Part 4

FREE-MONEY OR MONEY AS IT SHOULD BE

INTRODUCTION

The human mind is baffled by the abstract, and money hitherto has been wholly abstract. There was nothing with which to compare it. There were, indeed, various kinds of money, metal and paper; but as regards the most important aspect of money, namely the forces regulating its circulation, these different varieties were identical, and this brought the mind of the monetary theorist to a standstill. Equal things are not comparable, and, offering no hold for the intellect, inhibit the act of conception. The theory of money stood before a blank wall, utterly unable to move on. In no country was there, or is there, a legally sanctioned theory of money upon which the administration of money could be based. Everywhere the monetary administration is guided by purely empirical rules, for which nevertheless, it claims absolute authority. Yet money is the foundation of economic life and public finance; it is a tangible object, the practical importance of which fires the imagination as does scarcely any other; an object, moreover, that has been known to, and indeed artificially produced by mankind for 3000 years. Consider what this means: In one of the most momentous of public and private interests we have for 3000 years acted blindly, unconsciously, ignorantly. If further proof were needed of the hopelessness of so-called abstract thinking, it is here.

With Free-Money, as described in this book, the situation is radically altered. Money has ceased to be abstract. Free-Money for the first time supplies the point of comparison for an examination of money. Money has found a background; it has become an object with colour tones and limiting surfaces. Give me a fulcrum, said Archimedes, and I can move the world from its axis. Given a point of comparison, man can solve any problem.

Free-Money supplies the plumb-line for the construction of the theory of money, a plumb-line by which all departures from the vertical immediately become apparent.

1. FREE-MONEY

Money is an instrument of exchange and nothing else. Its function is to facilitate the exchange of goods, to eliminate the difficulties of barter. Barter was unsafe, troublesome, expensive, and very often broke down entirely. Money, which is to replace barter, should secure, accelerate and cheapen the exchange of goods.

That is what we demand of money. The degree of security, rapidity and cheapness with which goods are exchanged is the test of the usefulness of money.

If, in addition to this, we ask that money shall cause a minimum of trouble by its physical properties, we make a claim that is valid only if the purpose for which money exists is not thereby defeated.

If security, acceleration and cheapening of the exchange of goods can be achieved by means of a form of money which cannot be harmed by moth and rust and which besides, can be conveniently hoarded, then let us, by all means, have such money. But if this form of money diminishes the security, rapidity and cheapness of the exchange of goods, we say: Away with it!

Knowing that the division of labour, the very foundation of our civilisation, is here at stake, we shall select whatever form of money is suited to its necessities, quite regardless of the wishes or prejudices of individuals.

In order to test the qualities of money we shall use no scales, crucibles or acids; neither shall we scrutinise some coin or consult some theorist. We shall consider, instead, the work done by the money. If we observe that a certain form of money seeks out goods and conveys them by the shortest route from the workshop to the consumer; if we notice that goods cease to congest the markets and warehouses, that the number of merchants diminishes, that commercial profits shrink, that no trade depressions occur, that producers are assured of a ready disposal of all they can produce while working at full capacity, we shall exclaim: This is an excellent form of money!—and we shall hold to this opinion even if, on closer examination, we find that the money in question is physically unattractive. We shall consider money as we consider, say, a machine, and form our judgment exclusively on its efficiency, not on its shape or colour.

The criterion of good money, of an efficient instrument of exchange, is:—

1. That it shall secure the exchange of goods—which we shall judge by the absence of trade depressions, crises and unemployment.

2. That it shall accelerate exchange—which we shall judge by the lessening stocks of wares, the decreasing number of merchants and shops, and the correspondingly fuller storerooms of the consumers.

3. That it shall cheapen exchange—which we shall judge by the small difference between the price obtained by the producer and the price paid by the consumer. (Among producers we here include all those engaged in the transport of goods).

How inefficiently the traditional form of money functions as an instrument of exchange has been demonstrated in the previous part of this book. A form of money that necessarily withdraws when there is lack of it, and floods the market when it is already in excess, can only be an instrument of fraud and usury, and must be considered unserviceable, no matter how many agreeable physical qualities it may possess.

Judged by this criterion, what a disaster was the introduction of the gold standard in Germany! At first a boom, fed by the millions taken from France, and afterwards the inevitable crash!

We introduced the gold standard because we expected an advantage from it, and what other advantage could we expect from a change of our monetary system than greater security, cheapening and acceleration of the exchange of goods?

But if such was the purpose, what was the justification for the introduction of the gold standard to achieve it? Gold coins, neat round shining toys, were expected to facilitate, accelerate and cheapen the exchange of straw, iron, limestone, hides, petroleum, wheat, coal, etc., but how that was to be done nobody was able to explain; it was simply a matter of faith. Everybody—even Bismarck—relied on the judgment of the so-called experts.

After the establishment of the gold standard, just as before it, the exchange of goods consumes 30, 40, and sometimes perhaps 50% of the entire output. Trade depressions are just as frequent and just as devastating as in the days of the thaler and the florin;

and by the increased number of dealers we observe how slight is the mercantile power of the new money.

The reason why the mercantile power, the power of exchanging goods, of this money is so slight, lies in the fact that it has been over-improved—improved, that is, exclusively from the view-point of the holder. In fixing upon the material for money, only the buyer, only demand was considered. The goods, supply, the seller, the producer of the goods, were entirely overlooked. The very finest of materials, a precious metal, was chosen for the manufacture of money—just because it offered certain conveniences to the holders of money. Our experts did not pause to consider that the holders of goods in selling their products had to pay for these conveniences. By the selection of gold as money-material, the buyer has been allowed time to choose the most favourable moment for the purchase of goods, and in granting this freedom the devisers of the gold standard forgot that the seller would be forced to wait patiently in the market till the buyer chose to appear. Through the choice of the money-material, demand for goods was placed at the discretion of the owners of money and delivered up to be the sport of caprice, greed, speculation and chance. Nobody saw that the supply of goods, owing to its material nature, is at the mercy of this abitrary will. Thus arose the power of money which, transformed into financial power, exercises a crushing pressure on all producers.

In short, our worthy experts when considering the currency question forgot the goods—for the exchange of which the currency exists. They improved money exclusively from the point of view of the holder, with the result that it became worthless as a medium of exchange. The purpose of money evidently did not concern them, and thus as Proudhon put it, they forged "a bolt instead of a key for the gates of the market." The present form of money repels goods, instead of attracting them. People do, of course, buy goods, but only when they are hungry or when it is profitable. As a consumer everyone buys the minimum. No one desires to have stores, in planning a dwelling house the architect never includes a storeroom. If every householder were to-day presented with a filled storeroom, by to-morrow these stores would be back on the market. Money is the thing people want to own, although everybody knows

that this wish cannot be fulfilled, since the money of all mutually neutralises itself. The possession of a gold coin is incontestably more agreeable than the possession of goods. Let the "others" have the goods. But who, economically speaking, are these others? We ourselves are these others; all of us who produce goods. So if, as buyers, we reject the products of the others, we really all reject our own products. If we did not prefer money to the products of our fellows, if instead of the desired yet unattainable reserve of money, we built a storeroom and filled it with the products of our fellows, we should not be obliged to have our own products offered for sale in expensive shops where they are, to a great extent, consumed by the cost of commerce. We should have a rapid and cheap turnover of goods.

Gold does not harmonise with the character of our goods. Gold and straw, gold and petrol, gold and guano, gold and bricks, gold and iron, gold and hides! Only a wild fancy, a monstrous hallucination, only the doctrine of "value" can bridge the gulf. Commodities in general, straw, petrol, guano and the rest can be safely exchanged only when everyone is indifferent as to whether he possesses money or goods, and that is possible only if money is afflicted with all the defects inherent in our products. That is obvious. Our goods rot, decay, break, rust, so only if money has equally disagreeable, loss-involving properties can it effect exchange rapidly, securely and cheaply. For such money can never, on any account, be preferred by anyone to goods.

Only money that goes out of date like a newspaper, rots like potatoes, rusts like iron, evaporates like ether, is capable of standing the test as an instrument for the exchange of potatoes, newspapers, iron and ether. For such money is not preferred to goods either by the purchaser or the seller. We then part with our goods for money only because we need the money as a means of exchange, not because we expect an advantage from possession of the money.

So we must make money worse as a commodity if we wish to make it better as a medium of exchange.

As the owners of goods are always in a hurry for exchange, it is only just and fair that the owners of money, which is the medium of exchange, should also be in a hurry. Supply is under an

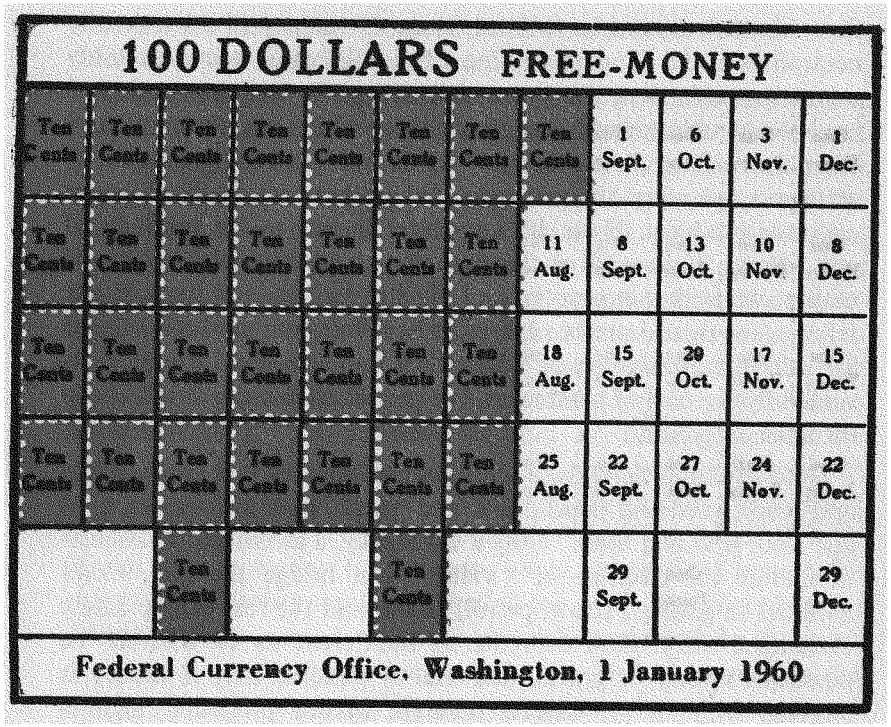

Figure 4. Free-Money, American Currency.

(Or any other decimal currency)

This $100 note (bill) is shown as it will appear during the week August 4th–11th, thirty-one ten-cent stamps ($3.10) having been attached to it by its various holders on the dated spaces provided for the purpose, one stamp for each week since the beginning of the year. In the course of the year 52 ten-cent stamps ($5.20) must be attached to the $100 note, or in other words it depreciates 5.2% annually at the expense of its holders.

Figure 5. Free-Money, British Currency.

Free-Money, British Currency, is issued in 1-shilling, 5-shilling, 10-shilling, £1, £4, £10, and £20 currency notes and in perforated sheets of stamps resembling small postage stamps, value ½d., 1d., 2½d., and 5d., which are used for attaching weekly to the notes, to keep them at their face value. A penny stamp must, for example, be attached weekly by the holder to the above £4 currency note which is divided into 52 dated sections for this purpose. The note is shown as it will appear during the week August 4th – 11th., 31 penny stamps having been attached to it by its various holders, one stamp for each week from the beginning of the year. In the course of the year 52 penny stamps (value 4s. 4d.) must be attached to this £4 note, or in other words it depreciates 5.4% annually at the expense of its holders.

immediate, inherent constraint; therefore demand must be placed under the same constraint.

Supply is something detached from the will of owners of goods, so demand must become something detached from the will of owners of money.

If we decide to abolish the privileges enjoyed by the owners of money and to subject demand to the compulsion to which supply is by nature subject, we remove all the anomalies of the traditional form of money and compel demand to appear regularly in the market, independently of political, economic or natural conditions. Above all, the calculations of speculators, the opinions or caprices of capitalists and bankers will no longer influence demand. What we term the " tone of the Stock-Exchange " will be a thing of the past. As the law of gravity knows no moods, so the law of demand will know of none. Neither the fear of loss nor the expectation of profit will be able to retard or accelerate demand.

In all conceivable conditions demand will then consist of the volume of money issued by the State, multiplied by whatever velocity of circulation is permitted by existing commercial organisation.

All private money reserves are automatically dissolved by such compulsory circulation. The whole volume of money issued is in uninterrupted, regular and rapid circulation. No one can any longer interfere with the public monetary administration by putting into circulation or withdrawing private reserves of money. And the State itself is under obligation at all times rigorously to adapt demand to supply—an obligation which it can fulfil by issue or withdrawal of trifling sums of money.

More than that is not needed to protect the exchange of goods against any conceivable disturbance, to render crises and unemployment impossible, to reduce commercial profits to the rank of a wage, and in a short space of time to drown capital-interest in a sea of capital.

And what do the priceless advantages of compulsory monetary circulation cost us, the producers, who create the money through the division of labour ? Nothing but renunciation of the privilege of infecting demand with our arbitrary will, and, through it, with greed, hope, fear, care, anxiety and panic. We need only abandon

the illusion that we can sell our produce without someone else's buying it. We need only pledge ourselves mutually to buy, at once and in all possible circumstances, exactly as much as we have sold. And in order to secure reciprocity for this pledge, we must endow money with properties that will compel the seller of goods to comply with the obligations incidental to the possession of money; we must compel him to convert his money into goods again—personally, if he has any need of goods, or through others, to whom he lends his money, if he has not.

Are we then willing to break the fetters that enslave us as sellers of our produce, by renouncing our despotic privileges as buyers over the produce of our fellows ? If so, let us examine more closely the unprecedented and revolutionary proposal of compulsory demand. Let us examine a form of money subjected to an impersonal compulsion to be offered in exchange for goods.

Description of Free-Money

1. Free-Money is a stabilised paper-money currency, the currency notes being issued or withdrawn in accordance with index numbers of prices, with the aim of stabilising the general level of prices.

2. Free-Money, decimal currency*, is issued in 1 – 5 – 10 – 20 – 50 – and 100 dollar (franc, mark) notes (bills). The monetary authority also sells, through the post-office, currency stamps value 1 – 2 – 5 – 10 – 20 and 50 cents.

3. Free-Money loses one-thousandth of its face value weekly, or about 5% annually, at the expense of the holder. The holder must keep the notes at their face value by attaching to them the currency stamps mentioned above. A ten-cent stamp, for example, must be attached every Wednesday to the $100 note illustrated (Figure 4), which is shown as it will appear during the week August 4th – 11th, 31 ten-cent stamps ($3.10) having been attached to it, on the dated spaces provided for the purpose, by its various holders, one stamp for each week since the beginning of the year. In the course of the year 52 ten-cent stamps must be attached to the $100 note, or, in other words, it depreciates 5.2% annually at the expense of its holders.

* For Free-Money, British currency, see Figure 5.

4. For small change up to one dollar (1 – 2 – 5 – 10 – 20 – 50 cents) the currency stamps themselves could be used, in which case they would not be re-issued when paid in at public offices, but replaced by fresh stamps. The currency stamps would be sold in small perforated sheets resembling a page from a postage-stamp booklet, the total value of each sheet being one dollar.

5. At the end of the year the fully-stamped currency notes are exchanged for fresh notes, for circulation during the following year.

6. Everyone of course tries to avoid the expense of stamping the notes by passing them on—by purchasing something, by paying debts, by engaging labour, or by depositing the notes in the bank, which must at once find borrowers for the money, if necessary by reducing the rate of interest on its loans. In this way the circulation of money is subjected to pressure.

7. The purpose of Free-Money is to break the unfair privilege enjoyed by money. This unfair privilege is solely due to the fact that the traditional form of money has one immense advantage over all other goods, namely that it is indestructible. The products of our labour cause considerable expense for storage and caretaking, and even this expense can only retard, but cannot prevent their gradual decay. The possessor of money, by the very nature of the money-material (precious metal or paper) is exempt from such loss. In commerce, therefore, the capitalist (possessor of money) can always afford to wait, whereas the possessors of merchandise are always hurried. So if the negotiations about the price break down, the resulting loss invariably falls on the possessor of goods, that is, ultimately, on the worker (in the widest sense). This circumstance is made use of by the capitalist to exert pressure on the posesssor of goods (worker), and to force him to sell his product below the true price.

8. Free-Money is not redeemed by the Currency Office. Money will always be needed and used, so why should it ever be redeemed? The Currency Office is, however, bound to adapt the issue of money to the needs of the market in such a manner that the general level of prices remains stable. The Currency Office will therefore issue more money when the prices of goods tend to fall, and withdraw money when prices tend to rise; for general prices are exclusively determined by the amount of money offered for the existing stock

of goods. And the nature of Free-Money ensures that all the money issued by the Currency Office is immediately offered in exchange for goods. The Currency Office will not be dormant like our present monetary administration which with indolent fatalism expects the stability of the national currency from the mysterious so-called "intrinsic value" of gold, to the great advantage of swindlers, speculators and usurers; it will intervene decisively to establish a fixed general level of prices, thereby protecting honest trade and industry.

9. The great importance of external trade makes it desirable that there should be an international agreement to stabilise the international exchanges. In the meantime we shall have to decide whether the monetary administration, when regulating the issue of money, is to stabilise home prices, or to stabilise the foreign exchanges. It cannot of course do both, for stabilising the exchanges means conforming to the price levels of other countries. And these price levels, in countries with metallic standards, constantly fluctuate.

10. The exchange of metal money for Free-Money will be entirely optional. Those who cannot bear to part with their gold may keep it. Gold, however, like silver formerly, will lose the "right of free coinage," and the coins will be deprived of their quality as legal tender. After the expiration of the legal period for exchange, the coins will no longer be accepted by the courts of justice or other public institutions.

11. For payments abroad use can be made as heretofore of bills of exchange offered for sale by merchants who have shipped goods abroad. For small amounts Post Office Money Orders may be employed, as is the custom at present.

12. Anyone wishing to purchase national products for export and having only gold at his disposal, that is, if he has not been able to buy any import bills, can sell his gold to the Currency Office. Anyone needing gold for the import of foreign goods, because there are no export bills on offer, can buy the gold at the Currency Office. The price of this gold will depend on how the question left open in (9) is answered.

13. The sale of the currency stamps creates a regular annual revenue for the Currency Office, amounting to 5% of the value of

the currency notes in circulation, or 200 – 300 million marks in Germany before 1914.

