

CHAPTER II

THE THEORY OF MONEY.—VIRTUAL WEALTH

WHAT is Money?—Let us commence our study of the rôle of money by a comprehensive definition of what modern money is.

Money now is the NOTHING you get for SOMETHING before you can get ANYTHING.

Our task is to understand all that this implies. The definition is, of course, an economic one referring to ordinary transactions such as earning, buying, and selling among ordinary folk—generous uncles and other voluntary benefactors not being under contemplation—and the *nothing*, *something*, and *anything* of the definition refer to things of real value in themselves, usually termed goods and services, or simply wealth, unless hair-splitting or purely technical distinctions turning on the precise definition of wealth are involved. Moreover, it refers to ordinary people, in the sense of those who neither have the opportunity nor the power of uttering money themselves.

As a matter of fact, this definition not only answers comprehensively what money now is but answers perfectly satisfactorily all that money has always been, whether it has been coin or

paper or any other form. From the point of view of the owner or possessor of it, money is the credit he has established in his favour with the community in which it passes current or is "legal tender", by having *given up* in the past valuable goods and services for nothing, so as to obtain at his own convenience, in the future, equivalent value in turn for nothing. It is merely an ingenious device to secure payment in advance, and in a monetary civilization the owners of money are those who have paid in advance for definite market values of buyable goods and services, without as yet having received them.

There is nothing mysterious about all this. What has been termed "the moral mystery of credit", meaning credit-money, might just as well be termed the immoral mystery of debt. For there is no credit without debt any more than there is height without depth, East without West, or heat without cold. The two are related, and although it takes only one to own wealth it takes two to own a debt, because for every owner there is an owner. Money, of course, is an entirely peculiar form of the credit-debt relation, if only because whereas all other forms are entirely optional, the creditor at any rate being a free agent to enter into this relation or not, money is a credit-debt relation from which none can effectually escape.

Let us right from the start get the signs right. *The owner of money is the creditor* and the issuer

of it is the debtor, for the owner of money gives up goods and services to the issuer. In an honest money system the issuer of money who gets for nothing goods and services would do so on trust for the benefit of the community. In a fraudulent money system he does so for the benefit of himself. It makes no difference whether he passes off the money and puts it into circulation himself or lends it at interest for others to pass off for him. In every case what he so gets to spend or lend is given up by someone else. *Ex nihilo nihil fit*. Nothing comes from nothing, or, in modern phraseology, matter and energy are conserved.

Barter and Barter-Currencies.—The invention of money marks a distinct step upwards in civilization. In barter the owner of one sort of property gives it up to another in exchange for another sort of equivalent worth. Money was able to replace barter not because it enabled people to obtain other peoples' property without giving anything up, but because they had in a former and independent transaction already given it up. All the shades of distinction which money in the course of its evolution has passed through, from barter to pure credit (or debt), concern not the something initially given up for it, which is the one essential to all its forms. They concern merely what is received in exchange for it. This may vary from the full value in the form of a gold coin to an intrinsically worthless paper receipt, and nowadays not even that. For a variety of

alleged reasons, such as the necessity to make money circulate freely, which we need not now take very seriously, it has been held to be necessary, at least in certain stages of the evolution of money, to give back to the giver-up of the something the full equivalent value in gold or other precious metal. If this equivalent were in the form of a certain weight of gold dust, or for that matter any other equally convenient exchangeable merchandise, we have merely a case of barter pure and simple, save only for the distinction that, in all probability, the recipient of the metal usually had no use for it himself and accepted it merely as a recognized temporary or intermediate form of payment. But when the practice of coining money arose, and coins were issued of definite weight and fineness stamped with some design, such as the king's head, indicative of the authority under which they were legalized as money, not only was a great step forward taken, as, for example, in convenience of reckoning without requiring the use of scales, but quite definitely the material of which the coin was made was thereby rendered useless to the owner, so long as the coin was not melted down. Within this limitation, that is so long as the coin remains intact, this type of money no less than modern credit or debt money, involved the giving up of something really for nothing, unless a miser's pleasure in gloating over his hoard be considered an economic value. Also it was quite customary

to make it as treasonable an offence to deface the ruler's effigy or otherwise interfere with the intactness of a coin as to utter a counterfeit imitation. Though this may have been intended to prevent clipping, sweating, and the like, it gave the force of law to what is here taken to be the common essential criterion of all money, the voluntary forgoing of something of use or value to the owner *without* any equivalent return.

