CHAPTER III

THE EVOLUTION OF MODERN MONEY

THE *Origin of the Cheque.*—In point of time the invention of the cheque antedates that of the bank-note, originally a promise to pay gold on demand. It was customary for merchants who had deposited gold for safe keeping at the goldsmiths, the originators of " banking " as it is still called, to write an order or instruction to them to hand over some definite amount of their gold to another person than themselves, named in the order, who, on presenting it and endorsing it as evidence that it had been carried out, was paid this amount. It was a means of settling accounts with creditors by instructing the keeper of the debtors' funds to settle them without the debtors needing themselves to draw out the money, which is exactly analogous to the modern cheque.

From the first, however, the bankers developed the bank-note, for this was a powerful means of spreading their reputation for honest dealing and trustworthiness through the whole community. People finding they could always if they wished exchange bank-notes at the bank for gold, became accustomed to accept them whoever tendered them in payment, and not to change them for gold at

the bank except for special reasons, as when going abroad, whereas the name of the drawer of a cheque would be known to relatively few people and therefore had not the same degree of general acceptability as the note as a form of money. Honest dealing and trustworthiness then meant ability to give the gold for the paper whenever asked. At that time it was what mattered most, and there is no doubt that the early banker was a social benefactor in inventing a credit medium of exchange when gold no longer sufficed. This old-fashioned type of banker would be appalled at the terrible power that he has placed in less scrupulous hands.

It was to the banks' direct interest to see that counterfeit imitations of their notes were promptly detected and removed from circulation, and that those issuing them were tracked down and severely punished for doing, as it now appears, something far less socially dangerous in its ultimate consequences than what the bankers were doing themselves. But at that stage in the evolution of money the physical impossibility of repaying the debts they were so careful to create for that purpose was not understood, and the public were still firmly convinced that the convertibility of the paper into its nominal worth of precious metal constituted the note money. Whereas the paper itself was money because the owner had given up that value of goods and services to acquire it, and was therefore entitled to an equivalent

value in exchange for it. The whole money-issuing interests, however, continued by every means in their rapidly growing power sedulously to propagate the other point of view. That is why they and the politicians thought that there would be an outcry when there came into force at the outbreak of the War the scheme for recalling all the gold and substituting a pure credit money. But there was no outcry whatever, most people actually preferring in use the new paper notes to golden sovereigns. Neither has there been any justification, from the point of view of public prejudice, for the persistent and ruinously unsuccessful post-War efforts to return to gold. What the public want is a constant price-index, so that the value of money remains stable in goods and services. That they cannot have, as we shall see, without destroying "banking" as now understood. Here, as always, one has to distinguish very sharply between the interests of the public and those of their real rulers; and so far democracy has never had a government that could trust itself to rule independently of the money-power.

Government Regulation of "Banking".—But though the public were sedulously protected in the banks' interest from the counterfeiter, they were not protected from the failures of the banks to redeem their impossible promises, which became so frequent and caused such widespread ruin that the whole monetary system in this stage

of transition was jeopardized. There were many reasons for this. The Government having allowed in the first instance the banks to usurp their prerogative in creating money, instead of creating it themselves, attempted in every possible way to hamper and thwart them. So far, at least, as the country and commercial banks were concerned, they were suspicious and hostile to innovations which seemed to go against the ordinary standard of commercial morality and to be a new form of counterfeiting. But as regards themselves they acted differently. Instead of issuing sufficient money themselves, they more and more favoured and empowered one bank, the Bank of England, to act for them in return for its raising revenue for Government purposes. This bank was founded in 1694 in the reign of William III, on the model of earlier Italian banks, to provide the Government with funds, and it lent money at interest first in return for permission to issue notes of equal amount, and was soon rewarded by a monopoly of note issue, redeemable in gold coin on demand, which lasted till 1709. From its genesis to this day it has never been a bank of the English nation, but a bank to provide the Government with money primarily and principally for war expenditure—a weapon which the Government can, and does, employ against the people. But from being what is known as a bankers' bank, it has become now almost the Government's government.