14. This revenue of the currency administration is an accidental by-product of the reform, and is comparatively insignificant. The disposal of this revenue will be specially provided for by law.*

2. HOW THE STATE PUTS FREE-MONEY IN CIRCULATION

The money reform deprives the Banks of Issue of the privilege of issuing banknotes. Their place is taken by the National Currency Office which is entrusted with the task of satisfying the daily demand for money.

The National Currency Office does not carry on banking business of any kind. It does not buy or sell bills of exchange, it does not classify business firms as first, second and third rate. It entertains no connections with private persons. The National Currency Office issues money when the country needs it, and withdraws money when money is in excess. That is all.

To put Free-Money in circulation all public treasuries are instructed to exchange, when requested to do so, the old national metal money or paper money for Free-Money; one dollar (franc, or shilling) of Free-Money being given for one dollar (franc, or shilling) of the old money.

Anyone not consenting to this exchange may keep his gold. No one will compel him to exchange it; there will be no legal pressure; no force will be employed. The public is merely warned that after the lapse of a certain term (1, 2 or 3 months) the metal money will be only metal, and no longer money. If by that time anyone still possesses metal money he is free to sell it for Free Money to a dealer in precious metals, but he must bargain about the price. The only form of money recognised by the State will be Free-Money. Gold, for the State, will be a mere commodity like wood, copper, silver, straw, paper or fish-oil. And just as to-day taxes cannot be paid in wood, silver or straw, so gold will not be available for the purpose of paying taxes after expiration of the term for exchange.

The State knows that there is no room for any but State money,

* For other methods of applying the principle of Free-Money see page 245.

and that consequently no special efforts are needed to give this money currency. For the indispensability of money and the necessity for State control of money automatically lead to that result. So if anyone decides to set up a private mint and to strike coins of any particular weight and fineness, the State can tranquilly look on. Coins, for the State, have ceased to exist and so, therefore, have forgers of coins. The State simply deprives all coins, including those formerly struck by itself, of its guarantee of weight and fineness, the minting machinery being sold to the highest bidder. That is all the State does to prevent gold from circulating—but it suffices.

So if anyone opposes Free-Money to the point of rejecting it as payment for his goods, nobody will interfere. Let him continue to demand gold for his products. But he will have to weigh this gold and test its purity, coin by coin, with touchstone and acids. He will, moreover, have to ascertain whether anybody will buy the gold from him, and at what price, and he must be prepared for certain surprises. If on second thoughts he finds this procedure troublesome and expensive, he is still free to seek salvation within the pale of Free-Money. He will then only be following the example of the former enemies of the gold standard, the German landowners who at first fiercely opposed the new gold money but very soon accepted it.

What is the State to do with the gold received in exchange for Free-Money ? The State will melt it down and have it manufactured into chains, bracelets and watch-cases to present to all the brides of the nation on their wedding day. What more reasonable use could be found for such a mass of treasure ?

For the State does not need gold, and by selling the gold received for Free-Money to the highest bidders it would depress its price and embarrass other nations, as happened when Germany so thoughtlessly sold its demonetised silver. If on that occasion Germany had used the silver thalers to manufacture wedding presents, or to erect in front of every pawn-shop and loan-bank life-sized statues to the champions of the gold standard—it would have been better for economic life at home and abroad, and even for the State finances. For the few millions which the State realised from the sale of silver, a mere drop in the ocean considered from the point of view of German economic life as a whole, were largely instrumental in

depressing the price of silver, and the difficulties of the German landowners, caused by the low price of grain, were partly due to these silver sales.* If Germany had adopted the above proposal and manufactured the thalers into silver wedding presents, it would have recovered the loss tenfold out of the increased taxpaying capacity of its subjects.

3. HOW FREE-MONEY IS MANAGED

After Free-Money has been put in circulation and metal money withdrawn, the sole function of the National Currency Office is to observe the ratio at which money and goods are exchanged and by increasing or decreasing the monetary circulation, to stabilise the general level of prices. In doing so the National Currency Office is guided by statistics for the calculation of the average price of all goods, as discussed in Part III of this book. According to the results of this calculation, which show whether the price-level tends to rise or fall, the monetary circulation is reduced or enlarged. (Instead of altering the volume of money the Currency Office might alter its rapidity of circulation by reducing or raising the rate of depreciation of 5·2%. But the first method proposed is preferable).

To increase the monetary circulation, the Currency Office pays new money into the public treasury which will expend it by means of a proportional reduction of taxation. If the taxes due to be collected amount to 1000 millions, and 100 millions of new money is to be issued, the taxes are reduced 10%.

That is a simple matter, but the decrease of the monetary circulation is still simpler. For since the amount of Free-Money in circulation decreases 5% annually through depreciation, all that the Currency Office has to do, to decrease the volume of money, is—to do nothing. Any surplus consumes itself automatically.† Should this not suffice the volume of the currency could be reduced by

* Laveleye: La Monnaie et le Bimétallisme.

† This refers to Gesell's original plan, published in 1891, for applying the principle of Free-Money, in which he proposes to let the face-value of the currency notes decrease from 100 at the beginning of the year to 95 at the end—instead of keeping the face-value at 100 by stamping the notes at the holder's expense. See page 245.

increasing taxation and using the resulting surplus to destroy Free-Money notes. The volume of currency could also be regulated by purchase or sale of Government securities by the Currency Office.

By means of Free-Money, therefore, the Currency Office has perfect control over supply of the instrument of exchange. It controls absolutely both the manufacture of money and the supply of money.

The Currency Office does not require a palatial building with hundreds of officials, like the German National Bank. The Currency Office carries on no banking business of any kind. It has no counters, nor even a safe. The money is printed in the national printing press; the issue and the exchange of the money is effected by the public treasuries; the general level of prices is calculated by the bureau of statistics. All that is needed is one man who takes the money from the printing house to the public treasuries, or destroys the money collected by taxation for the purpose of regulating the currency. The whole establishment consists of a printing press and a stove. Simple, cheap, efficient!

With this simple apparatus we can replace the arduous labour of gold-digging, the ingenious machinery of the mint, the working capital of the banks, the strenuous activity of the Bank of Issue, and yet make sure that to-day, to-morrow, for ever, in good days and in bad, there will never be a penny too much or too little in circulation. And we can do more than merely replace the present organisation. We can establish permanently a model currency system for all the world to imitate.

4. THE LAWS OF CIRCULATION OF FREE-MONEY

Let us now consider Free-Money more closely. What can its possessor or holder do with it? On January 1st its value in the markets, shops, pay-offices, public treasuries and courts of justice is $100 and on December 31st it is only $95. That is to say, if the holder of the note intends to employ it at the end of the year to pay $100, on a bill of exchange, invoice or demand note, he has to add $5 to the note.

What has occurred? Nothing but what occurs with every other commodity. Just as a certain egg steadily and rapidly departs from

the economic conception "egg" and is not comparable to it at all on completion of the rotting process, similarly the individual dollar note drifts away from what the dollar stands for in the currency. The dollar as the currency unit is permanent and unchanging; it is the basis for all calculations; but the dollar as a money-token has only the starting point in common with it. Nothing has occurred, then, but what occurs with everything about us. The species, the conception is unalterable; but the individual, the representative of the species is mortal and moves steadily onwards towards dissolution. All that has occurred is the separation of the object of exchange from the unit of currency, the individual from the species, and the subjection of money to the law of birth and decay.

The holder of this perishable money will beware of keeping the money, just as the egg-dealer will beware of keeping the egg any longer than he must. The holder of the new money will invariably endeavour to pass on the money, and the loss involved by its possession, to others.

But how can he do so? By selling his products he has come into possession of this money. He was forced to accept it, though well aware of the loss its possession would cause him. His products were from the first intended for the market; he was forced to exchange them, and exchange, under the given conditions, could be effected only through the medium of money; and this is the only money now produced by the State. Hence he was compelled to accept this odious Free-Money in exchange for his products if he was to dispose of them at all and so attain the object of his labour. Perhaps he might have deferred the sale, say until he was in immediate need of other goods, but meanwhile his own products would have deteriorated and become cheaper; he would have incurred a loss, perhaps greater than that involved in the possession of the money, through the diminution in quantity and the deterioration in quality of his products, and through the cost of storage and care-taking. He was under constraint when he accepted the new money, and this constraint was caused by the nature of his own products. He is now in possession of the money which steadily depreciates. Will he, in his turn, find a purchaser, will he find anybody willing to let the loss arising out of the possession of such money be passed on to him? The only person who will accept this "bad" new

money from him, is someone like himself under constraint, someone who has produced commodities and is now anxious to dispose of them in order to avoid the loss incident to their possession.

We thus at the very outset, note a remarkable fact, namely that the buyer has a personal desire, arising immediately out of the possession of his money, to pass it on to the possessor of commodities, and that this desire equals in strength the seller's eagerness to pass on his commodities to the buyer. The gain from the immediate completion of the bargain is the same for both parties, and the effect, of course, is that during the negotiations about price the buyer can no longer refer to his invulnerability (gold), and threaten to withdraw should the seller not submit to his terms. Buyer and seller are both poorly armed; each has the same urgent desire to strike the bargain. Under such conditions, obviously, the terms of the bargain will be fair and the transaction will be accelerated.

But let us now suppose that the Free-Money note which we have just been considering has come into the possession of a saver, merchant or banker. What will they do with it? In their hands also, the money-token steadily shrinks away. They came into possession of Free-Money by exchanging their former gold coins. No law constrained them to make the exchange; they might have kept the gold, but the State proclaimed that after a certain date it would refuse to give Free-Money for gold, and what could they then have done with their gold? They could have had it manufactured into gold ornaments, but who would have bought these ornaments, and at what price? And with what would the gold ornaments have been paid for? With Free-Money!

So they found it advisable not to let the term for exchange slip by. And now they are considering the new money, their property. The uselessness of the demonetised gold forced them to consent to exchange it for Free-Money, and the loss inseparable from possession of the new money now forces them to get rid of it in order to transfer the loss as quickly as possible to others.

But since as savers and capitalists they have no personal demand for goods, they now seek a market for their money with people who wish to buy goods, but at present have no money. That is, they offer the money as a loan—just as they used to do in the

case of gold. There is, however, a difference. Formerly they were free to lend the money or not, and they only lent it as long as they were satisfied with the conditions of the loan. Now they are forced to lend the money, whatever the conditions of the loan. They now act under compulsion. By the nature of their property (commodities), they were compelled to accept Free-Money, and now they are compelled by the nature of Free-Money to lend it. If they are not satisfied with the interest offered, let them buy back their gold, let them buy goods, let them buy wine which is said to become better and dearer in the course of time, let them buy bonds or Government securities, let them become employers of labour and build houses, let them enter commerce; let them do anything they please that may be done with money—one thing only they cannot do: they cannot now lay down the conditions upon which they are willing to pass on their money.

Whether they are satisfied with the interest offered by the debtor or the yield promised by the projected house; whether the securities selected are favourably quoted; whether the price of the wine and precious stones which they intend to hoard has been forced up too high by the great number of buyers with the same ingenious idea; whether the selling price of the matured wine will cover the cost of storage, caretaking, etc., makes no difference, for they are compelled to dispose of the money. And that too immediately, to-day and not to-morrow. The longer they stop to think, the greater the loss. Suppossing, however, that they find somebody willing to take the money, the loan-taker can have only one intention, namely to invest the money at once in goods, in enterprises or in some other manner. For no one will borrow money simply to put it in a box, where it depreciates. He will endeavour to pass on the loss connected with the possession of money by passing on the money.

In whatever way the money is invested, it will immediately create demand. Directly, through purchasing, or indirectly through lending, the possessor of money will be obliged to create a demand for commodities exactly proportionate to the quantity of money in his possession.

It follows that demand no longer depends on the will of the possessors of money; that price-formation through demand and supply is no longer affected by the desire to realise a profit; that

demand is now independent of business prospects and expectations of a rise or fall of prices; independent, too, of political events, of harvest estimates; of the ability of rulers or the fear of economic disturbance.

The supply of money, just like the supply of potatoes, hay, lime, coal and so forth, will be weighable, measurable, and without life and volition. Money, by an inherent natural force, will steadily tend towards the limit of the velocity of circulation possible for the time being, or rather it will in all conceivable circumstances tend to overleap this limit. Just as the moon, calm and unaffected by what may be going on here below, moves in its orbit, so Free-Money, detached from the wishes of its holders, will move through the market.

In all conceivable circumstances, in fair weather and in foul, demand will then exactly equal:—

1. The quantity of money circulated and controlled by the State. Multiplied by:
2. The maximum velocity of circulation possible with the existing commercial organisation.

What is the effect upon economic life ? The effect is that we now dominate the fluctuations of the market; that the Currency Office, by issuing and withdrawing money, is able to tune demand to the needs of the market; that demand is no longer controlled by the holders of money, by the fears of the middle classes, the gambling of speculators or the tone of the Stock Exchange, but that its amount is determined absolutely by the Currency Office. The Currency Office now creates demand, just as the State manufactures postage stamps, or as the workers create supply.

When prices fall, the Currency Office creates money and puts it in circulation. And this money is demand, materialised demand. When prices rise the Currency Office destroys money, and what it destroys is demand.

Thus the Currency Office controls the tone of the market, and this means that we have at last overcome economic crises and unemployment. Without our consent the price-level can neither rise or fall. Every movement up or down is a manifestation of the will of the Currency Office, for which it can be made responsible.

Demand as an arbitrary act of the holders of money was bound

to cause fluctuations of prices, periodic stagnation, unemployment, fraud. Free-Money makes the price-level dependent on the will of the Currency Office which uses its power, in accordance with the purpose of money, to prevent fluctuations.

Confronted with the new money everyone will be forced to conclude that the traditional custom of storing up reserves of money must be abandoned, since reserve money steadily depreciates. The new money, therefore, automatically dissolves all money hoards, those of the careful householder, of the merchant and of the usurer in ambush for his prey.

And what does this change further signify for economic life? It signifies that henceforward the population will never be in possession of more than the exact amount of the medium of exchange necessary for the immediate requirements of the market —an amount regulated so as to eliminate fluctuations of prices caused by too much or too little money. It signifies that henceforward no one can frustrate the policy of the Currency Office by flooding the market with money drawn from private reserves at a time when the Currency Office considers a drainage of the market opportune, or by draining off money into private reserves when the Currency Office wishes to replenish the stock of money. It signifies consequently that, to enforce its policy, the Currency Office need issue or withdraw only insignificant quantities of money.

But with the new form of money no one needs to provide for a money reserve, since the regularity of the circulation makes reserves superfluous. The reserves were a cistern, that is, merely a receptacle, whereas the regularity of circulation of the new money will make it a perennially-welling spring.

With Free-Money demand is inseparable from money; it is no longer a manifestation of the will of the possessors of money. Free-Money is not the instrument of demand, but demand itself, demand materialised and meeting, on an equal footing, supply, which always was, and remains, something material. The tone of the Stock-Exchange, speculation, panic and collapse cease from now on to influence demand. The quantity of money issued, multiplied by the maximum velocity of circulation possible with the existing commercial organisation, is in all conceivable circumstances the limit, the maximum and also the minimum, of demand.

Money, anathema throughout the ages, will not be abolished by Free-Money, but it will be brought into harmony with the real needs of economic life. Free-Money leaves untouched the fundamental economic law which we showed to be usury, but it will cause usury to act like the force that seeks evil but achieves good. By eliminating interest Free-Money will clear away the present ignoble motley of princes, rentiers and proletarians, leaving space for the growth of a proud, free, self-reliant race of men.

5. HOW FREE-MONEY WILL BE JUDGED

A. The Shopkeeper

The coming of Free-Money has made notable changes in my business. In the first place my customers have taken to paying cash, because it is to their immediate advantage to pay promptly, and because they are paid cash themselves. In the second place the sale of goods in small quantities has ceased, I no longer sell goods by pennyworths. Customers were formerly loath to part with their money, because the money did not compel them to pass it on; because they received interest; because they had money in the savings bank; because it was more convenient to have money in the house than goods; and finally because nobody was ever sure when he would receive the money owing to him. The circulation of money was irregular and payments were so uncertain that everyone except those in receipt of a fixed income was forced to keep some money in reserve. And this reserve was formed by purchasing whenever possible on credit and by purchasing only necessities for immediate consumption. Instead of a pound customers bought an ounce, instead of a sack, a pound. It never occurred to anyone to lay in provisions or to provide a store-room when planning a new house. The only possible kind of store was a store of money. A modern house had many rooms for special purposes such as a dark-room, a carpet-room, a box-room, etc., but never a room for provisions.

All this has now changed. The new money constantly reminds men of their duties as debtors, and they are eager to pay, as they are paid, promptly. Money is now compelled to circulate, so its circulation is steady and uninterrupted. It can no longer be arrested

by rumours. Regular circulation produces a regular turnover of goods, and as everyone, to avoid loss, is anxious to pay at once for what he has bought, the influx of money into my till has also become regular. We shopkeepers are able to rely on this regular influx of money and are therefore no longer forced to keep a reserve of money; quite apart from the fact that reserves of money are now impossible, since they depreciate. Instead of hoarding money, people now lay in stores; they prefer possession of goods to possession of cash, just as, for the same reason, they prefer paying cash to buying on credit. Instead of minute quantities, the public now buys large amounts of goods in their original packing; instead of a gallon, a barrel; instead of a yard, a roll; instead of a pound, a sack.

From this it might be imagined that we retailers are revelling in the new situation but that, unfortunately, is not so. Luckily for myself I watched developments closely and was able to adapt my business to the changed conditions. For my former retail prices I have substituted wholesale prices, and have in this way managed not only to retain, but greatly to increase the number of my customers. But other shopkeepers who had not the same foresight have been forced to close their shops. Where there were ten shops formerly there is now only one which, in spite of its tenfold increase of turnover, requires less labour to run. The rent of my shop has already been reduced by 90%, because so many shops have been vacated and are being converted into flats. But in spite of a minimum rent and a tenfold increase of turnover my profits are far from having increased proportionately, since other shopkeepers, owing to the general simplification of commerce, have also been forced to reduce their profits. Thus instead of an average profit of 25% I now charge about 1% commission. As I deliver orders in the original packages and am paid cash, a small margin of profit suffices. No book-keeping, no bills, no losses! And in spite of the tenfold increase of turnover, my warehouse has not been enlarged. My customers have agreed to take regular supplies which are delivered direct from the railway station. Shopkeeping has developed into a mere consignment business.