Paper Money.—In the case of a paper note, it is still exactly what it was when it originated, a printed receipt for something given up for nothing. In the case of the original British bank-notes it was at once the receipt of the bank issuing it for the equivalent of gold, voluntarily given up by the owner on loan or for safe keeping, and its promise to repay it on demand. Hence the origin of the legend *Promise to Pay* on our present notes. In their use as money the gold coin and paper note are on a par, the only difference being that the latter has no other possible function, whereas the former by being destroyed as money can revert to effective use as a commodity. We are here approaching two different considerations which are often confused, one, what gives money a definite exchange value, and the other, how that exchange value may be kept from changing, and how the owner may be safeguarded from loss should it be debased in value.

A gold or silver currency of full value is protected from being debased in value because

it can be melted down, whether legally or not, and the bullion bartered for value equivalent to that given up for the money in the first place. Whereas any "unbacked" paper money is essentially a receipt merely or I.O.U. and, if it is debased in exchange value, the owner has no redress. It has been habitual for the professional money interests persistently to denigrate paper money, to keep alive the memory of every misuse of the printing press (which after all does give a tangible receipt to the owner for what he has given up), and to preach the virtues of gold whilst practising themselves an alchemy that did not even require the printing press. But to an unbiassed judge nothing could possibly be as bad as the system which grew up and flourished after it became physically impossible to increase the supply of gold sufficiently rapidly to keep pace with the expansion of industry, so that a substitute for it as money had to be found.

"*Bank-Credit.*"—The ruinous continuous fall in price-level, so familiar to-day, is derived in the normal way from the checks imposed on the natural expansion of currency, required to keep pace with the increase of wealth in an era of expanding prosperity. The semblance of gold was preserved, but the system was really a gilded fraud. There grew out of a miserable "backing" of gold (at first with, but ultimately without, the aid of any paper, or the issue of any receipt at all to the owner for what he had given up) a vast

superstructure of physically non-existing money created by "bank-credit". We may postpone the nearer consideration of the technique till later. If printed receipts to the owners had been issued, the issue would have put into the shade the worst pre-War historical examples of the abuse of the printing press in times of political unrest and difficulty. It is not the issue of proper receipts that ought to be attacked, but the getting for nothing by the issue of money of more than the public are able to give up for it. If printing receipts, instead of giving gold for what the owner of money gives up for money, is an immoral practice, how much more immoral it is not even to give receipts ! How utterly hypocritical it is to proceed against the counterfeiter of a forged note, who gives a false receipt, for treason rather than theft, and strictly to limit by Act of Parliament the amounts which the banks are allowed to obtain from the public for nothing by the issue of tangible receipts, while allowing them to extract for their own profit incomparable vaster amounts so long as they do not acknowledge the receipt at all !

The Private Issue of Money.—By allowing private mints to spring up Parliament has fundamentally and perhaps irretrievably betrayed democracy. Before the War shed a penetrating light into the nature of money systems in general it was customary even in the works of apparently respectable economists to find absolutely dishonest

hair-splitting distinctions between the invisible money so created and paper notes. The latter were really money and the former was not! In fact, the reader can always tell in such standard works on the subject when he is approaching the fishy part of the business. The essential fact, the creation of new money, becomes obscured in a cloud of anticipatory justification and elaborate special pleading. This is no longer even possible, and one may be thankful to find nowadays some technical writers on this malodorous subject who are content to state the facts unequivocally and to leave the reader to draw his own conclusion.

True, the old credit system "based on gold" kept the currency from being progressively and permanently debased relatively to the exchange value of gold by forcibly bringing it back again after it had been debased—by compounding for the robbing of Peter to pay Paul by the subsequent ruination of Paul to pay the bank. Simple, and in many ways good, as real gold and silver currencies are, they involve a vast amount of futile human effort in the search for the precious metals, which are then instantly rendered unavailing for any legitimate æsthetic or industrial application. But it is mere pretence to ascribe such solid advantages, as they may have, to modern systems pretending to be based on them, but really using them brutally to restore the value to money after it has been diluted, to the hurt of the innocent and profit of the guilty.

