

CHAPTER IV

MONEY AS IT NOW IS

MONETARY *Illusions*.—The advantage of money in use, that it enables all economic values to be expressed in terms of a common unit, is one of the greatest disadvantages in understanding its real nature. All economic transactions with which the ordinary citizen is concerned are always first translated into and accounted for in money units. Indeed, money units are often used without any qualification both for money and for such forms of property or debts as are easily convertible into money. The definition of money in this book is that it is the debt to the owner for a certain value of marketable property obtainable on demand in the country in which the money is legal tender for payment of debt. It is because ordinary citizens are never a consenting party to the initial exchange which creates money in the first instance that they have failed to see its vital national importance. All debts being contracted and expressed in money units they do not understand the significance of the debt-credit relation by which money itself comes into existence. The "credit of the nation" is not merely its power of running into debt for money to its individual citizens, but includes also its power

of running into debt to its individual citizens for actual goods and services—whereby money itself originates. The fact that the debt owed to the citizens by the nation is in goods and services and not in money does not alter the sign of the transaction. It appears to do so only because the vendors receiving new money for wealth given up consider themselves paid, whereas they are not paid but owed.

All money given up by individual citizens to the nation in exchange for National Debt securities belongs as a matter of course to the nation that incurs the debt, whereas the goods and services given up by them in exchange for paper and credit money created by banks was accounted by our monetary system, up to the 1928 Act, as belonging to the issuer of the money. The extraordinary thing is that one would search in vain for any law sanctioning this accountancy as regards the major part, namely that issued as bank-credit.

A Distinction without a Difference.—It will of course be objected that the banks do not and never have claimed permanent ownership of the money they issue. But in practical economics there is no longer any important distinction in this connection between a capital sum of money and the revenue it yields. The owner of a National Debt security is really the owner of the annual revenue it yields. If this is £100 a year and the interest is four per cent it is exchangeable for

around £2,500, if five per cent for £2,000, and so on. To be in permanent enjoyment of the annual revenue is in practice the same as being the owner of the capital sum. So it is with the £2,000 millions or so created by bank-credit which yields to the banks an annual revenue at a bank rate of five per cent of £100 millions a year. Of this they have been in enjoyment ever since they issued the money and they still show no disposition voluntarily to surrender it to the nation. It is a quibble therefore to argue that they do not own the money they have created. If it were replaced by State money the State also could choose whether it received the capital sum, or lent it out and derived the interest from it—whether it incurred with it £2,000 millions of new expenditure, or whether it knocked this sum off the National Debt and saved the taxpayer £100 millions a year. These are only two of the many similar ways the nation would be the richer for accounting the goods and services given up by its citizens for money as the property of the nation rather than of the banks.

To terminate such a situation as now exists all that is required is for the public to look at money, not as it has so sedulously been instructed from the standpoint of the issuer who receives goods and services for it *gratis*, but from the standpoint of the user who has first to give them up for money before he can get them again. The accounting must begin one stage earlier than

money to cover the transaction by which the money originated. If this is done the claim of the banks that they are using their own credit and not that of the community cannot be substantiated. It is true the early bankers thought they were, and no doubt they originally were when they lent part of their depositors' gold. At that epoch the credit of the goldsmiths stood higher than that of the government, which thought fit, when in need, to appropriate the merchants' stores of gold in the Tower without the formality of the owners' consent, and thus drove the latter to seek a safer "bank".

The Vested Interest in Creating Money.—But when they began lending not gold but promises-to-pay gold or, later, under the cheque system, cheques, which are claims on the bank for money, the banks began to appropriate a credit that was not their own but belonged to the community which had to give up the equivalent goods and services to those to whom the banks extended the "credit" in the first instance. Now the argument has come round full circle. The invention of credit money enabled the banking profession to appropriate as its own that part of the credit of the community which has been termed the Virtual Wealth, and this, involving as it does the power of creating money out of nothing, could not help proving a most extraordinarily profitable business which has now become a gigantic vested interest.