My fellow retailers who have been forced to close their shops are, I admit, to be pitied, especially the older ones who are past

learning another trade. As their impoverishment has been caused by the introduction of Free-Money, that is, by State-interference, they ought in justice to be compensated by a State pension. And the State is well able to pay this compensation since the disappearance of these middlemen and the consequent cheapening of all commodities has greatly increased the tax-paying capacity of the population. On a former occasion the State felt itself bound to protect landlords against a fall of rent by introducing a duty on wheat, so compensation would seem fully justified in the present case.

I must admit that shopkeeping is enormously simplified by Free-Money. Something of the kind was bound to happen. Neither small retail selling, with the tremendous cost it involved, nor the misuse of credit sales could have continued indefinitely. It was an intolerable abuse that the retail sale of daily necessities should add 25% to their price at a time when labour was forced to struggle hard for a 5% increase of wages.

Switzerland, with 3,000,000 inhabitants, in 1900 employed 26,837 commercial travellers who paid an aggregate of 320,000 francs for licences. Even if we put their daily expenses at only 5 francs per head, commercial travellers cost Switzerland 48,977,525 francs annually.

In Germany there are 45,000 commercial travellers permanently on the road. (In Switzerland this business is largely carried on as a subsidiary occupation; hence the comparatively large number of travellers and my low estimate of 5 francs a day for expenses). It has been calculated that each of these 45,000 commercial travellers costs 14 marks a day (salary, travelling expenses, hotel bills) and this is certainly not an over-estimate. That amounts to 600,000 marks a day or 218 million marks a year. To this other travelling expenses must be added. We can say that two-thirds of all travelling is travelling on business, and that two-thirds of the hotels in existence exist solely for the service of business travellers.

It was predicted that the introduction of Free-Money would render buyers more amenable, and I observe that their behaviour has already been sensibly modified. Last Saturday a customer who wanted a sewing-machine kept me talking for an hour, but the

man seemed unable to make up his mind and kept discovering imaginary defects in my good machine—until I reminded him of the imminent close of the week and the necessity of stamping his currency notes. That worked like a charm, the fortress of his indecision came tumbling down. He looked at his watch, counted his money and calculated that if he delayed any longer he would lose a penny. Forthwith his doubts were resolved, he paid and went off happy. I lost the penny, but the time gained was worth a thousand times as much.

Next a wealthy customer bought some goods but said he had forgotten his purse and asked me to charge the amount to his account. Upon my remarking that as it was Saturday it would pay him to fetch the money and thus avoid the depreciation, he thanked me for my attention, went home, and within a few minutes I had received the money. This enabled me to pay a craftsman who happened to deliver some goods at the same time. Omission to pay ready money would in this case have been simply a piece of indolence on the part of my customer, and this indolence would have prevented me from paying the craftsman. How much labour, risk and worry are saved by Free-Money! I now employ only one book-keeper instead of ten. It is remarkable that the great problem of cash payment has been solved, as it were accidentally, by the money reform. It was not poverty that kept buyers from paying cash, but self-interest, and immediately any advantage was to be gained by paying cash, cash payment became general. It is well known that under the old system the merchant was not paid more promptly by the rich than by the poor, the reason for the delay being that during the term of respite the debtor was the recipient of interest.

About the depreciation itself I have no reason to complain. Personally, as a merchant, I should welcome an increase of the rate of depreciation from 5% to 10% a year, for that would make buyers still more amenable and book entries would cease entirely, so I could dismiss my last book-keeper. I now see that the more despised money is, the more highly esteemed are goods and their makers, and the simpler is commerce. Workers can be respected only in a country where money is not superior to them and their products. This desirable result, though not quite attained by the

present rate would certainly be realised by a rate of depreciation of 10%, so possibly the rate may be raised in favour of the workers.

And what is even 10% on my average cash balance of $1000? A hundred dollars a year! A mere trifle, compared to my other expenses. I can moreover contrive to reduce this amount considerably by getting rid of my money still more speedily, that is, by paying not only cash but in advance.

To pay in advance may seem at first sight a ridiculous proposal, but it is really only an inversion of the former custom, when the goods had to make advances, money following. Money now makes the advances and the goods follow. Pre-payment binds the debtor to supply goods and work, things at his immediate disposal; post-payment obliged him to supply money, a thing he can only obtain indirectly. It is therefore more advantageous and safer for both parties when the money precedes and the goods follow, than vice versa, as formerly.

Payment in advance is all that is needed to satisfy craftsmen and to provide them with the money necessary for carrying on their business. If craftsmen were not forced to deliver their product on credit, they could successfully compete with the trusts.

B. The Cashier

Upon the introduction of Free-Money we cashiers were pitied. Prophecies were made that we should be overwhelmed with work and worry, that we should always be short in our accounts, and so forth. But what has actually happened? To begin with, office hours were reduced, as there was not enough work. Instead of ten hours I now work six. Next, the number of employees was gradually reduced, the older clerks being pensioned and the younger ones dismissed. But not even that was enough; most banking establishments have now been closed.

This development might indeed have been foreseen, but the banks were too firmly convinced of their indispensability! Bills of exchange and cheques, which used to be the cashier's daily bread, have almost disappeared. According to the returns of the National Currency Office, the currency now in circulation does not amount to one-third of our previous issue. That is because our present money circulates three times as rapidly as the old money. Scarcely

a hundredth part of the former sums now passes through the hands of the banker. Money remains on the move, in the market, in the hands of buyers, merchants, manufacturers. It passes uninterruptedly from hand to hand, it has no time to accumulate in the banks. Money is no longer a bench on which the producer may repose after the fatigue of selling his goods and wait indolently until personal needs admonish him to turn over his money. The resting point in exchange is now the commodity itself — not of course the commodity one produces, but that produced by others. The holder of money is hunted and worried by his possession, just as formerly the producer was hunted and worried by his goods until he had passed them on to someone else. From what is the word " bank " or " banker " derived ? It comes from the benches on which the holders of money sat at ease, while the holders of goods ran about and fretted. With Free-Money, it is the holders of money who run about and fret, and the sellers of goods who sit on the benches.

Again, the circulation of money having become so rapid, and everyone being in a hurry to pay, bills of exchange are no longer required and have been replaced by ready money. Neither does anyone need reserves of money, the regularity of the monetary circulation making these reserves unnecessary. The living, perpetually-welling spring has taken the place of the stagnant reservoir.

These money reserves had seduced men into the greatest folly of the century, namely the cheque. Yes, it is I, the cashier, who proclaim that the cheque was rank folly ! The use of money is to make a payment, and gold was supposed to be the most convenient means of payment conceivable, so why, then, was it not used as such ? Why let the cheque take the place of ready money, if ready money meets all requirements, as gold was vaunted for doing ? Compared with ready money the cheque is an exceedingly unwieldy instrument of payment. It is bound up with the observance of various formalities; it must be cashed at a certain place, and the security of payment depends on the solvency of the drawer and of the bank. Yet cheques were supposed to denote progress ! It was even hoped to carry matters as far as the English have done, and to pay cab fares with a cheque. As if that were an honour and an advantage for the cabman ! The model cheque, for the recipient

at least, is hard cash, for this cheque can be cashed in any shop or public house, it is bound by no formalities, and its security is never in question. We were so proud of our golden money and so convinced that we had reached the acme of perfection with it, that we were blind to the contradiction that lay in the use of cheques. Gold was too good for common use; therefore we looked for a substitute, the cheque. We resembled the man who went for a walk with an old coat and a new umbrella and could not bear to open the new umbrella lest it should become wet. So he hid it under his coat. No one scrupled to thrust whole parcels of cheques upon us cashiers, and we were able to find the total amount only by noting down the separate sums in long columns and adding them up. Disgusting work, compared to which the counting of money is child's play. Only the pieces of money have to be counted, since they are all equal in amount.

Moreover the cheques had to be cleared among the various banks, every single cheque charged to its drawer. And then the calculation of interest ! At the end of every quarter an account had to be handed in with every cheque specifically entered. Thus every cheque was entered ten times over. And that was called progress ! What an absurdity ! The unwieldiness of the gold currency and the irregularity of the circulation made bank accounts necessary, and these in their turn gave rise to the cheque, but this circumstance, instead of being considered a serious drawback of the gold currency, was regarded as something to be proud of !

And besides the cheques those heavy bags of gold, silver, copper and nickel, and paper money into the bargain ! Eleven different kinds of coins: 1, 2, 5, 10, 20 marks, 1, 2, 5, 10, 20, 50 pfennigs ! For small change under one mark alone six different coins of three different metals ! Hundreds of cheques, eleven different coins and ten different kinds of paper money !

With Free-Money I have only a few denominations and no cheques. And everything is light and clean, and always new. My cash account which formerly took me an hour is now finished in a few minutes !

I am asked how I deal with the depreciation on my cash balance. The matter is simple enough. At the close of the week, on Saturday at four o'clock, I count my cash, calculate the depreciation for the

week, and enter it among expenses. With private banks this sum is charged to general expenses, which are covered by a reduction of the rate of interest on deposits. With public treasuries the loss is only nominal, since the State profits by the depreciation of the total circulation.

Considered from the standpoint of cash-keeping technique there is nothing disadvantageous in Free-Money. The best proof of this is the fact that nine out of every ten cashiers have become superfluous. A machine that saves labour must be doing good work.

C. The Exporter

The gold standard was introduced on the plea that it would facilitate international trade. No sooner, however, had the introduction of the gold standard, in conformity with the quantity theory of money, resulted in a sharp general fall of prices than a great clamour was raised for protection. Barriers in the shape of protective tariffs were then erected in order to hamper trade with foreign countries. Is not that sacrificing the end to the means ?

But granted that the gold standard could have been introduced without a depression of prices, without an economic disturbance, it would still have been little help to foreign trade. It is indeed sometimes asserted that the increase of our foreign trade since the establishment of the gold standard has been caused by it. But foreign trade increased because the population increased, and it did not even increase proportionately to the increase of the population. Besides this, the increase occurred especially in the trade with countries which had a paper currency (Russia, Austria, Asia, South-America), whereas the trade with the countries on the gold standard (France, North America) developed slowly. (England being a transit country cannot here be used as an illustration).

The gold standard would have some justification if it could be universally adopted without protective tariffs, without economic disturbances and without sudden fluctuations of prices. To lead the way in this would be a reasonable policy for a State which had the power to force the gold standard upon all the other States. But as no State has this power, and as we can only hope that other States will follow our lead, why not lead the way towards an international

paper standard ? The German who buys his goods with gold while he is forced to sell them for paper roubles, paper gulden, paper pesetas, paper liras, paper pesos, paper reis and so on, is surely no better off than if he also bought his goods for paper marks. If the selling price has to be calculated in a currency different from that of the purchase price, it does not matter whether the purchase is made in a paper, or a silver, or a gold currency.

But even if the gold standard were universally adopted for international trade, its advantages are small. It was thought that the gold standard would facilitate commercial calculations; that it would suffice to name a sum of money for anyone to know its full significance for every country. But this is an illusion ! In the first place the gold standard does not obviate fluctuations in the rates of exchange. Gold imports and gold exports alternate in every country. The quantities may be trifling enough, but they suffice to bring about considerable fluctuations in the rates of exchange. The rate of exchange fluctuates between the cost of import and export of gold, which may amount to as much as 3% in freight, insurance, loss of interest and minor expenses. And in addition to this there is the cost of re-coinage. For, as Bamberger rightly remarks, a journey abroad means for gold a journey to the melting-pot. Such expenses must be considered even in small transactions. But if a merchant is forced to take into account the fluctuating rates of exchange, what is the advantage of the gold standard for his calculations ?

The other supposed advantage of a universal gold standard is even more deceptive. The significance of a sum of money in a country can be understood only when commodity-prices, wage-rates, and so forth in that country are known. If, for instance, I inherit debts, I shall not remain in Germany but go where money is easiest to earn. If I emigrate, the amount of the debt is not decreased, but my power of paying it increases. A man with a debt of $1000 is a poor devil in Germany, whereas in America this debt is a trifle. The reverse is true when instead of a debt I inherit a fortune. In this case what use is the gold standard ? Or take another instance, an emigrant is promised a large amount of gold but at once inquires about the prices of the commodities produced and consumed by him. Not until he knows these prices can he form a

conception of the sum of money named. From gold his thoughts immediately fly to the prices of commodities; these, not the gold, are the foundation he can build upon. But if, in order to estimate the meaning of a sum of money, it is first necessary to know the prices of commodities, it surely makes no difference whether the sum of money is stated in gold or in paper. And as a matter of fact nobody knows even approximately the meaning of a given sum of money, no matter whether the money is a gold dollar or a paper rouble.

But in practice all this is of very little importance to the merchant. What are all these small arithmetical problems compared to the thousand imponderable factors on which the merchant's theory of probabilities is based? The estimate of the demand for a commodity, the determination of its quality, its chances in competition with a hundred other commodities, changes of fashion, the likelihood of new import-duties, the rate of profit that this or that kind of commodity may be expected to yield—these are the things that the merchant must take into account. The conversion of prices from one currency into another is a job for the office boy.

Far more important than the currencies of the different countries with which a merchant is doing business are the protective tariffs and their alterations. To protect the gold standard, many countries have broken away from free-trade. But an exporter would prefer any kind of currency, even the cowry-shell currency of Central Africa, and free-trade, to a gold currency coupled with protective-duties. And there is no denying the fact that wherever the gold standard has appeared, protection has followed.

In international commerce, goods are paid for with goods, and if a deficit occurs it can only to a very limited extent be paid in currency. Prolongation of credit, bills of exchange, loans and transfers of securities are here employed. For the balance of payments the policy of the Banks of Issue is far more important than the existence of a form of money suitable for export. Here, as elsewhere, prevention is better than cure. The Bank of Issue must learn to consider a fall in the rate of exchange as a sign that it is issuing too much money and thus raising prices, hindering export, and encouraging import. In this case it must promptly work for a reduction of prices by limiting the supply of money. And in the

opposite case it must increase the supply of money. If it proceeds in this manner payments must always tend to cancel each other, leaving no balance to be paid by the export of money. It is therefore, to say the least, unnecessary to provide a national currency that can be exported. Indeed the export and import of the national currency can become a grave danger to a country. If the currency can be exported, the Bank of Issue loses the monopoly of the money supply and the home market becomes exposed to the control of foreign, often hostile, influences. French money invested in German banks was, for example, withdrawn during the Moroccan crisis with the purpose of injuring Germany, a purpose which was attained. Every blunder in currency control abroad reacts on the currency at home and cannot be counteracted—except by tariffs. When foreign countries introduce a paper currency and thus drive out gold, this gold seeks employment elsewhere and comes pouring into our country, forcing up prices, perhaps at a time when they are already too high. And when foreign countries substitute the gold standard for a silver or paper currency, gold flows away from our country, not infrequently at a time when there is already a shortage of it. Such blunders in the management of the currency have again and again brought our debt-ridden German farmers into difficulties.

All this was proved theoretically long ago* but has been demonstrated in practice only since the introduction of Free-Money. For we have now a form of paper-money completely detached from gold. With Free-Money there is not even the promise of redemption in gold, but nevertheless the rate of exchange with foreign countries is more stable than before. At first the National Currency Office concentrated all its efforts on the stabilisation of the general level of prices. The effect was, that while prices remained stable, the foreign exchanges fluctuated. The reason of this was that prices in other countries, where the gold standard remained in force, fluctuated in the usual fashion. The other countries refused however to admit this explanation, maintaining that our paper money was to blame. Our Currency Office then decided to prove that the

* Gesell: Anpassung des Geldes an die Bedürfnisse des modernen Verkehrs, Buenos-Aires, 1897. Frankfurth and Gesell: Aktive Währungspolitik, Berlin, 1909.

fluctuations were due to gold, and gave up the policy of stabilising home prices, in order to stabilise the rate of exchange. When the rate of exchange of the mark rose, it increased the stock of money, and when the rate fell, it withdrew money. And since with Free-Money the stock of money is the demand for goods, the effect on the prices of goods, as well as on the foreign exchanges, was exactly as foreseen by the Currency Office: the exchanges were stabilised and prices fluctuated. Thus we demonstrated to the world that a stable rate of exchange together with a stable level of prices cannot possibly be expected from the gold standard, and that the two aims can be combined only when the stability of prices is universal. The aim in every country must therefore be the stabilisation of home prices in order to obtain a stable rate of exchange. Only through national currencies managed on the same principle in all countries can stable rates of exchange for international commerce be combined with a sound national standard. The other countries seem now at last to have grasped this fact, for an international conference has been summoned for the purpose of establishing an international paper currency and an International Currency Office.

Something must be done. We want free-trade, stable foreign exchanges and stable prices in the home market. With national institutions alone we cannot fully realise these three aims, so we must come to an agreement with the rest of the world. And Free-Money seems destined to furnish the basis for such an agreement. For Free-Money is submissive, adaptable, plastic. It lends itself readily to the realisation of any aim.

D. The Manufacturer

Sales, sales, that is what we manufacturers want; steady, assured sales, with long-term orders in advance. For industry is dependent on regular disposal of the product; we cannot dismiss our skilled hands the moment sales begin to slacken, only to engage new, unskilled labour shortly afterwards. Nor can we go on producing at random for stock, when regular orders are not forthcoming. Give us then sales, steady sales and efficient public institutions to facilitate the exchange of our products (medium of exchange, post, telegraph etc.); the difficulties of technical execution can be left to us. Regular

sales, cash payment, and a stabilised price-level—the rest we can contrive for ourselves.

Such were our wishes when the introduction of Free-Money was being discussed, and our wishes have been fulfilled.

For what is a sale? It is the exchange of goods for money. And whence the money? From the sale of goods, the movement is circular.

Free-Money forces its holder to buy: it constantly reminds him of his duty as a buyer through the losses it causes him if he neglects to buy. Purchase therefore at all times and under all possible circumstances follows on the heels of sale. And when everyone is obliged to buy as much as he has sold, how can sales slacken? Free-Money, then, closes the monetary circuit.

Just as the wares represent supply, so money now represents demand. Demand is no longer a straw to be blown about by any breeze of rumour or politics. Demand no longer depends on the will of buyers, bankers, speculators; for money has now become the very embodiment of demand. The possessors of money are now kept under discipline; money holds the possessor of money like a dog on a lead.

And this is only fair. For we producers or possessors of wares are no better off. We do not control the supply of our products, we are forced by their nature to offer them for sale. The nature of our products—the stench they emit, the room they take up, the risk of their catching fire, the decay they are subject to, their fragility, the change of fashions and a thousand other circumstances—imposes upon us the necessity of selling them immediately after their production. The supply of wares is under an inherent material constraint, so is it not just that the demand for wares, the supply of money, should be under a similar constraint?