For over a century there simply has not been nearly enough gold and silver in the world for the requirements of a pure barter-currency. As regards actual present conditions in this country and elsewhere, since the final breakdown of the "gold-standard", we are now committed to an almost pure credit-debt money, but instead of any definite standard we have entered upon a stage of "monetary policy" in which the price-level is modified deliberately from time to time by irresponsible judges according to what they conceive to be "policy", and without the slightest regard to the elementary principles of justice and fair dealing to those who own money, and that is to everyone in common, who have given up equivalent value for it.

Monetary Policy.—Monetary policy would be better described as "weights and measures policy", for it is simply a universal means of juggling with the standards of weight and measurement. No one outside of metrical science is really interested in the absolute value of the latter. The economic use of them is purely relative to money—how many pounds of coal to the £, how many pence for a pint of beer. Making the £ buy less or more of pounds or pints is the same in all economic affairs as making the pound and the pint weigh and measure less or more than before. It substitutes for false scales and measuring vessels a universal and inescapable swindling mechanism.

We are living in an age rendered great by the

precise sciences and it is idle to try and link our money still to the old semi-idolatrous lure of gold and silver. Books could be and have been written for and against the system of linking the exchange value of commodities to the one commodity, gold, without even attempting to answer the real question of what it is that does give money its exchange value. It is true that simple barter-currencies can keep money constant in value relatively to gold or silver. But that by itself has no meaning, unless an answer can be found for the question, what fixes the value of these relatively rare metals, almost completely confined in use to luxury purposes, in terms of the things universally necessary for life to continue at all? That there is a question to be answered is obvious when we deal with pure paper and credit forms of money, and it is almost as obvious that the answer can only be found in what is here taken as the essential feature of money in general, since it is the only feature this form of money exhibits. One has to give up just as much for a paper £1 as for a golden sovereign. There is no difference in the two kinds of money in this aspect, and so it is this aspect which is the common criterion of all forms of money.

What Gives Value to Money.—Its exchange value depends, in fact, simply on the amount of wealth people voluntarily prefer to go without rather than to possess. The value of money depends to be sure on how much people want

money, but the prevailing loose and confusing meaning attaching to any such phrase as "people wanting money" makes it necessary to add "*instead of wealth*". Again, "demand for money," "abundance or scarcity of money," "price of money," and so on, are technical expressions of the loan market. In genuine loan transactions of any kind the lender *gives up* the credit that is money to another who expends it in his stead, and in national economics it is not the individual who spends it but the fact of it being spent that is of importance. Since people do not borrow money and pay interest on it merely to hoard it, genuine lending and spending in this connection are synonymous. Whereas what determines the value of money is the amount of wealth people prefer to go without; and that is the same as the amount of credit they *retain* as money.

All the common phraseology of money stresses only the something you get for it by getting rid of it, rather than the prior consideration of what you give up by acquiring and retaining it. From the first standpoint peoples' demands for it are insatiable; from the second it would be truer to say, misers excepted, that people keep as little of it as is safe. They want as much on the average as will enable them to conduct their avocations and domestic affairs without inconvenience and embarrassment. They want enough to buy what they can afford to buy as they need it. If they have more than this they spend or invest it. In either

case they put on somebody else the onus of going without the things it will buy. It is highly important to recognize at once that investing is in this connection spending just as much as lending is and for the same reason. The reader must remember that in this inquiry the ordinary attitude of the individual to money is assumed to be perfectly understood, and it is not this aspect but rather the communal aspect of money that is being investigated.

Two Fundamental Monetary Principles.—There are two considerations here that are of importance. The first is that buying, selling, investing, genuine lending, and borrowing, have no effect whatever on the quantity of money—and that is the quantity of wealth the community goes without—since what one person gets or gives up another gives up or gets. Somebody, that is to say, has to own all of the money all of the time, and go without the substance for the shadow. Much as individuals may appear to be free to exercise their choice, they are free only in so far as the requirements of others may be the opposite or complement of their own. If, among the community, buying is more in evidence than selling, the price-level rises and the value of the money unit falls. If selling predominates over buying, the opposite occurs. Assuming that the quantity of money does not change, the first means that the community chooses to give up less goods and service than when the price-level does not

change ; and the second that it chooses to give up more.

