

# THE BANKERS' CONSPIRACY!

WHICH STARTED THE WORLD CRISIS

By

ARTHUR KITSON

*President of "The National Money Service"*

*Author of "A Letter to H.R.H. the Prince of Wales on the  
World Crisis", "A Scientific Solution of the Money  
Question", "A Fraudulent Standard", "Trade Fallacies",*

*"Unemployment, its cause and a Remedy", etc.*

**THE BANKERS' CONSPIRACY!**  
**WHICH STARTED THE WORLD CRISIS.**

# THE BANKERS' CONSPIRACY!

WHICH STARTED THE WORLD CRISIS

By

ARTHUR KITSON

*President of "The National Money Service", &c.*

*Author of "A Letter to H.R.H. the Prince of  
Wales on the World Crisis", "A Scientific  
Solution of the Money Question", "A Fraudulent  
Standard", "Trade Fallacies", "Unemployment  
—Its Cause and a Remedy", etc.*

LONDON: ELLIOT STOCK

(Props.: SIDNEY KIEK & SON, LTD.)

16 & 17 PATERNOSTER ROW, E.C.

1933

# CONTENTS

	PAGE
CONCERNING THE AUTHOR AND HIS WORK :	
AN APPRECIATION (BY A FRIEND) - - -	7
FOREWORD - - - - -	25
THE TERMS OF THE APPOINTMENT OF THE COM-	
MITTEE ON CURRENCY IN 1918 - -	45
THE PERSONS APPOINTED - -	45
SYNOPSIS OF THE CUNLIFFE COMMITTEE'S	
REPORT - - - - -	47
A CRITICISM OF THE FIRST INTERIM REPORT	
OF THE COMMITTEE ON CURRENCY AND	
FOREIGN EXCHANGES - - -	49
THE COMMITTEE'S REPORT A VERY BIASED	
ONE - - - - -	55
THE COMMITTEE'S FALSE ASSUMPTIONS -	56
THE BANK CHARTER ACT BASED ON A	
GROSS FALLACY - - -	59
QUANTITY MONEY THEORY VERSUS QUALITY	
THEORY - - - - -	63
MONEY AS A DENOMINATOR OF VALUES -	65
MONEY IS NECESSARILY NATIONAL AND NOT	
INTERNATIONAL - - -	66
"STORE OF VALUE" ABSURDITY - -	68
FALLACIES AND DANGERS OF THE BANK	
CHARTER ACT - - - -	71
SIR EDWARD HOLDEN'S EXPOSURE OF THE	
GOLD STANDARD - - -	75



	PAGE
EVIL EFFECTS OF LONDON'S FREE GOLD MARKET - - - -	79
THE PROBLEM OF POVERTY IN THE MIDST OF PLENTY - - - -	82
THE RATIONAL REMEDY FOR INFLATION -	83
DEAR, SCARCE MONEY, RUINOUS TO TRADE	89
WORLD PRICE THEORIES AND FREE TRADE PAUPERIZES LABOUR - - - -	90
THE FOREIGN TRADE FALLACY - -	91
CURRENCY DEFLATION MEANS ROBBERY -	91
THE GOLD STANDARD IS A DEVICE FOR CONTROLLING TRADE - - - -	93
PAPER MONEY SUPERIOR TO GOLD -	94
CONCLUSION - - - -	96
CONCLUSION - - - -	98

## CONCERNING THE AUTHOR AND HIS WORK

*An Appreciation by*

A FRIEND OF MONETARY REFORM

As a protest against those Statesmen and Bankers who have asserted that "No one could possibly have foretold the present World Crisis", I and a few others have urged the republication of Mr. Arthur Kitson's Criticism of the Cunliffe Currency Committee's Report, the recommendations of which the Lloyd George Coalition Government adopted. This Criticism was originally printed at the expense of Mr. Kitson, and copies furnished to every member of that committee in January, 1919, before the committee had made its final report. The Criticism was given in place of oral testimony which Mr. Kitson was invited to contribute.

It will be seen that Mr. Kitson gave ample warnings of the inevitable results of the committee's recommendations and foretold the present crisis. But this is only one of many similar predictions made by this writer during the past forty years.

Mr. Kitson is generally recognized as the pioneer of monetary reform wherever the English tongue is spoken, and even in France and Germany his name is known as the pioneer of the New Economics.

Only one familiar with the history of this movement in this country, and in America since 1890, can

fully appreciate the services he has rendered on behalf of mankind.

Just now, whilst the World's delegates are assembled to discuss the subject which Mr. Kitson has made his life's study, and whilst they are endeavouring to find a way out of the morass into which their gold standard policies have driven them, and against which Mr. Kitson has been warning the world for over forty years, it seems opportune and right that the public should know more of the unselfish labours of one who has sacrificed so much on their behalf.

The past few years has witnessed the production of scores of books on the financial evils from which we are all suffering; and many writers are posing as the only true prophets and saviours of society by reproducing the ideas of one who had written his first principles of the new science long before they were even heard of. It was in 1894 that Mr. Kitson's *Scientific Solution of the Money Question* was first published, foretelling all the evils of the past thirty years, including the Great War and the present Crisis!

During these years he has fought—almost single-handed—the Money Power, for a cause which he knew and was warned would bring him trouble, entailing a life of sacrifice and ending most probably in ruin. In spite of every obstacle placed in his path, he has continued his work, but at what a cost!

Various offers were made him for the purpose of getting him to discontinue his attacks upon the Gold Standard. He might have received a princely income for life. He would have escaped several ordeals through which he has been compelled to pass as a

consequence of his persistence in championing what he believes to be the people's cause. Had he taken the orthodox view and sided with the bankers he would have been acclaimed as a great Economist. But he has remained true to his faith and principles.

In season and out of season he has preached the destruction of what the late Lord Bryce termed Man's most dangerous and insidious enemy—the "Money-Power", and proclaimed the gospel of the 'New Economics' which he outlined in his first work, *A Scientific Solution of the Money Question*.

In this book he showed that the instrument of this group, who were and are still out for World domination, is Gold.

Its publication brought its author world-wide recognition. It was favourably and unfavourably reviewed by hundreds of journals and newspapers throughout America, where it was first published. At that time, 1893-5, Mr. Kitson was starting his business career in America as an engineer, where he later became known as the Engineer-Economist. He built up several large industries, mainly in connection with his own inventions. His system of lighting, known throughout the world as the "Kitson Light", at one time gave employment to over 50,000 workmen. Kitson Lighting Companies were formed in thirty-five different countries. He gave the free use of his system to the Lighthouse Authorities of this country, and his light became known as "The Mariners' Friend". Among his many achievements in this field were the lighting of the Trans-Siberian Railway, and those of India, Austria, Hungary, Roumania, and other countries. He was one of the pioneers in telephony, having superintended the

construction of many hundred miles of lines in the Western States of U.S.A. He purchased the Daimler patents and business in America from the estate of William Steinway of New York, and organized the Daimler Motor Car industry before the name of Ford had been heard of. He erected the first incandescent electric plant in the City of Philadelphia, and in Atlantic City, New Jersey. He assisted Brush in his experiments in electric work, and at one time had charge of the laboratory of the Western Electric Manufacturing Co. in New York. He has received hundreds of patents for his many inventions in all branches of Engineering.

He was for several years a member of the famous Franklin Institute of Philadelphia, and of the Committee of the Sciences and Arts. From this society he received the Medal of Merit for his inventions in artificial lighting. He also received medals and the highest awards at many of the International Exhibitions, including Paris (1901), Philadelphia (1900), Dresden (1903), Athens, Greece (1904), Cape Town (1905), Wellington, N.Z. (1905), Milan, Italy (1906), India (1911).

During all these years of strenuous business he kept up his interest in his favourite diversion—music.

It is not generally known that in his young days he contemplated making music his life's study, and gave up his first business to follow his heart's choice. But circumstances threw him back into his engineering profession. He organized the first May Musical Festival held in the State of Iowa (1884), and trained a chorus of five hundred voices. The Festival lasted three days, and was highly successful. Mr. Kitson not

only assisted in the musical performances (presiding at the organ), but financed the undertaking.

To return to Mr. Kitson's work for monetary reform.

At the time his first book appeared, America was engaged in the financial struggle over bi-metallism. Of this, Mr. Kitson wrote that of the two systems, bi-metallism is saner than mono-metallism, because it furnished a broader basis and a more generous supply of money. But money metallism, he said, is barbaric, and should be relegated to the scrap-heap!

Commenting on this phase of the subject, the reviewer of his book in the *Philadelphia Bulletin* (of March 29, 1895), wrote as follows: "Just now the mercantile community is deeply perturbed over the struggle of mono-metallism and bi-metallism. That struggle would sink into nothingness the moment we realized Mr. Kitson's ideal of a paper currency based solely upon public confidence and redeemable in the general wealth of the nation. The ratio of silver to gold would speedily settle itself if *both* were demonetized: and after all, does not the fact that the legislative power can establish an arbitrary ratio for the coined metals prove conclusively that their purchasing power is something wholly apart from their values as commodities? This is the very point that Mr. Kitson seeks to establish."

We are hearing just now much about "Social Credit", as though it were a very recent discovery. But Mr. Kitson was advocating Social Credit long before any of these modern writers were even heard of. And this Credit Power was recognized by the

French Economist, P. J. Proudhon, whose system of Mutual Banking was started in Paris during the 'forties. Mr. Kitson quotes Proudhon as the author of this system. "Money is a *social* instrument and morally belongs to the people." "Money is merely a *title* to wealth." "It is redeemed every time it is accepted by the public for goods and services and needs no gold redemption," are among Mr. Kitson's teachings.

The publication of this work brought our author in personal relationship with Bryan, the Democratic candidate for the Presidency in 1896, and the champion of bi-metallism. In an article Mr. Kitson contributed to the *Fortnightly Review*, following Mr. Bryan's death, he tells of his conversations with this distinguished statesman, which led Mr. Kitson to stump the State of Pennsylvania in his behalf.

Bryan recognized that the real issue of that campaign was the use of the National Credit, which he promised that the Government should control if he were elected. The fight was Bryan versus Wall Street. Mr. Kitson's book was quoted frequently in both houses of Congress during this campaign.

On one occasion an all-day debate was arranged between Mr. Kitson and the American Post-Master General, Charles Emory Smith, before the members of the New Century Club, Philadelphia.

This debate opened at 11 a.m. and continued until 5 p.m., during which, special editions of the press were issued.

Dr. John Kelly, the well-known American scientist and Economist, wrote our author: "I congratulate you upon having written the best book on money in the English—if not in any—language.

I am going to do what I very seldom do—read it again.”

It was at this same time (the early 'nineties), that Robert Blatchford, the author of *Merrie England*, wrote as follows: “I can say with much pleasure that the presentation of Political Economy in the first few chapters is masterly. It is the best Economic book, the fullest, deepest and truest I have ever read.”

The book was adopted by two American professors as a text-book for their students, but the financial supporters of these colleges finally had both the books and the professors expelled.

Among the many correspondents who wrote appreciatively were the philosopher, Herbert Spencer, Arthur (afterwards Lord Arthur) Balfour, the Finance Minister of Austria and famous Economist—Boehme-Bawerke, and the Chinese Minister, Li Hung Chang.

After his return to this country, Mr. Kitson published a revised edition of his American work. This was published by Grant Richards under the title of *The Money Question* in 1903. It was extensively reviewed by the leading papers throughout the country. In 1905 Mr. Kitson started the first League in this country for monetary and banking reform. This was followed by his publishing *The Open Review*, a monthly journal devoted to Currency Reform. Mr. Kitson both edited and financed it.

Meetings of this Society were held at the New Reform Club, Adelphi Terrace, London. Among the members were several who have since published their own books on this subject; such as Alfred Wigglesworth, joint author with his brother of *The Gold Tangle*; Henry M. Meulen, author of



*Economic Justice by Money Reform*; H. Isaacs, author of *The Menace of the Money Power*; and Mark B. Major, who wrote *Britain's Destiny*.

In 1911, Mr. Kitson wrote an *Open Letter to the Chancellor*, Mr. Lloyd George, warning him of the dangers of the gold standard money system, and prophesying its collapse in the event of a great war. He predicted that we should then be compelled to employ a paper money as our currency, based on the national credit. This was published by Dent & Sons as a pamphlet in 1911.

During the War, Mr. Kitson wrote and lectured frequently in time snatched from his engineering work, his factories being engaged on munition work. Numerous articles from him appeared in *Land and Water*, the *Times* (Trade Supplement), *The National Review*, *The Nineteenth Century*, *The English Review*, and hundreds of articles and letters he contributed to the daily press all over the country.

In 1917 he published two works, entitled *Trade Fallacies* and *A Fraudulent Standard*, both published by King & Son.

It was through reading the latter that the famous Oxford scientist, Professor Frederick Soddy, became interested in monetary reform, and led him to write his well-known books; the principal work entitled, *Wealth, Virtual Wealth and Debt*, he dedicated to Mr. Kitson. In 1917, in conjunction with several Midland manufacturers, Mr. Kitson organized the Banking and Currency Reform League of Birmingham. Meetings of this League were held at the Birmingham Business Club and at the Chamber of Commerce.

In 1918 Mr. Kitson was invited to stand for Central Nottingham as Parliamentary candidate on

behalf of the National Party. His election address contained a serious indictment of the Banking system, and a warning as to the intentions of the City of London money merchants to revive the gold standard at an early date. He then predicted the disasters which this country would suffer if the bankers' plot was allowed to mature.

He has been connected with practically every association having for its object the elimination of gold and of the private monopoly of money, for the past thirty years.

He has been President of the Banking and Currency Reform League, both in London and Birmingham, The Economic Freedom League, The Monetary Reform Association of Manchester, The National Money Service, The New Europe Group, The Eleventh Hour Movement, and several others of a similar character.

In a recent publication by the Monetary Reform Association of America, the following appears: "Without his name" (Arthur Kitson's) "the history of the crusade for Monetary and Economic Reform cannot be written." Mr. Marshall Hattersley, in his book, *This Age of Plenty*, acclaims Mr. Kitson as "the Doyen of the band" of the "New Economists", to which Professor Soddy and C. H. Douglas are connected.

In an open letter to the Rt. Hon. R. B. Bennett, the Prime Minister of Canada, dated July, 1932, Gerald G. McGeer, K.C., a famous Canadian financial writer, says: "In recent years, men like Maynard Keynes and Dr. R. Eisler have emphasized the wisdom that Arthur Kitson has been propounding for upwards of forty years. In his first book, he declared;

'The gold standard means inevitable war. The children born of it are fire and sword, red ruin and the breaking up of laws'." Twenty years later, the war of the ages vindicated his prophecy.