Writers on money, from the conventional or issuers' standpoint, now argue, for example, that the banks are within their rights in times of economic depression, when no one wants to borrow their money at any price, and they have more "cash" than corresponds with the ten per cent safe ratio to their total deposits, if they buy property belonging to the public with the money that they issue, a transaction scarcely distinguishable from the operations of the counterfeiter. This is called "Open market operations" and, true to banking phraseology, this method of acquiring the nation's valuable marketable securities by the issue of new money is still technically called a "loan", rather than a theft.

Open Market Operations.—When an ordinary citizen buys securities his stock of money is decreased, but with the banker it works exactly the other way. He increases the quantity of the money he issues by buying just as by lending. He destroys it again by selling just as by calling in a loan. To make this at all intelligible to ordinary citizens they must look at it in this way. The banking system is now a corporation which has a vested interest in the issue of some nine times as much money as it holds "cash", and if credit-worthy borrowers have not yet recovered sufficiently from being caught in the trap of deflation, and are unable or unwilling to borrow this issue from them, then the banks are within their rights in buying for themselves on the open

market revenue-producing investments, paying for them by their own cheques. These the vendors pay into their respective banks creating deposits there, until the safe ratio of cash to deposits is reached.

Cash (!).—But what now is “cash”? In banking parlance “cash” is legal tender money *plus* credits at the Bank of England. Let us see how this worked out in 1932, just after we went off the gold-standard and the “monetary policy” was directed to raise prices and make the value of everybody’s money worth less in goods, so repudiating part of the nation’s debt in goods and services to the owners of the money. It began by the Treasury arranging with the Bank of England and authorizing them to issue £15 millions more of their Promise to Pay notes, under the 1928 Act. The net profit of this issue, whatever it may have been, the Treasury presumably was paid, and to this extent the taxpayer benefited. Then the Bank of England increased its “loans” (banking phraseology) by acquiring for itself £32 millions of marketable securities from the nation, and came into the enjoyment of the revenue of interest which they yield, paying for them by cheques. Whether or not the old lady who overdrew her account and sent the banker a cheque for the amount is an invention, there is not the slightest doubt about this being the normal, natural, and regular method of the Old Lady of Threadneedle Street.

The sellers of these securities in due course paid these cheques into their banks, and the latter returned them to the Bank of England thus increasing their credits at the Bank of England, which rank as "cash", by £32 millions. This great accession of "cash" enabled them to increase their "loans" by approximately £267 millions, much of the increase probably being due—in the still parlous condition of credit-worthy borrowers as yet insufficiently recovered from being deflated—to "open market operations". So that, between February, 1932, and February, 1933, they were able to show an increase in their "deposits" of nearly £300 millions. After that it became rather ruinous to go to Switzerland for one's holiday, or to any other country on the gold-standard, owing to the "exchange" being against us. At the time of writing (1934) the pound in countries still on the gold-standard is worth about 12s. But the banks between them "acquired" some £300 millions of the nation's revenue-producing securities—or the equivalent revenue from their borrowers in so far as they may have succeeded in really lending the new money they issued—in the first year after going off the gold-standard.

Banks now Create Money to Spend Themselves.—This surely disposes of the last vestige even of the excuse that the banks in "assisting" industry by fictitious loans are a public service, for having, by deflation and suddenly withdrawing their

“assistance”, put the nation’s industries *hors de combat*, in order to reflate the monetary concertina, there being now nobody else to “assist”, they have to fall back on assisting themselves. The banking system is in fact now nothing but a gigantic vested interest in the actual issue of new money by methods which still evade the law and ruin first creditors and then debtors. By the ordinary canons of commercial morality there is not a shred of difference between creating money to lend to others for interest and creating it to spend oneself, and now none is recognized either in banking morality. All of this was of course accompanied by the usual dishonest propaganda intended to distract attention from what was taking place. Newspapers called attention to the abundant credit facilities lying idle and no borrowers, and pointed the finger of scorn at those who imagined that shortage of money could have anything whatever to do with the slump!