The second point of importance is that, though individuals die and their affairs are wound up, communities go on indefinitely. So that in a money system we are really not contemplating any temporary voluntary forgoing of something for nothing to suit the individual's preferences and convenience, but, on the part of the community, an enforced abstinence from use and ownership of buyable goods and services equal in aggregate price or value to the aggregate quantity of money in the community.

Virtual Wealth.—This aggregate of exchangeable goods and services which the community continuously and permanently goes without (though *individual* money owners can instantly demand and obtain it from other individuals) the author terms the Virtual Wealth of the community. It fixes the value of the aggregate of money whatever the latter may be. The value of each unity of money, such as the £, in goods, or what is termed the " price-index " or " price-level ", is thus the Virtual Wealth divided by the total aggregate of money. The latter in a credit-money system may be anything whatever, but the former is definite and is dictated by the necessity of people retaining sufficient instantaneously exercisable credit for goods and services to enable them to get what they want as they want it. They may have a great variety of

other forms of credit—goods, services, jewellery, investments, real estate, and property—but in a monetary civilization, as distinct from one practising barter, these all have first to be sold to a buyer, that is exchanged for the credit that is money, before people can get what they want as they want it. In this, selling services for money is, of course, more usually termed earning (wages, salary, fees, commissions, and so on).

The Community's Credit.—What is here called by the special name *Virtual Wealth* is often intended by monetary reformers when the much wider and more general term, credit of the public or of the nation, is employed. In reality *Virtual Wealth* is a special and peculiar part of the credit of the nation. The credit of a nation may be, and for the most part is, in no way different from that of individuals, in the ordinary sense of their ability to run into debt. Thus the relation that governs the ordinary national debt is the same as if it were owed amongst individuals. The nation has drawn on or expended its credit to the extent of seven or eight thousand million pounds by borrowing these sums from individual citizens on various terms as regards interest payments and repayment, if ever, in the future, and these individuals own debts for the sums of money which they have empowered the Government to spend in their stead. They hand over their money and the Government buys itself goods and services.

The Virtual Wealth, on the other hand, is the credit established by individuals with the nation, through which, in the first place, the intermediate form of payment, money, comes into existence. It is established by goods and services being handed over directly to the issuer of money, repayable as such not from the issuer (unless issued by the nation) but from the community on demand, the debt not bearing interest to the creditor, so long as he retains the credit and right of instant repayment. Interest, obviously, can be exacted from debts only repayable, if at all, on some future date, and not on those which the owner can be repaid at any time but chooses to postpone payment.

Credit Money a Tax.—But, from the standpoint of the community, credit money is simply a form of forced levy or tax impossible to resist, the aggregate of such creditors having no option in the matter, as in other forms of the debt-credit relation. Anyone issuing money, whether the State, bank, or counterfeiter, makes a forced levy on the goods and services of the nation which the existing creditors, in their capacity as money-owners, give up through the corresponding reduction in the value of each unit of their money. When taxation, or other form of expropriation of the property of the individuals by the State, has yielded all that the latter can be compelled to surrender, the last resort of the tax-gatherer—and it is completely inescapable—is the issue of

new money, and it can be continued until the whole of the money is reduced to relative worthlessness. In this way, of course, after the War the defeated nations, Russia, Germany, and Austria, raised revenue when no other means were possible, and at the same time repudiated all pre-existing debts so far as they were repayable in money.

Many, no doubt, until they get familiar with it, will question the use or necessity of this conception of Virtual Wealth, and hold that it does not really explain the value of money. To individuals it may seem a quaint and sophisticated inversion of common usage. Rather it is the first step towards reversing the inversion induced in peoples' habits of thought by regarding money as the primary definite and important factor, and the wealth it will buy as a consequence or inherent property of money. It is the wealth all people must involuntarily give up and go without that is the primary factor that endows money with the power of buying at all. If all refused to go without anything for money and claimed all the wealth to which they are legally entitled in exchange for it, there would only be buyers but no sellers, and no wealth whatever to satisfy even a single one of them. In so far as the money may incorporate or be "backed" by a valuable material, which can be recovered by destroying it as money, there is this much to satisfy them, but in so far as it is pure credit money there is absolutely nothing.