It was a courageous act to answer this question in the affirmative by the introduction of Free-Money. Up to then the buyer alone had been considered, now at last it has come to be understood that sellers, also, have certain wishes and that buyers' wishes can be fulfilled only at the expense of sellers. What a time it took to arrive at this simple truth!

Under Free-Money, when sales slacken and prices decline, the explanation is no longer given that too much work has been done,

that there has been overproduction. We now say that there is a shortage of money, of demand. Whereupon the National Currency Office puts more money in circulation: and since money is now simply embodied demand, this forces prices up to their proper level. We work and bring our wares to market—that is supply. The National Currency Office then considers this supply and puts a corresponding quantity of money on the market—that is demand. Demand and supply are now products of labour. There is now no trace of arbitrary action, of desires, hopes, changing prospects, speculation, left in demand. We order just the amount of demand that we require, and just this amount is created. Our production, the supply of goods, is the order for demand, and the National Currency Office executes the order.

And Heaven help the controller of the Currency Office if he neglects to do his duty! He cannot now, like the administration of the old Banks of Issue, entrench himself behind platitudes about having to satisfy "the needs of commerce." The duties imposed on the National Currency Office are sharply defined and the weapons with which we have equipped it are powerful. The German mark, formerly a vague, indefinite thing, has now become a fixed quantity, and for this quantity the officials of the Currency Office are held responsible.

We are no longer the sport of financiers, bankers, and adventurers; we are no longer reduced to wait in helpless resignation, until, as the phrase used to be, "the state of the market" has improved. We now control demand; for money, the creation and supply of which is in our power, is demand—a fact which cannot be too often repeated or too strongly emphasised. We can now see, grasp and measure demand—just as we can see, grasp and measure supply. Much produce—much money; less produce—less money. That is the rule of the National Currency Office, an astonishingly simple one!

With the money reform, fixed orders have become so plentiful that full employment is assured for months in advance. Merchants tell me that buyers now prefer possession of goods to possession of money; they do not now postpone a purchase up to the moment the thing is needed, but give their orders whenever they happen to possess money. In every house there is a special store-room, and

the purchase of Christmas presents, for example, is not deferred till Christmas Eve, but made whenever an opportunity occurs. That is why Christmas goods are now bought throughout the year, and why my toy factory receives orders all the year round. The former rush and scramble at Christmas has been replaced by a steady sale of Christmas articles from January to December. And it is the same with every industry. A man needing a winter coat does not wait for the first snowfall, but orders it whenever he has the money, even though the temperature may be a hundred in the shade. For the money in the purchaser's pocket, just like the cloth on the tailor's shelves, is something that must be got rid of. The new money gives its possessor no peace: it makes him smart and itch and tingle, reminding him incessantly that the tailor has nothing to do and would be pleased to receive orders for the coming winter even though the suit should be paid for in money still worse than Free-Money. For there is no money so bad that it is not better than unsaleable cloth.

This remarkable change in the behaviour of buyers has made commercial establishments to a large extent superfluous; for when buyers provide themselves with goods for some time ahead and no longer insist on immediate delivery, the merchant does not need to stock the goods. He keeps a sample collection and his customers give him their orders. The merchant collects orders and delivers the goods direct from the railway station when they arrive. In this way he can of course sell them cheaper.

The disappearance of shops, where formerly everything could be obtained for immediate use, forces even the most dilatory buyers to consider in advance what goods they may need, so as to secure them at the right time by an early order. Thus Free-Money has brought us at length to the point where the estimate of the need for goods is not made by merchants but by the buyers themselves—to the very great advantage of all concerned. Curiously enough, it was the merchant who formerly estimated the consumers' needs in advance, so as to be able to give his orders; and it is clear that he often miscalculated. The consumer now estimates his own needs, and as he obviously knows his own needs and means better than the merchant knows them, errors are less frequent.

Thus the merchant has become a mere exhibitor of samples, and

the manufacturer is sure that the orders which the dealer hands him reflect not merely the latter's personal opinion about the demand for goods, but the immediate demand of the consumers, their real need of commodities. The orders now provide him with an unmistakable expression of the changes taking place in the taste and needs of the people, so he is able to adapt his factory to these changes. Formerly, when orders reflected merely the dealer's personal opinions, sudden new departures, so-called changes of fashion, were an ordinary occurrence.

In this respect, again, free-money has solved many of my difficulties.

But if the manufacturer's work is so greatly facilitated, if he need only be a technical expert and not at the same time a merchant, surely his profits must be unfavourably affected. There is no lack of able technicians and if the commercial management of an industrial enterprise presents so few difficulties, every able technician will become an able manufacturer. By the laws of free competition the manufacturer's profit must be reduced to the level of a technician's salary — an unpleasant result for many manufacturers whose success was mainly due to their commercial ability. With Free-Money, creative power has become unnecessary in commerce, for the difficulties which called for the comparatively rare and therefore richly rewarded commercial talent have disappeared. And someone must benefit by the reduction of the manufacturer's profit. Either goods must become cheaper, or, to put it the other way about, wages must rise. There is no other possibility.

E. The Usurer

It was never considered dishonourable to borrow an umbrella or a book. Even if you forgot to give these objects back the offence was condoned, the loser himself being anxious to find some excuse for the defaulter. Nobody kept a record of objects lent.

But how very different it used to be when someone wanted to borrow money, even if the amount was only a dollar ! Both parties were embarrassed, and the loan-giver looked as if he were having a tooth extracted, or as if he were confronted with a grave moral offence.

Need of money was considered a disgrace, a moral stain, and you had to be very sure of a man's friendship before appealing to him when in need of money. Money ! Why is the fellow in straits for money ? An umbrella, a shot-gun or even a horse I will lend you—but money ? You evidently lead a loose life !

And yet it was very easy to be in straits for money. Business stagnation, unemployment, suspensions of payment and a thousand other causes brought everyone except those with a brilliant financial position at some time or other into straits for money. And those who were not blessed with a thick skin, those who shrank from exposing themselves on such occasions to a possible rebuff, came to me, the usurer; so I made my haul.

Those good times are now a thing of the past. With the introduction of Free-Money, money has been reduced to the rank of umbrellas; friends and acquaintances assist each other mutually as a matter of course with loans of money. No one keeps, or can keep, reserves of money, since money is under compulsion to circulate. But just because no one can form reserves of money, no reserves are needed. For the circulation of money is regular and uninterrupted.

When, however, an unexpected call for money does occur, you apply to an acquaintance, just as you apply to him for an umbrella when you are surprised by a thunderstorm. Thunderstorms and money embarrassment are, morally speaking, on the same level. And the person applied to will forthwith comply with the request without making a wry face. Indeed, he welcomes the opportunity, first because in a similar emergency he can apply to you, and secondly because it is to his immediate advantage. For the money in his possession loses value, whereas he will receive back the full amount of the loan from his friend. Hence his altered behaviour.

Still it cannot be said that people have become careless with their money, though money is not nearly so shy and retiring as it used to be. Money is, of course, highly esteemed, for it has cost work to earn. But it is not more highly esteemed than work, or than the worker. As a commodity it is no better than any other commodity, since the possession of money brings the same losses as the possession of a stock of goods. Commodities and labour are equivalent to ready money, and that means an end of my business.

The pawnbroker is in the same plight as myself. Anyone possessing some money for which he has no immediate use is now willing to lend it, without interest, against a pledge. For money has become inferior to the usual pledges. If you want ten dollars in a hurry, you need not slink through back streets to the pawnbroker's. You go to your neighbour to have the money advanced to you on a pledge. And any commodity that you happened to buy when you had a supply of money is as good as, or better than, ready money. Goods are money and money is goods, for the very simple reason that both are equally bad. Both are ordinary, perishable things in this valley of tears! All the bad qualities of goods have their counterpart in the loss to which money is subjected, so nobody prefers money to goods.

But for this reason labour is always in demand; and because it is in good demand, every man able and willing to work has, through his power to work, ready money in his pocket.

I tell you, the death-knell of usury has sounded!

But I am not yet going to admit defeat. I am going to sue the State for compensation. Money used to be, as it is now, a State institution, and I battened on it. I was therefore a kind of State official. By reforming money, that is, by forcible interference, the State has now ruined my trade and deprived me of my income, so I am entitled to compensation.

When the German landowners got into difficulties the State came to their rescue with the duty on wheat, which was introduced to relieve so-called agricultural distress. Why should not I also appeal to the State in my hour of need? Is bread-usury any better than money-usury? Both of us, I the Jew, and you, the Prussian Junker are usurers — the one as base as the other. Nay, it seems to me that you are even somewhat baser and more avaricious than I. For it is bread-usury that very frequently creates the distress that drives people to the money-usurer. So if the distressed bread-usurers were relieved by a State subsidy, usury being thus placed under State protection, it is only fair to protect the money-usurer as well. For usury is usury, whether it is for land or for money. What difference does it make to the farmer whether he is fleeced in renting land or in borrowing money? Both the money-usurer and the land-usurer will take exactly as much as they can get—neither will rebate

one jot. If the landowners have a legal claim to rent, the money-lenders have a legal claim to interest. There is no escaping this logic by the assertion that there is a difference between money and land, between interest and rent, for there was nothing to prevent me from exchanging my money for land and so converting a usurer's grievance into that of a landowner.

So I shall base my appeal on the wheat-duties, and the usurer's cry of distress will not pass unheeded by a justice-loving land.

F. The Speculator

By the Free-Land reform we were prevented from speculating in building sites, mines and farming land, and now by the Free-Money reform our business in securities and produce has also been snatched away. Wherever I plant my foot, I am on quicksand. And that is called progress and justice! To deprive honest citizens of their livelihood by invoking the assistance of the State — the State that I have served so faithfully, witness my decorations and titles! I call it simply spoliation.

I recently launched at my own expense news of serious trouble between two South-American republics (their names I have forgotten) and of possible complications with foreign powers. Do you imagine that the news made any impression on the Stock-Exchange? Not the slightest! The Stock-Exchange has grown incredibly thick-skinned. Why, not even the news of the occupation of Carthage by the Japanese has been able to rouse it; the general indifference is simply appalling. It may be explicable but it is so altogether out of keeping with the former ways of the Stock-Exchange that it comes as a shock.

Since the introduction of Free-Money, money has ceased to be the stronghold of the investing classes into which they retreated at the slightest alarm. When danger threatened, they used to "realise"* their securities, that is, they sold them for money and then considered themselves completely protected against every kind of loss.

* Nothing demonstrates more strikingly the monstrous illusion under which humanity is living than this universally current expression. For everyone the only real thing is money.

These sales were of course accompanied by a fall in the price of securities, which was proportionate to the extent of the sales.

After a while, when I believed that nothing more could be gained, I used to circulate reassuring news. The frightened public thereupon ventured out of their stronghold and were soon busily forcing up, with their own money, the price of the securities which they had sold cheap to my agents. That was something like business!

And now this wretched Free-Money! Before parting with his securities the investor must ask himself what he is going to do with the money he obtains for them. For this money no longer allows him to pause and consider; he cannot take it home with him and tranquilly wait. Money has become a mere halt by the wayside. So people ask: "What will become of the yield of these securities? You say the outlook for them is bad, and we believe you, but is the outlook any better for the money you give us in exchange? What are we to buy with the money? We do not care to purchase Government securities, since others have forestalled us and forced up their price. Are we to sell our securities at a loss, simply to buy others at an exorbitant price, that is, again as a loss? If we lose in buying Government securities, we may as well lose on our own securities. We prefer to wait a while before we sell."

That is the new attitude of the public, and it ruins our business. This confounded waiting! Through it the first impression of our news wears off, the bewilderment passes away and another party has time to spread reassuring news, exposing our exaggerations and lies; and so the game is up. For it is the first impression that tells and must be exploited. Duping the public has become a difficult business.

My working capital, moreover, is invested in this carrion money and rots away in my safe. To carry out my stroke at the right moment I am forced to keep a reserve of money. If I count this reserve after a lapse of time, I find that it has already suffered a considerable depreciation. A regular and certain loss in return for a very uncertain chance of profit!

At the beginning of the year I had a cash account of ten millions. Thinking that I should need it, as formerly, at a moment's notice, I let it lie idle in the form of ready money. We are now at the end of June but I have not yet been able to move the Stock-Exchange

to sales on any appreciable scale, so the money is lying there untouched. What did I say? Untouched? A quarter of a million of it has already melted away! I have lost, irrecoverably, this large sum, and the outlook for the future has not improved. On the contrary, the Stock-Exchange is becoming more and more thick-skinned. In the long run experience teaches even the most timorous investor that when nobody sells, prices, in spite of gloomy prospects, cannot decline, and that not alone rumours and prospects, but also facts are required to justify a fall of quotations.

How different it was in former times? Before me lies a cutting from the financial column of a newspaper, a model of the reports which I myself used to circulate:

> "A Black Tuesday. A panic broke out on the Stock-Exchange to-day upon receipt of the news that the Sultan was suffering from stomach-ache. Considerable selling orders from provincial customers coincided with great eagerness to sell on the part of local speculators, and under this pressure the market opened in a demoralised and panicky mood. 'Sauve qui peut' was the watchword."

And now? Eternally the same stupid question: "What am I to do with my money? What am I to buy if I sell my securities?" This abominable money! How different it was with the gold standard! Then nobody asked: What am I to do with the money I receive? Those beautiful securities were sold at the bidding of speculators, for gold, since gold was still more beautiful; investors were happy to see the money again, to count it and let it run through their fingers. When you had gold you were safe; gold could not possibly involve you in a loss, either in buying or in selling, for it had, as the economists put it, its "fixed intrinsic value." This wonderful gold money with its fixed intrinsic value in terms of which all other goods and stocks rose and fell like the mercury of the barometer, how easy it made speculation.

Investors now sit on their stocks as if they were glued to them, and before they sell they always put the same query: "Please tell me first what I am to do with the abominable money I should receive for my securities?" The merry old Stock-Exchange days are no more, when gold vanished the sun set in the heavens of speculation.

There is however one comfort: I am not the only sufferer. My

colleagues of the produce exchanges have fared equally badly. Their business also has been ruined by Free-Money. Formerly, the whole production of a country remained on sale up to the moment of its consumption; it was in the hands of the dealers. No consumer ever thought of laying in stores. Gold with its "fixed intrinsic value" was a substitute for all provisions and could never involve us in loss, so anyone who had a reserve of gold had everything that he might need, at his disposal. Why, then, lay in stores for the moth to eat?

But the fact that everything was always on sale made speculation profitable. Here were the consumers with not enough provisions for 24 hours, and there was the whole of supply lying ready for sale in the hands of the merchants, so speculation was simplicity itself: you just bought the existing stock and then waited for demand to come forward. Generally you were sure of your profit.

And now? The goods which were formerly held for sale in the warehouses are now held for use in millions of store rooms, so how can they be brought back to the market? And with what can these stores be bought? Not with Free-Money, for it was to get rid of Free-Money that the consumers bought the stores. These stores are no longer wares for sale: they have became unsalable property. And even if the speculator could succeed in cornering the new output, prices, because of these private stores, would not rise immediately. For people no longer live from hand to mouth. Before these stores are used up, the news spreads that the speculators have got hold of certain stocks of merchandise, so producers are on the alert and have made up the deficiency before the speculators have been able to dispose of their goods. It must be further kept in mind that the working capital of the speculators in produce is, like mine, ready money subject to the monetary depreciation. Loss of interest, loss by depreciation, storage costs, and no profit—in short we speculators are faced with ruin!

How was it possible to introduce an innovation so injurious to the State? For I, Rockefeller, am the State, and my friend Morgan and I together are the United States. Whoever injures me, injures the State.

According to our experts and professors, gold had a "fixed intrinsic value." In exchanging gold for goods the public could

never lose anything. For according to the professors, exchanging is equivalent to measuring,* and as the result of measuring a piece of linen is the same whether you begin at one end or the other, so in buying and selling goods for gold the quantity of gold must always be the same. For gold has, it cannot be too strongly emphasised, a "fixed intrinsic value"! As long as we had gold, therefore, the public was protected by the fixed intrinsic value of gold from any possible cheating. We speculators who enriched ourselves, cannot have done so at the expense of the public. Where our fortunes came from I cannot explain, but perhaps they were a gift from Heaven.

Alas, that such heavenly gifts should have been abolished by Free-Money!

G. The Saver

Free-Money disproves all predictions; none of the dismal prophecies of its opponents have been fulfilled. It was said that nobody would be able to save, and that interest would rise to unprecedented heights; but the contrary has happened.

When I have saved a sum of money I now do exactly what I did formerly—I take it to the savings bank which enters the amount in my savings book. In this respect nothing has changed. It was said that the sum of money entered in the savings book would be subject to the same rate of depreciation as Free-Money, but that is nonsense. The savings bank owes me so many dollars, American Standard, but not the notes that I handed in. And the standard dollar stands above the notes. If I lend somebody a sack of potatoes for a year, he will not give me back the same potatoes, which have meanwhile rotted, but a sack of new potatoes. It is the same with the savings bank. I lend it $100 and it agrees to give me back $100. The savings bank is in a position to do so, since it lends the money on the same terms, while the businessmen and farmers who obtain money at the savings bank for their enterprises do not keep the money at home. They buy goods for use with it, and in this way the depreciation loss is distributed among all the

* Measure of value. Medium for transporting value, store of value—and illusion of value.

persons through whose hands the money has passed in the course of the year.

Nothing has changed, then, with regard to the sum to be repaid by the bank. But I now find that I can save a great deal more than formerly.

A socialist attributed my increased power of saving to a general reduction of " surplus value " which, keeping pace with the decline of the rate of interest, has affected all capital (tenements, railways, factories, etc.). The manager of a consumers' co-operative society explained that with Free-Money commercial costs have fallen from an average of 40% to barely 10%, so that for this reason alone I economise 30% on my purchases. And a social reformer attributed my increased saving capacity to the removal of economic disturbances. They may all three be right. The fact is that instead of $100 I now save over $1000 and live more comfortably than before. And for many people Free-Money has made saving for the first time possible.

How was it formerly with my savings book ? At every political rumour there was a slump in trade, accompanied by unemployment which forced me to withdraw some of my money from the savings bank. That was a setback, and it was sometimes years before I had filled the gaps in my savings book caused by an industrial crisis. Saving resembled the labour of Sisyphus. I have now regular employment and am no longer periodically obliged to have recourse to the money saved with so many privations.