The Banker as Taxgatherer.—The 1928 Currency and Bank Notes Act, as indicated in the last chapter, has, beyond all doubt since the country has gone off the gold-standard, introduced a new principle into the British Constitution. Before, the issue of bank-notes was strictly regulated by law, but as regards the profits of the issue the nation made no claim to them. So long as they were convertible into gold, the banker made himself liable for the issue though

he gave no security whatever for his solvency. Notwithstanding the fact that, stopped by the law from issuing notes, he began to lend cheque-books to such an extent that it soon became physically impossible for him to fulfil his bond, and that any attempt to make him do so on the part of a small section of the public would have plunged the nation into a financial panic, mercantile custom, if not the law, still maintained the fiction that the banker was trading with and using his own credit.

The 1928 Act, which authorized the issue of bank-notes by the Bank of England to replace the National Treasury Notes, laid it down that the profits of the issue should be paid to the Treasury. As we have seen, the issue of any form of credit money is a forced levy or tax on the goods and services of the community which it is impossible for the community to resist or escape. Parliament alone has the right to authorize and impose taxation, and this Act enables the whole constitutional position to be challenged. For as regards the relatively insignificant issue of notes, Parliament has delegated its powers to the Bank of England, which in this respect is the authorized but unofficial taxgatherer of the Government. For surely, even in law, it is not possible to maintain that a tax is only a tax when the levy is paid in money tokens, and that a levy paid directly in valuables is not a tax. For this would be as silly as arguing that a person

giving up money establishes a credit, but one giving up goods and services of equal value for money does not.

Even in 1928 the foregoing was true for all the ordinary citizens, though the 1925 Act had given money a limited degree of convertibility into gold for the benefit of the foreign trader. This, however, was removed in 1931. Thus we have by Act of Parliament the King's head removed from the nation's money and in its place a bank's Promise to Pay substituted. Now this "Promise to Pay" dates from the days when the bank-note was at once the receipt for gold voluntarily given up to the bank by its owner, and its promise to repay it on demand. By making the Bank of England's Promise-to-Pay notes legal tender in place of the National Treasury Notes, the promise is become a bogus promise. The bank-note is now only the authorized but unofficial receipt for a national tax collected on behalf of the Treasury by the Bank of England. The promise of the Bank of England can be shown to be bogus by anyone who cares to take some of these £1 notes to the Bank and demanding that they redeem their promise to pay "pounds" in exchange for them. It is time this lying legend was replaced by the true one "Received Value worth £1", and it is time this sinister delegation of the powers of taxation to the Bank of England by Parliament was challenged and reversed, and the note signed by the Treasury

authority responsible, as the original Treasury Notes were.

The Sprat to Catch a Mackerel.—But as already indicated this is not the real issue at all, which is the right of the banks by a book-keeping trick to create twenty or so times as much money as the amount for which legal tender receipts are issued. So long as physical tokens exist it is not possible to make them less than zero. But by book-keeping this obvious limitation can be got round, and in figures it is just as easy to count in negative numbers as in positive, and there is, then, no fixed number, such as zero, from which the counting starts. Money accountancy should start from the zero of no money. The real quantity of money is perfectly definite, for it is, in units of money, the worth of the real things the aggregate citizens are owed and entitled to receive on demand in exchange for the money. The fiction that only legal tender is “really” money, and that cheque accounts are not money but claims on demand to be paid money, does not in the least affect the quantity of goods the citizens have given up for it and are owed on demand. The cheque system preserves the zero of no money for legal tender or physical tokens, but extends the accountancy to an indefinite and continually varying extent below zero into the region of minus quantities, or debts of the banks for non-existent money. Making banks keep pound for pound of national money

tokens against their liabilities to their current account holders would at once stop this fraudulent accountancy.

