.

Issuance, as the term will be used in this discussion, refers to the activities of central banks, in the United States the Federal Reserve System, in the minting, printing, creating and circulating of money. The machinery used in doing this is so complicated that it would take a book of its own to describe it. All that is essential for the purposes of this study is to make clear why the issuance of money for improper purpose—for such a purpose of growth and development, for instance—makes inflation not only possible but possible *as a deliberate policy*. Keynesianism, as I have tried to make clear, is the rationalization of inflation as a deliberate policy.

The crucial question is what is back of the money which the central banks operating on Keynesian principles issue? There is some gold of course, but today gold reserves are not only trifling but for the most impounded. Most of it is "backed" by loans which should never be made—loans made to monetize the debts of the government; loans made

to finance war and the military-industrial complex; monetize the securities of giant corporations which should not exist at all, and to finance speculations in securities, commodities and land. Finally there is back of it money issued to finance the needs of commercial banks in making legitimate commercial loans. Insofar as the debts discounted and monetized in this way really consist of loans made for legitimate commercial purposes, there is no abuse involved. But most of the loans discounted by commercial banks, just like those made directly by central banks, are made to finance precisely the same activities which should not be monetized at all.

What I have called the monetization of debts here is just another way of saying the issuance and circulation of money. The means by which the money issued is circulated is provided by payments made for labor employed, for the commodities used, and for the capital equipment purchased by all these borrowers.

Now what must never be overlooked to understand what is going on are two things: that all the money issued and circulated in this complicated fashion consists of claims held by those who have accepted the money and that it is the banks-of-issue which are ultimately responsible for the redemption of these claims.

The position which I am taking with regard to issuance is based upon five positive and six negative principles all of them in turn based upon the above two indisputable facts: (a) the fact that money consists of claims, and (b) the fact that the banks which issue the money are responsible for redeeming the claims.

The five positive principles are:

- (1) The issuance of money is a banking and not a government function. The establishment of the monetary unit, the determination of its unit of redemption, the printing of the currency, and the minting of the coinage are functions which should be performed by a bank-of-issue organized for service and only to serve the needs of com-

mercial banks in making legitimate commercial loans.

(2) The only proper purpose for the issuance of money is to facilitate the buying and selling of commodities and merchandise.

(3) The money issued should have a constant and unvarying purchasing power.

(4) The money supply must be increased or decreased only in accordance with the volume of trade. There are no circumstances which justify or which make it really necessary to issue money for any other purpose.

(5) The money supply should not become legal tender for the payment of debts by the ipse dixit of the government but by agreement between the buyers and sellers who use the money issued by the third party to all monetary transactions.

The negative principles are:

(1) It must never be issued to provide money for capital investments by anybody or to provide capital for any kind of enterprise no matter how apparently desirable. It must never be issued to finance capital investments in land and buildings, machinery and durable production equipment, stocks and bonds, or loans and mortgages on such investments.

(2) It must never be issued to finance the growth of developed economies (such as that of the United States) or development of the economies of underdeveloped nations (such as that of India).

(3) It must never be issued to finance government debts.

(4) It must never be issued to finance charitable, educational, religious, or other non-commercial enterprises.

(5) It must never be issued to provide employment, reduce unemployment, or support the unemployed.

(6) It must never be issued to finance personal loans or finance consumer purchases.