I now carry my monthly surplus to the bank with astonishing regularity. And what is happening to me seems to be happening to everybody, for there is always a throng at the counters. The savings bank has already repeatedly reduced the rate of interest, and a new cut is announced for next month. It justifies its action by stating that the sums coming in are in excess of those going out. From 4% the rate of interest has in this short period fallen to 3%, and it is said that with the universal introduction of Free-Money it will fall to zero ! And so it will, in my opinion, if present conditions continue.

For while the influx of money into the savings banks is continually increasing, requests for loans are decreasing, since businessmen, farmers and manufacturers, for the same reasons that make saving

easier for me, are now able to enlarge their businesses with their own surplus.

The demand for loan-money is shrinking, and the supply is growing, so the rate of interest is bound to fall. For interest expresses the ratio of demand and supply of money loans.

For the filled pages of my savings book the fall of the rate of interest is, no doubt, regrettable, but it is all to the good for the unfilled pages which are far more numerous. For what is interest ? Who pays it ? What I save to-day is what remains of my wages after I have paid, in my personal outlay, my share of the interest-tribute exacted by the creditors of the State and municipalities, and my share of the interest-tribute demanded by capitalists for the use of houses, plant, provisions, raw material, railways, canals, gas and water-works and so forth. If the rate of interest falls, everything becomes cheaper and my power of saving increases proportionately. My loss on the sums already saved will be compensated ten-fold by my increased savings. My house-rent, for example, amounts to 25% of my wages, and two-thirds of it is interest on the building capital. If, now, the rate of interest is reduced from 4 to 3, 2, 1, or finally 0%, I save $\frac{1}{4} - \frac{1}{2} - \frac{3}{4}$ and so on of my house-rent, that is 4 — 16% of my wages on house-rent alone ! But house capital is barely one fourth of all capital, the interest on which I pay out of my wages.* If the rate of interest fell to zero I could therefore save a much larger proportion of my wages.

Out of my income of $1000 I was able to save $100 a year. At 4% compound interest that would produce $1236 in ten years. Since the elimination of interest my wages have doubled, so instead of $100 I can now save $1100 a year, or $11,000 in ten years.† Should I not therefore rejoice at the abolition of interest ?

* Industrial, commercial and agricultural capital, National Debt, capital sunk in means of transport.

† This is on the assumption that the prices of commodities are kept at the same level by the Currency Office. Elimination of the interest that now goes into price, will, in this case be expressed, not by lower prices, but by higher wages. On the opposite assumption, that the prices of goods fell with the rate of interest, wages would remain at the same level. Savings would then increase because of the fall in the cost of living. But the sum thus saved is not immediately comparable with the savings formerly, since commodity prices were then higher.

So far from injuring me, therefore, the complete elimination of interest would enormously facilitate my saving. For example, if I work and economise for twenty years and then retire I shall possess:

With compound interest at 4% $3,024
With interest at 0% $22,000

My income from the former sum with interest at 4% would be $120 a year. If I exceed this sum and touch the capital, an annual expenditure of $360 would in ten years exhaust my savings, whereas with $22,000 I can for ten years spend $2,200 a year.

The old notion that gold and interest facilitate saving was a fallacy. Interest renders saving impossible for the majority of mankind; with interest at zero everyone will be able to save, whereas formerly only exceptionally efficient workers or those possessing exceptional courage to face privations were able to practice this bourgeois virtue.

For rentiers the conditions are reversed, if the rate of interest falls to zero. Since their property no longer yields interest, and since, as non-workers, they gain no advantage from the rise of wages resulting from the elimination of interest, they are forced to live on their capital until it is exhausted. The contrast between a saver and a rentier is great. When the workers save, the interest must be found out of their work. Savers and rentiers are not colleagues, but adversaries.

In return for the privilege of drawing interest on my $3,024 savings I must pay $18,976 ($22,000 less $3,024) interest to the rentiers !

Rentiers may deplore the decline of interest, but we savers or saving workers, on the contrary, have every reason to rejoice. We shall never be able to live on interest, but we can live comfortably to the end of our days on our savings. We shall leave our heirs no perpetually-welling source of income, but is it not provision enough to bequeath economic conditions that will secure them the full proceeds of their labour ? Free-Land and Free-Money double the income of the worker, so by the mere act of voting for the introduction of these two reforms I have bequeathed my offspring the equivalent of a capital bearing interest equal to my former wages.

And again, let us not forget that if saving is a virtue that should be preached, unreservedly, to all men, it ought to be possible for

all men to practice this virtue without injury to anyone and without destroying the harmony of economic life as a whole.

Now, in the economic life of the individual, to save means to do much work, to produce and sell much, and to buy little. The money taken to the savings bank is the difference between the money received from the sale of our own produce and the money we paid in purchasing the produce of others.

But what must happen if everyone brings produce worth $100 to market, and buys produce for only $90—that is, if everyone wishes to save $10. How can this contradiction be resolved, how can all men be enabled to save ? The answer is given, the contradiction is resolved, by Free-Money. Free-Money applies the Christian maxim: whatsoever ye would that men should do to you, do ye even so to them. It says: If you wish to sell your produce, buy the produce your neighbour wishes to sell. If you sold for 100, buy for 100 in return. When everyone acts in this manner, everyone will be able to sell his whole produce and to save. Otherwise savers mutually deprive one another of the possibility of carrying out their purpose.

H. The Co-operator

Since the introduction of Free-Money the popularity of our movement has strikingly diminished, and I hear almost daily of the dissolution of consumers' co-operative societies. This is another of those unforeseen and surprising consequences of Free-Money. But in reality there is nothing to be surprised about. The consumer buys for ready money, lays in stores and buys goods in large quantities in the original packing. The merchant is not called upon to give credit. He keeps no books, nor does he need a large warehouse, for goods are mostly delivered direct from the railway station.

The combined effect of all these circumstances is of course an extraordinary simplification of commerce. Formerly only the cleverest businessmen managed to escape the perils of buying and selling on credit; formerly only the most capable, industrious, thrifty, orderly and active persons were fit for commerce; now anyone of average intelligence can succeed in commerce. No warehouse, no scales, no errors, no book-keeping, no estimates of future

demand. At the same time cash payment, ready money on the delivery of the goods, no bills of exchange, no cheques, no humbug! Not even an invoice is asked for. Here is the case or sack, and here is the money. The matter is settled and forgotten, and the merchant is free to look out for new transactions.

Work of this kind can be done by any subordinate; and by the laws of competition the remuneration for it must fall to the level of a subordinate's wage.

So what is the use of the co-operative society? Its purpose, the reduction of the cost of commerce, is realised by the money reform. Whom is our society to associate henceforward? It was composed of the élite of the consumers, those, namely, who were able to pay cash and to purchase in quantities considerable enough to make it worth their while coming to our shop. But owing to the changed conditions of commerce such selection is no longer possible, because to-day every consumer possesses these qualities; they all pay cash and they all buy in large quantities. It would be impossible to form an association of negroes in Africa, or an association of beer-drinkers in Munich. For the same reason the money reform has made consumers' co-operative societies impossible.

Nor is the disappearance of the societies any great loss. As a nursery for public spirit they failed, because they were necessarily in opposition to the rest of the people. Sooner or later they would have come into conflict with their natural counterpart, namely societies of producers, and that would have created problems which, in theory and practice, could have been solved only by universal communism, by the abolition of every kind of property in every country. What price, for instance, would the Union of German Co-operative Societies have consented to pay to the Union of German slipper manufacturers? Only the police could answer the question.

And had we any real cause for pride in our achievements? It is a humiliating reflection that although we succeeded in ruining many small independent shopkeepers, we never ousted a single speculator in stocks or produce. But it was just there, on the Stock-Exchange, that we ought to have shown our strength!

Who can respect a "public-spirited society" which displays its power by striking only at the weak? I much prefer Free-Money

which also, indeed, ousts the small shopkeepers, but at the same time opposes as decisively the money magnates of the Stock-Exchange.

Nor can it be affirmed that the co-operative movement was exempt from the grave evils of bribery and corruption. When the administration of public funds or the funds of a society cannot be efficiently controlled, the thief is sure to appear in the course of time. And the members of the society cannot be expected to examine every invoice and to compare all the goods delivered with the samples. Nor is it possible to prevent private agreements, through which co-operative officials may be bribed to the detriment of the society. If the society dealt only in goods of uniform quality such as, for instance, money, an effective control of the officials would be possible; but is there any commodity, except money, in which quality as well as quantity must not be taken into consideration?

What we have to expect from a general application of the co-operative system is therefore communism, the abolition of private property, and widespread corruption. That is why I welcome the attainment of the object of the co-operative movement, namely the reduction of commercial costs, simply by a change in commercial practice resulting from Free-Money. Goods now pass once more from owner to owner; goods and property are inseparable. The interference of middlemen, the fixing of prices and qualities by agents on behalf of third parties not only leads to corruption, it is in itself a corruption of the idea of a commodity, a corruption of price-fixing by demand and supply.

And is it not strange that the natural aim of the co-operative movement, the association of all the societies, should have been realised by the dissolution of all the societies? For the most efficient co-operative society is always the open market, where owner deals with owner, where the quality of the goods is estimated by those concerned personally, where the buyer is not bound to certain branch shops, villages, towns; where the tokens of the society (money) are available throughout the realm, where distrust disappears and corruption is excluded, and where public control is superfluous, because no private persons with special interests act as agents to conclude the bargain on behalf of the absent principals. Provided of course, that the open market does not add to the cost

of the goods more than does the administration of the co-operative society! But this condition has been fulfilled by the creation of Free-Money. Commerce has been accelerated, secured and cheapened through Free-Money to such an extent that commercial profit can no longer be distinguished from a common wage. Which means that co-operative societies have become superfluous.

I. The Creditor

Nobody, I am sure, will blame me for not being enthusiastic about Free-Money. For has not this innovation reduced the rate of interest, and does it not threaten, if universally adopted, to abolish interest altogether? But I must confess that in some ways the introduction of Free-Money has been, even to me, a relief.

For what was, formerly, the "Mark, German Standard" which the State, the municipalities and private individuals owed me in the shape of Government securities, bills of exchange, mortgages or promissory notes? I never knew and nobody could tell me!

The State made money out of gold as long as the majority in Parliament so desired. But any day the State could decide to abolish the right of free coinage of gold and demonetise gold, just as it demonetised silver. This has actually happened with the introduction of Free-Money. In adopting these changes the State recognised that the thaler is not a little pile of silver, nor the mark a few grains of gold, but money, and that in abolishing the right of free coinage it was bound to compensate or protect from loss the holders and creditors of money.

The State might have acted differently. It does not want gold; it withdrew gold merely to melt down the coins and sell the metal to the highest bidder for industrial purposes. And this sale, even though cautiously managed, brought the State far less paper-money than it gave for the gold. If the State had not exchanged our gold for Free-Money this loss would have fallen on us. But the safeguarding of our cash is a matter of comparatively small importance in comparison with the recognition that our claims for money (Government loans, mortgages, bills of exchange, and so forth), which are a hundred times greater than the whole amount of the gold money in circulation, and in many cases only fall due fifty

years hence, are also to be paid in paper-money with fixed purchasing power, one mark of Free-Money for one mark in gold.

So in this respect I am perfectly safe. I know, now, what a "Mark, German Standard" is: I know that what I gave in goods for a mark I shall receive back in goods, to-day, to-morrow, always. I receive indeed less interest than I did before, and perhaps later I shall receive no interest at all; but my property, at least, is safe. What is the use of interest when the principal is constantly in danger? The prices of industrial shares rose and fell with the prices of commodities and it was a commonplace that a fortune was more easily made than kept. The great fortunes of the speculators were built from the ruins of other fortunes. There was also the danger of great discoveries of gold and the possibility that science might some day hit upon the philosopher's stone. Scientists speak of the unity of matter, and say that gold is merely a special form of matter; so that it may become possible to convert any kind of matter into gold. A ticklish business indeed! "Ninety days after sight pay to my order the sum of one thousand marks German Standard," was the tenor of the bills of exchange in my portfolio. "Let me see" the debtor would have said, "there are some ashes in my stove; I am going to make 1000 gold marks for you. I need only press this button. Here are your 1000 marks in gold; or rather a little more, but that does not matter."

Our laws made no provision against such accidents: the definition of the meaning of the "Mark, German Standard" was left to the decision of Parliament—Parliament in which our debtors might easily obtain the majority.*

My situation as a creditor was also rendered precarious by the possibility that the gold standard might be abolished by other countries but retained by ours. Suppose, for example, the United States decided the problem of whether silver or gold should be admitted as legal tender, by demonetising both metals, so as to hold an even balance between the conflicting interests of debtors and creditors. This would have been the most rational solution of the contradictions of American currency policy, and the only way of proving the impartiality of the State. But what would have been

* This aspect of the matter is fully dealt with in the author's pamphlet: Das Monopol der schweizerischen Nationalbank, Bern, 1901.

the result? The masses of gold which had become useless in America would have flooded Germany, forcing up our prices perhaps 50% or even 100 or 200%, so that I should have lost more from the general rise of prices than at present from the decline of the rate of interest.

Securities payable in marks, German standard, were obviously a risky investment. But now all danger has disappeared. It makes no difference to us whether the United States pass over to a paper currency or to bimetallism, whether the Bank of England puts its gold in circulation, or whether Japan and Russia retain the gold standard. Whether much or little gold is discovered, not a penny is added to or withdrawn from the monetary circulation; whether the existing stock of gold is, or is not, offered for exchange, the German monetary standard is unaffected. Whatever happens I shall get for one mark, German standard, as much merchandise as I gave for it; for such is the conception of the "Mark, German Standard," as legally and scientifically defined. And even should the majority of Parliament consist of debtors who would personally benefit by a reduction in the value of the mark, they could not indulge their desires without an open breach of faith. "The average price of commodities is the fixed and unalterable standard of money. And you have changed this standard, as everybody sees and can test by measurement. You did so for your personal advantage, in order to return less than you borrowed. Therefore you are thieves."

But nobody steals in broad daylight before the public gaze. It is profitable, however, to fish in troubled waters; and with the old currency the waters were troubled, to the great advantage of swindlers. But now the waters have become transparent; the standard of money is something which all men clearly understand.

J. The Debtor

Unless we agrarians* belonged to the genus of pachyderms we could not be insensible to the abuse showered upon us in Parliament, in the Press and in daily intercourse; we are called bread-usurers, beggars and scoundrels.

That the working class should have attacked us for making their

* Agrarian: a debt-ridden German landowner who endeavours to get rid of his debts through legislation.

bread dearer was pardonable. Towards them we played the part of the aggressor. They had done us no injury that could justify our inroads upon their lean purses. But that the other parties which had so often injured us by legislation in order to enrich themselves should have joined in the chorus of abuse, I find simply ridiculous. It shows that these parties have not yet learned the meaning of politics. Politics mean power, and those who have the power exploit politics to their own advantage. Formerly the liberal parties held the power, which they exploited, now it is our turn. So why abuse us? The abuse rebounds on those who have been in power and those who will be in power in the future.

In this quarrel our political opponents were decidedly the aggressors. They attacked us by introducing the gold standard, and to protect ourselves we tried to restore bimetallism. As we did not succeed, we had recourse to protective-duties. Why did our opponents deprive us of the double standard on which our mortgages were based? Why did they force us to repay more than we had received? Why did they alter the terms of our mortgages by depriving us of the choice between gold and silver? Why did they deprive us of the possibility of paying our debts with the cheaper of the two metals? It obviously makes a great difference whether I am free to pay my debts with 1000 kilograms of potatoes or 100 kilograms of cotton, or whether I am bound to pay in potatoes alone. We were deprived of the advantages of this clause in our contracts without receiving compensation of any kind. If I had been allowed to choose I could have paid either with 160 pounds of silver or with 10 pounds of gold, and I should have paid, of course, with the cheaper of these two metals, just as, when I borrowed the money, I was paid in the cheaper metal. The chances of profit from this advantage became apparent later when we compared the price of silver with that of gold. The price of gold increased 50% compared with silver, so instead of 100,000 marks my debts now amount to 200,000 marks—not nominally, but what is worse, in actual fact. I have to sacrifice double the quantity of produce annually to pay the interest on my debt. Instead of 50 tons of wheat, the bank now claims 100 tons annually. Had the silver currency not been abolished I could have employed the fifty additional tons to pay off my debts, and I should by now be clear.

Is not this treatment of debtors, approved of by our political opponents, simply swindling?

If debtors did not protest in a body, if the protest was confined to landowners and other mortgage debtors, the explanation is that most of the remaining debtors, who had borrowed money without giving real estate as security, went bankrupt and so got rid of their debts in the general collapse that followed the introduction of the gold standard. The matter therefore no longer concerned them.

When we supported our demand for a return to the silver standard by pointing out that after the introduction of the gold standard the price of wheat had fallen from 265 marks to 140 marks, and that we had received silver, not gold, for our mortgages, we were laughed at and told that we did not know anything about the currency or the needs of commerce. The gold standard had proved a great success (proof: a great commercial crisis and fall of prices) and could not be tampered with without unsettling the notion of property and risking a collapse of the whole economic structure. If, in spite of the blessings of the gold standard, we fared badly, our antiquated methods were to blame; why did we not adopt modern machinery, why did we not use chemical fertilisers, why did we not grow the crops needed for industrial purposes, why did we not produce more at a reduced cost, and so carry on in spite of lower prices? Our argument was all wrong; the "value" of gold was fixed, and the value of commodities had declined in consequence of the reduced cost of production! As gold has a "fixed intrinsic value," price fluctuations are always due to the commodities.

We tried to put this good advice into practice and to reduce our costs of production. The State came to our aid with reduced freights and reduced fares for the Polish labourers. And we did obtain better crops with the same amount of labour. But we did not obtain the expected advantage, for although our crops increased, prices fell from 265 marks to 140 marks, so that we actually obtained less money for the larger crops. Money was the thing we needed for it was money that our creditors claimed, not potatoes or sugar beet! They held us to our bond which had been falsified by legislation in their favour; they demanded gold.

The silver standard would have given us money—more money and cheaper money; that being denied us, we tried by other expedients to obtain more money from our produce, and in this way we hit on protective-duties. If we had not been cheated out of the silver standard, protective-duties would have been unnecessary. The whole responsibility for the wheat-duties therefore rests on those who have been calling us bread-usurers, beggars and scoundrels, with those who robbed us through the introduction of the gold standard. An odious episode in our economic and political history, which has caused endless strife and bitterness, could have been avoided by the elementary precaution of including a legal definition of the terms "thaler" and "mark" in the proposed currency reform, and by a clear statement of the circumstances under which the State was entitled to demonetise either silver or gold.