Banks Give no Security Whatever.—It is the strangest perversion of common justice that whereas the banks' borrowers have to deposit with the banks valuable securities, in the way of the title deeds to houses, farms, factories, or investments, amply sufficient to cover the eventuality of their default, the banks, trusting no one, themselves give no security whatever of any kind to their depositors. In the one case, when it becomes impossible for the creditors to fulfil their bond they are sold up and bankrupted. In the other case the banks are granted a moratorium and sufficient national money is then printed to enable them to avoid ruin. The pound for pound of national money would be the nation's security for their solvency and it could be issued to them as required, against suitable collateral security in the way of the banks' assets to cover the loan. But as a matter of fact the mere substitution of a national money for the present fraudulent private money system would produce such an almost instantaneous increase in real national prosperity that it would not be long before industry and agriculture got out of debt to the banks and were able to create and accumulate their own capital without the aid, for the most part, of either genuine or fictitious loans.

The Time-Element of Money.—The philosophy of money here expounded, regarded in a strictly scientific light, may be said to put the difference between barter and monetary systems in the time-interval, that distinguishes the latter from the former, between the giving up of one kind of property and its repayment by another. Money may be considered intermediate repayment, but this does not quite cover the point, which is essentially one of time. If, in scientific fashion, we imagine the time-interval continuously reduced to zero, from a monetary system we arrive at a barter system, and the point is that this is not possible. If we make the mistake of supposing it to be so, it would be the same as supposing a community exchanging by barter in which as soon as one kind of produce were ready for use or consumption an exactly equivalent worth automatically appeared in the same place and at the same time of the kind the producer wanted in exchange. Whereas, as we know, there are such considerations as seed-time and harvest in the case of agricultural produce and their equivalents in industrial production, as well as that the producer never knows accurately what his needs will be in the interval between them. Money bridges this gap because it gives the means of obtaining continuously what is needed for use and consumption, irrespective of the spasmodic nature of production, or, by custom, of payment (wages, salaries, dividends) for engaging in production.

The Circulation of Money.—Orthodox economists seem to ignore the technical and biological processes for the creation of wealth, and the principles regulating its consumption and use, in their almost exclusive concern with the entirely subordinate function of exchange or commerce, against which Ruskin in his day railed in vain. Here, as he expressed it, “for every plus there is a minus”, one party to the exchange merely giving up what the other gets. They tried in the so-called “quantity theory of money” to make the exchange value of money depend inversely on its quantity “in circulation” and directly on its “velocity of circulation”. Their attempts to determine the first came up against the almost insuperable difficulty in a privately-issued money system of being sure exactly what the quantity in existence at any instant might be, let alone the quantity “in circulation”, and they were dependent for this on such figures as the banking profession might wish the public to believe, besides unintelligently following the bankers’ own methods of arriving at the information. These appear to be radically at fault, as still to be gone into, in slumping together current account and time-deposits, and slurring over the distinction between them. As regards the second, they seem to ignore the time-factors in production which it is the function of money to bridge, and they wrote as if it were the velocity of circulation of money which determined the rate of creation

of wealth rather than the latter being the essential factor to which the *circulation* of money *must* conform. The mere fact of money changing hands, altering from moment to moment the identity of the individuals with money and without goods or with goods and without money—commerce in brief, including in the term all stock exchange, real estate, and other transactions involving the exchange of finished property—is not circulation at all. That term should be confined to the payments as above for engaging in production, the return to the production system of the money so paid out, in exchange for the product, and its passage through the production system until it is paid out again and the circle completed.