Outside of this object State regulation of " banking " has been restrictive. Speciously directed to protecting the public from being swindled by dishonest and unsubstantial banks, it rendered the position of honest and then socially minded bankers so precarious that their failure and the consequent ruination of merchants and commercial people became almost inevitable. The policy culminated in the Bank Charter Act of Sir Robert Peel of 1844, which nominally fixed the monetary system in this country up to the War, but through which the banks soon found they could drive a coach-and-four. It legislated to limit and ultimately to extinguish the issue of bank-notes in England except by the Bank of England, limiting the latter's issue to fourteen millions above the gold reserve (the so-called fiduciary issue, because it was supposed to be founded on the public's confidence rather than on their necessities). This effectively checked the expansion of the note currency and the upshot was that the cheque, at first secretly, took the place of the note as a means of creating new money and soon became the overwhelmingly preponderating form of the credit medium of exchange.

Lending Cheque-Books.—Instead of printing and lending notes, an obvious creation of money, this much more insidious and dangerous form of issue grew up. The borrower without money was allowed to draw cheques just as if he had money,

and to create an overdraft at the bank. The bank's balance-sheet was falsified so that it still balanced. For on the one side would be credited to the individual the limiting sum up to which he was authorized to overdraw and on the other side the same sum as owing as a debt of the individual to the bank. Naturally, as always, substantial security or " collateral " had to be deposited with the bank before the privilege was granted, considerably more in value than the amount of the overdraft, to provide an ample margin of safety to the bank. If the debtor defaulted a forced sale of the security recovered from the public the sums he had been allowed by his overdraft to put into circulation. Under such circumstances the security could not be expected to fetch its real value. As, moreover, such liquidations occur in times of bankruptcy when money is scarce and prices low, whereas " loans " are wanted in times of boom when money is abundant and prices high, the banks so were enabled to acquire valuable securities at forced-sale prices. They had only to hold the securities till " confidence " returned, when they were re-issuing the money they had called back so that it was again plentiful, to realize much more for them than they had fetched when sold to recover from the public the money the overdraft had put into circulation. It is important to realize that whichever way it works it is a case for the bank of " Heads I win, tails you lose ". Moreover, the money in which

they are repaid is, on the average, worth more in goods than that which they create to lend.

There was essentially nothing new in this, or different in principle from lending " promises-to-pay-gold " instead of gold itself, save that the banks avoided the necessity of giving printed receipts for the goods and services their borrowers obtained for nothing, and there was a secret instead of open creation of money. Instead of lending notes, the banks, in effect, now lend cheque-books and the right to draw cheques up to limited sums beyond what the borrower possesses. For nearly a century, until the revelations of the War made it impossible to conceal the truth from the general public, the bankers stoutly denied that they were creating money at all, and claimed that they were merely lending the deposits their clients were not using. The President of the Bank of Montreal not a year ago continued to repeat this, but, nearer the centre of things, all this was known and admitted by the orthodox apologists for this monstrous system even before the War, usually by some such lying phrase as " Every loan makes a deposit ".

Genuine and Fictitious Loans.—For a loan, if it is a genuine loan, does *not* make a deposit, because what the borrower gets the lender gives up, and there is no increase in the quantity of money, but only an alteration in the identity of the individual owners of it. But if the lender gives up nothing at all what the borrower receives is a new issue

of money and the quantity is proportionately increased. So elaborately has the real nature of this ridiculous proceeding been surrounded with confusion by some of the cleverest and most skilful advocates the world has ever known, that it still is something of a mystery to ordinary people, who hold their heads and confess they are " unable to understand finance ". It is not intended that they should. But if, instead of trying to puzzle it out along the lines of " what you get for money ", these people will reverse the procedure, as in this book, and do so on the of " what you give up for it ", the trick is clear enough.