"Again in 1918, Mr. Kitson wrote: 'The war debt has been incurred in cheap pounds, and honest dealing requires repayment in pounds and in commodities of the same value as when the debt was incurred. If, however, the value of money is raised as it was following the Napoleonic wars and the American Civil War by returning to gold, if the plotters succeed in persuading the Government to accede to their demands, it will mean the complete enslavement of the people to a soulless money despotism for ages or compulsory repudiation of debt.'"

Mr. McGeer adds: "That ominous prophecy has been vindicated beyond question by the events that are taking place. Men with the prescience of Arthur Kitson should not be lightly regarded when they offer advice in the hour of real crisis."

The late Lord Milner referred to Mr. Kitson as "The Prince Rupert of Finance."

The late Editor of the *National Review*, L. J. Maxse, in a letter to a correspondent dated November 30, 1931, wrote: "I much appreciate the letter you were good enough to write me on the 23rd November expressing your approval of Mr. Arthur Kitson's efforts in the *National Review* elucidating the Currency question. I must say he has shewn extraordinary prescience for many years in the warnings he has issued against the blunders we have made. Whether he will now get a hearing from the powers that be, I cannot guess. There is not a little 'amour propre'

in these matters, and the City big-wigs do not like admitting they have blundered."

In the November 1931 issue of the same *Review*, under the title of "Honour to whom Honour is due," there appeared the following:

"For more than thirty years Mr. Kitson has been carrying on at his own expense, educational work, endeavouring to expose the superstition and ignorance of those who have hitherto championed this ruinous (gold standard) policy. It is not generally known—and I am violating no confidence in stating—that Mr. Kitson has not only given years of his time and energies freely in this cause on behalf of the British public, but has spend over £20,000 of his own money in publishing literature and distributing it throughout the country."

*The Web of Finance*\* contains the following:

"Arthur Kitson is the 'father' of modern banking reform, Engineer, Whitworth scholar, Managing Director of the Kitson Engineering Co. Ltd., patentee of over five hundred inventions. Our most active and effective critic of the existing financial systems."

One characteristic of our author deserves mentioning. He has always been willing to accord a place of honour and recognition to any and every other writer and worker in this field of reform so long as he believed them to be honestly desirous of aiding humanity. It will be remembered that he gave recognition to the proposals of Messrs. Douglas & Orage in the articles he contributed to the *Times Trade Supplement* in 1920, just after the publication of Major Douglas's first book, which called forth a letter of gratitude from that writer, that Mr. Kitson

\* By Hugh P. Vowles.

had "restored his (Douglas's) faith in human nature," in putting forward his proposals in place of his own.

These articles were afterwards published in book form, entitled, *Unemployment: Its Cause and a Remedy*. It was at one time listed in the *New Age*.

Of Mr. Kitson's efforts to enlist the support of one or other of the Political parties, one could write a whole volume. Thousands still remember his numerous contributions to the *Clarion* of Robert Blatchford, commencing about 1900. These were usually on financial subjects. He also wrote many articles for the *New Age* during the Editorship of Mr. Orage. This gentleman once suggested that the Fabian Society should get Mr. Kitson to give them instruction in money and banking. He gave many lectures to the various branches of the Independent Labour Party all over the country. He urged the Labour leaders—notably Keir Hardie, Ramsay MacDonald, George Barnes, Lansbury and others—to study the money question as the most important in the economic world. All this was long before the War.

He wrote to Joseph Chamberlain during his Tariff campaign telling him that tariffs without money reform were no remedy for trade depression. He wrote to Winston Churchill to say that trade could never be "free" so long as the mechanism of trade was held as a private monopoly. His *Open Letter to Lloyd George*, published in 1911, contains a complete treatise on monetary science. It covered 76 pages, with more than 30,000 words.

His series of articles in the *Times Trade Supplement* during the last year of the war were reprinted in book form together with the reply by Mr. Hartley

Withers, who was chosen by the *Times* Editor to destroy Kitson's "heresies". Those who are fond of literary duels should read this volume—which may still be obtained from the author. Mr. Kitson was able to expose most effectively the complete bankruptcy of the orthodox economists. In a special editorial (Oct., 1918) the Editor of the *Times Supplement* referred to Mr. Kitson as "the brilliant author" who "attacks our banking system". He added "Mr. Kitson writes vigorously. He thinks we are wrong not only in administrative methods, but in the principles on which the whole system is founded . . . Mr. Kitson's business reputation and record are known to the world. It would be absurd to pretend to ignore a successful business man who finds other business men eager to attend his lectures and hear his views on those problems to which he has devoted so much study". It was said that the circulation of the *Times Trade Supplement* was considerably increased as the result of Mr. Kitson's articles.

Two years ago, at the request of a group of business men, Mr. Kitson wrote a letter to H.R.H. the Prince of Wales on the World Crisis which the Prince acknowledged and read. This has had a wide circulation throughout Great Britain and Canada. It deals with the cause of the crisis and offers an immediate remedy—although—as the writer says, the measures advised would need further consideration at a later period.

And here it should be said, that, whilst offering certain policies as a stimulant to industry which is suffering from anaemia through the loss of so much of its life-blood during the deflation period, Mr. Kitson has always disclaimed any intention of prescribing a *permanent* remedy. In a recent letter on this subject he says :

"I am always amused when I read or hear of a *permanent* remedy for the world's economic ills, and especially when economists talk of 'fixed and immutable laws' governing trade, and society. Society is an organism, and is constantly changing, and the policies which may operate favourably at one stage of society's development may become disastrous at another stage. This is one of the causes of the present troubles. Man's laws are static and should become obsolete at the end of a certain period. To-day we are governed by the ignorance and superstition of the dead past, which have been incorporated in our written statutes. And in face of this, the public are continually told that they are a 'self-governing' people. I am an old inventor, and my experience has taught me that one can never obtain perfection in one operation. This is only obtained by patient and continued trials, alterations, and improvements. So it must be with any financial or trade policy. We must try schemes and see how they work before we can know that they are beneficial. I could prescribe a dozen methods for ridding the world of its evils, but nobody could guarantee which would prove the best in practice until after their trial. The man who claims he can cure the world with one prescription never yet tried, should be regarded as either an ignoramus or a charlatan."

As to the principles taught by Mr. Kitson in his many writings, they cover the entire ground of economic science.

It is a great misfortune to the world that most of his books are out of print. He has been urged frequently to republish his first work after bringing it up-to-date. But burdens have been thrown on

his shoulders, and responsibilities which have taken up most of his time, and would have crushed the majority of much younger men. Briefly, it may be said that Mr. Kitson has always insisted that a true science of economics must necessarily harmonize with ethics. The question "Is it right" should apply to an economic policy or system to the same extent as to an act of conduct. He claims that an immoral policy must be uneconomic. Hence he condemns interest (usury) showing that it is economically ruinous to society and forbidden by every religion. In fact, the immorality of interest became so, because of its economic effects.

He shows that production and consumption are really one complete cycle and not economically two distinct and separate processes. He sets this out clearly in his first book.

He also defines Social credit, and shows that money really represents the credit of society.

He exposes the fallacies of "intrinsic values" and a "standard of value". "One might as well talk of a standard of love," he writes. He denounces the gold standard as "the greatest fraud ever perpetrated on mankind". The fallacy of the Gresham law he exposed, which led Professor Ross of the Leland Stanford University, California, to write that this was an "eye-opener" to him.

His merciless criticism of the orthodox teachings on the gold standard compelled the leading writers to alter their definitions. They no longer talk of the gold standard having "the same properties as the commodities it has to measure", which was in all the text-books when Mr. Kitson commenced writing on this subject.



He showed that values could only be expressed by numbers—not by substances. “Values are estimated” he wrote, “not measured”. “The term *measure* applies to physical things and involves physical operations. Estimates are purely mental. If I give a yard-stick to each of a dozen boys of average intelligence and ask them to measure the length and width of a building, they will all give me a correct answer and the same result. But if I give to a dozen of the most brainy economists, a ‘standard of value’, and ask them to measure the value of the same building, not one of them can perform this task. Not one of them could use such a standard, and even if they gave me their estimation, probably no two would agree on the figures.”

In his criticism of Mallock’s article on Karl Marx, which he published in the first number of his *Open Review* (May, 1909), Mr. Kitson foreshadowed the age of leisure, when machinery would ultimately displace human labour. “The claim of the poorer classes to a share of the wealth will have to be admitted on the ground of mere social welfare, or else the alternative position will have to be recognised, viz., that the introduction of labour-saving inventions is a system of wholesale murder and must be prohibited.”

In May, 1930, Mr. Kitson appeared as a witness before the MacMillan Committee at Westminster. He was the only witness before that body who was able to tell them that all the evils which they were appointed to investigate he had foretold in his written evidence submitted to the Cunliffe Currency Committee in January, 1919—which is the subject-matter of this publication.

He has debated the whole money question with

Sir Josiah Stamp at the Imperial Industries Club, and with Professor Gregory at the London School of Economics.

I once asked Mr. Kitson if he had ever calculated the number of speeches, lectures, and talks on money reform he had delivered to public audiences. I suggested an average of one a week during the whole forty-year period. He thought this would prove an *under-estimate*.

Three years ago he was the guest of the German Economic Society at their conference at Bergen. This lasted an entire week, during which he delivered five addresses which were published conspicuously in the leading German papers throughout that country. In the *Deutscher Verkehrsverein* journal, Mr. Arthur Kitson's name is coupled with that of the greatest German political Economist, Friedrich List.

In spite of his long period of service, Mr. Kitson is still working as energetically as ever. He is, I learn, engaged in writing his complete life story, which will prove of great interest to thousands. The story of his persecution, the many attempts to ruin him and divert him from what he regards as his chief mission on earth, will be found to be an extraordinary one, in which comedy and tragedy have been curiously interwoven. May he be spared to fulfil his mission completely.

A. F.

# THE BANKERS' CONSPIRACY

## FOREWORD

JUDGED by its effects upon the industrial and social affairs of Great Britain, The Cunliffe Currency Committee's Report, issued in the month of August, 1918, is the most important document of the late War and post-War periods.

This document advised the adoption of certain monetary policies which were accepted by the Coalition Government of Mr. Lloyd George in 1920, under the Chancellorship of Mr. (now Sir) Austen Chamberlain, and is directly responsible for the most disastrous period in the industrial history of this country.

Notwithstanding the ruinous results of the deflationary policy recommended in this report during the years immediately following its adoption, Mr. Winston Churchill intensified these evils by establishing the Gold Standard in 1925, which precipitated the great strike of 1926.

In 1924 another committee was appointed composed of Sir Austen Chamberlain (Chairman), Mr. Gaspard Farrer (Banker), Mr. A. C. Pigou, Professor of Economics at Cambridge, and the two Treasury Officials, Sir John Bradbury and Sir Otto Ernst Niemeyer to report on the terms and conditions for handing over the control of the Currency note issues

to the Bank of England as recommended by the Cunliffe Committee.

*If the present World Crisis can be traced to the Currency deflation policy pursued by the Central Banks of the great industrial nations since the War, Great Britain must be held mainly responsible for having taken the lead in the adoption of this suicidal measure. And the men who should be held responsible to the British people for urging the Government to embark on this reactionary course are the members of these two committees.*

I was one of the very few manufacturers invited to give evidence before the Currency Committee; and after carefully studying their report, I dictated the Criticism contained in the following pages. Printed copies of this were presented to the members in place of oral testimony in the month of January, 1919. The final report of this committee was issued in December of the same year. No attempt whatever was made by the Committee to answer this Criticism—notwithstanding that I deliberately challenged the truth of many of their assertions and impugned the theories upon which the policies they recommended are based. After the past thirteen years experience, I am content to leave to my readers the decision as to the truth of my Criticism.

Readers of this book will be able to form their own judgment as to whether I, or the members of this Committee, prophesied falsely, and whether the orthodox teachings of our Treasury officials and bankers as set forth in the Committee's Report are trustworthy.

In every branch of human study experience is the only reliable test of theories. The experience of this country since the adoption by the Government

of the Report, has surely demonstrated the ruinous effects of the financial policies recommended by the Committee. Indeed, the results have proved so appalling, that even many of those who originally advocated the re-establishment of the Gold Standard monetary system, like Sir Basil Blackett, and endorsed the Committee's Report, like Lord d'Abernon, have become critics of this system.

The Gold Standard, re-established in 1925, after inflicting untold losses upon our industrial classes and taxpayers, had to be abandoned six years later to save the country from ruin.

The same policies as those recommended by the Committee have also been tried in other countries since the War and with similarly ruinous results; hence the present World Crisis! By the universal adoption of the Gold Standard after its recommendation by the Cunliffe Committee which was one of the main policies advocated by the League of Nations, an irresponsible super-Government was created, composed of a group of International Bankers. It required only a few years to prove the utter incapacity of these men to manage the world's financial affairs, and if the people of all civilized countries are not yet convinced of the terrible dangers attending the supremacy of the banking interests, there will be a repetition of the economic disasters of the past few years—but of a much more intensive character.

The present Governor of the Bank of England is one of the few members of this group candid enough to admit that the present situation is "beyond him", and that he can see no solution. And yet he seems unable to realise that the present Crisis is almost entirely due to the policy he and his associates

abroad have been pursuing for some years past !

In sheer despair, the politicians and bankers responsible for the crisis have called a World Conference to meet in London, in the hope that what each Government has been unable to achieve singly for its own people, may be accomplished collectively for the whole world. I venture to predict that this Conference will prove as futile as the Disarmament Conference.\* The money crisis is a local and national question, and should be settled by each Government for its own people respectively.

Money is *not* international, and the attempt to make it so is part of a deep-laid plot on the part of certain international financiers to control the world politically, industrially, and financially, by means of the Bank of International Settlements established recently at Bâle.

If this Conference results in the adoption of an International Money system, the masses of mankind will be enslaved to a soulless despotism, and it will result in further wars. It will compel the workers of all countries to engage in a sordid, cut-throat wage competition, which will reduce them all to the lowest level of bare existence ! The World will then be engaged in a life and death scramble for money ! The only alternative to this will be raising the world's tariff barriers !

It has been asserted by several of our political and financial leaders that the disasters we are now experiencing were not and could not have been foreseen by anyone.