“*Backed*” Money.—If we consider an intermediate form such as a paper money “backed” by a deposit of some type of legal securities, then behind the one kind of debt, money, there is another kind of debt which the existing owner may be legally compelled to surrender. This may than be exchangeable for the wealth the owner needs much in the same way as, but less simply than, by money. But in this case it would still be true to say that the wealth which the owner of money has given up, and is owed for, does not exist. For the securities “behind” this sort of money are already in the possession of owners, and the process is merely the enforced expropriation of their property in recovery of a repudiated debt. In Ruskin’s words it is “the root and rule of all economy that what one person has another cannot have”, and the worst blunders of the ordinary conventional economist will be found to have arisen from the attempt somehow to count twice over property with two owners, where, as in this case, the rights of the one begin only when those of the other end.

Money a Claim to What Does not Exist.—The essential feature of money is, as McLeod fully understood, that it is a legal claim to wealth *over and above* the wealth in existence, all of which in an individualistic society is *already* in the ownership of others independently of this claim. Even in the case of a gold coinage bearing the imprint of the nation or its ruler it is quite customary and

nearer the truth to regard the gold as the property of the nation or ruler rather than of the individual owner of the coin. So that, without any real exception, we reach the conclusion that over and above all the existing property, all of which has owners already, the owners of money possess claims to what they have given up, but what they have given up does not actually exist. The best physical analogy to this is to regard the wealth of a community as reckoned not from the zero of "no wealth", but from a negative datum line below it by the amount of the Virtual Wealth, just as for purposes of special surveys it may be convenient to reckon the level not from average sea-level as customary, but from some level below it, as, for instance, the lowest tidal-level. There is no real mystery about money, as there is about psychic phenomena, but merely a sort of spurious mathematical mysticism introduced by the invention for the purpose of calculation of imaginary negative quantities which are quite legitimate if the nature of the convention is understood. Unfortunately it is not.

The Price-Level.—For all practical purposes the Virtual Wealth at every instant is "measured" (*in money value!*) by the aggregate of money. If the latter is a thousand millions the community are voluntarily refraining from possessing a thousand millions' worth of property which they have the right to own and do not. Nowadays the quantity of money does not stay put. It is

varying wildly from minute to minute of the working day. From one year to another it may be arbitrarily varied within the year by hundreds of millions to suit some "policy" designed to increase or decrease the value of the unit. It is not, however, the Virtual Wealth that changes. That is a very conservative quantity indeed, as it is dictated by the people's necessities and habits, which they alone can change. But the Virtual Wealth being always divided up into a larger or smaller number of units, the price-level or value of each unit varies proportionally with the aggregate of money, considered as one independently operating factor. On the other hand, normally in these days of continuous expansion, over long enough periods there is and should be a steady gradual appreciation in the value of the Virtual Wealth, both on account of increase of population and on account of the rise of the standards of living. If this is not kept pace with under a credit-money system by the issue of correspondingly more money, we have the paralysis brought on by a continuously falling price-level and the ruination of producers in the interest of the rentier.

But, as will appear later, it is absolutely essential for the purpose that it should be issued freely as a gift to the nation, which gives up gratuitously the goods and services it is worth, and then only *after* the increase of prosperity has occurred when goods without money to buy

them are actually awaiting sale. If, as in the past, it is issued as a debt to the banks for producers to buy goods and services to sink in new production, in addition to making the issuer of money the uncrowned king, it cannot be issued without raising the price-level. The general commonsense proof of the latter consequence is that you do not by mere tricks of accountancy, involving imaginary negative quantities, affect by one iota the physical processes by which new wealth is created, but only those by which the incidence of the distribution of the existing wealth among its various claimants and owners is effected. It is amazing, but nevertheless quite in keeping with the age that is passing away, that till quite recently it was common to ascribe to "the moral mystery of credit" and the peculiar virtues of the British banking system the expansion of wealth that was due to the growth of knowledge. Thus the "orthodox" fell into the very same error that they were, and are, so fond of ascribing to other, especially monetary, reformers, namely the absurdity of thinking that all could get rich by means of the printing press and by "tinkering with the currency".