Current Account Deposits.—Cheque-account deposits at the bank represent, in monetary units of value, what the owners have given up in the way of goods and services in order to acquire these claims to equivalent goods and services on demand. In so far as one spends his money another receives it, or in so far as one receives the goods and services owing to him another gives them up and is credited for them. With true " time deposits ", however, it is quite different, though banking practice has been directed to slurring over the distinction. In an honest money system this difference would be insisted upon as essential to accurate accountancy. However, this is too important a matter to deal with incidentally, and its consideration will be postponed. We will confine the argument here to cheque account deposits.

The aggregate of the cheque-accounts, exclusive of genuine time-deposits, represents in units of money value, as stated, what the owners of money (*not* the borrowers of it) dealing with the banks are owed on demand in goods and services from the nation in which the money is legal tender. These vast sums of money are entirely of the bank's creation in the first instance. When the bank pretends to lend their money they do not reduce the amount of the claims of the owners to goods and services on demand by a farthing. They do not inform them that they can no longer draw it out as it has been lent to others! They create among the general body of vendors who supply goods and services, in exchange for the cheques the banks authorize their borrowers to draw, *new* claims on the community for goods and services. When these cheques are paid into the vendors' accounts they create new deposits at the banks. When the borrowers repay their loans and balance their accounts, they withdraw money for the purpose from those to whom they sell goods and services, and by cancelling their overdrafts this money then disappears from existence, just as unaccountably as it made its appearance. If we can imagine the impossible, that they ever succeeded in freeing themselves from their indebtedness to the banks, every penny left would be worth half-a-crown and people earning £3 a week would get 2*s*. a week.

Why Cheque-money is Preferred to Tokens.—

We have only to substitute physical counters or receipts to show the utter dishonesty of the accounting. For if a man surrenders a physical money token, whether to lend it to somebody else or to buy something with it from somebody else, there's an end of it so far as he is concerned. He cannot ever lend or spend it again. He has to earn another or wait till his loan falls due before he can get another back to lend or spend again. But a man who deposits his money in a cheque account can lend or spend it exactly as though he had not deposited it at all, by using a cheque for the amount, and yet it is this same money the bank pretends it lends out.

The Gold-Standard.—It is only necessary very briefly to consider the now obsolete methods by which, up to the War, the quantity of money in existence was kept in the perpetual state of ebb and flow known as the Trade Cycle or Credit Cycle, by making it convertible with gold. The details of this "beautifully working automatic regulation" is the stock-in-trade of all pre-War conventional money writers, and need not detain us. The quantity of money was regulated by means of the gold-standard. The latter meant that the value of the money unit in a large number of countries was kept equal to that of a certain weight of gold by making the money in theory always exchangeable with gold. In practice it meant the growth of a number of new devilries having for their object the frustration of every

attempt to exchange it for gold, so soon as that exchange began to occur. Since there was only enough gold in the whole world to be had for a miserable fraction of the claims to gold, which the easy method of lending cheque-books had brought into existence, in no case must the bankers be caught out. Everyone else bore the losses. Boom or slump, the banker throve.

It was easy to fix the money price of gold, but what fixed the goods price of gold ? Gold being given a fixed price, the price of every other commodity now varied in relation to the one arbitrarily fixed. The average price, or the price-level, during last century varied enormously. There were five well-marked periods of changing value in all countries, due to innumerable causes. Apart altogether from human and psychical influences, some of the more obvious physical ones were the discovery of gold mines, the invention of new technical processes by which gold is extracted, the number of countries having gold currencies in comparison with those having silver currencies, and so on. It was really much worse than standardizing the barometer height, calling it a " bar ", whatever it was, and expressing all lengths in terms of what the " bar " happened to be at the moment. The variation of the price-level in terms of gold was, however, over a range of two or three to one. This makes the variation of the barometer height in terms of the yard or of the yard in terms of the barometer height,

whichever be taken as the "standard", almost negligible by comparison.