Those who have the patience to read the following

\* This was written several weeks before the Conference had assembled.  
(Author.)

pages will be able to judge to what extent these assertions are true. Years before the War, I ventured to predict the general ruin and social misery the world's monetary systems based on the Gold Standard would inevitably create. In my first work, entitled *A Scientific Solution of the Money Question*, written in 1894, I wrote as follows :

"The Gold Standard means inevitable war. Nations cannot possibly exist for long under it."

"The Children born of it are fire and sword, Red ruin, and the breaking up of laws."

"The repudiation of debt will become inevitable. Nations must strangle this monster or it will strangle them. The gold debts of the world cannot be redeemed in gold. Although gold does not enter in the slightest degree into those things that sustain life, by building Industry upon this fickle basis, our civilization is in danger of being swept away. It is not a mere abstract question of Economics. It does not merely concern statesmen, and students of Finance. It is the greatest moral, the greatest social question which mankind has ever had to consider. It concerns the lives, fortunes and happiness of every human being in society, and of generations yet unborn. All other questions sink into insignificance compared to this one. It is the 'fin du siècle' problem, and our answer to it will determine the character of the drama we shall shortly have to witness, and upon which the curtain of the twentieth century is about to rise."

In my work entitled, *A Fraudulent Standard*, published in 1917, I warned the public of the projected crime which our leading financiers were contemplating, viz., raising the value of the pound sterling and consequently increasing the burdens of all War

debts, and the value of the War Bonds. I wrote as follows :

“ If the value of the pound is raised as suggested, if the bankers succeed in persuading the Government to accede to their demands, it will mean either the complete enslavement of the people of this country to a soulless money despotism for ages, or compulsory repudiation of the debt. . . . Raising the value of money means trade depression, lock-outs, strikes, starvation, pauperism and riots with the possibility of civil war.”

Its first effect was the Coal Strike of 1926, costing hundreds of millions of pounds.

We have been saved from a civil war only by the granting of the dole to the unemployed, which has been an insurance premium to prevent this national disaster.

In November, 1911, I addressed an open letter to Mr. Lloyd George (who was then Chancellor of the Exchequer) on the subject of *Strikes and Bank Failures*, which was published by Messrs. Dent & Sons in the same year, in which I endeavoured to point out the dangers and the weaknesses of our monetary and banking system, at that pre-war period.

The following are a few extracts from that letter :

“ It is as certain as that the sun will rise to-morrow, that in a great crisis we shall be compelled to suspend our Bank Charter Act and accommodate ourselves to paper money. Has this not already saved our industries and trade three times in succession since this Act was passed? Why should the industrial progress of the world be continually held back by this employment of gold? Why should the efforts of mankind to reach a higher degree of physical comfort and a higher



plane of civilization be impeded by this artificial obstruction? Is gold really necessary for trade? What is there to prevent a group of financiers cornering a large amount of gold for the purpose of bringing down the prices of goods and shares, and then having purchased what they require, unloading and flooding the gold market in order to enhance prices? The industries of the world have become the shuttle-cocks which our international financiers play with by means of the golden battledores provided by the nation's money laws." "Suppose the commercial nations of the world established an International bank at the Hague under the protection of the Peace Society. Could not all international balances of trade be adjusted by simple bookkeeping? Might not all the gold coin and bullion of the world be buried under the bank, where it need never again be disturbed? Might not Prometheus be saved his useless labour of continually digging gold out of one part of the earth and burying it in another? Would not such an international bank tend to preserve the peace of the world by dethroning gold?"

"Under the gold standard bankers are compelled to restrict trade and industry unduly in order to maintain the safety of their institutions." "Monetary and land monopolies are the parents of usury." "The Bank of England inflicts far more injury upon British trade than all the foreign trade tariffs of the world combined".

Similar warnings and predictions were made by me in many articles published before, during and immediately after the War, in various journals including *Land and Water*, *The London Times Trade Supplement*, the *National Review*, *The Nineteenth Century*

*Review*, *The English Review*, *The Westminster Review*, and other well-known publications. I addressed scores of meetings of the Chambers of Commerce, Rotary Clubs and Business Organizations throughout this country, and in Dublin and Belfast. Prior to the War, in conjunction with a few friends, I formed the first Banking and Currency Reform League in London in 1907, and started a monthly magazine devoted to monetary and banking reform known as *The Open Review*, which I edited and financed. Every effort was made to interest our political leaders in this great subject, and I addressed numerous meetings of the Independent Labour Party in London and elsewhere. Some of these meetings were attended by the late Keir Hardie, Mr Ramsay MacDonald, Mr George Barnes and other well-known Labour Leaders. I contributed many articles to the Labour journals from 1899 until after the War, notably to *The Clarion*, edited by Robert Blatchford, *The New Age*, edited by A. R. Orage, *The Labour Leader*, *Justice* and *Forward*.

Early in the War, in conjunction with Mr. Wilfrid Hill, the first President of the Birmingham Business Club, and Mr. Ernest Payton, the Financial Director of the Austin Motor Company, I formed The Banking and Currency Reform League of Birmingham, under the auspices of which, numerous meetings were held both in London and in the Provinces for the purpose of warning the public and the Government against the policy which I foresaw the London Bankers would endeavour to establish as soon as Peace was declared. Among our members were Lord Desborough, the late Moreton Frewen, M.P., and T. B. Johnston, Esq., the well-known pottery manufacturer of Bristol, who organized several meetings for us at Bristol and

elsewhere. This League entertained the late Sir Edward Holden—the founder of the Midland Bank—at the last luncheon party he ever attended—at the conclusion of which he gave us a most interesting account of the way the War had been financed.

He was a severe critic of the Bank of England and of the Bank Charter Act. As our League advocated the repeal of the Act, Sir Edward gave us his support, although he did not endorse our entire programme. In his speech at the luncheon referred to, at which I presided and which was given at the Savoy Hotel, London, Sir Edward stated that “with nine-tenths of Kitson’s gospel I am in full accord”. I had had the privilege, on several former occasions, of discussing the financial situation with him, and he agreed as to the dangers of the adoption of a monetary deflation policy after the War, to which he was entirely opposed. In consequence of his critical attitude towards the policy of the Bank of England, he became (as he once told me) “the best-hated man in the City of London”!

I mention these particulars in order to show how baseless have been the assertions of certain statesmen and bankers that “the present crisis was not and could not have been foreseen by anyone”!

Moreover, it required no exceptional gift of foresight to foretell the inevitable consequences of the revival of the gold standard after the War, and of the scarce-dear-money policy which has been pursued by the Bank of England with the approval of the Treasury officials and of our Chancellors, during most of the post-war period. Any intelligent reader of the industrial and financial history of this country for the last century could as readily have predicted the present period as the writer himself. Dozens of

examples of the ruinous results of money and credit contraction could be mentioned from the experiences of the various industrial nations within living memory. But the best illustration is the post-war period after the Battle of Waterloo. As the direct result of Lord Liverpool's and Sir Robert Peel's Gold Standard policy, this country experienced thirty years of industrial depression and unemployment culminating in the "hungry forties". And as Disraeli stated on several occasions, England was only saved from final ruin by two accidents, viz., the discovery of gold in California and Australia in 1849 and 1850, which, by providing a large increase in the volume of money (which to-day would be termed "inflation") reversed the policy of Peel, and brought about an era of prosperity.

Similarly the demonetization of silver after the Franco-German War, resulted in currency deflation with the accompanying evils of low prices, trade depression, unemployment and general social misery universally. Civilization was once more saved by the currency expansion brought about by the gold discoveries in South Africa.

It may be stated as a *general truth*, that *currency expansion—whether in the form of the precious metals or legal tender paper money—has always promoted industrial prosperity*. On the other hand, *every period of currency contraction—especially when enforced by legislation—has resulted in industrial stagnation and social misery*. *No country has ever succeeded in restoring prosperity without an increase in the purchasing power of the public.*

Orthodox writers are fond of dwelling on the disasters accompanying periods of monetary inflation, such as occurred in Germany after the War and in

Russia after the Revolution. These writers are careful to avoid mentioning that in both these cases the inflation was deliberate on the part of the authorities ; and in the one case was adopted to get rid of Germany's internal War debts, and in the case of Russia to destroy the private traders by making the rouble valueless. *The increase of money supplies for the sole purpose of assisting trade and production has always proved beneficial to mankind.*

Monetary inflation may be beneficial as well as an evil, and in the case of Germany it proved ruinous to the rentier class, and to the idle rich. But it was during this period that the German manufacturers were able to re-design their works and instal the most up-to-date machinery, with the result that to-day Germany is the best-equipped nation in the world for production of manufactured goods. *Inflation has never ruined any nation.* On the other hand, monetary deflation ruins the wealth-producing classes upon whom the very existence of a country depends, and if this policy is continued, is bound to bring that country to destitution.

The monetary system as advocated in the Report of the Cunliffe Committee, and as practised by the Bank of England for the past ten years, belongs to the age of scarcity when trade was a mere bagatelle to what it has since become. When Sir Robert Peel introduced the Bank Charter Act of 1844, England was the only country using *exclusively* gold as the basis for its currency. Other nations employed silver, although paper money was extensively used in America.

Scientific discoveries and inventions during the past half-century have revolutionized the world's

economic system, and the present crisis with which the world is now afflicted, is due to the attempt of Governments and international bankers to employ an antiquated currency system to function in the present age of plenty. It is analogous to the London Water Companies trying to use the same-sized water mains employed a century ago for distributing water to London's present population.

✓ Lord D'Abernon—who was formerly a banker—has described the present crisis as a “money crisis”. He adds, “It is the stupidest and most gratuitous in history. All the essential circumstances—except financial wisdom, favour an era of prosperity and well-being. Crops are more abundant than ever before. Science has developed production beyond all precedent: inventiveness has discovered new processes in industry, increasing the power of man over Nature, enabling him to produce far more at less cost. But the incapacity to adjust vehicle to burden, and means of payment to requirements, has brought about a crisis, so that many are starving in a world of plenty, while all are oppressed with the same sense of depression and of inability to meet the situation. The explanation of this anomaly is that the machinery for distributing the products of labour has proved quite inadequate.”

Money is the life-blood of trade and commerce, and unless there is an ample supply to meet the growing demands of trade, enterprise is checked, trade is depressed and the public are unable to secure and to enjoy the abundance of the necessities and good things of life which inventors and scientists have been able to provide. The eminent Oxford scientist, Professor Frederick Soddy, states that the Gold Standard monetary system has wrecked a scientific

age! Whereas modern science and inventions have harnessed the forces of Nature to man's control, so that an abundance of every form of wealth can be readily provided, the world's bankers have stepped in and placed a barrier between production and consumption. They have not been content to take their share of modern wealth production—great as it has been—but they have refused to allow the masses of mankind to receive theirs, and to participate in the wonderful results. In consequence, millions of pounds worth of products have been destroyed. Corn has been used for fuel. Coffee has been thrown into the sea. Fruit has been allowed to rot. Hundreds of tons of fish have been thrown overboard. In fact, the world's productive capacity has been slackened to a mere fraction of what it could have been, by the refusal of the bankers to furnish the public with enough tickets (which we call money) to enable the producing classes to distribute the wealth produced.

So important is money to our economic life, that Sir Archibald Alison in his *History of Europe* attributes the "thousand-year-night of Europe", commencing with the fall of the Roman Empire, to the absence of money, which was destroyed or lost during the barbaric invasions.

During this long dark period, civilization declined, and practically everything of a co-operative character which required the use of money, such as co-operative manufactures, road construction, bridge building, etc., almost entirely ceased.

The same writer also attributes the great awakening of the 15th and 16th Centuries, known as the Renaissance—during which trade and learning and civilization were revived—to the discovery of silver in the

Peruvian mines, which gave to the world a medium of exchange.

It is worth while to notice the names and professions of the members of this Cunliffe Committee. It will be seen that with the exception of Sir John (now Lord) Bradbury, Professor Pigou and Mr. Upcott, every member was connected with the banking profession. Moreover, it is well known that the Treasury officials work always in harmony with the policy of the London bankers. So much is this the case, that we have recently seen several of them—including Sir John (now Lord) Bradbury, and Sir Otto Ernst Niemeyer, who also occupied a very important and influential position in the Treasury both during and after the War—becoming directors of banking institutions.

Not a single representative of manufacture, agriculture, or labour was invited to become a member of this Currency Committee.

In no other business or profession—save that of banking—would the Government of any civilized country so brazenly offend the public sense of justice as to appoint a committee composed exclusively, or even mainly, of members engaged in that particular business, to determine the legal privileges which such a business should enjoy.

What would the public say if the Government of this country were to appoint a committee drawn exclusively from the Brewers or Whisky Distillers Association to determine the character of our licensing laws; or a committee composed exclusively of criminals to determine the criminal laws?

And yet this sacrifice of the public interests on behalf of the money-lending profession has been the



policy of every British Government for the last century! What is the reason for this? It is due largely to the supreme influence of the Treasury department in Governmental affairs. Every Department of State requires money for its administration, and the entire financial affairs of Government are dominated by the Treasury—the permanent officials of which are selected on account of their orthodox views and their willingness to carry out the policy of Threadneedle and Lombard Streets. So notorious has this obsequiousness of the Treasury officials to the London bankers become, that the Treasury is sometimes spoken of as “the West End branch of the Bank of England”.

It is equally notorious that we have no political leader or statesman in this country who has the knowledge and the courage to oppose these permanent officials of the Treasury Department. We have seen but recently the Prime Minister—Mr. Ramsay MacDonald—obeying the call of the Governor of the Bank of England as obediently as an ordinary bank messenger boy! We have witnessed a shameful surrender of British interests to the United States over the debt question by a former Prime Minister—Mr. Stanley Baldwin—at the bidding of the same representative of private vested interests—Mr. Montagu Norman. We have recently seen the Government reimbursing the shareholders of the Bank at the expense of the Taxpayers for losses incurred on their foreign loans to Austria.

Nor is this humiliating spectacle confined wholly to this country. Two years ago Sir Otto Ernst Niemeyer, a director of the Bank of England, undertook a visit to Australia to instruct the people of that self-governing Colony as to the financial policy they

must carry out in order to meet the wishes of the London group of money-lenders! And with the exception of the former Premier—William Hughes—the Australian Politicians and Government officials actually received this impudent address with all humility and a promise to obey the instructions!

One wonders whether the spirit of independence and freedom with which the Anglo-Saxon race was once possessed, and for which it was famous, has been destroyed by this modern spirit of commercialism.

Since commencing this Foreword, I have read with great pleasure the declaration of the London Chamber of Commerce and the Federation of British Industries protesting against the re-establishment of the gold standard. In spite of all the undeniable disasters and general social misery which this fraudulent system has created, the international bankers, constituting what is known as the "Money-Power", are still plotting to restore gold as the god of all wealth!