It is not necessary to consider this old "quantity theory" of money farther than this, because enough has been said to show that it is really a fraud. In practice neither of the two factors supposed to determine the exchange value of money were known, but only their product, and this by definition was simply the total money exchanged for goods per year, or "the volume of trade". Dividing, in this, the quantity of money by the quantity of goods gives the average price of goods, or the price index, a purely statistical figure which is not dependent on any theory at all. It may be stated at once that no quantitative theory of the value of money can possibly apply when the quantity of money in

existence is being arbitrarily varied, created possibly to allow people to gamble with on margins in the Stock Exchange, possibly withdrawn from production for the purpose, and again possibly not. It is like taking seriously a set of statistical figures over a period, in which the units of reckoning were never the same from one moment to the next, or a set of measurements with someone arbitrarily altering the calibration of the measuring instruments to make them always read wrong.

The Value of Money or Price-Level.—By regarding money as essentially credit in the first instance, the quantity of money is simply the quantity of goods and services with which its owners are credited, that is voluntarily going without, and that we call the Virtual Wealth of the community. Itself it is a quantity, not a rate like the volume of trade, and, without any complication at all, the exchange value of money is the Virtual Wealth divided by the quantity of money, and the price index or price-level is proportional to the reciprocal of this. It can only change (1) by virtue of there being more or less money in existence or (2) by virtue of the community, in the sense of the aggregate of its individual members, electing to go without and be credited with less or more goods. The first is the physical quantity and the second the psychological quantity. The latter depends on the number of individuals in the community and on their business and

domestic habits and customs, which are conservative. It is inconceivable, if the quantity of money were reasonably constant, that the Virtual Wealth could be subject to any violent change whatever, except by some far-reaching natural or human cataclysm. In so far as the quantity of money in existence violently and suddenly changes, it produces violent repercussions on the standard of living and general prosperity, and upon the amount of goods and services people can afford to abstain from. But since the cause of this is purely external, arbitrary, and *preventable*, there seems no reason for discussing it and so over-elaborating the simple conception given here. It is rather the purpose of this book to apply it to a genuine money system using physical tokens regulated in amount to keep the price-level constant.

Some Monetary Factors.—But to bring the conception into simple relation with the time-interval which it is the function of money to bridge, between the giving up of one kind of property and its repayment by another, it is necessary to know, besides the quantity of money, only the “volume of trade” or total money exchanged in the year for goods. If we call this $\pounds V$ and the total quantity of money $\pounds Q$, then Q/V is the time-interval required, namely the average time each unit of money is kept before it is spent. Let us suppose the volume of trade, in the sense defined, is taken as given sufficiently

accurately by the amount of bills, cheques, etc., annually cleared by the Bankers' Clearing Houses. This was in 1928 £44,200 millions. The quantity of money in current accounts in these banks for that year is stated to have been £1,026 millions. Hence so far as this part of the money is concerned the average time-interval between spending is rather more than one forty-fourth of a year, or eight days eight hours. Probably something like this period is true for money in general over the whole cycle of production and consumption. What it may be for each half separately can only be guessed. The time of one complete circulation is the product of this average interval and the number of exchanges in both halves. If it is correct that the national income was then about £4,000 millions the average number of exchanges in the complete circulation is about a dozen.

In any case it is important to notice that this interval is a derived or secondary quantity, not in itself as informing as the fundamental conception of Virtual Wealth. The latter is measured by the quantity of money in existence divided by the price index, and this again, divided by the population, gives the average quantity of wealth (in money units reduced to the price-level taken as standard) which each individual of the community is voluntarily preferring to go without in order to own money. If the value of money in 1914 is taken as the standard (price-level = 100), it was in that year a little over £20

worth, and the quantity of goods and services this represents probably varies comparatively little however the price index may vary.

These figures, though they are only given as rough indications of the orders of the quantities in question, appear to be very much as might have been guessed from other considerations.