The capacity of the banks to create money without giving up anything for it depended on their always having enough legal tender (convertible into gold) to meet the demands of their depositors; that is, of those who have deposited money on "current account". In practice it was found that about fifteen per cent of their total deposits sufficed for their safety but, as the use of cheques continually increases, the percentage falls. The factor of safety is now considered to be about ten per cent, but may not be nearly as much. Nobody but the bankers themselves can see, in an age of potential plenty, any sense in their always trying to make £1 do the work of £10 or more, when they have actually created claims to nine others which the owners have only to ask for to reduce them to panic, and send them howling to the Government for a moratorium.

The Correct Procedure.—The proper thing to do, of course, would be for the Government to issue as many pounds as the citizens have given up *gratis* pound's worth of goods and services, not one-tenth as many, and it should require the banks to hold for ever after £1 of national money for every £1 in the current accounts of the banks' depositors.

Since banking became in reality minting by issuing cheque-books instead of notes, the banks

have never been solvent, but have been liable to have to stop payment so soon as they were asked for more than one-tenth of the money (legal tender) they owed to their current account depositors. The measure proposed above would make them solvent for the first time in the modern phase of their history. The money being always in the banks, there would be an end of the frenzied shipments of gold back and forth, to raise the value of money here and depress it there, to throw goods intended for export suddenly on to the home market and as suddenly to drain the home market and ship the goods abroad, and all the nefarious and unscrupulous devices which, in the course of a century's experience of this secret private minting, have been invented to keep the world poor and maintain the supply of hard-working borrowers in an age of plenty.

Outside of this real explanation, the sole ostensible reason of it all is to prevent people from asking for the money for which they have had to give up the equivalent value in goods and services, but for which the Government has hitherto omitted to issue proper receipts. True the Government has not done so because it has as yet not received the goods and services, but the hard-working borrowers have received the money and have moreover furnished ample security in the way of collateral for every pound they have borrowed. The proposal, therefore, is that the Government should issue the necessary

money to the banks in exchange for the borrowers' collateral, so that henceforth these borrowers owe, not the banks, but the nation which, not the banks, has supplied the goods. They can then repay their debts without destroying the nation's currency and making it impossible for them to find the money to pay. For as the loans fall due and are repaid, the Government should put the money back into circulation (or into the pound-for-pound deposits of cheque users) by buying with it National Debt securities and destroying them. Thus an equivalent of interest-bearing National Debt would be destroyed for the non-interest bearing National Debt that *is* money. For this money *has* been secretly issued by the banks through the cheque system. This occurred when the Government stopped them from issuing bank-notes and sought to restrict and control this form of currency through the Bank of England. It is time the legality of these operations was tested in the Courts. It is a curious kind of law that makes the open issue of money treason and its secret issue under a camouflaged name, as bank-credit, so immune from penalty that it was, till recently, treason even to question its legality. But that is now all out-of-date.

The Credit or Trade Cycle.—Up to the outbreak of the War the system worked out its inevitable cycle in a relatively simple manner something as follows.

1. A period in which the increase of money (through more bank loans on the average being issued than are repaid) occurs faster than the Virtual Wealth increases and prices are therefore rising. There is abundance of goods *in course* of production but owing to the loans being made when the production is initiated—rather than in the correct manner, the new money being issued to consumers, in relief of taxation, after the new production has matured and is ready to be sold—production and consumption are put out of phase. Production lags behind consumption by about half the average period of time taken to produce, since the new money takes out of the market finished wealth to pay the workers, and the latter only put in unfinished wealth at its initial or some intermediate stage. Later it will be necesssary to revert to this fundamental physical fallacy of the bankers' whole monetary system.

But it is easy to see, even at this stage, both why prices must rise and why the Virtual Wealth cannot increase to the extent of the increase of money so that the value of the latter is maintained. People are always at the market with money to buy some months on the average before the goods are there. This causes a drain on the existing stocks, and shortage of finished wealth, so that unless prices rose there would be no goods at all to sell for that part of the whole money equal to the extra amount created. Of

course prices rise so that this does not happen. But all get less goods for their money than before. The money now being worth less than before, people have to retain more of it to possess the same Virtual Wealth (or credit for goods and services) as before. Soon the increased quantity of money buys no more than the original quantity did.