Money from the Issuer's Standpoint.—So far we have been dealing with money as a public instrument replacing barter and have traced the essence of the invention to its enabling those, with goods and services to dispose of, to give them up freely for nothing with a more or less certain

assurance that, and as a *quid pro quo*, they thereby became empowered in turn to receive goods and services on the same terms from others as they need them. Now we have to look at the money from the point of view of those who have hitherto expounded it, to whom money is the *something* for *nothing* before anyone can get *anything*, as it is to those who issue it in the first instance. To these fortunate people the criterion as to what is and what is not really money appeared to depend on fine degrees of general acceptability. Usually an imaginary line was drawn between the bank-note and the cheque on the ground that though both were in reality demands on the bank for money (which in this country is now no longer even true of the first), yet the bank-note had by custom become generally acceptable, whoever presented it, while the cheque was so only if tendered by the person to whom it was drawn or other person authorized by him.

All of this, from the standpoint of the public who use money for its legitimate purpose and spend the greater part of their lives striving that they may not be left without it, is pure sophistry, while on the academic side the analysis is entirely superficial. Since the War, it is refreshing to notice that even the orthodox admit, however much may be said for regarding the cheque as not really money, that there can be no dispute that the deposits at the bank on which the cheque is drawable, and which have come into existence

as the result of the invention of the cheque system, are most certainly money. Thanks, no doubt, in part to the existence of monetary reformers and the ridicule they have poured on these shibboleths which are or were the stock-in-trade of their opponents, but, even more, to the almost incredible blunders and confusions perpetrated since the War in the name of "sound finance", the general public is to-day too wide awake to the diametrically opposite interests of those who live by creating and destroying money, and of those who have to acquire it as a licence to live at all, to be hoodwinked any longer by such evasions.

Money not now a Tangible Token.—The distinction between what has a physical and tangible existence, like coins and notes, and what has not, like bank deposits, is a highly sinister and dangerous one, but it is not a distinction between what is money and what is not. A legal right of action against a bank to supply money on demand is to the owner of it as effective as money itself and usually more convenient. It is of no great significance that the bank is able to cancel, by the cheque system, the bulk of the cheques drawn on it against those paid into it, so as to dispense with tangible money altogether except for the difference between the two amounts. This merely substitutes for an automatic system of accounting by physical counters a clerical book-keeping system which is fraudulent because

it does not start reckoning from zero but from some *continuously varying* negative value.

Money is a right of action against the community to supply *goods and services* or, what is the same thing, to discharge the debt incurred through obtaining them from the vendor, so that a right of action against a bank to supply money on demand is a right of action *against the community* to supply goods and services on demand. Every ordinary person, of course, knows that money is a claim to goods and it is of no practical importance if, in theory, he has to claim that claim from a bank before he can claim the goods. One might as lief argue that a bicycle left in a cloak-room was not a bicycle but a right of action against the railway company to supply a bicycle. The highly sinister and dangerous distinction refers not to the aspect usually stressed, nor to that so far stressed in this chapter, but rather to the origin of the money and, if it is destroyed, to its destruction.

The definition of modern money with which we started makes clear that before it can come into existence some one has to give up something for nothing to the issuer of it in the first instance, and the aggregate the community so gives up is called the Virtual Wealth of the community. Dealing with a gold or silver money of full value the issuer has also to give up full value for the money, but he renders it, while used as money, merely a token otherwise useless, with the result

that all the effort expended in the winning of the precious metals used as money is effectually wasted. But in the issue of every other form of money the issuer must get the something *gratis*.

Change-over from Barter to Credit-Money.—It is easy to see this if we suppose a community practising barter or using a pure barter gold currency to change suddenly to a credit system. It would be similar to starting to play a game with money with a common pool, in which each of the players before he was entitled to play had to contribute so much money to the pool, except that, instead of money, in the one case goods or other exchangeable property and in the other case gold coins, now withdrawn and reverting to their original function as a commodity, would be paid into the pool in return for receipts in the form of the new credit-debt money. The consequence would be that the croupier, or authority in charge of the pool, would be holding in trust for the community various forms of property equal to the Virtual Wealth of the community. But as there is no intention of ever winding up the monetary system in the future, it is clear that all this actual wealth, equal to the Virtual Wealth in value, would remain permanently in the pool. If the community prosper and expand, the pool will naturally tend to grow rather than decrease, through the people increasing their Virtual Wealth and giving up the equivalent actual wealth for it in exchange for the receipts that are money.