A Grain Currency.—Man does not live by bread alone even in an economic sense, but let us suppose for simplicity that he does, and consider a self-contained community producing and consuming its own grain, harvested, say, in September, and call the harvest H in worth of money units of constant purchasing power. Then, neglecting the complication of the relatively small amount of grain that has to be always reserved for next year's sowing, and assuming consumption to be at a uniform rate, the quantity of grain always in existence as a minimum must be FH where F is the fraction of the year still to run before harvest. Thus F is 0 just before and 1 just after harvest, in March $\frac{1}{2}$, in June $\frac{1}{4}$, and so on. Now suppose a simple money system to distribute this harvest in which the government issues H units of money to buy it in September, and sells it again throughout the year. Then, just before harvest, the community have no money and no grain, just after reaping, H of grain and no money, and, just after selling it, H of money and no grain. This well illustrates the spasmodic character of production which it is

one of the functions of money to bridge. By March the government have $\frac{1}{2}H$ both of money and of grain, and the community $\frac{1}{2}H$ of money, by June the government have $\frac{3}{4}H$ in money and $\frac{1}{4}H$ grain and the community $\frac{1}{4}H$ of money, and so on, the quantity of money in the pockets of the community always equalling in value the stock of grain in the government's granary. Note, especially, that the government has only to *issue* H units of money *once*, not every harvest !

It is of interest that something like this simple system exists as regards the distribution of grain in Latvia, the issue, called Treasury Notes, being 104 million Lats (1 Lat = 1 Swiss franc, now about fifteen to the pound) and the other money being about thirty-six millions of paper and coin and fifty-seven millions "bank credit", with a gold base of forty-six millions, in Lats. How infinitely better this is than when the government does not issue money and the producers before harvest are always in debt for some part if not the whole of the harvest which when reaped repays their debt, and leaves them again in debt during the whole or part of the period before the next. The essential physical fact is that there must always be FH of grain in existence, or the community will go short or starve before the next harvest, and that fact is not altered by bank finance, the sole social purpose of which is to keep the producers of wealth in debt so as to ensure that they work hard to repay it and do not

slack. That may or may not be an economic necessity but, if so, they should be in debt to themselves, and *that* is what money really is and what it does, whoever issues it.

Economizing in the Use of Money now Fallacious.—It is the irony of the situation that the methods invented by the old banker to “economize in the use of gold for currency”, by creating money without any gold, ought now to be used by the State to economize in the need for the banker (in the modern sense of minter) if the State is to continue to exist except as the perquisite of the minting profession. The idea of economizing in the use of currency dates from the days when it needed a long and precarious search for the precious metals costing on the average probably much more than they were worth. The very opposite obtains now that we understand that gold and silver money only embody in a crude and elementary form the principle of Virtual Wealth. Money is a debt owed the owner by the community. The issuer of money fades out of the picture with the goods and services he obtains for nothing by the issue and, much as he may pretend he is liable for the issue and the repayment of the debt, the debt is never and never can be repaid, but in a scientific age goes on increasing and circulating through the community, exchanging their goods and services for ever after.

We may still learn much from the foregoing

illustration as to the nature of any money system. As regards the point that there is always just as much wheat in the state granaries as there is money in the pockets of consumers, many monetary reformers have averred as a self-evident proposition that there always ought to be as much money in existence as there exist goods and services awaiting sale, and we shall have to comment on this proposition later. But first notice that, on the average, one-half of the grain money, rising from zero after harvest to H just before the next, is always lying in the government's coffers, "idle and barren" as the old bankers would have bemoaned, but really for the simple reason that there is then no grain to be had in exchange for it.

Money Tokens or Book Credit?—Now, so far as concerns a state service of this character, it is clear that the government instead of keeping the money returned to them during the year might as well burn it as received, to avoid the risk of loss during keeping, and issue a new lot every autumn. Or, in terms of book-keeping instead of counters, it could issue a credit of H to the producers for their harvest, and, as the grain is bought back from them, cancel the credit. This involves a new issue of credit every harvest and its destruction throughout the year instead of a single issue of permanent money once for all. In this particular instance the credit accountancy is even truer to physical reality than the other,

since the credits correspond always to the unconsumed grain and there is no money lying "idle and barren". But it is absolutely essential to notice that, if the grain were not in effect a government monopoly but was being bought by wholesalers in the ordinary way of business in an individualistic society, they could not afford to cancel the credits as they resold their grain, for the simple reason that they have not the power to re-create them next harvest. That is possible only for a government conducting the marketing. It is possible for banks because they usurp the prerogative of governments in issuing and destroying the credit of the community for goods and services given up by them. The usurpers charge interest for getting people into their debt, whereas all democratic governments would issue money to keep people out of their debt if they knew the elementary rudiments of their trade.