2. Though all other prices are rising, that of gold is arbitrarily fixed. This, in itself, only means that gold falls in value relatively to goods. The effects of new issues of credit money are the same as if new gold mines had actually been discovered. The rise of prices tends to make existing gold mining unprofitable and mines unable to pay which before could do so, which again will reduce the output of gold. But any such influence as this, decreasing the *annual* production of gold, can only produce a minute difference in the aggregate quantity of gold, and could only produce a perceptible effect on the price-level after a long time. The actual demand for gold, outside of a backing for credit money, is now not great. It is really rather a useless metal at its price. This change of ratio between the values of gold and goods in itself could produce no automatic regulating effect in a self-contained community, since gold hardly enters into the category of commodities most people buy in order to be able to live. But, of course, the rise of prices swindles all creditors for the benefit of debtors.

The effect of the gold-standard, however,

is to make gold international money. Since money is a debt only on that community of which it is the legal tender for the settlement of debts, and not a debt in the least acknowledged by or enforceable against any other country whatever, international interindebtedness must be settled by the transfer of actual goods or services from the country owing to the country owed, in so far as it is not of the nature of, or is converted into, a permanent loan or investment, bearing interest. Making legal tender convertible into gold thus means that, when the prices of everything else have risen and that of gold has not, indebtedness to a country abroad is more cheaply settled by shipping gold rather than other goods. We have seen that the first stage results in a permanent shortage of goods, through production permanently lagging behind consumption. This naturally creates a demand for goods, and goods can now be bought abroad wherever they are cheap and plentiful and paid for by shipping gold in exchange, rather than other goods, since everything else but gold has risen in price. Prices are in terms of the depreciated currency in the home market but at the old rate abroad. Hence the gold stocks of the country are drained out in this second stage, and under the system existing before the War, when the public were entitled to ask for gold in exchange for notes and cheques, the ratio between "cash" and credit (total deposits) at the banks was reduced ultimately

below the limit the banker considered essential to his solvency.

3. The banker now decreases the quantity of money in existence by not renewing his loans so fast as they are repaid. These loans, contracted in a period of rising prices, have now to be paid back in a period of falling prices so that, through the change in the purchasing power of money and quite apart from the interest paid for the loan, the goods and services that have to be given up by the borrowers to obtain the money to repay must always on the average be greater than those obtained by them with the money they were lent. Before any considerable proportion of these loans can be paid it becomes impossible to obtain the money, that is to sell goods, except at a ruinous loss to the producers. Hence a number of them are rendered bankrupt. Their collateral is sold by the bank, or, if it will not now fetch the amount to repay the loan, appropriated by them. In this connection those borrowers who have been most deserving, and whose assets are therefore worth more than those who have been less efficient and careful in the conduct of their businesses, are those first victimized. They are sold up and ruined when those whose assets would not meet the claims of the bank have a better chance to escape in the hope they may be more worth selling up later.

How the Losses are Distributed.—Under (1) the money the banks create is paid for by the whole

community by the loss of the purchasing power of the pre-existing money. All contracts for future periodic payments for services, such as wages, salaries, interest, and rents, and those fixed by law or custom, such as transport fares, postal services, and professional fees, are vitiated to the injury of those who receive money while those who receive these services obtain an uncovenanted benefit, exactly as if there had been a universal shrinkage in weight of the pound, the volume of the pint, or the length of the yard. This is the inflation period in the only sense the term has any meaning, namely the period when the worth of money suffers debasement.