Considering the enormous importance of the matter, it was criminal of both sides to use the thaler, and afterwards the mark, as a basis of their bid for power, and to make the answer to the question: "What is a mark, German Standard?" a matter of party politics. But now I feel safe. The National Currency Office is on the watch and Free-Money enables it to maintain an equitable balance between the conflicting interests of debtors and creditors.

K. The Unemployment Insurance Office

Since the introduction of Free-Money, applications for unemployment benefit have suddenly ceased; my assistants and I have nothing to do. Money now goes in search of goods, and goods are work, employment. Anyone possessing Free-Money invariably endeavours to get rid of it, either by purchasing goods, or by investing it in a new enterprise, or by lending it to others who are in the position to make use of it. The change is this, that no conceivable circumstances, no personal or political considerations, neither a fall in the rate of interest nor even the complete disappearance of interest and profit, can interfere with the supply of Free-Money. Even supposing that the commercial purchase of goods involved a loss instead of a profit, Free-Money is in exactly the same predicament as all other commodities; these also are offered for exchange, even should their sale involve a loss.

Anyone in possession of Free-Money is forced to pass it on, no matter whether that means a loss or a profit. Free-Money commands; it brooks no delay, it breaks all fetters. The speculator or financier who in attack or defence attempts to hinder the circulation of money is struck down by it. With the force of an explosive it bursts open all stores of money, from the cellars of the great banks to the humble money-box of some stable-boy, liberating itself and rushing to the market. Hence the name "Free-Money." Whoever sells goods for Free-Money must immediately purchase goods again. And purchase of goods means sale of goods, and sales of goods mean employment.

Free-Money is embodied demand, demand is sale, and sale is work. The money reform is an automatic insurance against unemployment; not an official insurance spoon-fed by the State and the employers, but the natural insurance inherent in the division of labour. For labour produces goods, and goods tend always to be exchanged for goods. Through the interference of gold, exchange was forced to pay tribute to two extraneous powers, interest and desire of profit, by which it was hampered. The exchange of goods became conditional upon interest and profit. If exchange did not result in interest or profit, it came to a standstill, because money, the medium of exchange, was held back.

With Free-Money such conditions are utterly impossible. Free-Money is a hungry lion seeking whom it may devour; it pounces on the goods, and goods are employment, for it makes no difference whether I buy goods or employ a labourer direct. The merchant from whom I buy the goods will seek to replenish his stock and get rid of the money by ordering new goods from the manufacturer.

An absurdly simple insurance against un employment, an absurdly simple labour bureau! Every Free-Money note put in circulation by the State is a substitute for an application for employment: every thousand of these notes is a substitute for a labour exchange. Anyone who sells goods and receives money in return will immediately buy goods again, either for himself or through someone to whom he lends the money; so everyone buys the same quantity of goods that he sells, and everyone sells the same quantity of goods that he buys. There is no room for any surplus; the exact quantity of goods produced is sold. Under such conditions how can

slumps, overproduction and unemployment occur? Such phenomena are possible only when people at times, or usually, buy less goods than they themselves produce.*

What happened formerly? The merchant had to pay interest on his capital, so he made the purchase of goods dependent on the exaction of interest. If the situation made it impossible for him to add the interest to the selling price of the goods, he left the products of the workers untouched, and the latter were thrown out of work through the cessation of sales. No interest, no money; no money, no exchange of goods; no exchange, no employment.

Interest was the necessary condition of the circulation of money, upon which employment depends. The Reichsbank itself never issued money without interest, even at times when by universal admission the market was short of money—and this in spite of the fact that according to its charter the main task of the Reichsbank was to adapt the monetary circulation to the needs of the market. (I do not reproach the Reichsbank; even a god would have been powerless if bound by the clumsily framed regulations of its charter).

To-day the circulation of money has ceased to be conditional. Money means the sale of goods, no matter what the result. Money — sales of goods — employment — money. Under all possible circumstances the circuit is closed.

The merchant was, of course, bound to keep his profit in mind; the selling price had to exceed the purchase price. That was the natural, inevitable and, moreover, fully justified condition of all commercial activity. And the price paid by the merchant or debited

* Free-Money does not of course guarantee the individual producer the disposal of his output; it only protects the community as a whole. If someone produces poor goods or asks too high prices, or produces blindly without consulting the needs of the market, Free-Money will not enable him to dispose of his produce. The term "unlimited sales," which is repeatedly used here, applies only to the community; after the introduction of Free-Money neither the claims of interest nor the "tone of the market" can obstruct the disposal of goods. Everyone will be compelled to buy immediately exactly as much as he has sold; and when everyone is under such compulsion there can be no surplus. If anyone has no further need of goods he will either cease working or he will lend his money-surplus to others who require more goods than they themselves have sold at the moment. If competition in some commodity is too great (sugar-beet, pig-iron, dancing lessons) its price will fall; and if production at the reduced price does not pay, everyone will know what steps to take.

to his account was in every case a known and unalterable quantity (except with sales by commission), whereas the selling price was a lottery, and commerce as a whole resembled a gambling table at Monte Carlo. For between the purchase and the sale there was an interval of time during which the market might change.

Before making a purchase the merchant considered the state of the market, trade prospects and home and foreign politics. If he thought that others shared his belief that a general rise of prices was imminent, he hastened to buy, so as to participate in the looked-for rise with as large a stock of goods as possible. If he was not mistaken, if he had many fellow believers, so that many did buy, that alone was reason enough for the expected to happen, namely a rise of prices—no matter what the reasons upon which the expectation had been founded. For it is clear that if everybody believes in the advent of higher prices, everybody possessing a money reserve will buy, and when all money reserves are employed for purchases, prices must rise.

This case supplies proof of the doctrine that he who believeth shall be saved.

The reverse was of course true when there was a general belief in a fall of prices. When a merchant believed that his fellow merchants believed that prices would fall, he tried to dispose of his stock of goods; on the one hand by forcing their sale, if need be through a reduction of prices, and on the other hand by delaying his orders until a more propitious moment. But as his fellow believers acted in the same manner this again was the sole reason for bringing about the thing they feared. Their belief had made fools of them. For under the gold standard everything happened that people believed. Belief reigned supreme. The belief in the coming of higher or lower prices was quite sufficient to make this belief a reality.

Beliefs, moods, weather reports determined whether money was or was not offered in exchange for goods, whether the workers played football or worked night-shifts and overtime. The offer of the whole monetary reserves in exchange for goods depended on belief!

Free-Money has changed all this. Money does not now wait to inquire about the beliefs or moods of its possessor. It commands,

it places orders of its own accord. But just because belief has been eliminated from commerce because faith, hope and love of profit no longer influence the circulation of money, demand is regularised. Mercantile hopes and fears are now simply personal matters without any effect on the market. Labour and the demand for goods are no longer dragged at the heels of an arbitrary power, money; they are no longer subject to the will of the possessors of money, for money is now demand itself.

It used to be considered a matter of course that the worker should go out to look for money, that is, work. Only exceptionally did money go out to look for work. Money compelled goods, work, to come to it. No protest was raised against this breach of the principle of equal rights; everyone tolerated the privilege of money—probably because the privilege was supposed to be indissolubly bound up with the monetary system. The worker and the possessor of goods incurred a heavy, daily increasing loss through postponement of the sale, whereas money produced interest for the potential buyer. So it was natural and inevitable that if buyers stayed at home sellers set out to find them and to urge them personally to buy.

This view is now no longer a matter of course. For the possessor of money feels the money burning in his pocket and is compelled to exchange it, just as the worker is compelled by the perishable nature of his power of work (which cannot be stored) to find a purchaser for it as speedily as may be. So the possessor of money no longer waits patiently for the possessor of goods (worker) to come and find him. He rises earlier, looks about him, and goes to meet the goods half-way.

But when two are searching for one another, they will meet sooner and more surely than when only one is on the look-out. The animal kingdom would be in a sorry plight if the females tried to hide from the males. How would the toad in the pond find his mate if she did not crawl out of the mud at his call?

Formerly the possessor of money gained by hiding from the possessor of goods; for the length of the quest made the latter more amenable. In his dressing-gown and bedroom slippers, so as to make it appear that the worker or seller of goods had disturbed him in his slumber. That is how the buyer met the seller!

So money now under all circumstances goes out to seek the commodities. Money has suddenly become hungry. Its hunger-cure has made it nimble and sharpened its hunting instinct. It does not, indeed, run after the goods, for the goods do not slink out of sight; they cannot do so. The two meet half-way. But if money finds no goods to buy, it does not wait until chance throws what it wants at its feet; instead of that it tracks the article to its source, which is labour.

Thus Free-Money has replaced the official insurance by an automatic insurance against unemployment. Free-Money has become an automatic labour bureau, and I and my 100,000 officials have been turned out on the street. By the irony of fate, the only unemployed in the realm are now the officials of the unemployment insurance office!

L. The Disciple of Proudhon

With the introduction of Free-Money our whole programme has been fulfilled. The goal towards which we had been groping has been reached. What we had hoped to attain by means of complicated, vaguely-conceived institutions such as exchange-banks and co-operative societies, namely a perfect exchange of goods, has been realised in the very simplest and easiest way through Free-Money. What did Proudhon say:—

> "In the social order reciprocity is the formula of justice. Reciprocity is defined in the maxim: Do as you would be done by. Or translated into the language of political economy: Exchange products for products, buy your products mutually from one another. Social science means simply the organisation of mutual relations. Give the social body a perfect circulation, that is, an exact and regular exchange of products for products, and human solidarity is assured, labour is organised."

And Proudhon is right, at least as regards the products of labour, though not as regards the products of the land. But how can this regular exchange of products be realised? What Proudhon himself proposed for the achievement of this perfect circulation was impracticable. Even on a small scale, a goods-bank as conceived by Proudhon was unworkable, so how could the whole economic body have been organised on these lines?

Again, he ought to have investigated why we failed to buy each other's produce, as complete and regular exchange demands. That

was the question to be answered first of all, before he set about proposing remedies.

Proudhon did indeed suspect that there was something wrong about metal money; for did he not call gold "a bar to the market, a sentinel guarding the gates of the market with orders to let no one pass." But he never tried to find out exactly what was wrong with money, although this was the point at which his investigations should have started. It was his failure to do so that led him astray. In raising labour, or the result of labour, the commodity, to the level of ready money (that is, gold) Proudhon thought he had discovered the solution of the social problem. But why was it necessary to "raise" goods to a higher level, what was there in gold (then money) that placed it above the level of labour?

Here, in this idea of raising goods to the level of gold, lay Proudhon's error. He should have inverted the proposition and said: "We wish money and goods to circulate on the same level, so that money shall never be preferred to goods; goods thus becoming money, and money goods. Let us therefore debase money to the level of goods. We cannot alter the qualities of goods and endow them with the advantages inherent in gold as a commodity. We cannot make dynamite harmless, or prevent glass from breaking, or iron from rusting, or furs from being eaten by moths. Goods invariably have natural defects; they decay, they are subject to the destructive agencies of nature—gold alone is exempt. In addition to this, gold has the privilege of being money and, as money, of being universally saleable; and it can be conveyed from one place to another without appreciable expense. How, therefore, can we possibly raise goods to the level of gold?

But the opposite procedure is easy: Money is adaptable; we can do with it as we please, since it is indispensable. Let us degrade it to the level of goods, let us give it qualities that will counterbalance the evil qualities of goods."

By the introduction of Free-Money this logical idea has now been put in practice, and the result proves how much truth and just observation is contained in Proudhon's pithy phrases, and how narrowly he missed the solution of the problem.

With the money reform, money has been debased to the level of goods, and the result is that goods are at all times and in every

situation equal to money. "Buy your products from one another," said Proudhon, "if you wish to find markets and employment." That is now done. Demand and supply have been welded into one by the new money, just as they were when exchange was effected by barter; for everyone who in those times brought goods to the market took other goods home with him. So there was always as much produce going out as coming in. Since the introduction of Free-Money the money realised by the sale of goods is immediately converted into goods again by the purchaser, so a supply of produce now causes a demand for the same amount. The seller, who is pleased to be rid of what he had to dispose of, finds himself compelled by the nature of his money to put into circulation again the money yielded by his sale, either by purchasing commodities for his own consumption, or by building a house, or by giving his children a better education, or by improving his live-stock and so forth. If he is not attracted by any of these possibilities he lends the money to others who need goods but, for the moment, have no money. Other expedients, such as hoarding the money; or making the loan of it dependent on interest; or purchase of goods only on condition that they yield a profit; or calculated waiting for better prospects, are no longer possible. You were compelled by the nature of your products to sell; and now you are compelled by the nature of your money to buy, there is no alternative. In rapid succession, compulsorily, purchase now follows sale, and money passes from hand to hand. In good times and in bad, in victory and in defeat, money pursues its orbit through the market as steadily as the earth revolves around the sun. Demand now appears as regularly in the market as labour in search of employment or goods in search of a purchaser.

Buyers at first, indeed, complained about being compelled to get rid of their money. They called this compulsion a restriction of their liberty, an attack upon property. But everything depends on what you mean by money. The State proclaims that money is a public means of intercourse and that it is managed solely in the interests of the exchange of goods. And these interests demand that the sale of goods shall immediately be succeeded by an equivalent purchase of goods. But experience proved that the mere wish that everyone should of his own accord, and for the benefit

of all, at once put into circulation the money he receives was not in practice sufficient to ensure a regular monetary circulation, so it was necessary to introduce into money a force compelling it to circulate. This was done and the aim was realised.

Anyone unwilling to be deprived of the liberty of dealing with his property at his own pleasure and discretion, may, if he prefers, keep his produce, his undoubted property, at his own house and sell it only when he needs to buy other products. If he prefers to keep hay, lime, trousers, tobacco-pipes, or whatever his produce may be to selling them in advance for Free-Money, he is at liberty to do so; no one will prevent him, and nobody will complain. But if through the agency of money, he has been relieved of the burden of his own goods, he must remember the duties which he has assumed as a seller and as a possessor of money; he must allow others to benefit by the circulation of money. For the exchange of goods is based on reciprocity.

Money must not be a resting place in the interchange of goods; its role is transitory. The State manufactures money at the public expense and cannot tolerate the abuse of this means of intercourse by others for purposes foreign to the exchange of goods. Nor is it just that money should be circulated gratis by the State, for the cost has to be paid out of public funds, and many citizens make little use of money. That is why the State levies an annual duty of 5% on the use of money. In this manner the State ensures that money is not misused for speculation, exploitation, or as a medium of saving. Only those who really need money, the medium of exchange, those, namely who produce goods and wish to exchange them for other goods, now make use of money. For all other purposes it has become too expensive. Above all the instrument of exchange is now strictly separated from the instrument of saving.

What the money reform demands of the man who has sold his goods is mere justice: "Now buy goods in order that others may get rid of theirs." But this demand is not only just; it is also wise, for to be able to buy other goods a man must sell his own. Buy, therefore, that you may be able to sell all your own products. Otherwise to be a lord as buyer, you must be a slave as seller. Without purchase, no sale; and without sale, no purchase.

Purchase and sale combined make up the exchange of goods;

they are, therefore, parts of a whole. With metal money purchase and sale were often separated by a lapse of time; with Free-Money they are made to coincide. Metal money separated goods by inserting between sale and purchase an interval of time, interested delay, greed of gain and a thousand other forces extraneous to exchange; Free-Money, on the contrary, brings goods together by making purchase follow close upon sale and by not allowing time or space for extraneous forces to intervene. Metal money, according to Proudhon's dictum, repeatedly quoted in this book, was a bar to the market; Free-Money is the key.

M. The Theorist on Interest

Free-Money has robbed me of my whole intellectual capital. My finest theories have been refuted by this hateful innovation. For behold, interest which since the dawn of history had always remained at the same level, has now, in utter disregard of all my theories, started on its course towards zero. And those interest-free loans which had always appeared to me as mere Utopian dreams are now considered not only possible but probable. Interest-free loans! Money, machinery, houses, factories, goods, raw materials no longer capital! My head is whirling!

The convincing "theory of utility," the attractive "theory of fructification," the inflammatory "exploitation theory," the somewhat bourgeois, but all the more popular "abstinence theory,"* and whatever else I called them, have all collapsed with the advent of Free-Money.

It seemed natural, obvious, indeed inevitable that the lender of an instrument of production should be able to secure interest for this "service." Yet interest is falling to zero, and capitalists (if they may still be called so) are delighted when anybody consents to take their money with no other condition than simple restitution of the sum borrowed. They say that competition has increased to such an extent that it is more advantageous for them to lend the money in this way than to keep it at home as a reserve for future

* This terminology is taken from Boehm-Bawerk's treatise on interest. Irving Fisher's "Impatience Theory" belongs to the abstinence theories of interest.

use. For at home part of the money would annually be lost through depreciation, so it is better to lend it, even without interest, on a mortgage or a bill of exchange which can be converted into ready money again, by selling or discounting, whenever ready money is required. There is then indeed no interest, but neither is there any loss from depreciation.

Interest-free loans are now an advantage not only to the loan-taker, but to the loan-giver as well. Who ever imagined such a possibility! Yet now it has been realised, for what is the saver to do? A man saves for the future, for old age, for a pilgrimage to Jerusalem, for hard times, for marriage, for illness, for his children and so forth. But what is he to do with his savings in the meantime, until he needs them?

If he buys cloth, foodstuffs, wood, etc., and stores them, he is no better off than if he keeps Free-Money, for all such stores are subjected to rust, rot and decay. It may here be objected that gold and precious stones may be kept indefinitely without deterioration, but what would happen if this form of saving became general? How high would the price of these things soar in good years, when everybody saves; how low would it drop when, after bad harvests or in war-time, the savings (that is, the gold and precious stones) were brought to the market in large quantities? Precious stones are the things that people buy last and sell first. The experiment would not be repeated; this form of saving would be a deplorable failure. (The same is true of wine which is said to become better and more valuable the longer it is kept).

It is surely more advantageous to invest one's savings in bonds, Government securities, bills of exchange and so forth, which, although they yield no interest, are always convertible into ready money without loss.

It may be asked, why not, instead, build houses, or buy industrial shares? And people do buy and build houses although houses have also ceased to yield interest. They are satisfied with the sums written off annually for depreciation, which the tenants pay in the rent. This form of investment is sometimes even more advantageous than the purchase of Government securities, as it gives a regular return which keeps pace with the depreciation of the house (factory, machinery, ship, etc.), yet leaves a pledge, namely the piece of

property, in the lender's hands. That is why so much building is going on in spite of the fact that rents are only just sufficient to pay for repairs, depreciation, taxes and fire-insurance; that is why houses are considered a good medium of saving.