It can only decrease through the community decreasing in numbers or well-being and it can only be reduced to nothing by the community ceasing to exist.

There would then arise the situation which the banking profession first discovered and kept as a trade secret. They acted as croupiers and received the public's gold voluntarily surrendered to them on loan or for safe-deposit, and issued notes for it that were at once receipts for the gold given up and promises to pay it back on demand. Then these notes began to circulate as money. At first for every note that remained in circulation the gold lay idle in their safes, and on the average they always held a much larger quantity of gold than sufficed to repay those who, instead of using the notes to pay their debts, demanded the gold back from the bank. This did not last long, for, naturally, they began lending some of the gold out at interest to safe borrowers, and only kept enough to satisfy their clients demanding gold. The situation then was that they owed their depositors more gold than they could at any time repay, but were in turn owed as much gold by those to whom they *had* lent it, and were under bond to bring it back at some date in the future. But this did not last long either.

The False Step.—It is this next step which ushers in money in its present modern sense in which it is an essentially new invention, and all the subsequent steps are merely elaborations of the

original. For the bankers began soon to lend not gold but their own notes, or promises to repay gold which neither they nor their depositors possessed. Even if there was so much gold in existence at all, it was the property of and in the possession of others entirely outside the circle of their business. The situation, then, was, assuming that they only lent notes and no gold, keeping the latter as a "backing" for their note issue, that they owed gold to the extent of their client's "deposits" plus the outstanding note-issue in circulation, which they were pledged to redeem in gold if returned to them, and against the debt they held the gold backing in their vaults and the securities or "collateral" of their borrowers, that is of those to whom they had lent notes (promises to pay gold), but from whom, naturally, they would have to accept their own notes in repayment of the debt if presented to them instead of gold.

This is the origin of modern money as nothing for something on the part of the legitimate user ; as something for nothing on the part of the issuer ; and as something for a promise to pay it back on the part of the borrower, with sufficient security to whom the issuer transferred the acquisition of the something accruing *gratis* from the issue. It is all very easy to understand from the standpoint of Virtual Wealth, and the necessity that the aggregate of the individuals of the community must give up for nothing and be permanently

owed for part of their possessions if they are to avoid barter or a barter-currency. If from the first the creation of money had been preserved, as it should have been, as the prerogative of the State, the chequered history of the last two centuries and the impending dissociation of the whole Western civilization would never have occurred. But the banker alone knew this aspect of money, and for long he kept it as the high secret of his trade. But it is a secret no longer.

Why was it False?—Why is it so vital to the safety of the realm that money, and particularly credit money, should be the prerogative of the Crown, as a central authority representing the whole nation? The reasons are numerous, but by far the most fundamental is apparent if we consider again the above stage, which represents the invention of modern money in the sense defined. A new currency has been created by the banks through people engaged in industry incurring debts to the banks *which cannot be repaid except by destroying that currency*, for there is nothing else to repay it with. When the banks borrowers have to repay they must either find gold, which for all the bankers knew or cared had no physical existence, or the bankers' own notes. Now these notes were not given away. The amount of the issue is the amount owed to the bank. By the issue of new money the debt to the bank is created and by the repayment of that

debt the money is destroyed again. Clearly long before any great proportion could be repaid there must arise a shortage of money and all the remaining debtors would be physically unable to obtain the money, that is to sell their produce or manufactures at any price.

The Banker as Ruler.—From that invention dates the modern era of the banker as ruler. The whole world after that was his for the taking. By the work of pure scientists the laws of conservation of matter and energy were established, and new ways of life created which depended upon the contemptuous denial of such primitive and puerile aspirations as perpetual motion and the ability ever really to get something for nothing. The whole marvellous civilization that has sprung from that physical basis has been handed over, lock, stock, and barrel, to those who could not give and have not given the world as much as a bun without first robbing somebody else of it. Industry and agriculture, the producers of the positive wealth by virtue of which communities live, can only expand by getting deeper and deeper into debt to the banks. They have been reduced to permanent and inescapable bondage by a subtle and, in its place, useful form of accountancy that continues to count below the level at which there is anything to count. The skilled creators of wealth are now become hewers of wood and drawers of water to the creators of debt, who have been doing in secret exactly what they have

condemned in public as unsound and immoral finance and have always refused to allow Governments and nations to do openly and above board. This without exaggeration is the most gargantuan farce that history has ever staged.