Under (2) there is a profound international disturbance endangering the friendly relations between nations which we still have to go into at greater detail. Under (3) we have the deflationary period, when the value of money is being brought back to the value in gold it originally had. There is general economic paralysis through the efforts of the debtors to repay their debts destroying the means of payment. In the whole system the fundamental purpose of money has been lost sight of. Instead of being a means for enabling a community freely to forward goods and services from the producer to the ultimate consumer and user, the interests of the whole community have been sacrificed to enable banks to lend more money than exists in physical or tangible form. There is not the slightest reason

why just as much should not so exist as the economics of the country require, so long as it is issued only when additional wealth is awaiting sale. The situation has arisen through the failure of the nation to exercise its prerogative over the issue of money and through the banks' preference for a method which avoids the issue of proper national receipts, or anything at all in return, to those who have given up goods and services for the money. Nor is there the slightest reason for the existence of banking at all as it has now become, whatever may have been the case two centuries ago. The public own the goods and services the banker indents upon without furnishing anything in return for the levy and they pay for the private issue of money by being deprived of the profits of the issue, as well as by the rise of prices the incorrect mode of issuing it entails.

Fraudulent Monetary Terminology.—The whole terminology of the system is inverted. Thus bank-credit, when the accounting is done in goods and services rather than figures, should be bank-debt, the debt of the banks to the community for the goods and services the banks have levied upon the nation by empowering impecunious borrowers to obtain them without payment. Again in the all-important cash to credit ratio, which in different epochs has varied from fifteen per cent to probably as low as seven per cent or less, both terms are false. We may postpone the consideration of the second, which is simply

the sum of the current account and time " deposits ", and is really the debt of the bank to its depositors for money on demand *and* on due notice. It is the public's credit and the banks' debt. But as regards " cash ", as the veriest tyro knows now, by far the greater part even of this " cash " is now created by the Bank of England, debts of the latter to the clearing house banks being accounted as " cash ". We may postpone also the nearer consideration of this for later consideration. Under Government protection this bank seems to think it a great joke bamboozling the public.

The Gold Drain.—The devices for tinkering with the currency and making a minimum of genuine national money the base for the support of, probably, a ten- to twentyfold greater inverted pyramid of the will-of-the-wisp magically appearing and disappearing money called " bank-credit ", and the method of regulation of the total money in existence by the Bank of England, were of a brutal and utterly callous character. The drain of gold from the Bank of England under (2) " automatically " resulted in a reduction in the total quantity of money in existence ten to twenty times the amount of gold removed. For each shilling or two of gold money that left the country without replacement £1 was destroyed by the banks arbitrarily calling on their borrowers to repay their loans—as we have seen, an impossibility. The invention of a new currency, as a

debt to the issuing bank which could never after be repaid, because repayment destroyed the currency and the means of payment, put the whole wealth-producing system of the world in pawn to the banker. Ever after the world was in his absolute power.

The evils of genuine usury in the Middle Ages, through the shortage of the precious metals and insufficiency of the medium of exchange, cried aloud to heaven for redress. But the genuine usurer did at least give up what he lent and that for which he received interest, whereas the banker does not, but levies upon the goods and services of the nation for what he pretends to lend and upon which he receives interest. It is bad enough to be put in the grip of the money-lender who does lend his money, but it is a million times worse to be in the grip of the pretended money-lender who does not lend his own money but creates it to lend and destroys the means of repayment just as fast as the debtors succeed in repaying it. This is a surrender of the powers of life and death over the nation's economic life into the hands of irresponsible impostors.

The Government's Connivance.—That the Government have always been a party to this abrogation of their function was revealed in the clearest manner at the outbreak of the War, when, for the first time in history, the throttle-hold of the banks on industry suddenly relaxed, and the economic system was allowed to work all

out on production for the purpose of war destruction. The engines of the money system were quietly reversed before the first shot had been fired. Nations engaged in a world struggle to the death with other nations cannot afford to remain paralysed in the spider's web of bank finance. Then the banks were instructed to lend without limit to finance the production of munitions, and the Government undertook to print and issue to them the well-known " Bradburies " or National Treasury Notes, in denominations of £1 and 10*s*., as required to preserve their solvency and the safe ten per cent cash to credit ratio, irrespective of the amount of credit they issued. The appalling rise of prices was of course attributed by all the City gramophones to the floods of paper money issued by the Government.