Nevertheless all this is most disturbing. It is difficult to grasp the fact that men still build houses to let, though expecting to obtain as rent merely the repayment of the capital, without interest. For it used to be considered a scientifically established fact that money bore interest only because the instruments of production bore interest, that the interest-bearing power of money was fundamentally a transferred or borrowed power. And it now seems that the reverse is true, for how else could a monetary reform have influenced interest?

As a matter of fact it was illogical to say that money yields interest because it can be used to buy instruments of production which yield interest. For this fails to explain why instruments of production yielding interest are sold for money which is declared to be barren. Does an ox give milk when you barter it for a cow?

Catch-words were here evidently substituted for clear thinking. It is nonsense to talk of transferred and borrowed qualities; such transfer of qualities and forces is just as impossible in economics as it is in chemistry. If money had not the intrinsic power of levying interest, where did the revenue derived from the issue of paper-money come from?

If money was unable by its own power to levy interest, interest-bearing instruments of production and barren money were incommensurable quantities, things not admitting of any comparison and therefore not exchangeable. There are many things which cannot be bought with money.

And what price was paid for a piece of land yielding a rent of $1000? The calculation was based on the fact that $100 bore $5 interest, and the price of the land was as many times 100 as 5 is contained in 1000. But how did this rate of 5% originate? That is the crux of the matter.

So there can be no question of a transferred power; the interest-bearing power must have been an inherent quality of money. But where was this quality of money hidden? Formerly it would have been difficult to discover, but with Free-Money as an object of

comparison the difficulty disappears. For since with Free-Money money has manifestly lost its interest-bearing quality, we need only investigate wherein the two forms of money differ, in order to lay bare the source of interest. Now Free-Money differs from the traditional form of money in being subject to an inherent compulsion to be offered in exchange for goods, whereas the traditional form of money was exempt from such compulsion. Here then, in the absolute liberty of the possessor of metal money to offer his property for exchange whenever he pleased, in the arbitrary power of capitalists and savers who controlled the supply of money, we have to look for the source from which interest sprang.

And we have not far to look. Money is admittedly indispensable for commerce, for the exchange of the products of the division of labour. For how do the makers of goods act when they cannot sell their products for money? Does the cabinet-maker sleep in his coffins, does the farmer eat all his potatoes? Nothing of the kind; they try to effect the sale by reducing their prices, they all try to attract money by lowering their claims. If capitalists and savers have withdrawn money from circulation and will return it only if promised interest, they obviously find the ground well prepared for the levy of interest in the readiness of the possessors of goods to surrender part of their produce for the use of money. "You want money for the mutual exchange of your products, and this money is locked up in our safes. If you are willing to pay us something for its use, if you are willing to pay us interest, 4% annually, you may have it, otherwise we shall turn the key and you must make shift without it. Interest is the condition we lay down. Consider the matter; we can wait, we are not compelled by the nature of our money to yield it up."

Clearly it depends on the owners of money whether commerce is to carry on with money or without. At the same time the State makes the use of money inevitable by levying taxes in it. Hence the owners of money can always extort interest. A parallel would be a bridge over a river cutting the market in two, and guarded by a toll-gate keeper. Because the bridge is indispensable for traffic between the two halves of the market, and because the toll-gate keeper can close or open it, he is in a position to levy a toll on all the goods in the market.

Interest was a toll which the makers of goods were forced to pay to the owners of money for the use of the means of exchange. No interest means no money; no money means no exchange of goods; no exchange means unemployment and hunger. Rather than starve, the producers of goods paid interest.

The interest-bearing power of money was not a " borrowed " or " transferred " power. It was a quality of metal money due, ultimately, to the fact that in the manufacture of money a material had been chosen which holds a privileged place among the other products of the earth, since it may be kept indefinitely without injury and without expense, whereas all other products of human industry deteriorate, become antiquated, and are expensive to store.

This explains why people exchanged a field for a sum of money; for both the field and the money, each by virtue of its own power, yielded a rent. In order to establish the exchange ratio of the two things it was only necessary to calculate the sum of money which would produce interest equal to the rent of the field. The field and the money were then perfectly commensurable objects. In the case of the field there was no question of a " borrowed " or transferred power of exacting interest, and the same was true in the case of money.

That hackneyed and meaningless phrase about the transferred power of money deceived me completely, for money, the medium of exchange, was intrinsically capital.

Let us consider for a moment what must happen if we elevate a species of capital to be the means of exchange of all commodities.

1. Money can be capital only at the expense of commodities, for it is on the commodities that money levies the toll that stamps it as a form of capital.

2. If commodities have to pay interest they cannot possibly be capital themselves, for if both commodities and money were capital, neither of the two could assume the role of capital in connection with the other, and in their mutual relation, at least, they would cease to be capital.

3. If commodities seem to us capital in commerce, because their selling price, besides the cost price and commercial profit, includes capital-interest, the explanation is that the merchant has already

deducted this interest from the producer's or the worker's remuneration in the purchase price. The commodities here merely play the part of bank messengers for money capital. If the selling price is $10 commercial profit 3, and interest 1, the producer receives $6.

From this it follows that if the medium of exchange, money, were not itself a form of capital, the whole exchange of goods would be effected without any charge for interest. That is what Proudhon always maintained, and it seems that he was right.

Let us now consider the effect of a medium of exchange which is itself capital upon the creation of instruments of production.

How did the instruments of production (machinery, ships, raw materials and so forth) come into existence ? Does a man still make his own instruments of production out of raw materials found on his own land ? Possibly that may happen exceptionally now and then, but the general rule is that the instruments of production have to be bought and paid for with a sum of money. The foundation capital of all enterprises of any magnitude is a sum of money which is entered on the first page of the ledger. Now if this money paid for instruments of production is intrinsically capital, if the owners of the money, by merely locking it up can prevent the creation of an enterprise, it is clear that they will not advance any money for enterprises which yield no interest. If I can obtain 5% on my money from the purchase and sale of commodities. I am obviously not going to be satisfied with less in the manufacture of them. If I can collect ore at the surface I shall not dig a pitshaft.

Hence it follows that the number of houses built is limited by the fact that rents must remain high enough to include the interest-tribute that money can exact. If by chance more houses have been built, if the supply is greater than the demand, rent of course falls and the houses do not yield the interest required. Whereupon workers in the building trade are dismissed, and house-building is suspended until, through the increase of population, the demand for houses has increased to the point where rents again yield the full interest exacted by money. Only then can the building trade make a fresh start.

It is exactly the same with industrial enterprises. When these have become so numerous that the demand for labour which they

incorporate has forced up wages to a point at which the employer is no longer able to squeeze capital-interest out of the sale of the product, the founding of new enterprises is interrupted—until the increase in the number of workers and the resulting increased supply of labour again reduces wages and allows scope for the levy of interest.

The instruments of production appear to us as capital simply because they are created by money capital, and because money capital artificially limits their creation so as to place them in a privileged position in relation to the workers. There are always less instruments of production than workers, and the surplus of workers resulting from the shortage of factories depresses wages below the full proceeds of labour.

The picture becomes still clearer if we consider the employer merely as a pawnbroker who advances the necessary money to the worker for machinery and raw materials and is repaid by the worker's produce.

Money, then, controlled absolutely the exchange of goods and the creation of instruments of production. Everything was tributary to it. It intervened between consumer and producer, between workman and workgiver, separating those who were naturally destined to unite and exploiting the embarrassments so arising. Its booty was called interest.

Even I now begin to understand clearly why with Free-Money the rate of interest is falling and already approaching zero.

Money can no longer be withheld from the market; regardless of interest it must be put into circulation, either directly in exchange for goods, or indirectly as a loan. It cannot intervene between the producers to separate them; in spite of itself, in spite of its predatory nature, it is forced to carry out its function and act as the medium for the exchange of goods. Money is no longer a tyrant or bandit obstructing the exchange of commodities; it has now become the unpaid servant of exchange.

Commodities are now no longer excluded from the market and workers dismissed as soon as the rate of interest falls; the exchange of goods proceeds, regardless of interest.

But where work proceeds regularly people save. Immense sums

are saved and carried to the banks to be offered as loans. And if this continues year after year, if the workers are not again and again forced by recurring economic crises to eat up their savings, the time must come when the money offered for loan by the savings banks is no longer sought for, the time when the loan-takers say: We have built so many houses that we cannot find tenants for them; we have built so many factories that we cannot find workmen for them. Why continue to build when even now we find it hard to pay interest?

But then the savings bank will answer: We cannot leave our money idle, we cannot store it. Free-Money forces us to lend it. We do not insist on 5, 4, or 3%, we are willing to negotiate. If we let you have the money at 2, 1 or 0%, you can reduce your rents accordingly, whereupon those who were satisfied with one room will rent two, and those who had five will want ten. You will then be able to build more houses. There is real need of houses, it is only a matter of price. So take the money at 2% if 3% is now more than you can pay. Build away, reduce your rents; you cannot suffer any loss, for we shall provide you with correspondingly cheaper loan-money. There is no fear that either you or we shall ever be short of money, for the more we reduce the rate of interest and you reduce the rents, the larger will be the sums that the savers will put by and pass on to us. Nor is there any fear that this great quantity of money will force up prices, for every penny of it has previously been withdrawn from circulation; the volume of money has remained unchanged. Those who saved the money produced and sold more goods than they consumed, so there is a surplus of goods corresponding to the amount of money which we supply to you.

Take the money, therefore, without anxiety. If the interest yielded by your houses falls, we shall follow suit with our money interest, even if interest should be thereby depressed to zero. For even with interest at 0% we are compelled to lend the money.

But it is not only we who are under compulsion; you are in the same plight. For if you attempt to keep up the rent of the houses already in existence by ceasing to add to their number, and so reject our offer, we shall point out that there are other builders who possess no houses and are not bound by such considerations. We

shall give them the money for building, and the new houses will be built, whether you like it or not.

It is the same with industrial undertakings. If money is available at 0% no employer can extract interest from his enterprise, either in the form of a reduction of wages or in the form of an increase of prices. For such is the law of competition.*

N. The Theorist on Economic Crises

Free-Money has injured me quite as much as my colleague, the writer on the theory of interest; it has reduced my whole collection of theories to waste paper.

It seemed so plausible that a period of growth should be succeeded by a period of decay. It is so in nature, and it must be so in economic life, since man and everything he creates is part of nature. The ant-hill and the economic system of the bees are products of nature, so the economic system of men and nations must be the same. Man grows and passes away; why, then, should not economic life, after a period of growth, end in dissolution? Ruin overtook the Roman Empire, therefore ruin must overtake the economic life of all other nations periodically every few years in the shape of a great crisis. Just as summer is succeeded by winter, so a boom must be succeeded by a slump.

Was not that a theory worthy of a poet's pen? How simple it was, with its aid, to explain the intricate problem of unemployment! I had also ready to hand a soothing theory guaranteed not to disturb middle-class complacency. A lullaby, not a theory, was what was asked for, and in this respect the current explanation of economic crises was most suitable. In consequence of "speculative purchases" prices had risen and there was "feverish activity" in every field. Overtime and night-shifts were required to meet the increasing demand; wages soared. Of course this "hot-house growth" was an unhealthy manifestation which was bound to end in a sudden collapse. And the collapse occurred. Naturally demand fell short of such an enormous output of every kind; and demand failing, prices fell. Everything without exception, the products of

* The reader will find the theory of interest more fully presented in the last part of this book.

industry, agriculture, mining, forestry, declined in price and the whole structure of speculation came down with a crash. The avaricious workers had absorbed with their overtime the whole "Wage-Fund" and the "Wage-Fund" being exhausted, there was not enough employment to go round. There were mountains of bread and clothes, yet the workers went cold and hungry.

Or take the classical Malthusian theory—how convincing it sounded and how widely it was accepted! It sternly rebuked the dissolute masses: "The only use you could make of prosperity was to get married; you increased your miserable race beyond the limit of decency. At every turn our eyes are offended by swaddling clothes and cradles. The streets swarm; the schools are like rabbit-warrens. So now your own children have grown up to crowd you out of your occupations and to reduce your wages. Lowered wages mean falling prices; falling prices make business a losing venture and nip the spirit of enterprise in the bud. Propagation is the forbidden fruit, it is tainted with original sin, but is doubly sinful for the proletariat. Abstain then, leave breeding to the heathen, send your daughters to the nunneries, and we shall no longer have more workers than are necessary to deal with the available work. With wages rising, prices will also rise and stimulate enterprise. Moderation in all things, my friends, in the production of goods as well as in the production of children, otherwise we shall have overproduction both of goods and of consumers."

Or again there was a new theory, one of the best in my collection. Owing to accumulation of riches in comparatively few hands and disproportion between the purchasing power and the producing power of the masses, consumption falls short of production. Hence a glut of unsaleable goods in the market, a fall of prices, unemployment, depression and crisis. The rich are unable to consume up to their incomes, and the workers have no incomes to consume. Were incomes properly distributed, consumption would keep pace with production and crises would be averted.

How plausible this sounded! And it is the sound that matters, for this theory was meant for the proletariat, and it is useless to appeal to the intelligence of a crowd of people nurtured on adulterated food and beer, crushed with cares and incapable of standing a hearty shock.

For I had a theory for every grade of society and every taste. If, occasionally, I met with serious objections I had recourse to my reserve theory which connected crises with the currency system. Usually the word currency sufficed to silence the objectors. "That is enough," they cried, "We know what Disraeli says, that next to love, the currency problem is the chief cause of lunacy, and we have no wish to risk a dangerous overburdening of our brains for the sake of a theory of economic crises!" Yet this was comparatively the simplest and soundest of all my theories. Commodities, I argued, are almost exclusively disposed of by way of commerce, that is, their exchange is effected through the agency of merchants. The merchant, however, does not buy commodities unless he expects to sell them at a profit. The prospective selling price must be higher than the purchase price, the price asked by the worker or manufacturer. So if prices tend to fall, the merchant is unable to estimate what price he ought to pay, while the manufacturer cannot, short of incurring an actual loss, reduce his offer below his own cost price. With the consumer the case is different. He buys, paying the price asked. He rejoices when prices fall and is chagrined when they rise, his only limit for the price paid being his own income. The merchant, on the contrary, must realise a price that will exceed a certain figure, namely the purchase price. He does not know whether he can obtain such a price. His selling price is uncertain, whereas the purchase price, once the bargain is struck, is a definite quantity.

When prices in general are stable or, still more, if they are rising, all is well; the sale will, in all probability, cover and exceed the outlay, so the merchant is safe in signing his order. But when prices fall, and keep on falling, 1, 2, 5, 10, 20, or 30%, as has often happened, the merchant has no foothold, so the only reasonable thing he can do, if he is a prudent man, is to wait. For the merchant cannot calculate his selling price on the basis of his outlay; he has to make an estimate of the price he hopes to realise. And if, within the period between purchase and re-sale, prices fall, he is forced to reduce his selling price and incur a loss. So the safest thing to do in times of falling prices is to postpone orders. For the motive power in the commercial turnover of goods is not the need of commodities but the hope of profit.

This postponement of the merchant's usual orders meant a stoppage of the manufacturer's sales. But the manufacturer is, as a rule, dependent on the regular disposal of his ouput, since he cannot store bulky or perishable goods. The stoppage of sales compelled him, therefore, to dismiss his workers.

Employment and wages failing, the workers, in their turn, were unable to buy, which brought prices still lower. Thus the initial decline of prices had created a vicious circle.

The moral of all this was that we must prevent prices from falling, that we must manufacture more money. In this way there will always be sufficient money to buy commodities, and merchants, being aware of the large cash reserves of banks and private individuals, will never be alarmed by the prospect of a shortage of money and slump of prices.

That meant a bimetallic standard or paper-money.

At bottom none of these theories satisfied me. The first, which looks upon the crisis as a kind of natural phenomenon, is too crude to need refutation. The second theory, which makes speculation responsible for the crisis, does not examine whether the surplus of money in the hands of private individuals and professional speculators, without which speculation would be impossible, was not the real cause of speculation and consequently of the crisis itself. What is the use of setting up a central Bank of Issue and granting it a monopoly of the issue of banknotes for the purpose of "adapting the monetary circulation to the needs of the market," if notwithstanding the bank and its monopoly "speculation" can decide to force up prices whenever it pleases? And because this theory overlooks that aspect of the question, it falls into the error of expressing pious wishes instead of indicating the necessary reforms. "Do, pray, abstain from speculation," is all it has to recommend as a protection against crises.

This theory does not, moreover, consider the real motive of the "feverish activity, overtime and night-shifts." For without this speeding up of labour, all speculation would be doomed to failure. What is the use of a manufacturer proposing overtime to his workers if they reply that their present working hours suffice to meet their wants? So if, at present, the workers are willing to join in "the feverish activity," it is simply because they have urgent wants which

they expect to satisfy with the wages earned by overtime. But if demand is as urgent as supply, how can a crisis occur ? The speculation that induces money reserves to seek a market accounts only for the general rise of prices, but does not explain the failure of consumption to keep pace with production, or the fact that sales usually fall off with dramatic suddenness.

This failure to explain why consumption and production do not, as a rule, balance, is the weak point common to all these theories; but this question clamours most loudly for an answer in the case of the third theory, the theory of over-population. Overproduction resulting from over-population is here advanced as the cause of the crisis, which amounts to saying that the excessively large loaves are due to the excessive hunger ! The absurdity of such an argument becomes apparent if we keep in mind that commodities are produced for exchange, and that the hungry workers are both willing and able to give other products in exchange for those they need. If it were merely a question of over-production of some special kind of goods, say coffins, no explanation would be necessary; but there is too much of everything, for example both of agricultural and industrial products.

The theory that attributes the crisis to deficient consumption resulting from an unequal distribution of income is quite as unsatisfactory, for it fails to explain why sales go sky-high at one moment and then drop to earth the next; why a constant and latent cause (in our case the unequal distribution of incomes) should have an acute and sudden effect (boom and slump). Had faulty distribution of incomes been the cause, the crisis must necessarily have manifested itself as an uninterrupted, latent condition, a constant, unchanging surplus of labour; that is, the direct opposite of what was observed to happen.

But even the assumption that the incomes of the wealthy classes generally exceeded their personal wants was erroneous, as was proved by the debts of the land-owners great and small, and their clamour for protection by the State. Wants have no limit; they are infinite. The wants of the weavers in the Eulengebirge were, surely, not satisfied with the potato parings that fell to their lot, and the ducal coronets which the American millionaires bought for their daughters were not sufficient to appease their craving for dignity.