These remarks may also serve to illustrate the different starting points of two schools of monetary reformers; those who want genuine permanent national money issued by the state after the increase of production is ready for distribution, solely according to statistical regulation, to maintain the price-level constant, without any other let or hindrance whatever; and those who look rather to a modification and extension of the system of issuing *ad hoc* credits for definite production purposes, the credits being destroyed

and re-created again at each round of the cycle of production and consumption.

The reasons why the former system is preferred in this book are many, but the primary reason is that a system that must use some form of physical counters is so much less easy to falsify than one of book-keeping. Also, as already indicated, until some such open and unobjectionable system is reverted to, and full statistical experience of it made known, there are many simple questions, such as the correct quantity of money for a given rate of production and consumption, that cannot really be answered definitely, and which, indeed, it seems to be the object of the present system to make unanswerable. Men do not live by bread alone, even in the economic sense, and in modern industrialized communities at least, but also to an increasing extent in modernized agriculture, there is a fairly constant flow throughout the year, through the whole cycle of production and consumption, of payments for raw materials, intermediate products, and services in production, balanced by equal payments for the finished products or for reinvestment. Even though production as in the illustration be spasmodic, men do not live by fits and starts. Though in the initial days of credit money, one of its functions was to facilitate the increase of production, now it is the other way and the problem is to distribute all that men are already able to produce. Under

these circumstances particularly there seems no reason at all why money should not be permanent and physical, thus avoiding the risk of dishonest accountancy that can so easily occur where money is being continually destroyed and re-created.

Should Money Lending now be Permitted?—The next point of interest is that, though the Government, when it receives back the money, cannot use it to buy grain because there is then no grain to buy, there is nothing to prevent the producer, when he receives it at the harvesting, from lending part of it at interest for part of the year to someone else, who would not borrow were he not desirous of spending. Confining the consideration still to money issued in a self-contained community for the purpose of marketing a single commodity, grain, it is equally clear that the only grain the borrower can buy is that which the lender will himself require later on in the year, and if the borrower consumes it, so that it may not “lie idle in the granary”, the lender cannot get it back when he wants it. All of these simple considerations may serve to raise the broad question of the physics, if not the ethics, of money-lending in general, in contradistinction to genuine investment, when the investor in effect spends his money and can only get it back by finding someone else willing to buy his investment from him. There is a growing school of sociological thought, following the best traditions of medievalism, against money-lending

as such, in which the lender takes no risk, as he does when he sinks his money in a genuine enterprise with the success or failure of which his own fortune is bound up.

The more one thinks over it the more it seems as though even genuine money-lending, pure and simple, however essential it may be to preserve it in the transitional stage to the new era in order to avoid too great and sudden interference with commercial habits and ideas, would even now under a properly worked pure credit-money system be a retrograde redundancy, undoing with one hand what is done with the other. Money is itself a debt of goods and services, and outside of the question of securing specific objects—such as to enable an exceptionally enterprising and capable individual more quickly to arrive at opportunities of social usefulness—lending money is merely creating a new private money debt between individuals which, if the physical circumstances were such as to justify the creation of the new debt, ought rather to be met by the issue of new money. For no one borrows money to hoard but only to be able to consume, normally, of course, for the purpose of putting into production new wealth which will only be ready for consumption or use at a later date. A money debt thus usually takes out of the market just the same amount of finished wealth as if the owner had himself spent his money and consumed what it bought, while owing to the prevailing

laxity in these matters he feels quite at liberty to call in the loan and again consume what the borrower has already consumed.