They know that only by means of a commodity-standard which they are able to control, will they dominate the world's industries and trade, which is their ultimate object.

Ample warnings of the debt-slavery which the use of gold as the basis for money inflicts have been sounded from many quarters of late years; but the most effective statement is contained in the 20th Protocol of the Learned Elders of Zion,\* as translated by the late Victor E. Marsden, formerly correspondent of the *Morning Post*.

"You are aware that the gold standard has been the ruin of the States which adopted it, for it has not been

able to satisfy the demands for money, the more so that we have removed gold from circulation as far as possible."

"Economic crises have been produced by us for the Gentiles by no other means than the withdrawal of money from circulation."

Here we have a deliberate admission of what is the policy of the leading international Jewish bankers—a policy which has been carried out in the United States and in France during the last few years.

In Protocol No. 22 occurs the following :

"In our hands is the greatest power of our day—gold." Considering that these Protocols were found in the British Museum eight years before the War, they may be regarded as absolutely prophetic, and are being carried out by the Money-Power in every particular.

In his *Modern Democracies* the late Lord Bryce said :

"Democracy has no more persistent or insidious foe than the money-power, to which it may say, as Dante said when he reached in his journey through Hell the dwelling of the God of Riches, 'Here we found Wealth, the great enemy'. That enemy is formidable because he works secretly by persuasion or deceit, rather than by force, and so takes men unawares. He is a danger to good government everywhere."

"The truth seems to be that democracy has only one marked advantage over other governments in defending itself against the submarine warfare which wealth can wage, viz., publicity, and the force of public opinion. So long as ministers can be interrogated in an assembly, so long as the press is free to call attention to alleged scandals and require explanations from persons suspected of an improper use of

money, or an improper submission to its influences, so long will the people be at least warned of the dangers that threaten them. If they refuse to take the warnings, they are already untrue to the duties that freedom prescribes."

Unfortunately, the safeguards of public freedom—publicity and the force of public opinion—are rapidly being controlled by the Money-Power. The press of this country is almost entirely in the hands of the banking interests, whilst the Cinema and the Radio are also similarly controlled. It is also known that questions regarding the policy and constitution of the Bank of England which affect the public welfare, are not allowed to be put in the House of Commons, by a recent ruling of the Speaker.

Here is a private trading company to which has been given, by Mr. Baldwin's Government, the absolute control of the public's money system; a corporation owned by a number of shareholders who are under no obligation to publish their names or holdings; a company that can adopt any policy its directors see fit; that is under no obligation to meet the needs of British trade and industry; that is international in character; that has the power to loan and does actually loan British credit to foreign countries to build up rival industries to those of this country; that can raise or lower the Bank Rate for its own interests, and so penalize the British public; that can depress trade and increase unemployment or revive trade and reduce unemployment, without any interference from the Government, and without any obligation to explain its conduct!

And this international corporation rules the British Nation, whose people have proclaimed for

the last two centuries that they "never never will be slaves".

The control of money means the control of human life. Without money a man loses his right to life and freedom. In the eyes of the law, being without visible means of support is a crime. All debts—including rates and taxes—are payable, not in goods, which the people are free to produce, but—in an instrument which no man is permitted to create outside of the banker. And although the Government demands a revenue in currency of over seven hundred million pounds per annum, it makes no effort to provide the public with the necessary volume, nor does it obligate the Bank of England—to which it has handed over this priceless monopoly—to do so.

As Sir Basil Blackett (a director of the Bank of England, and a former advocate of the Cunliffe Committee's Report) has recently written in his book, *Planned Money*:

"When it is remembered that Kings and governments have, throughout the ages, insisted with jealous care on their prerogative of issuing money and controlling currency within their jurisdiction, it is somewhat strange to find modern States accepting as axiomatic, a limitation of their sovereignty in the sphere of money, so far-reaching in its effects on their own powers and on the daily lives of their citizens, as is involved in their agreeing to conform in all circumstances to a standard of value over which they have no control."

Fortunately for civilization, the world's economic disasters have compelled thousands of intelligent people to study this money problem—which has

hitherto been purposely shrouded in mystery by the leaders of finance and their paid hirelings—the City Editors and the Economists. The International Bankers' game is being exposed to the public of all nations.

“We cannot allow our economic life to be controlled by that small group of men whose chief outlook upon the social welfare is tinged by the fact that they can make huge profits from the lending of money and the marketing of securities—an outlook which deserves the adjectives ‘selfish’ and ‘opportunist’.”

This quotation from a recent work by President Roosevelt is the most hopeful outlook both for the American public and for the world at large. Will *our* politicians have the intelligence and the wisdom to follow the President's lead? I doubt it.

## COMMITTEE ON CURRENCY AND FOREIGN EXCHANGES AFTER THE WAR

THE Committee whose names are mentioned below, were appointed by the Treasury "to consider the various problems which will arise in connection with currency, and the foreign exchanges, during the period of reconstruction, and report upon the steps required to bring about the restoration of normal conditions in due course."

The following words were subsequently added :  
"and to consider the working of the Bank Act, 1844, and the constitution and functions of the Bank of England with a view to recommending any alterations which may appear to them to be necessary or desirable."

The constitution of the Committee was as follows :

*Chairman* Lord Cunliffe, G.B.E., Governor of the Bank of England.

Sir Charles Addis, Hong Kong and Shanghai Banking Corp.

The Hon. Rupert Beckett, Beckett & Co., Bankers.

Sir John Bradbury, K.C.B., Secretary to the Treasury.

G. C. Cassels, Esq., Bank of Montreal.

Gaspard Farrer, Esq., Baring and Co., Bankers.

The Hon. Herbert Gibbs, Anthony Gibbs & Sons, Bankers.

W. H. N. Goschen, Esq., Chairman of the Clearing Bankers' Committee.

Lord Inchcape of Strathnaver, G.C.M.G., K.C.S.I., K.C.I.E., Chairman, National Provincial Bank.

R. W. Jeans, Esq., Bank of Australasia.

A. C. Pigou, Esq., M.A., Professor of Political Economy, Cambridge University.

G. F. Stewart, Esq., D.L., F.S.I., Ex-Governor of the Bank of Ireland.

William Wallace, Esq., Royal Bank of Scotland.

Mr. G. C. Upcott, of the Treasury and Ministry of Reconstruction.

Date of Appointment, *January*, 1918.



## SYNOPSIS OF THE CUNLIFFE COMMITTEE'S REPORT

THE Committee gave a review of the currency system before the War as established by the Bank Charter Act of 1844. This system was endorsed by the Committee, the members of which evidently believed that the end and aim of the monetary and banking system of this country should be "the maintenance of a complete and effective gold standard". The Committee advised the restoration of the gold standard at the pre-War parity "without delay". Their one fear was "the expansion of credit and a foreign drain of gold which might jeopardize the convertibility of our note issue, and the international trade position of the country". They also advised "the repayment by the Government of a large portion of the Government's securities held by the Banks": and also "the creation of an adequate sinking fund out of revenue". They further advised against the reconstruction policies which had been promised by Mr. Lloyd George as Prime Minister, on the ground that such policies would require "the creation of new credit which would interfere with the restoration of the gold standard". This caution was made particularly applicable to the proposed housing and other development schemes!

The Committee further recommended that the gold reserve held by the Bank of England as the

normal minimum amount should be £150,000,000. The use of gold for our home trade was considered unnecessary, and the Fiduciary issue of notes was to be limited by law and controlled by the Bank of England. This Fiduciary issue was "to be limited to an amount which experience shows to be consistent with the maintenance of the central gold reserve of £150,000,000". The Treasury notes which functioned during and after the War were to be retired and replaced by Bank of England notes. The State was to cease to interfere with the monetary issues, and the Bank of England to be restored to its pre-War position in possession of the monopoly of the money supplies and dictator of the Bank Rate.

The final report of this Committee issued in the month of December, 1919, confirmed the First Interim Report.

The above suggestions were carried out in detail by the Conservative Government of Mr. Stanley Baldwin, under the Chancellorship of Mr. Winston Churchill, who re-established the Gold Standard in 1925, and handed over the control of the National Credit to the Bank of England in 1928. The Fiduciary Issue was finally fixed at the amount of £260,000,000.

# A CRITICISM OF THE FIRST INTERIM REPORT OF THE COMMITTEE ON CURRENCY AND FOREIGN EXCHANGES

PRESIDED OVER BY LORD CUNLIFFE, G.B.E.  
(Governor of the Bank of England)

## INTRODUCTION

Before dealing directly with the Committee's Report, I desire to call particular attention to the Committee's terms of appointment. These terms do not appear to have called forth the criticism they merit, for they certainly disclose as great a confusion of ideas and an incoherency of thought on the part of their author or authors as one could well imagine. The Committee seem to have surmounted the difficulty by ignoring what many people would regard as the most important part of the terms. These terms embrace six distinct inquiries each of which is sufficiently important to warrant a separate report. The Committee are asked (1) "to consider the various problems which will arise in connection with Currency and (2) the Foreign Exchanges during the period of Reconstruction and (3) report upon the steps required to bring about the restoration of normal conditions in due course, and (4) to consider the working of the Bank Act of 1844, and (5) the Constitution and functions of the Bank of

England with a view (6) to recommending any alterations which may appear to them to be necessary or desirable." Number (1 and 2) inquiries have no necessary relation to, or connection with, number (3). Numbers (4) and (5) may be classified as historic, whilst number (6) suggests that number (3) is not essential. It will be noticed that inquiry numbers (1 and 2) speak of "the period of Reconstruction" without any attempt to define the nature and scope of the Reconstruction that is to be undertaken. Anything more beautifully indefinite or hazy it would be impossible to conceive. The genius responsible for drafting these terms evidently sees no difference between financing the construction of a Municipal Market House and the re-building of all the devastated towns and villages in France and Belgium. Surely something more definite than "the period of Reconstruction" should have been given. Again, this so-called "period of Reconstruction," judging by the various schemes put forward by the Ministry of Reconstruction, will necessarily be quite abnormal, and the Currency system which functioned under normal pre-War conditions, will certainly prove inadequate for such extraordinary needs.

Again, what sense is there in asking the Committee to recommend alterations in the Currency and Banking laws if the aim of the Government is to restore pre-War conditions which were largely the result of those laws? If alterations and changes in the Bank Act and in the Constitution and functions of the Bank of England are to be made, "the restoration of normal conditions" will not be effected.

Dealing directly with the Report, it is evident that the Committee have practically ignored inquiry

numbers (1) and (2) and have concentrated their attention upon number (3). The Committee strongly urge the restoration of our pre-War currency system. May I ask if the members of the Committee have really given serious thought to what "the restoration of normal conditions" implies?

It is generally admitted that our present National obligations necessitate a very substantial increase in our annual output of wealth over that of pre-War times. If we are to remain solvent, if we are to withstand the foreign economic rivalry and pressure with which we are threatened, it requires no argument to prove that our pre-War currency will not suffice to enable us to create the surplus wealth needed. Our pre-War currency was barely sufficient for our pre-War turn-over. "Restoration of normal conditions" means restriction of output to pre-War volumes. It means the abandonment of all or most of the Government's Reconstruction and Housing schemes, the repudiation of our War Debt, interest payments, war pensions, land schemes, and scores of similar projects and undertakings. It also means the restoration of low wages with armies of unemployed. Are these the conditions the Government and the Committee are anxious to restore?

Had those responsible for appointing the Committee possessed anything like an elementary knowledge of monetary science and its relation to trade and industry, they would have outlined—first, the reconstruction work required to be undertaken; second, the amount or volume of output necessary to maintain the full and regular employment of labour; third, the maximum annual amount needed to meet the National obligations and then have asked

the Committee to advise as to the best method of financing these operations and obligations.

As it is, the Committee evidently find themselves somewhat in the air, and in attempting to answer the various and conflicting questions raised, they have entirely reversed the logical order of things. They are in the position of an engineer who is asked to design a bridge to carry all the traffic of two neighbouring towns across a wide river which separates them, without his knowing what the nature and volume of the traffic is or is likely to be. Imagine such an one designing and building the bridge without regard to the normal traffic, and then informing the public that their trade must be limited to the capacity and strength of the bridge ! Such a procedure seems somewhat similar to the line taken by the Committee. Indeed, the Committee's method—considering the vast consequences depending upon the currency system provided—is far more irrational. For without attempting to ascertain the currency needs of the ensuing period, they have prescribed what that system should be and coolly inform the public that the trade and industries of Great Britain must be limited to the capacity of their pre-determined system ! The gist of the Committee's Report is that instead of the Government providing a safe elastic currency which shall at all times be sufficient to meet the growing needs of trade, the whole of the productive and business operations of the British people are to be regulated by and limited to such currency supplies as Nature, the gold miners, cosmopolitan gold gamblers, foreign governments and our own Bankers are able and willing to provide ! So far as the British public, and particularly the industrial

and trading classes are concerned, they are to have no voice whatever in determining what these supplies are to be! The Report speaks with evident approval of the effects of the Bank Act of 1844 in checking "undue expansion of credit". But nowhere do the Committee attempt to define what they mean by "undue expansion". Do they mean only such credit as may be put to non-productive uses, and do they favour the creation of as much credit as may be required for productive purposes? Or is the "undue expansion of credit" determined not by the opportunities for its profitable employment but by the amount of gold available for its redemption? It is evident that the latter is the true interpretation, for it is well known that the creation of bank credit in this country depends entirely upon the nature of the security offered and not upon the uses to which it is to be put. The gambler who offers gilt-edged securities can secure a bank loan where the manufacturer who can offer nothing better than a factory equipped with productive plant and machinery, would be refused. In financial parlance, therefore, "the undue expansion of credit" which the Bank Act has served to stifle, means such credit as would be in excess of that proportion which the bankers decide shall be maintained between gold and credit.

The system advocated by the Committee has therefore no relation whatever to the needs which must arise if the full employment of all the prime factors in the production of wealth which this country possesses, is undertaken. On the contrary, what the Committee say in effect is: "No matter what may be the economic and commercial requirements of the inhabitants of these islands, regardless of the

extent to which the land, labour and capital of Great Britain are capable of being usefully and profitably employed, only such a proportion of such requirements shall be supplied, and only such an amount of those factors shall be used as our pre-War financial system is able to furnish."