In this way, by the printing and issue of three or four hundred millions of Treasury Notes, the aggregate amount of money was increased from some £1,200 millions in 1914 to some £2,700 millions in 1920, being more than doubled. The value of £1 in goods fell to less than one-half of what it would buy before the War. The increase of the National Debt, due to the War, some £8,000 millions, was for the most part contracted in this debased money, and if the money had been correctly issued the debt *would not have amounted to half this sum.*

The Cunliffe Committee.—But before the War was even ended, the necessary cunning steps

had been taken to bind the nation in the spider's web of bank finance again. The notorious Cunliffe Committee was set up to advise on the nation's monetary system when peace was restored. It was composed, with the exception of one academic orthodox economist—like all the others of that day still entirely uncritical of the honesty of the banking profession—entirely of the bankers themselves, and of Treasury Officials working hand in glove with them. It is significant of the close relations between the Government and the banking profession that several Treasury officials have since left the Government to become bank directors, including the one whose name the public associated with the Treasury Note. The Committee contained not a single representative of the interests either of consumers or producers, for whose benefit, and not for the benefit of the banking profession or the Treasury, money really exists. Nor did it contain a single monetary reformer although, even then, Arthur Kitson had been exposing the evils of the nation's monetary system for over twenty years, and had correctly predicted the inevitable consequences of allowing the bankers to resume their control over it.

The first recommendation of this Committee was the early return to the gold-standard and, the second, that the National Treasury Notes should be retired and replaced by bank-notes. The intended effect of the first was well within the

understanding of the ordinary stock-exchange dealer or estates steward, whose business it is to know about these matters in their clients' interests. It meant that the National Debt, the overwhelming proportion of which was contracted in a debased currency, should be repayable as regards principal and interest in gold money worth over twice as much. The French knew all about this, and it is idle to pretend the British experts did not. It was justified as "correcting" the war inflation, when all the nations' pre-War creditors had been swindled through the banks' pretending to lend, and not lending but creating, some fifteen hundred millions to finance production. This would never have occurred at all if the loans had been genuine loans, which at the outbreak of the War there would not have been the slightest difficulty in raising from the public. This wrong the Cunliffe Committee proposed to correct by a second and worse one, the universal swindling of debtors in turn for the benefit of the war-gorged creditors, since debts and the interest on them are not really paid in pounds but in the goods and services the pounds will buy. But all this is now common knowledge, and sordid beyond concealment.

Deflation.—The Report of the Cunliffe Committee was adopted and the Coalition Government of 1920 started to put it into operation. The ruinous deflation stage, No. (3) of the cycle, plunged the whole nation into economic paralysis

from which it has hardly yet shown any signs of recovering. Apart from the physical destruction and loss of life and health among the actual combatants during the War, and the financial losses suffered by the purely rentier class through the inflation, the country at the signing of peace was in a condition of economic prosperity and well-being through the temporary removal of the stranglehold of money.

The most absurd propaganda now began in the Press, the public being exhorted to produce more and consume less one week, and the next, to work short-time and share one's job with one's pal. The banks began suddenly to contract credits with the object of raising the value of the money and lowering prices, quite undeterred by the rising tide of bankruptcies and unemployment. But, though they found it easy enough to produce universal ruin and misery, to lower prices was not so easy, the country producing and consuming less and less at the old price with the smaller quantity of money in existence, rather than the same as before at correspondingly lower prices.

The main reason for this is that lowering of prices means corresponding lowering of wages and salaries, which is effectively resisted by Trades and Professional Unions. The weaker are driven to the wall and lose their employment, so that they become a charge on the taxpayer, while those that retain their employment

correspondingly benefit by any lowering of prices that may be forced. In fact the brutal methods of the gold-standard were too hopelessly out-of-date to reduce the price-level effectively after the War. Its principles were then quite as well understood by the economic advisers of industrial employers and of Labour as by the financial hierarchy. Moreover, in an age of abundance such as science has inaugurated, it is no longer possible to use the naked weapon of starvation to reduce recalcitrant workers to a lower standard of living as it was a century ago. Nor is it possible to expect business men to engage in production when they are told that, before their product comes on the market, prices will have fallen below what the product costs to make !