Physical Absurdity of Short Term Lending.—Whatever may be thought of loans of money for definite long periods, covering the reproduction of the wealth the borrower consumes, when he is in a position to restore wealth to the system before the original owner of the money recovers his money and can take it out again from the system, the practice of lending money on call or short notice is physically idiotic and should be stopped. It is merely a mathematical and not a physical possibility, due to the variable minus quantity from which the quantity of money is now reckoned, which the use of physical counters would make impossible. Because then it would not be possible, as it is now, for the owner to recover again his money without someone else giving it up. Repayments must under such circumstances balance new lending, whereas it is not too much to say that the very object of the existing system is to escape this limitation imposed by ordinary common sense.

Current Accounts and Time-Deposits.—This may serve to reintroduce the point deferred from the last chapter as to the essential difference in correct accountancy between current accounts and time-deposits, which it has been the practice of the banking system to slur over and slump together. The sum of the two, or “total deposits”,

represents the money the bank owes their depositors on demand or short notice. When a client transfers money from a time-deposit to a current account it makes no difference to the "cash" to credit ratio, and it would appear that some of the worst falsifications of the monetary system arise from this quite unjustifiably loose procedure. Although a time-deposit is nominally only recoverable by the owner on due notice, even the stipulated period is usually not insisted upon. At the worst the bank would merely charge a "discount" for refunding the money without notice, unless itself in difficulties.

Whereas it is clear that if a depositor is receiving interest on his deposit from the bank, the bank is only paying it because itself it has lent it to some borrower, presumably at a higher rate of interest. The money is no more in the bank's possession than the gold belonging to the depositors remained in the goldsmiths' safe when they lent it out at interest. If money is defined as the debt of goods and services owed the owner of money on demand then, to arrive at the total quantity of money in existence, we must not add together the money in current accounts and in time-deposits, but reckon the former only. The money in the time-deposit has been lent out by the bank, which is paying the owner interest for doing so, and it either appears in someone else's current account or time-deposit.

If in the latter, then the same consideration applies to the new as to the original time-deposit. That is to say, in order to arrive at the total money in existence only the current accounts must be reckoned. This assumes, as is customary in this sort of rough and ready reckoning, that the money outside the banking system altogether, in the hands of the public as physical tokens, does not change, but it is in any case too small a proportion of the whole seriously to invalidate the conclusion.

How the Banker Avoids his Own Trap.—It would seem probable that it is by this method that the truly frightening destruction of money that has been going on since the deflation policy of the Cunliffe Committee was started has been concealed. By slumping together the two kinds, the "Deposits" that alone are given in the banks' balance-sheets do not appear greatly diminished. Figures it is true have been published latterly that would make it appear that the ratio between current accounts and time-deposits has, since 1919, only changed from the ratio 2 to 1 then to 1 to 1 now. But they appear faked. So far as their source can be traced they appear to come from a table published in the Macmillan Committee's Report. Certainly in 1922 the statistician, H. W. Macrosty, complained that these important figures were not published by the British banking system, and he estimated the ratio as then 5 to 1, as for the eight hundred chief

banks of the Federal Bank System of the United States.

However this may be, it would appear that the present 1 to 1 ratio is the lowest it is possible to bring it to. Since the banks dare not destroy the money actually lent to them by their depositors, or they would themselves be caught in the trap which those to whom they have lent money are caught in. These "time-deposits" can be demanded by their owners at short notice, and for a 1 to 1 ratio, since the money in current accounts give the aggregate in existence, they can, except by re-creating again the money destroyed, only be paid by transferring the whole of the money in existing current accounts into the current accounts of the owners of the time-deposits. The 1 to 1 ratio arrived at by deflation means that the banks have left just enough money in existence to meet this liability, and if this interpretation of the situation is correct, then it would appear that practically all the rest of the money in existence has been destroyed in their frenzied efforts "to crucify the country on a cross of gold and glut".