"The Nation's toes will have to be amputated in order to make the feet fit the boots we have provided! In short, we propose that the future economic condition of this country, its industrial progress, its safety and strength, its population and their well-being shall be dependent not upon the industry, intelligence, inventive genius, activities, and moral qualities of the people, but upon the accidents of gold discoveries and gold mining, the currency needs of foreign powers, upon foreign political events, and the gambling operations of money brokers!" A strange combination of conditions and events indeed, upon which to stake a nation's economic existence!

May I venture at this point to mention certain facts which the Committee in their eagerness to restore pre-War conditions appear to have overlooked—facts which one is almost ashamed to mention.

The wealth of a nation is due and proportional to the industrial, the productive activities of its inhabitants. Money, currency and banking expedients are not, per se, wealth, but merely claims to wealth, nor are they in any sense productive in character, but are merely convenient means and methods of exchanging and distributing wealth. Hence the virtues of any banking or currency system should be judged according as and to the degree to which the system contributes to and facilitates production and trade.



And the system which enables or permits the production and distribution of the greatest volume of wealth and thereby contributes to the well-being of the greatest number of the population, should be regarded as the best, and vice versa. It seems hardly necessary to add that finance should function solely as the servant or the tool of trade and not assume the rôle of controller. It is from this standpoint that I propose to deal in detail with the Report.

### THE COMMITTEE'S REPORT, A VERY BIASED ONE

The first impression the reader of the Report receives is, that the Committee have dealt almost exclusively with one side and—from the standpoint of the national interests—the least important side of the subjects. That the private interests of the banking and money-lending classes are to be considered, may be admitted, but that these interests should be regarded as of supreme importance, that those of all other classes should be subordinated to them, and that the Government should be asked to legislate solely in favour of a numerically insignificant class and against those of all other classes of this realm, is a proposal that can only be regarded as both preposterous and ridiculous.

Although the Report omits direct reference to such private interests, it is difficult to understand what other class can possibly benefit from the establishment of a system which furnishes an admittedly inadequate currency supply. To the man with plenty of credit for hire, a scarcity of legal currency may be a desirable condition, since it ensures to him a

constant and profitable market. But to the trader, producer, and general user of credit, a scarcity of money is certainly undesirable.

Under the plea of maintaining the gold standard, the desirability of reducing and restricting the fiduciary note issue, of keeping the business of banking free from State interference, it would seem that the real object aimed at in the Report is to place within the control of the London Bankers a practical monopoly of the nation's currency and credit, so that the entire industrial and commercial life of the people will be at the mercy of a small group of financiers—a group which is becoming smaller in number, year by year, as the process of bank amalgamations continue. And although the law may restrict this process within certain limits, it will still be possible for the bankers to form a secret Money Trust as powerful and far more dangerous than that which threatened the industrial freedom of the United States for several years under the management of the late Pierpont Morgan.

Possibly the fact that the Committee is composed almost exclusively of gentlemen connected with banks and financial institutions, may account for this extraordinarily biased Report.

### THE COMMITTEE'S FALSE ASSUMPTIONS

The recommendations of the Committee are based upon various assumptions for which no proofs are offered, and which I venture to say are entirely erroneous. For instance, it is assumed (a) that such measures of prosperity as were enjoyed by the nation

in pre-War times were entirely due to the gold standard currency and Bank Act of 1844, (b) that the financial safety and stability of the banks is ensured by the adoption of the gold standard, (c) that the working of the Bank Act has been on the whole favourable to British trade, (d) that dear money and cheap commodities are desirable and economically beneficial, (e) that the great rise in prices during the war is wholly due to credit and currency inflation, *i.e.*, excessive issues of treasury notes and bank credit due to Government borrowings, (f) that our economic well-being is dependent upon and should be governed by the foreign exchanges, (g) that our market prices for goods ought to be made to correspond with the level of what the Committee term "the World's Market for the same goods," (h) that the maintenance of a free gold market for the convenience of foreign financiers is beneficial to British trade and industries, (i) that our foreign trade depends entirely upon our maintaining the gold standard for our domestic currency, (j) that our welfare depends wholly upon the volume of our foreign trade, and that this depends upon maintaining our legal tender at par or in our favour with the foreign exchanges, (k) that the gold standard system is founded upon a well-established scientific and indisputable principle, (l) that the qualitative theory of money upon which the Bank Act was originally founded is still to be regarded as scientifically sound. These are a few of the very many assumptions upon which the Committee's Report is based.

*I maintain and shall endeavour to prove that not only are these assumptions unfounded, but in nearly every instance they are the exact opposite of the truth.*

Let us first consider the gold standard theory itself, because if this can be demonstrated to be fallacious the entire currency system advocated by the Committee must necessarily be unsound.

In his celebrated speech delivered on May 6, 1844, in the House of Commons, on the renewal of the Bank Charter, Sir Robert Peel defined the English monetary pound as "a certain quantity of gold with a mark upon it to determine its weight and fineness, and that the engagement to pay a pound means nothing and can mean nothing else than the promise to pay to the holder when he demands it, that definite quantity of gold." The whole foundation of the Bank Act of 1844 and of what is known as the "gold-standard" currency system rests upon that assumption. The relation of gold to currency was established by the Bank Act at the rate of £3 17s. 10½d. per ounce.

In endeavouring to prove to the House the scientific correctness of his definition of the pound, Sir Robert Peel traced its origin to the pound of silver which was employed from early Norman times. But in doing so, he merely shewed that in an age when credit was practically unknown, all trade was necessarily effected upon the barter principle and that the precious metals were the most convenient for this purpose. Silver and gold were thus employed *not as currency* in the sense in which every trader of to-day understands the term, but as the *standard exchange commodities* for facilitating barter. Sir Robert Peel confounded two quite distinct and independent transactions, viz., barter, and purchase by means of credit.

## THE BANK CHARTER'S ACT BASED ON A GROSS FALLACY

Let us however put Sir Robert's definition to the test. If the monetary pound means nothing else than so much gold with the mark upon it—in other words, the golden sovereign—then the legalization of monetary payments in anything else but golden sovereigns, must necessarily be considered as legalized robbery. And yet in this very same Bank Act, Sir Robert authorized the issue of £14,000,000 of Bank notes by the Bank of England without any gold backing whatever. If Sir Robert Peel really believed in the gold standard principle as he defined it, in foisting £14,000,000 of paper money upon the British public, he was guilty of enacting one of the most impudent and fraudulent legislative measures ever inflicted upon a long-suffering public!

Again, if the pound "means nothing and can mean nothing else" than the legal quantity of gold associated with the golden sovereign, viz., 113 grains, it follows that £1,000,000 must mean 1,000,000 sovereigns containing 1,000,000 times 113 grains of gold, or, in round numbers, 10 tons. Hence £8,000,000,000—the amount of our War Debt—must mean this number of golden sovereigns or 8,000,000,000 times 113 grains of gold, which is roughly equivalent to 80,000 tons of gold.

Now the estimated quantity of gold available throughout the whole World, is not more than one-third of the sum representing our War Debt. Supposing that the World's gold supply should be suddenly increased to three times its present volume, is

it reasonable to suppose that this increase would not affect its value? We have only to imagine what would happen to prices and in fact to our currency and banking system if the country was suddenly flooded with 8,000,000,000 sovereigns! And if the Government were able to secure possession of this flood of golden coins, and commenced paying off the National Debt by transferring them to the subscribers to the War Loan, we should doubtless witness a panic such as has never yet been seen! No doubt this *reductio ad absurdum* illustration may seem somewhat fantastic, but it is no more so than the legalized definition of our monetary pound which even now finds general acceptance.

My point is this. By applying Sir Robert Peel's definition of the pound to any large sums representing say the War Debt, our National wealth or any large aggregation of capital, the monetary sums in which they are expressed become absurd and meaningless.

If our War Debt (represented by the expression £8,000,000,000) actually stands for 8,000,000,000 legal golden pounds and is to be repaid on this basis, the subscribers have been shamefully cheated, because the War Debt as it stands and as it was subscribed to, represents a far greater value than 8,000,000,000 sovereigns would be worth if they were suddenly produced. Indeed, it is safe to say that under present conditions 500,000,000 golden sovereigns would be worth more than 8,000,000,000, for the same reason that a shower of rain is worth more than a flood. The one represents wealth, whilst the other is a calamity.

Of course the only rational meaning that can be given to such montary expressions as £8,000,000,000, is 8,000,000,000 *times the purchasing power of the pound*

*at the time the debt or estimate was made.* But 8,000,000,000 sovereigns would not be worth 8,000,000,000 times the value of one pound when there are only 300,000,000 pounds in circulation!

The theory which apparently held sway amongst financiers practically the world over when Sir Robert Peel introduced his famous Bank Act, was known as the *qualitative* or *commodity money* theory. It was held that the value or purchasing power of money was due to the metal composing it or in which it was legally convertible. Gold was then supposed to have a "fixed value" the world over, and it was thought that in order that our foreign trade should prosper, our money must be universally acceptable. And since a nation's legal tender laws could only be enforced within the area over which such laws extend, it followed that the only way our money could be given foreign circulation, was by making it out of some valuable commodity, such as gold, which was held in universal esteem.

It will be seen that this qualitative or commodity-money theory originated with and pertains exclusively to barter, the exchange of one commodity for another commodity of equal value. It was only after civilization had so far advanced and the stability of society and Government evolved to the point where contracts and business promises were recognized as legally binding and enforceable, that the organization of credit became possible. And with the organization of credit, and the establishment of credit banking, an entirely new monetary system was evolved, based upon an entirely different principle.

The credit system—although in existence in certain countries ages ago—has only become the safe and

potent instrument of finance as we know it within the past century and more particularly during the last half-century. But in an age when mutual trust between man and man was uncertain and unreliable, it is easy to understand how important became the use of a valuable token or instrument of exchange which would command its face value at all times and places without the force of law. Hence the convenience of gold.

Prior to the passage of the Bank Act, trade was a comparatively modest affair to what we are accustomed to, and the amount of currency needed was similarly insignificant. The production of gold prior to the discoveries in Australia and California was also a small affair. Hence, since the variations in the gold supplies and demand were comparatively small, it may have seemed to the bankers of Peel's time that gold really had some magic power of preserving what they termed its "fixity of value". With the demand fairly constant and the supply strictly limited, gold was not subject to the fluctuations we have known during the past thirty years, nor could its effects upon commerce and society have been so serious.

With the enormous development of trade and credit, and the intimate connection and relation of all parts of the globe (due to telegraphy and rapid transportation), currency and the precious metals particularly, are subjected to forces and fluctuations connected with the organization of large aggregations of capital, utterly unknown and inconceivable at the time of the passage of Peel's Bank Act. And it has been found that an entirely different theory is required to explain modern monetary operations from that which seemed satisfactory in Peel's time.



## QUANTITY MONEY THEORY VERSUS QUALITY THEORY

The modern and generally accepted theory of monetary science is known as the quantitative theory, which asserts that the value of the money unit is determined by the number of units in circulation multiplied by their velocity of circulation. This theory is in direct opposition to the old barter or commodity-money theory. For it claims that *quantity* and not *quality* controls the value of money. Hence it is absolutely immaterial so far as value is concerned, whether a nation employs paper money or gold and silver coins *so long as the number of units in circulation is the same in both cases.*

Under the qualitative or commodity-money theory, gold functions by weight, whilst under the quantitative theory, gold coins function solely by number. And this quantity theory is supported in practice in whatever direction it may be applied. Take, for example, the question of inflation. What else is this but a question of an excessive quantity of money—of claims to wealth? Quality doesn't enter into it. We have witnessed during the War, examples of gold inflation where certain Governments were seriously considering prohibiting further imports of gold. The Bank of Sweden was authorized by the Swedish Government to refuse to exchange its notes for gold during the period of the War.

It stands to reason that since money is merely a claim to wealth—goods or services—its purchasing power must be determined by the number of claims offered in relation to the wealth available. And it

cannot possibly make any difference whether these claims are engraven on parchment notes, on silver or on gold, so long as all are equally valid claims in the eyes of the law. If any witness appeared before the Committee and seriously told them that the success of a game of cards depended entirely upon the quality of the material of which the counters were made, the Committee would doubtless question his sanity. But this statement is not a whit more absurd than the commodity-money theory upon which Peel's Bank Act was drawn, and which the Committee wholeheartedly and unanimously endorse. There is, moreover, a contradiction involved in the term "gold-currency inflation" if such currency is wealth. An inflation of wealth is what all nations are seeking. How can it be regarded as an evil?

Further proof of the truth of the quantitative theory of money is found when considering one of its chief functions, viz.: the expression or (as it is often termed) "the measurement" of values. Exchange-values which money expresses are purely quantitative and are expressed and can only be expressed numerically. The values of things are always indicated by such questions as "how *much* money?" or "how *many* pounds?" *not* "what *quality* of money?" nor "what *kind* of pounds?" To tell the average man that a Dreadnought is worth 20 tons of gold, would fail to enlighten him as to its monetary value. But to say that it cost £2,000,000 enables him to compare this with other costly things of which he has knowledge. Nor is it necessary to tell him what the pound is. To inform him that the legal gold-pound contains 113 grains of pure gold would only confuse him. Indeed it is questionable whether

one person in a hundred thousand could tell the legal-tender value of our monetary unit in gold without looking it up in a text-book.

### MONEY AS A DENOMINATOR OF VALUES

Money has been defined as the denominator of values, and its use in this sense is evidenced by the fact that we are able to compare the exchange-values of commodities with one another by simply expressing them in monetary terms. For example, if copper is listed at £160 per ton, pig iron at £20, gold at £3 17s. 10½d. per ounce, wheat at 50s. per quarter, a tool-maker's services at 2s. per hour, an opera singer's at £100 per performance, and a suit of clothes at £6 6s. od., we know at once the exchange relations of all these various goods and services to one another *without having to inquire what the monetary pound really is*. Now what is the real denominator of values? Is it gold or is it the legal unit of purchasing power in terms of which all our exchangeable wealth is estimated? Evidently it is the latter, otherwise between any two gold-standard countries, exchange should always remain at par. But the monetary units of gold-standard countries are termed dollars, marks, crowns, roubles, etc., not one of which has ever been represented by a gold coin. If gold was really the unit, it would be defined in all countries not as pounds, dollars and francs, but in terms of physical measurement, such as ounces, grammes. Indeed we might, so far as the convenience of the value denominator is concerned, replace the "pound" by the term X, without affecting the results.