The Profits of the Issue of Money.—We left our hypothetical community suddenly changing from barter to credit-debt money, with the central issuing authority in possession of gold and other property of value equal to the Virtual Wealth of the community, and the latter in possession instead of the receipts for what they had given up which are to serve them in future for ever after as money. Clearly the whole stock of valuable property in the possession of the issuer cannot in practice be left as a “backing” for the money. All of it if unused, except the gold and jewels, would rot. As there is not enough of such imperishable forms of wealth to serve as money, it is idle to relegate all there is to the utter waste of permanent incarceration in strong rooms and vaults, as part security for a debt that can never be repaid except by the community reverting to the primitive barter system which it has outgrown. It needs but common sense to suggest that it should all be used at once for the general purposes of the community by defraying part of the necessary public expenditure out of this store, which would otherwise have to be met by taxation. As the Virtual Wealth of the community grows, the further wealth it has to give up for the further

new money it needs ought also to be devoted to the same purpose.

Many people commencing the study of money over-estimate the amounts that can be got from the community for nothing by its issue. It is even suggested that taxation could be entirely met this way and still some would be left over for free distribution ! But the amounts so obtainable *gratis* are not likely to embarrass any modern Government ! Though large from the point of view of the individual, they are small compared with the scale of national expenditure. Lively hopes again have been entertained in many quarters of providing national dividends out of such new money, but these seem to depend on simple mistakes as to the nature of an actual, or, indeed, conceivable, money system. Any given single quantity of money will normally go on distributing goods and services *for ever* at a constant rate if the price-level remains unchanged, so that the total quantity of goods and services it will forward from production to consumption and use is unlimited. No new money at all can be issued unless and until there is an increase of the rate of production. It is only when *the rate* of production and consumption increases, that is to say when the quantities of wealth produced and consumed per year, or in any other unit of time, increase, that proportionally more money has to be issued if the price-level is to remain the same.

Money Indestructible without Expropriation.—It is nonsense to suppose it can be destroyed “when it has done its work”. It cannot be so destroyed without the owner of it being expropriated of his claim to goods and services. The facility with which the banks can destroy money as well as create it depends on the fact that such money is not given away at all, but only lent, and the credit money that was created for the borrower is automatically expropriated from him again and disappears from existence when he repays the loan. Whereas the suggestion to pay national dividends out of such credits does not contemplate lending money at all but giving it away, and such claims to wealth cannot be destroyed again except by taxation, or some other form of expropriation, compelling the owner to surrender up for destruction the money so issued. It is positively amazing how ready some people are to believe in magic still.

It is not, of course, contended that the profits of the issue of new money could not be issued to consumers as a national dividend, but merely that the amounts would hardly be worth while, since practically every consumer already pays far more in taxes than he could hope to receive from such a source. It would seem more natural to use the profits of the issue of new credit money for the general relief of the taxpayer. But the total quantities of money that have been privately issued in the past would, if now applied to the

relief of the taxpayer, effect a very worth-while reduction in his burden, something like £2 per head of population per year. Once this were done the further annual amounts that would be necessary in this country, if distributed, either as a relief to taxpayers or as a national dividend, could hardly be more than a few shillings per head per annum, that is if the price-level is not to be increased. If the price-level is not held constant, but allowed to rise continuously until ultimately the money becomes worthless, then, of course, there is no limit at all to the amount of money that can be distributed as a national dividend, or issued in lieu of imposing taxation. But to contend that a worth-while national dividend can be issued and prices prevented from rising by legal enactments is nowadays absurd. For everything so got *gratis* must be exactly accounted for in the new economics by others going without it, that is by their *retaining* without spending it more money than before by the extra amount issued. They must do this anyway, but whether that means that they are voluntarily giving up more wealth for it than before is entirely a question of the price-level. If they cannot afford to do so then the price-level will rise and the money becomes worth less.