The Return to Gold.—But by 1925 it was considered that the deflation policy had succeeded in its object sufficiently to risk the gold-standard being restored, as regards the foreign exchanges. The Gold Standard Act, 1925, made it possible to buy whole bars of gold of some four hundred Troy ounces weight at the pre-War price of gold. This openly gave a bounty to importers of goods from abroad, inviting them to use our stock of gold, with which they were provided at far below its market price, to export in exchange for foreign goods to compete against those in the home market. The costs of home producers were of course incurred in the still depreciated

internal currency, whereas those of the foreigners were paid in gold units of much superior purchasing power. It was probably a desperate last effort of the bankers to break down the resistance to their policy of lowering prices, by subjecting the home market to bounty-aided foreign competition, but it could not and did not last long.

True-Blue Treason.—The second recommendation of the Cunliffe Committee was carried out by the 1928 Currency and Bank Notes Act of the last Conservative Government. This, as will appear, fundamental change of the British Constitution was not made in any way a political issue. The Government as the true-blue upholders of the King and Constitution quietly, and with the minimum of fuss, authorized the retiral of the National Treasury notes bearing the King's head and the substitution for them of bank-notes bearing the Bank of England's Promise to Pay. At best this promise could have very little meaning, but it was rendered entirely bogus when the Coalition Government of 1931 went off the gold-standard! The decision to do this was all the more surprising inasmuch as the ostensible reason of the Coalition Government was to prevent such a "calamity" from overtaking the nation. That, at least, was the reason given during an election campaign based even less on truth and reality than is now customary.

The 1928 Act.—The 1928 Act, "deeming" the Treasury Notes to be bank-notes, made

provision for their replacement by a " fiduciary " issue of £260 millions of Bank of England Notes above the gold reserve, with provision for the increase or decrease of this issue by consultation between the Bank and the Treasury, it being subsequently increased by £15 millions when the gold-standard was abandoned in 1931. Much is said in this Act about the purely nominal liability of the Bank for this issue and little about the profits of the issue, but it seems clear that the net profits, as agreed between the Bank and the Treasury, are handed over to the nation. This is the sprat to catch a mackerel, as we shall see in the next chapter, when we deal with the immediate sequel. For in 1932, on the base of the £15 millions increase, the banking interests were able to increase their holding of the nation's marketable securities, or of interest-bearing " loans ", by a cool £300 millions. The 1928 Act marks a second fundamental step in the evolution of privately issued currency, the first of which was taken when the early goldsmiths found it " safe " (for them) to issue bank-notes, or promises-to-pay gold on demand many times in excess of the gold they possessed. These recent rapid changes have much clarified the real issue at stake and made it possible to bring it home to the nation beyond the possibility of its being misrepresented.

What is Genuine Money To-day?—It has been necessary in this chapter to go in some detail

into the kaleidoscopic changes which the empirical body of rules that does duty as our monetary system has undergone since the outbreak of the War, though much of it is familiar to the ordinary reader. But this history has involved deferring to the next chapter some of the more interesting and crucial considerations that underly these changes. Money under the existing situation has no longer the remotest resemblance to what it has ever been before. All the former ideas about good money and bad, about genuine money issued by the State and the private money put into circulation by the counterfeiter, about the duty of the State to protect the owners of money from its being maliciously tampered with and its value in goods debased, have now gone overboard. We are in an age of " monetary policy " when the value of it is continually altered, by the means well known to the banking profession, to make it worth less or more, thus to raise the price-level or to lower it. To stabilize its value is quite impossible without utterly destroying the pretences upon which the banking system has battened, whereas, if these were put a stop to, its value would again be just as stable as it used to be. In all this there is not given a moment's consideration to the most elementary principles of justice to the owners of money, who give up for it valuable goods and services and have a right to receive again value equivalent to that which they have given up.