No better proof of the falsity of the gold-standard-currency theory is needed than the fact that a given weight of gold has different degrees of purchasing power in different countries whose currencies are legally based upon gold and where no restrictions are placed upon its export. As a commodity, one ounce of British gold plus the cost of carriage and insurance equals an ounce of gold in America. Similarly one ounce of American gold, after allowing similar costs of transportation, etc., should equal one ounce of gold in London. But the values of the monetary units (pounds and dollars) of the two countries vary out of all proportion to their transportation charges, showing that gold coins are subjected to laws different from those affecting the mere commodity. The chief disturbing factor is credit, including paper currency. And since the amount of such credit and paper currency varies in different countries as well as the intensity of the demand for purchasing power, it follows that the relations of the monetary units of such countries to one another must be continually changing, for it should be remembered that credit and paper currency affect prices and therefore the purchasing power of gold coins the same as the addition of a similar volume of gold currency, which is a further demonstration of the truth of the Quantity Theory.

#### MONEY IS NECESSARY NATIONAL AND NOT INTERNATIONAL

The Committee—like Sir Robert Peel—have failed to notice the fact that the circulation of legal tender is limited to the country in which such laws are

operative. *Legal tender can never go abroad as legal tender.* It is like a monarch whose power and prerogatives are circumscribed by the frontiers of his realm. The moment he leaves his country and steps upon foreign soil he leaves behind him all his regal powers and rights, and becomes an ordinary civilian, subject to the rules of the country in which he happens to be travelling or staying. So it is with money—especially golden coins. The English golden pound is an instrument possessing certain privileges and powers conferred upon it by our legal tender laws. These privileges are valid however only as long as it retains its form and coinage marks, and so long as it remains within the jurisdiction of British laws. Melt it into a button, destroy its inscriptions, reduce it to a mere mass of metal and its monetary functions disappear. It is no longer legal tender. And it can only regain its position as money by undergoing re-coinage. Similarly, the moment it leaves this country and reaches foreign soil it loses its legal tender privileges and is reduced to a mere commodity, and can only regain its power either by undergoing remonetization under the laws of the country in which it is to circulate, or by returning to its own country—all of which proves that it is not the gold but the legal process of coinage that creates the money. Hence the purchasing power of gold is due—not to its commodity uses in the Arts and Crafts but—to the legal tender laws of all nations. Demonetize gold and its value would fall like that of silver during the 90's!

The unfortunate attempt to make the supply of our legal tender dependent upon the foreign exchanges has probably been one of the most disastrous experiments ever recorded in the history of an industrial

people. And it seems unbelievable that had Sir Robert Peel and his friends understood the real difference between credit and barter, between home and foreign trade, they would have enacted the Bank Act with its foolish and dangerous provisions and restrictions! It surely needs no lengthy discussion to prove that whilst foreign trade is necessarily barter, home trade is conducted entirely upon a credit basis—and whilst gold as a commodity is no doubt useful in the settlement of foreign trade balances, it serves no more useful function in our domestic currency than the Treasury Notes. On the contrary, its adoption for legal tender creates an entirely false impression in the minds of the public, and tends to prejudice our people against the employment of credit currency without which our industrial and commercial life would soon come to a standstill.

After being driven from one position to another, after their arguments and pleas for the necessity of a gold currency have been utterly refuted, the advocates of the gold standard finally take refuge in the doctrine of acceptability. They said—and they still say—that a sound currency must be one that is universally acceptable. The answer to this is that since each nation has its own particular legal tender laws and since money is solely the creation of law, there is no money answering to this condition. Nor can there be until the world accepts one and the same currency law.

#### “STORE OF VALUE” ABSURDITY

When the late Lord Goschen suggested the adoption of the one-pound and ten-shilling notes, he was met with the same foolish cry. He was told

that the average British citizen, accustomed all his life to "good sound honest British gold," would never agree to use cheap paper money. This claim has however been definitely knocked out by the experience of the past four and a half years.

There remains one other stock argument in favour of the use of gold currency with which to deal. We are told that a necessary qualification for a sound currency is that it must be "a store of value". Gold sovereigns, we are informed, possess this qualification. The gold they contain is, *per se*, the equivalent in value of the goods they purchase. If this were true, it would show that the gold currency system was merely an elaborated form of barter—a relic of barbarism. But the whole claim is false for the following reasons: (a) If the gold in a sovereign is *per se* worth what the sovereign will purchase, the coinage and legal tender laws add nothing whatever to the commodity value of the metal. It means that if the World's Governments were suddenly to demonetize gold, its value would not be affected. In other words, it means that gold is the only commodity on earth that is not affected by the law of supply and demand! And if this is true, there cannot possibly be any such phenomenon as gold inflation, which, as old Euclid would say, "is absurd!" Moreover, the demonetization of silver in the 90's and its rapid fall in value, was a sufficient object-lesson to show the effect of legal tender laws upon the values of the precious metals. (b) If the legal tender privileges accorded to gold fail to add anything to its value, it follows that similar privileges conferred upon silver, copper, and paper, cannot add anything to their respective values, a conclusion which is contrary to

the truth and to the experience of all nations. (c) Since coinage laws *do* affect the value of gold by creating a universal demand for the metal, it is difficult to distinguish between its commodity and its money values. All we know is that so long as the latter equals or exceeds the former, gold remains in circulation. But whenever the commodity value becomes supreme, gold disappears from circulation as has happened in this country since the War started. Gold—like man—cannot serve two masters. If money is its master, it will function as money only, and if the Arts become its master it will cease to circulate as currency and will join the Arts to which it properly belongs by reason of its physical qualities. This is the essence of Gresham's Law. (d) A commodity can only be regarded and accepted as a "store of value" so long as such is *available*. If I take a sovereign on account of its gold, *i.e.*, for its physical properties, I must be free to use the gold, otherwise I might as well buy a "gold brick!" But the law forbids one to deface the coins of the realm. In short, the attempt to use this "store of value" makes one a criminal. Evidently therefore the law does not regard this property as an essential one. (e) The employment of Treasury Notes, token coins and credit generally, is sufficient evidence that the "store of value" claim is all "moonshine". All that the public ask in connection with currency is that the law shall regard it as legal tender, valid for the payment of all debt, public and private. To burden currency with "stores of value" is a waste of labour and good material, and merely tends to hamper trade and restrict industry. It would be just as reasonable to make postage stamps, railway,



theatre, and pawn tickets out of the precious metals, as to use them for monetary purposes.

### FALLACIES AND VALUES OF THE BANK CHARTER ACT

The fallacies underlying the Bank Act of 1844 are further illustrated when we review the history of its workings. The Committee have fairly described its operations in Clauses 2 to 7 inclusive, so far as banking operations are concerned, but they carefully omit any and all reference to its industrial and social effects. If the movements of gold were merely mechanical in effect, if they resulted only in increasing or decreasing banking operations and bank dividends, this subject would excite very little interest. But the Committee forget that behind these gold operations stand the interests, the industries, the trade, the lives of 40 millions of people—that the very existence of Great Britain is bound up with its Currency System! And when they calmly advise the Government to re-establish a system which has collapsed whenever it has been subjected to any abnormal strain, when they assert that the principle of this Act “has upon the whole been justified by experience” and should therefore be maintained, one can only gasp at such a display of either callousness or ignorance!

On no less than four different occasions the provisions of this Bank Act have failed, and the nation has only been saved from bankruptcy by the suspension of the very principle and restrictions which the Currency Committee now assert are essential to

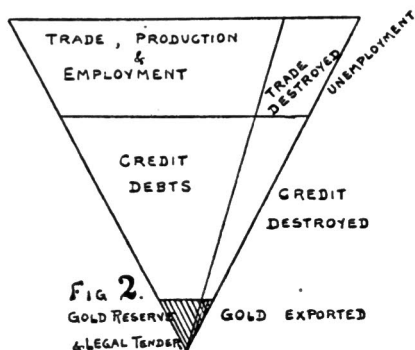
our national well-being! Is it not true that this Act has subjected us to the most variable bank rate in the world? Is it not a fact that no London Banker dare give long-time credit necessary for building up industry because of the instability and uncertainty of our gold basis? Has not our free gold market introduced a feeling of uncertainty in all our undertakings? Is not the industrial prosperity of this country placed largely at the mercy of foreign events, and of foreign bankers and speculators by this Bank Act? And has it not proved of far greater benefit to foreign producers and traders than to the British public?

It must surely be known to the Committee that whenever disturbances have occurred in foreign countries—such as the Currency panic of 1907 in New York—the British commercial and industrial classes have been penalized by the very principle the Committee endorse. For ten weeks during that crisis, the London bank rate stood at 7 per cent., costing us upwards of £350,000, per week, by reason of the Bankers sending gold to New York to assist a gang of Cosmopolitan money dealers, whose gambling operations had fomented all the trouble! The Committee can hardly be ignorant of the way in which the British public are taxed to enable foreigners to secure gold for their industrial and trading operations—such as the Argentine wheat growers and the Egyptian cotton planters in order to move their crops? It is also well known that Germany's industrial progress was largely due to the financial help afforded her by the London banks.

Anyone who has studied our financial methods know, that London's position as the world's money

market has been purchased, and is maintained at a fabulous cost which the wealth-producing classes of Great Britain have been and are compelled to pay! In no other great industrial nation in the world is the ordinary producer and trader so badly handicapped by his own bankers, through difficulty in obtaining financial assistance, and the uncertainty of retaining such help, as in this country that boasts of being the world's money centre! And all this is primarily due to Peel's Bank Act, a measure which is international in character and anti-British in its results.

The disastrous effects of the Bank Act upon our trade and industries are graphically shown by the following diagram of the inverted pyramid :



The figure (1) shows the relation of gold to credit, and of credit to trade. It will be seen that the proportion of credit to gold is necessarily very great

in order to meet the needs of commerce. And the greater this disproportion, the more disastrous are the results from gold exports. When gold is exported, it becomes necessary for the Bankers to curtail credit in order to preserve the normal ratio between gold and credit. What are the results? Since most of our home trade is built upon credit, the curtailment of credit means the curtailment of output. It involves the reduction or destruction of all such trade and production which has to depend upon the use of such credit. As Sir Edward Holden once put it, "business is carried on by means of loans, loans create credits, the standby for the protection of credits is gold, and therefore gold controls trade." What does this mean? It means that if Japan wants to increase her Navy, Argentina to remove her wheat crops, or the Huns wish to prepare for another war, they can send to London—directly or indirectly—and secure gold which immediately causes a rise in the bank rate (which operates not merely against foreigners but against British borrowers) and necessitates a curtailment of the "undue expansion of credit." The result is that the Manchester cotton spinners, the Northampton shoe manufacturers, the Luton hat makers, the Clyde and Tyne shipbuilders, the builders of houses, the farmers, in fact, all classes depending upon bank loans, must slacken production, and curtail their output and hundreds and thousands of employees are discharged or put on short time!

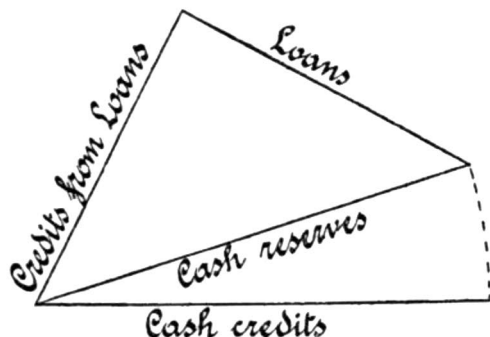
Of course the degree and extent of such curtailment depends upon the amount of the gold exports and the time required to replenish the banks' gold reserves. But it stands to reason that the mere knowledge that such gold exports are possible at any

moment, prevents our bankers from offering those credit facilities which are necessary for enterprise and the building up of trade and industries. And it is because our trade rivals, Germany and the United States, have refused to sacrifice their domestic trade and industries by making the volume of their legal tender and credit dependent upon the necessities, wishes and caprices of foreign traders and bankers, and by protecting their gold market from the raids of foreign bankers, that they have accomplished almost as much in a single generation as British industry has achieved in a century.

#### SIR EDWARD HOLDEN'S EXPOSURE OF THE GOLD STANDARD

I would like particularly to call the Committee's attention to the address of Sir Edward Holden on the "Depreciation of Securities in regard to Gold", delivered before the Liverpool Bankers' Institute, December 18, 1907, just after the American Currency panic. I know of no clearer exposure of the suicidal principle of our Bank Act, a principle that is mainly responsible for the mad struggle for gold which has characterized our modern industrial era. And when we consider how little real necessity there is for this metal, that apart from certain arts such as dentistry and the jewelry industry, it serves no useful purpose which a nation's credit cannot as well supply, that the bulk of the gold when mined is buried in the vaults of banking institutions, one can only regard the laws which have forced its use upon civilization, as the product of the grossest ignorance and superstition.

Sir Edward Holden in a series of triangles illustrates the relation between credit, loans, and cash reserves as follows :



He says : " The right side of the triangle (Fig. 2) represents the loans of the whole of the banks, and the left side represents the credits created by these loans, and the base the cash balance or reserves. If then, you draw a line from the left of the base, and equal to the base, you get the cash credits in existence. If the loans and credits as represented by the two sides of the triangle were the only two elements which bankers had to take into consideration, then there would be no necessity for them to restrict their loans at all, and traders could increase their businesses and obtain loans ad libitum. But there is another element, and a most important one, to be taken into consideration, and it is the fact that all the credits as represented by the left-hand side of the triangle and the line drawn from the base, are practically payable on demand

and in gold, assuming of course, that Bank of England notes represent gold. Every banker must, therefore, make up his mind by what amount his credits are liable to be diminished, both in ordinary and extraordinary times, and when he has thus made up his mind, he ought to keep that amount of available resources in gold, or in a means of obtaining gold.

“Let us consider, then, that the base of the triangle consists of gold, and it is the ratio of the base of the triangle to the total credits (both created and cash credits) which restricts bankers from increasing unduly their loans. If business increases unduly, and if bankers continue to increase the loan side of the triangle, of course concurrently increasing their credits, and not being able to increase the gold base of the triangle, then evidently they are getting into danger, and the only judicious course which they can pursue is to curtail their loans, curtailing an undue increase of business, which curtail these credits and thus re-establish the ratio.

“You see here the direct connection between trade on the one hand and gold on the other, and that it is not so much the production of gold as the amount of gold which can be obtained for the purpose of increasing the bankers’ reserves. I venture to think that the above explanation will enable you to come to the conclusion that, if the gold base of the triangle cannot be increased, then the danger spot is the loan.

“I want you to remember that the banking system of every country has its triangle, and that the principles enunciated above exist in every triangle of every system based on gold in the world; that

being so, it is clear, generally speaking, that the business of the world is carried on by means of loans, that loans create credits, that the standby for the protection of credits is gold, and that therefore gold controls trade.

“It may happen that the trade of one country grows by leaps and bounds, the loans and credits, of course, following, while the trade of other countries remains normal. What, then, takes place? The gold base of the triangle of the former becomes too small, and it is necessary to enlarge it. How is the increase effected? It is effected by the representative bank of the more prosperous country attacking the gold bases of the triangles of other countries, and the instrument by which the attack is made is the rate of discount. By this means gold will be attracted from the bases of the triangles of other countries, and unless those bases are too great for the adequate protection of the credits, the representative banks of those countries will meet the attack by also putting up their rates. But it may happen that the trade of every country has increased by leaps and bounds, and that all loans and credits have also increased. Then the fight begins with each country putting up its rate, first to prevent its base being diminished, and secondly, to increase it if possible. Hence we have the English rate at 7 per cent., the German rate at  $7\frac{1}{2}$  per cent., the Austrian rate at 6 per cent., the French rate at 4 per cent., the Italian rate at  $5\frac{1}{2}$  per cent., the Russian rate at  $7\frac{1}{2}$  per cent., but as the United States have no central Bank, there is no official rate for that country.”

Here is a frank avowal on the part of the world's leading banker, that trade and commerce are ever at



the mercy of the manipulators of gold, that long-continued industrial prosperity is impossible because of the restrictions imposed upon exchange by our legal tender system, and that the gold basis is a brake upon the wheel of industry, which is continually checking the pace of production! Here also is the explanation of the phenomenon that periods of prosperity are inevitably followed by periods of depression!

Increased trade demands increased banking facilities—increased loans—but the moment credit is increased to meet this demand, the gold reserves are strained, the bank rate is raised, loans are called in, the brake is applied to the wheels of industry, production is checked, employees are discharged, enterprise is discouraged, and the extra demand for money and credit which prosperous times require, is choked off! In short, our financial system destroys prosperity, and reduces trade to the amount of gold available! So that the mechanism of exchange, instead of facilitating trade, actually checks it! It first stimulates industry and then destroys it. Talk of a vicious circle! Here we have it in its most dangerous form! *The gold basis has become both the life and death of trade!*

### EVIL EFFECTS OF LONDON'S FREE GOLD MARKET

As to the effect of our free gold market upon securities, some years ago the *Bankers' Magazine* gave a startling example of the depreciation in the prices of 325 of our representative investments caused by the withdrawal of £11,000,000, in gold from the Bank of England by a group of American Financiers. The

transfer of this amount from London to New York during the period of a few weeks caused a fall of prices equivalent to £115,500,000! whilst the absorption of the same gold in New York caused a corresponding advance in the prices of certain American securities. By first selling English securities and buying American, they had merely to transfer so much gold and afterwards reverse these transactions by buying and selling respectively and the game was won! As a well-known financial writer stated at the time "These speculators were playing upon two tables at the same time—one in London and the other in New York—with the certainty of winning on both!"

It is asserted by the Committee that the raising of the Bank rate "had the immediate effect of retaining money here which would otherwise have been remitted abroad and of attracting remittances from abroad to take advantage of the higher rate, thus checking the outflow of gold and even reversing the stream." This theory has been seriously questioned upon more than one occasion. It was disputed by the late Arthur Lee (a Member of the London Chamber of Commerce and at one time President of the Bristol Chamber) at a meeting of the former, presided over by the late Lord Avebury in November, 1907, immediately after the American currency panic. Mr. Lee showed by statistics that the maximum amount of gold that could have been attracted by the 7% rate during those ten weeks was less than £300,000. The larger sums came from South Africa in the ordinary course of business without regard to the bank rate, but most of all from the Bank of France, at the urgent solicitation of the Bank of England to restore confidence and put an end to a condition which might easily have developed into a panic.

But it is absurd to suppose that the export of gold can always be stopped by the mere act of increasing the rate of discount 1% or 2%. When gold is exported for reasons similar to those which occasioned its demand in 1907, or for such speculative operations as already described, the difference of 1% or 2% or even 5% is of little importance. In the meantime such advances in the rate spell the suicide of British industry! Moreover, is it not conceivable that circumstances might make it a very profitable transaction on the part of one of our trade rivals to ruin our trade by denuding us entirely of our gold reserves? A 10% bank rate if continued would suffice to bring us to our knees and might prove a boon to our rivals!

It was at this same meeting of the London Chamber of Commerce that Mr. Arthur Lee replied to Lord Avebury, who had congratulated his fellow bankers and the nation on "the ease with which the banks had weathered the storm." Mr. Lee said: "Yes, you weathered the storm, but at whose expense? It is very well to talk of weathering the storm when you have the privilege of taxing the British public!" Continuing, he asked these gentlemen if they realized what it had cost this country to enable them to "weather the storm" during those fateful ten weeks? He estimated the additional cost *in interest charges alone* exceeded £2,500,000. But this was the smallest portion of the costs. A 7% bank rate curtails trade and puts a stop to scores of undertakings. By destroying or weakening confidence, it depresses the entire trade of the nation, and it takes weeks and often months to restore confidence when so weakened. Such losses are simply incalculable.

In my work entitled, *A Fraudulent Standard* (published by King & Son), there is a table which shows

the close relationship between the scarcity of legal tender (gold) and the number of bankruptcies throughout the country as published by the Board of Trade, and I would respectfully call the Committee's attention to the diagram opposite page 85 in Chapter VI of the above work. It fully bears out my contention that the Bank Act has been a barrier to our industrial advancement.

### THE PROBLEM OF POVERTY IN THE MIDST OF PLENTY

There is one problem which I suggest the Committee would do well to study, viz., "How is it that the percentage of poverty and unemployment in this country has been so great during the past century, considering that there has always been an abundance of the unemployed prime factors of wealth production? "Why has wealth been so comparatively scarce whilst the main factors in its production have been so plentiful?" I venture to say that a careful and impartial investigation of this problem will bring the Committee to the conclusion that it is due mainly to the scarcity of legal purchasing power. By making money costly and scarce, our financial system has curtailed demand and made production unprofitable below a certain level, and therefore has doomed myriads to an existence on the very verge of starvation! Money in the hands of the needy is a demand for commodities, and demand is the parent of supply, and therefore employment.

Under a thoroughly scientific economic system, every man and woman would, by the simple act of

consuming commodities, create a demand for regular employment. By expending his or her earnings in buying food, clothing and other necessities, a regular demand would be set up ensuring constant employment. But this desirable condition can only be brought about with an adequate currency supply.

Confirmation of this is found in our last few years of experience with paper money—which the Committee condemn. We have witnessed one of the most astounding and successful experiments in the history of this country. In spite of the gigantic war in which millions of our men have been transferred from productive employment to the destructive work of warfare, the nation has not only carried on its industries at full swing, but, if we regard the production of munitions as wealth, we have greatly increased the volume of our output.

Involuntary idleness has disappeared! Poverty has been almost exterminated, and the working classes were never so prosperous. All this has been accomplished by the use of an abundance of paper money issued against the National Credit. It would have been absolutely impossible to carry out all these industrial operations with a gold currency or upon the gold basis, as the Committee well know.

### THE RATIONAL REMEDY FOR INFLATION

With the enormous increase of wealth needed to meet our national obligations, is not the present paper currency better adapted for our industrial and trade needs than a restricted gold standard currency? What are the objections? The public is told by financial

writers that the present inflation of prices is the greatest possible evil and the Committee report that this is due to the Government borrowing from the banks and to the excessive issue of Treasury Notes. Are these statements correct? Let us see.

The inflation of prices arises usually from an increase in the normal ratio of claims to wealth (currency) to the amount of wealth available to meet such claims. This may happen either by an excessive issue of currency or by a diminution of wealth.

During a period of warfare—such as that just experienced—the inflation of prices cannot possibly be avoided under our industrial system, for the following reasons. A large proportion of our industrial population were engaged in manufacturing munitions which were sent abroad to be destroyed. The wealth of this country has not been augmented the fraction of one per cent. by reason of all the millions of pounds worth of guns, shells, battleships, submarines, rifles, etc., turned out during the past four and a half years. We might as well have dumped all the products of all our munition works into the ocean all these years, so far as our present economic condition is concerned. Now it takes as much currency to finance the manufacture of the munitions of death as it does the munitions of life. Wages and salaries must be paid, material purchased, and dividends are distributed the same in both cases—except, that war-wages and dividends have all been higher than those in peace times. In the meantime the production and importation of food and other necessities has necessarily been restricted. Hence we have had on the one side a great increase in the number of claims for goods

(currency), with a decrease of supplies to meet such claims. Hence the evitable rise in prices.

But how else could the War have been financed? It has been suggested that the Government might have increased taxation, which would have reduced the demand for goods. To what extent this taxation could have so acted, it is difficult to say. But if it had been carried to the point of depriving the people of purchasing necessities for maintaining their health and enabling us all to carry on, it would have worked disastrously. In any event, such increases of taxation could not possibly have had any very serious effect upon prices without creating far greater evils than inflation.

Let us suppose that instead of devoting half our national energies to war and the manufacture of its implements, the same energies had been employed in producing wealth—rebuilding our towns, providing proper housing accommodation for our population, making new roads, improving our canals and transportation service, putting more land under cultivation, etc., etc. And suppose the Government had issued the same amount of currency and credit in connection with all these improvements. What would the results have been? Would there have been any such inflation of prices? Would not the manufacturers have increased their output in proportion to the increased effective demand which this currency represents?

It seems to me there can be no doubt as to the answer. The industrial experience of all nations proves that under free conditions industry can always keep pace with the natural demand of the people for the necessities and most of the luxuries of life.

The trouble hitherto has been to make the effective demand equal to the natural demand. See how quickly production overtook the increased demand made effective by the gold discoveries of Australia and California in the early fifties ! And witness how these discoveries which led to an increase of currency in this country put an end to the "hungry forties"—a period of terrible industrial misery and starvation, which had been brought about largely by the contraction of the currency by Lord Liverpool and Sir Robert Peel after the Napoleonic Wars !

After most of the great wars of the past, nations have experienced long periods of industrial stagnation and social distress resulting from unemployment. It occurred—as stated above—in Europe and particularly in Great Britain at the end of the French Wars and again in the United States after their Civil War. And to those who have given thought and study to this subject it is evident that the real cause of such stagnation has been the contraction of the currency which had been created and was necessary to carry on such wars.

What is the proper remedy for such inflation ? I would give the same answer as that given by the Flemish Merchants to Colbert when he asked how he could improve their trade—"Laissez le faire !" If the Government and the bankers will let the Treasury notes alone, and supply the country with all the credit needed for the vast increase in production of which it is capable, prices will gradually fall by the increase of wealth. The disproportion between currency and goods, between demand and supply, will become smaller as wealth increases, and the purchasing power of money will gradually



increase. This is the natural and rational remedy for the inflation of prices.

On the other hand, to forcibly contract the currency as suggested by the Committee, will check production, destroy confidence, render the reconstruction undertakings difficult if not impossible, and probably lead to very serious social and political disorder. That way madness lies!

Just here I desire to call the attention of the Committee to a most excellent article in the *Quarterly Review* for this month (January, 1919), entitled "The Currency Note in Relation to Banking and the Exchanges", by Dr. Wm. A. Shaw, in which the writer proves that the rise in prices up to November, 1916, (which was about 100%) was not due to any over issue of Treasury Notes. Dr. Shaw shows that the currency at that date "was back again to its antebellum normal or level, so far as mere quantity is concerned." The difference was, that during this first period of the war, we had achieved a transition from a metal to a paper currency. He adds: "I wish to clear the ground of a prevalent and persistent misconception. The advocates of a metallic currency have attacked the currency note and have assailed the policy of the Treasury on the plea or pretext that it has led to inflation and that the issue of prices of commodities has resulted therefrom. This argument falls to the ground at a glance" (referring to the comparison of the index numbers with the total notes issues). Dr. Shaw suggests that the rise in prices has, since November, 1916, necessitated an increase in currency notes instead of the increase in currency notes having created the rise in prices!

The latter part of this same article bears out to

a large extent the views I have herein set forth. Coming from a gentleman with wide banking experience (Dr. Shaw is, I believe, connected with the Ionian Banking Co.\*), these opinions are all the more satisfactory. "The great desideratum of any currency system," says Dr. Shaw, "is not that it should conform to a creed, but that it should conform to industrial conditions, that it should be automatically expansible and contractible and at all times sufficient to carry the total strain of the nation's productive activity. This one desideratum the currency note possesses, whereas gold does not. . . . After only four years experience of paper, nobody in England wants to go back to gold, and nobody dreams of demanding convertibility into gold."

In connection with Dr. Shaw's article, I would recommend a careful perusal of the memorandum on currency relating to Greece, prepared for M. Venizelos, the Premier of Greece, by the President (Mr. Falconer Larkworthy), and the Directors of the Ionian Bank as well as Mr. Larkworthy's speeches, in which the principle of Peel's Bank Act is demonstrated to be fallacious.

The significant fact ought not to be overlooked, that in spite of Sir Robert Peel's definition of the pound and his insistence that the basis of all our currency must be gold, the Bank Act actually made the National Credit the final foundation upon which the currency has rested. Thanks to our free gold market, there was never any certainty and certainly no absolute protection against the export of every

\* Dr. Shaw was and still is Editor of The Calendar of Treasury Records at H. M. Public Records Office. He was not connected with any Bank.

ounce of gold we possessed. And whenever this occurred we were left with the £14,000,000 (since increased to £18,450,000) of Bank of England notes based upon the National Credit, together with our silver and copper token currency as *our sole legal tender*. Evidently, therefore, these credit notes as our last refuge have always constituted the real and final foundation of the currency system as established by the Bank Act.

### DEAR SCARCE MONEY RUINOUS TO TRADE

The theory that dear money (which means relatively scarce money) is beneficial to trade and commerce, is one of those amazing theories that obtain general credence only because they are seldom if ever challenged, and because the subject is so little understood. Scarce money necessarily means a scarcity of effective demand for goods, and therefore a scarcity of employment for labour. Moreover, since the producers of all commodities, save gold only, are compelled to buy money with their products, it would seem a complete reversal of the ordinary trade practice to advise a man to patronize that market in which he gets the least amount of money for his goods and services. And yet this is practically the advice which the Committee offer to the British public in their Report to the Government. If it were not so terribly serious and dangerous a menace to our economic future, it would be ludicrous!

Of course the cheque system which the Committee endorse has saved this country from the industrial eclipse which would long since have overtaken us under a rigid application of the Bank Act principle.

Our trade and industries have had to depend upon a very precarious credit system with a constantly fluctuating base, which, whilst enabling the largest of our manufacturers and merchants to succeed, has stifled enterprise and ruined hundreds and thousands of small traders by checking what the Committee calls "undue expansion of credit".

### WORLD PRICE THEORIES AND FREE TRADE PAUPERIZES LABOUR

The theory that our market prices for goods ought to correspond to the level of "the world's market for the same goods" is no doubt a good doctrine from the standpoint of the gold miner and merchant who is anxious to secure the largest possible purchasing power for his commodity. But it is certainly against the interests of the British wealth producers, for it means that they must compete with the lowest paid labour of the world and with the State-aided industries of foreign rivals.

The Committee is evidently in favour of a resumption of our pre-War free-import policy, which was rapidly converting this country from a great industrial and productive nation into a nation of traders, carriers, shippers, bankers, money changers, usurers and pawnbrokers. No nation can continue to survive and retain its economic supremacy or independence by building its trade and economic system upon foreign production. *Our security depends upon our own production.* Moreover, the exposure of Germany's methods of "peaceful penetration" should have opened the eyes of the Committee to the dangers of

our pre-War system. In his great work entitled, *Germany's Commercial Grip on the World*, Professor Hauser (of Dijon University) shows that had our enemy continued his trade and financial methods of "peaceful penetration," instead of outraging humanity by his military adventure, he might have controlled the world's wealth within the next twenty years!

### THE FOREIGN TRADE FALLACY

The Committee—like Sir Robert Peel—evidently regard the foreign trade of Great Britain as the most important branch of our economic system, and seem to be willing to sacrifice all other interests for the purpose of strengthening and increasing such trade. No doubt to cosmopolitan financiers and shipowners, foreign trade assumes exaggerated proportions. It is unfortunate that we have no very reliable statistics relating to our home trade, but if we may judge from the credit operations engaged and contrast these with the amount of our foreign trade, there is every indication that the home trade is enormously greater in volume and employs a far larger army of workers than all the foreign trade we have had or are ever likely to secure. The Committee's proposals therefore mean that we should continue, as in pre-War times, to sacrifice the greater for the smaller!

### CURRENCY DEFLATION MEANS ROBBERY

There is one feature in the recommendations of the Committee which has either escaped their notice or upon which they prefer to remain silent. In advising the restoration of the gold standard they are advising

the Government to increase the National Debt and so add to the burdens of taxation which the British public will have to bear. At present our national debt approximates £8,000,000,000! But what are these pounds and with what were they subscribed? The Committee must know that the War loans were subscribed in "cheap" pounds, approximating in value to only one-half of the pre-War pounds. Hence our war debt, expressed in pre-War pounds, would be less than £4,000,000,000! By restoring the gold standard, the public debt would therefore be doubled and become £8,000,000,000 *at pre-War value*! Hence every taxpayer would be compelled to pay at least twice the amount of taxes in his own products and services by reason of the Committee's recommendations. Very nice for the big money-lenders and war loan subscribers, but rather hard on the wealth producers and taxpayers!

When the American Greenback Party once proposed to pay off the American National Debt in paper money, a cry of horror went up from all the money-dealers and bankers at the shockingly immoral crime contemplated of paying the public debt in a *depreciated* currency—notwithstanding the fact that a large proportion of the American National Debt had arisen from loans made with the self-same cheap paper money. But these same gentlemen later managed to sneak a bill through Congress which compelled the American people to repay their War debt in an *appreciated* currency worth three times that in which most of the debt was contracted!

The obvious lesson to be learnt from this and similar experiences in connection with the creation and payment of National Debts is, that whilst it is

very dishonest on the part of a Government to attempt to settle such debts in money of *less* purchasing power than that subscribed, it is perfectly just and honest for the holders of Government bonds to demand payment in money of much greater value than that loaned ! In other words, the money-lenders' code of morals—which the Committee apparently endorse—is, that whilst it is very wicked for debtors to defraud their creditors, creditors are quite justified in robbing their debtors. This seems to be the moral basis of the gold standard.

Confidence is the basis of successful banking and of all monetary systems. Destroy confidence and you aim a blow at the very heart of a nation's economic prosperity. By raising the cry of inflation and questioning the Treasury note issues, the Committee have done a very serious disservice to their country. The adoption of these notes by the public was a great step in our economic progress. To adopt a cheap exchange-medium which has worked very satisfactorily in place of a costly one which was always in danger of a collapse, represented a vast saving of labour and expensive material. Having won this step in replacing gold with the National Credit, it seems almost criminal folly for any body of men to attempt to destroy the public confidence in such an obviously progressive economic policy.

### THE GOLD STANDARD IS A DEVICE FOR CONTROLLING TRADE

The adoption of gold as the world's money metal was not brought about through any general desire

on the part of the people. On the contrary, it has been exclusively the work of a few financiers, interested in the national debts of all countries. The general public live in blissful ignorance of the whole subject of finance and of the manner in which the wealth of money-lenders is augmented at the public expense by the manipulation of currency and credit.

Gold was selected as the money metal because of its known scarcity, and not on account of its physical qualities which would not save it from demonetization if its production ever threatened to become excessive. The physical qualities of silver are similar to those of gold, but the world's money-lenders gave it short shrift after the discoveries in Nevada and Mexico.

### PAPER MONEY SUPERIOR TO GOLD

Since the value of money is governed by its quantity, is not a paper currency a far more rational system for maintaining a *fixed standard* than a metal the supply of which is largely dependent upon chance discoveries and accidents? A paper currency can be easily controlled and its issues regulated to the public needs. It responds instantly to the variations in demand, and could be made to conform to a practically constant index number. No such result is possible under the gold standard.

The benefits which would result from the establishment of a purely national paper currency are simply incalculable. Among these, however, may be mentioned (a) A very much lower bank rate than we have had for many years. There is no reason why the public should pay more than 2% for bank loans.



(b) The Bank Rate could be made constant.

(c) Ample facilities could be provided for all productive undertakings without any "undue expansion of credit."

(d) Our currency supplies would not be affected by foreign crises nor by the financial wants of foreign rivals. Whilst under the gold standard we are in danger of losing our gold, foreigners would have no use for our notes and hence they would not be exported.

(e) A national paper currency forms a natural protection for our home trade and would serve to check dumping. Under the gold standard our foreign rivals are able to manipulate prices by merely exporting gold.

It is suggested by the Committee that our foreign trade depends upon our maintaining the gold standard for our national currency. There is no real basis for this statement. The United States had little difficulty in maintaining her foreign trade during the period of her paper money system. Moreover, trade between countries, some using silver and others gold and paper, has been maintained for many years. Since foreign trade is barter, balances would continue to be settled in gold as at present by weight, even if we adopted a purely paper currency. And the relation of the national paper currency to gold would be solved exactly the same way as its relation to any other commodity. There is no more reason why such a currency should be maintained at a parity with gold, than with coal, iron, wheat or any other commodity. What is needed is a currency system which will maintain the general price level of all commodities as constant as possible.

## CONCLUSION

I have endeavoured to deal with the Report of the Committee solely from the standpoint of our national interests, which are bound up with its productive industries. The Committee have taken it for granted that the whole aim of our national policy should be the maintenance of the gold standard. But nowhere have they shown that this institution is essential to the real prosperity of our people. The maintenance of London's position as the world's money market is a poor substitute for any one of our great industries. Better a thousand times that London should lose its financial prestige than that Britain should sacrifice her iron, steel, engineering, electrical or ship-building industries. Would America or Germany have willingly exchanged anyone of her staple industries to become the world's money-lending centre? Such a choice is unthinkable. And it has yet to be demonstrated that London's financial position adds in any way to the industrial or trading facilities of England. On the contrary, we know that this position has been purchased and is maintained at the expense of our trade and industries as already explained.

In our political history as a nation we are just now at the cross-roads, one of which leads to untold prosperity, whilst the other takes us back to our pre-War conditions of social unrest, class inequalities and antagonism, with the extremes of the wealthy few and the vast masses of our people always within sight of starvation. We can only follow the former road by discarding our economic fallacies, which

necessarily lead to failures, by abandoning the superstition which has made a fetish of gold, and by allowing ourselves to be guided by science, by justice, and by intelligence, instead of tradition and selfish class interests. The Committee's recommendations lead entirely in the opposite direction. The Government cannot adopt those recommendations without violating the recent pledges given to the people by the Prime Minister and his associates. Our economic position to-day is as critical as was our military position when the Prime Minister uttered his famous admonition: "We must either go on or go under!" We cannot possibly "go on" in the sense of reconstructing and developing our trade and industries, with a scarcity of money—which the Committee recommend. It is therefore the bounden and patriotic duty of those who really understand this great question and foresee the dangers and perils to which our economic future will be exposed by a return to our pre-War currency system, to do all in their power to prevent the adoption by the Government of the Committee's Report!

## CONCLUSION

THOSE who have had the patience to read the previous pages, which were dictated at the time when the conclusion of the Great War was still uncertain and the results of that stupendous conflict unknown, must admit that my forecast of the economic consequences of the bankers' monetary policies have unhappily been fulfilled.

The most disturbing feature of the present outlook, however, is, that the experiences of the past few years have apparently taught our leading politicians and their advisers—the Treasury officials—nothing. We are again being threatened with a revival of the Gold Standard which has been our undoing on many occasions. The question arises : “ Were these policies recommended and adopted as part of a deliberate conspiracy to enable a group of international bankers to control the world's affairs, as outlined in the Protocols of the learned Elders of Zion? Or are they the result of sheer stupidity and crass ignorance? ” In either case, one thing is certain, viz. : the persons responsible for enforcing these measures as well as those now urging their re-adoption, should be removed from any position in Government affairs where their influence has any weight in administration. We may forgive a man who advises a policy resulting in disaster through an error of judgment. But the man who continues to offer such advice time after time, in spite of the teachings of experience as to its dangers, should be regarded as either a lunatic or a criminal.

When we see Government officials pursuing policies injurious to the public interests—although favourable to certain private vested interests—when we witness these same officials accepting directorships at the hands of these private corporations after these policies have become law through their efforts, what are we to say? Do not these men lay themselves open to suspicion as having received compensation for betraying their public trust?

The suppression of the Treasury note system in favour of the present promissory notes of the Bank of England was one of the worst acts of our post-war administrations.

This system which functioned so perfectly during our greatest crisis, after the gold basis currency had collapsed (as soon as the shadow of war first appeared), has been most admirably described by Dr. Wm. A. Shaw, in his well-known work entitled *The Theory and Principles of Central Banking*, as follows:

“Great Britain, during the years 1915-16, discovered the true principles of State issue of paper money, and benefited unspeakably by it all through the Great War. But so little did she understand what she had done, that, after thirteen years of the practice of an automatic, self-regulating issue of full price state paper money, she surrendered the right once more to a Monopoly Bank in 1928. . . . From the moment of that discovery until 1928, England afforded an illustration of the true or ideal paper money and its principles, viz.: a State issued paper money of full face value, guaranteed by a full cover redemption fund composed of securities, issued automatically, retired automatically, self-regulating, never redundant, never deficient, neutral in its effect

✓ on prices, but rising equal to any strain upon it; guaranteed against debasement by the State which issues it, and incapable of debasement by the community which purchases and uses it. The Treasury note answered this definition in every point. . . . The control of the amount actually in circulation thus lay entirely in the hands of the community and was determined by the community's need for currency and its ability to pay for it. Neither the State nor the Bank of England had any control over the amount in circulation. . . . It increased in amount when required by the expansion of industry or of prices, and it decreased in amount with their contraction. It bore all the strain of the war time by its automatic expansion, and then with the slump it automatically contracted. It was *de facto* inconvertible, and therefore had no relationship to any gold cover, and was not affected in any way by the fortunes of gold. . . . It was, therefore, not a source of inflation or deflation; its own movements were the consequence and effect, not the cause, of price movements . . .”

Here was a system for employing the National Credit for productive purposes which belonged to the public, and could be used by the Government without any costs for interest charges; and yet our Government allowed this safest and finest currency system the world has ever known to be deliberately destroyed for the benefit of the London Bankers, and to enable the private trading company—the Bank of England—to issue its own promissory notes without any obligation on the part of the bank to redeem them.

Not only did the Treasury note system function

satisfactorily without any gold backing or redemption promises, but these notes were far more stable than the American dollars with nearly one-half of the world's gold supplies behind them.

And if only our Governing officials had had the intelligence to employ a larger volume of these notes—instead of making their National bond issues for money which did not exist, but which was created by the banks in the form of bank credits issued against the security of these bonds, the War could have been financed—except for goods purchased abroad—without burdening the taxpayers with ruinous interest charges. Nor would there have been necessarily any greater inflation of prices under this plan than occurred under the bond issue scheme.

And whilst the Government is searching every pocket, endeavouring to find fresh sources of revenue, they have in front of them an almost inexhaustible mine, from which to obtain enough to meet the national requirements merely by issuing fresh purchasing power and thus reviving trade and industry, reducing unemployment, and allaying the present crisis. But the mere display of the bankers bogey—inflation—is quite sufficient to frighten our spineless leaders to refrain from adopting the one and only remedy for our present economic troubles.

Never was a people so readily deceived nor so easily subdued as the British public of the present period. All one has to do is to raise the cry "INFLATION", and straightway all classes turn aside from the only road leading to safety, plenty, peace and happiness. Fortunately for our trans-Atlantic neighbours, they have at last found a MAN as President who understands the bankers' game, and is not afraid of their shouts and threats.

There is but one remedy for the World Crisis, viz. : an increase of the money supplies—not in the banks—but in the pockets of the people, enabling them to buy more goods. The present problem is not one of production as it was a century ago. It is wholly one of consumption—which depends upon an adequate supply and a proper distribution of money.

The post-war period, ushered in an entirely new era, unlike any former period in the world's history ; a period in which man's inventive genius has placed within mankind's reach boundless wealth, sufficient for every inhabitant of this planet to enjoy life without encroaching upon supplies needed by any of his fellows ; a period in which Nature's powers have been harnessed to machinery for furnishing all the necessities and most of the so-called luxuries of life, thereby releasing man from the original curse. And yet amidst all this abundance, we are inundated with myriads of starving, ragged people all because our officials have not the intelligence to see that the old economic theories have become fallacies, the old monetary and banking systems unworkable, and that just as our productive methods to which we owe this Age of plenty have been revolutionized, so our entire economic system must be reorganized.

" New times demand new measures and new men.  
The World advances and in time  
Outgrows the laws that in our father's days were best,  
And doubtless after us, some purer scheme  
Will be shaped out by wiser men than we,  
Made wiser by the steady growth of truth."