They reached out for an imperial crown, piling million on million, toiling day and night, reducing perhaps their own, and certainly their workers' standard of living to obtain it. And had they obtained it, a priest would have appeared and told them that earthly crowns are perishable that they must still toil and save, to bequeath billions to the Church and assure themselves a throne in the Kingdom of Heaven. Between potato parings and the church treasury there extends an ocean of wants large enough to engulf the maximum that men can produce. Neither is any man so rich that he is not bent on growing still richer; on the contrary, the greed of gain develops with successful gaining. The mighty fortunes of our epoch could never have been formed if after reaching the first million their possessors had said: " We have acquired enough, let others now have an innings." No rich man ever allowed his surplus to lie idle as long as there was a prospect of a profitable investment. Interest, no doubt, was the essential condition for the lending of the capitalist's money, but in this respect the richest in the land acted no differently from the meanest saver of pence. No interest—no money, was the watchword all down the line. All of them made the lending of money dependent on interest, and even had we levelled all incomes it would not have altered the fact that the money-saver, the man who produced and sold more goods than he consumed, would not have put his money surplus into circulation until he was assured his interest. Thus the activity of the savers necessarily brought about an excess of commodities, stagnation of the markets and unemployment as soon as commerce and industry ceased to yield interest. The cause of the crisis lay in the fact that capitalists refused to invest their money unless they obtained interest, and that when the supply of houses, industrial plant and other instruments of production passed a certain limit, the rate of interest fell below the minimum yield necessary to pay the interest on the money invested in them. (Competition among house-owners in respect of tenants has the same effect as competition among the owners of industrial enterprises in respect of workers: it reduces the rate of interest. In the one case it diminishes rent, in the other it raises wages). As soon as this point was reached employers were no longer able to pay the interest demanded of them, and capitalists had no motive to lend their money gratis.

They preferred to wait for the crisis which could be counted on to "ease" the situation and to restore the normal rate of interest. They found it advantageous to renounce all interest for a short time in order to make sure of a higher rate, rather than immobilise their money in a long-term investment at a low rate. A certain minimum rate could always be extorted merely by waiting.

So the disproportion between the income and the consumption of the wealthy classes and between the purchasing power and the producing power of the workers cannot be regarded as the true cause of industrial crises.

The last theory, which connected the crisis with the currency, came nearest the truth.

That as long as prices tended downwards and goods could be sold only at a loss, no one thought of creating new enterprises or enlarging existing ones; that no merchant bought goods which he would have been forced to sell below the purchasing price; and that in these circumstances a crisis became inevitable, is obviously true. But this theory answered the question with new questions. It was right in stating that a crisis is equivalent to a general fall of prices, but it failed to provide a satisfactory answer to the question how the fall of prices occurred. It did indeed trace the fall of prices to a shortage of money, and hence proposed as remedy an increased manufacture of money (bimetallic standard, paper-money); but the proof was lacking that with or after the increase of the stock of money the supply of this money would adapt itself to the supply of goods, and more especially that money would be supplied to the market when the rate of interest began to decline. And that, after all, is the issue.

This point was not altogether overlooked; it was proposed to dissociate the currency from any kind of metal by abolition of the right of free coinage of silver and gold, so that the manufacture of money (not the supply of money) might be regulated; more money being manufactured when prices fell and less when prices rose. It was supposed that by this simple method the supply of money could always be adapted to the demand.

This proposal was never put into practice, which was lucky, for it would have proved a failure. Its authors mistook a stock of

money for a supply of money, believing as they did, that because a large stock of potatoes means an equally large supply of potatoes, it must be the same in the case of money. But that is by no means true. The supply of potatoes or any other commodity corresponds exactly to the stock, since storage involves heavy expense. Had the traditional form of money resembled the general run of commodities, had it not been possible to hoard metal money without expense, the supply of money might reasonably have been estimated by the stock. But that, as we know, was not the case. The supply of money depended absolutely on the will of its owners. And not one penny was put in circulation commercially or financially as long as no interest could be obtained. No interest—no money; even though the stock of money were increased a hundred-fold.

Now suppose that such a reform in the system of issuing paper-money had achieved its purpose, namely the prevention of trade depression and acute crises. The country adopting the reform would then have speedily become so well stocked with houses, industrial plant and so forth that such things would have failed to yield the customary interest. Whereupon the old round would have started again; the money savers and capitalists would have opposed a reduction of the rate of interest, and employers of labour would have been unable to pay the old rate. Thousands of years of experience have taught the owners of money that their money will fetch 3—4 or 5%, according to the investment, and that to obtain this rate of interest they need only wait. So they would have waited.

But while the owners of money were waiting, demand for goods would have failed, and prices fallen. This in its turn would have alarmed commerce which, uncertain of the future, would have held back orders.

And thus we should have been once more face to face with slump, unemployment and crisis.

It was indeed proposed that in such cases the State should enable the employers of labour to carry on by supplying them with money at a lower rate or, if need be, free of interest. In this manner the State would have replaced the money withdrawn from circulation by the savers and capitalists. But what would this have led to? On the one hand, the capitalists' useless masses of paper-money, on

the other hand, in the national treasuries, corresponding masses of bonds and bills of exchange—long-term bills, moreover, and bonds such as employers require, not subject to withdrawal at short notice.

The masses of paper-money hoarded by private individuals (all private fortunes would finally have assumed that form) might any day have been set in motion by some trivial event, and this money, being only redeemable in the market in exchange for goods, would suddenly have become an enormous mass of demand which the State would have been powerless to control by means of the bonds and long-term bills. In this manner prices would have soared sky-high.

It was fortunate that we escaped this peril by introducing Free-Money, for the disastrous failure of the partial reform would of course have been used as an argument against the theory of paper-money, and we should have relapsed, perhaps for centuries, into the barbarism of metal money.

Free-Money makes the supply of money independent of all conditions; the exact quantity of money that has been put in circulation by the State is supplied to the market. What had hitherto been taken for granted, namely, that the supply of money, like the supply of potatoes, must always be equal to the stock, has for the first time become a reality. The supply of money no longer runs an independent course; it has ceased to be an arbitrary act; it is not influenced by human volition. The quantity theory now holds good, even in the simple form sometimes termed "crude."

Under such circumstances, how can a crisis occur? Even if the rate of interest decreases, even if it falls below zero, money will nevertheless be supplied; and should prices tend to fall, the State will raise them again, simply by increasing the stock of money. The supply of money will then in all conceivable circumstances balance the supply of goods.

Now if it is Free-Money which prevents crises, we have to look for the cause of the crisis at the point where the traditional form of money differed from Free-Money. And the difference lies in the motives controlling the supply of money now and formerly.

Interest was formerly the essential and obvious condition of the

circulation of money; whereas money is now supplied without interest.

Formerly, when a general fall of prices set in (already an indication that the supply of money was insufficient) money was withdrawn from the market (because with prices falling nobody buys or can buy goods commercially, without incurring the risk of losing on the outlay), and in this way a general fall of prices frequently developed into a frantic universal scramble for ready money, which inevitably precipitated prices to the lowest depths. Whereas at present money is supplied in all conceivable circumstances.

And with a general rise of prices, the index of an excessive supply of money, all private reserves of money sought a market, because everyone was anxious to participate in the generally expected further rise with as large as possible a stock of goods or of industrial shares. This made the expected rise inevitable, forcing up prices to the very highest level attainable by the supply of all private reserves of money. Whereas at present prices cannot rise at all, because there are no longer any private reserves of money.

The amount of money supplied to the market, the answer to the question whether a capitalist should or should not buy commodities, used to be determined by guess-work, public opinion, rumour, very often merely by the frown or smile of a sovereign. If the digestion of the "leading" stock jobbers was sound, and fine weather coincided with some favourable piece of intelligence, the "tone" of the market changed, and the sellers of yesterday became the buyers of to-day. The supply of money was a straw blown by the wind. And consider the haphazard fashion in which money was produced! If the diggers found gold—good; if they did not—we had to manage without. All through the Middle Ages down to the discovery of America commerce had to be conducted with the stock of gold and silver inherited from the Romans, because all the mines then known were exhausted. Trade and traffic were restricted to a minimum, because the scarcity of the medium of exchange did not permit the division of labour. Since that time much gold and silver has been discovered; but how irregular were these discoveries! There were "finds" in the fullest sense of the term.

Added to these fluctuations in the discovery of gold were the fluctuations in the currency policies of the various countries which

sometimes introduced the gold standard by means of loans of foreign gold (Italy, Russia, Japan), thus withdrawing immense quantities of gold from the markets, and sometimes reverted to a paper standard and so thrust their gold back on the foreign markets.

The supply of money was thus the shuttlecock of the most varied and conflicting circumstances. That was the difference between the former monetary system and Free-Money; that was the cause of economic crises.

O. The Theorist on Wages

Now that railways, steam navigation and the right of free movement have placed vast tracts of fertile soil in America, Asia, Africa and Australia at the disposal of the workers; now that the growth of personal credit (the result of higher moral and educational standards and enlightened commercial legislation) has made capital accessible to the workers, the " iron law " of wages no longer holds good.

The labourer is no longer delivered over to the tender mercy of the landowner; he can break away from his serfdom and shake the dust of his native land from his feet. The land monopoly has been broken. Millions of workers have sought freedom by emigration, and the landowners are compelled to treat those who remain as free men. For the possibility of emigration has set them all free.

I was forced to abandon the iron law of wages; the facts disproved me. According to Moleschott and Liebig the quantities of nitrates and carbohydrates necessary for a man working twelve hours a day are contained in a pint of fish-oil and a few pounds of broad beans. These substances cost twopence, to which may be added one halfpenny for potato parings, clothing, housing and religious needs, total twopence halfpenny. This, then, was the iron limit above which wages could not rise. But wages were higher, so the law of the iron wage was a fallacy.

I tried to evade this difficulty by saying that the iron wage is the minimum required for the worker to maintain and propagate life on the level of his cultural standard (minimum cultural standard of existence). But this did not carry me far. For how had the worker fed on broad beans attained to a cultural standard at all?

How could the rascal escape from his well-guarded compound? And apart from that, what is culture, what is a minimum standard of existence? Fish-oil and broad beans are a Christmas feast for the weavers in the Eulengebirge. Such elastic terminology is useless for science. According to many people (nature faddists, cynics and so forth) a life without material needs is a sign of the highest culture, so the iron wage based on the standard of living would have to diminish with the increase of culture, which weans men from material needs. Are the weavers in the Eulengebirge less civilised than the obese persons who begin their day with a beer breakfast and look more like pigs than human beings? Nor is it true that wages rise with the number of tankards or the quality of the tobacco.

The Minister of Commerce in the Prussian Diet stated that the average wages of the miners in the Ruhr district were as follows:

	Marks		Marks
1900:	4·80	1903:	3·88
1901:	4·07	1904:	3·91
1902:	3·82		

Thus wages fell 25% within a space of three years! Did the cultural standard of the miners also fall by 25% in this short period*? Or did they lapse into the barbarism of total abstinence? Abstainers manage with less money, which would be an excellent reason for further reducing the minimum wage to the level of the cultural standard of total abstinence. But here the question arises why our rulers are not more enthusiastic supporters of the abstinence movement. Were it possible by means of total abstinence to reduce wages in favour of unearned income, the manufacture and sale of alcoholic drinks would be quickly prohibited! But our rulers know better: Beware of your abstainers! Without intoxicants a people cannot be " governed."

In a word, the minimum cultural standard of existence is humbug, and so is the iron law of wages. Wage movements take no heed of the standard of civilisation. The increase of wages which the workers imagine they have " wrested " for good from their employer is lost

* We assume that the real wage fluctuated with the money wage. Otherwise the so-called " German Currency Standard " is simply a fraud.

again to-morrow if business takes an unfavourable turn. If, on the other hand, the market improves, the increase of wages will automatically fall to their lot without a struggle and even without their demanding it, just as the higher price of wheat falls to the farmer without a struggle, when the prospects of the American harvest are reported to be poor.

For what are wages? Wages are the prices paid by the buyer (employer, merchant, manufacturer) for the goods supplied him by the producer (worker). This price, like the price of any commodity, is determined by the prospective selling price. The selling price, less rent on land and capital-interest, is the so-called wage. It follows that the law of wages is contained in the law of rent on land and the law of capital interest. The commodity, less rent and interest, is the wage. There is, then, no special law of wages. The word wage is a superfluous term in economic science, for wage and price are one. If I know what determines the price of commodities, I also know what the worker obtains for his produce.*

Free-Money has opened my eyes to all that; it has liberated me from my illusions about so-called "value," the very existence of Free-Money being a tangible refutation of all theories of value and of the very belief in value. And the belief in value being disposed of, the conception of "labour" went overboard, being wholly superfluous for an examination of economic laws. What is labour? Labour cannot be measured by the movements of the arms, or by the degree of fatigue, but solely by the produce of labour. James Watt in his grave does more work to-day than all the horses alive. It is not the labour, but the result of labour, the product, that matters. The product is the thing bought and paid for, as is clearly demonstrated in the case of piece-work. And at bottom all labour is piece-work.

But to buy commodities is to exchange commodities. Economic life therefore resolves itself into a series of exchange-transactions, and all terms such as "wages," "value," "labour" are simply superfluous circumlocutions for the two basic conceptions "commodities" and "exchange."

* In the last part of this book I shall show that the owners of the means of production (manufacturers) are simply pawnbrokers—a fact now, indeed, generally admitted.

6. INTERNATIONAL TRADE

1. The Mechanism of the Exchanges

It is often asserted that foreign trade cannot be carried on with paper-money, that gold is needed for this purpose. But in reality foreign payments can be made with paper-money, and the mechanism of such payments is simple enough, though it is still not generally understood.

Do you see the lemons in the greengrocer's over there? They come from Malaga. And the packing cases yonder being trundled from the Hamburg Parasol Company to the station are going to Seville. The question is, can these two transactions be carried on with German and Spanish paper-money, without the intervention of gold?

If the same dealer imported the lemons from Spain and exported the parasols to Spain, everybody would see that paper-money offers no obstacles to the execution of the two transactions. The dealer would sell the parasols in Seville for Spanish paper-money, and with this paper-money buy lemons in Malaga. He would then send the lemons to Hamburg, sell them for German paper-money, and with it pay for the parasols. He would repeat this transaction indefinitely without being troubled by the circumstance that Spanish paper-money is not legal tender in Germany. The Spanish paper-money received for the parasols is spent in Spain for lemons, and the German paper-money paid him for the lemons is used for the purchase of parasols. His capital changes continually: to-day it consists of lemons, to-morrow of German marks, next of parasols and then again of Spanish pesetas. The dealer is concerned only about the profit, about the surplus yielded by the continual transmutation of his capital. And his guarantee that there will be a surplus depends, not on the currency, but on the laws of competition.

Import and export are seldom, however, united in one hand, as a rule we have here also division of labour which requires a special action to effect the payment. But here again paper-money is no obstacle. The transaction is as follows: The importers and the exporters living in the same town meet on the Exchange where the exporter of parasols sells to the importer of lemons, for German

money, his claim on Seville in the form of a bill of exchange. At what price (rate of exchange) that is done we shall see presently. This bill of exchange, which is made out in Spanish pesetas, is sent by the importing firm to Malaga in payment for the lemons received. The wording of the bill is as follows:

Thirty days after sight pay to the order of Hamburg Lemon Importers Ltd. the sum of One Thousand Pesetas, value received (our invoice of August 1st. for parasols).

To Mr. Manuel Sanchez, Seville. The Hamburg Parasol Company.

The sale of the bill by the parasol exporting firm to Lemon Importers Ltd. is already certified by its being made out to the order of Lemon Importers Ltd. The further sale of the bill to the lemon exporting firm at Malaga will be inscribed on the back of the bill, as follows: For us to the order of Messrs. Cervantes y Saavedra, Malaga, Hamburg Lemon Importers Ltd.

From Malaga the bill is sent through a banking-house to Seville and is there met by the dealer in parasols, Mr. Manuel Sanchez.

The transaction in parasols and lemons is then effected in all four directions, the parasol exporting firm in Hamburg and the lemon exporting firm in Seville having received their money, the lemon importing firm in Hamburg and the parasol importing firm in Seville having paid their bills. Yet the only money that entered into the transaction was German and Spanish paper-money. Although there were four parties concerned in the export and import, goods were paid for with goods, German goods with Spanish goods.

The transaction is similar if instead of being negotiated between the importing and the exporting firms direct, the bills are handed in at banks, which is the general rule if the importer and the exporter live in different towns. It would lead us too far to describe the whole course of such a transaction, but there is no essential difference.

One important question has yet however to be answered: What determines the rate of exchange of the peseta bill of exchange in Hamburg, what is the price, in German money, paid by the lemon importing firm in Hamburg for the bill of exchange made out in a foreign currency?

This question, also, we shall answer. The price of bills of exchange, like the price of lemons and potatoes, is determined exclusively by demand and supply. Many potatoes, many bills, mean low prices for potatoes and bills. Now many Spanish peseta bills are offered for sale in Germany when many goods are exported to Spain, and there is little demand for peseta bills in Hamburg when few goods are imported from Spain. Hence the price (rate of exchange) of peseta bills falls, to rise again when the tide turns.

As long as imports and exports remain unchanged, the supply of and the demand for bills will balance. But a change immediately occurs if, for any reason, prices in Spain or Germany (to come back to our example) depart from their general level. If commodity prices rise in Spain, say because comparatively more paper-money has been issued there than in Germany, these higher prices will attract more foreign commodities and at the same time make the export of Spanish goods less profitable or altogether unprofitable. Imports into Spain therefore increase, while exports decrease. The supply of peseta bills in Hamburg is then large, whereas the demand for them becomes small. But demand and supply determine the market price of the peseta, so the peseta, instead of standing at 80 pfennigs will cost 75 or 70 pfennigs or even less. The parasol exporters do not realise in German currency as much as formerly for their bill of exchange on Seville, so that what they gained by the high prices obtained for their parasols in Seville, the expected additional profit, they lose again by the falling rate of exchange when selling their bill of exchange in Hamburg. The lemon importers on the contrary, will recover in the lower price of the peseta bill of exchange in Hamburg the excess paid for the lemons in Malaga.

This play of forces continues until the high prices of Spanish goods caused by the inflation of the Spanish currency, have been compensated by the fall in the rate of exchange of the peseta, when the stimulus to increased imports and decreased exports disappears. The equilibrium between import and export is thus automatically restored, which means that a special fund for the payment of balances between two countries with paper currencies is superfluous, because such balances cannot occur.

We need hardly add that if prices rise in Germany and remain stable in Spain, things will be reversed: the export of parasols

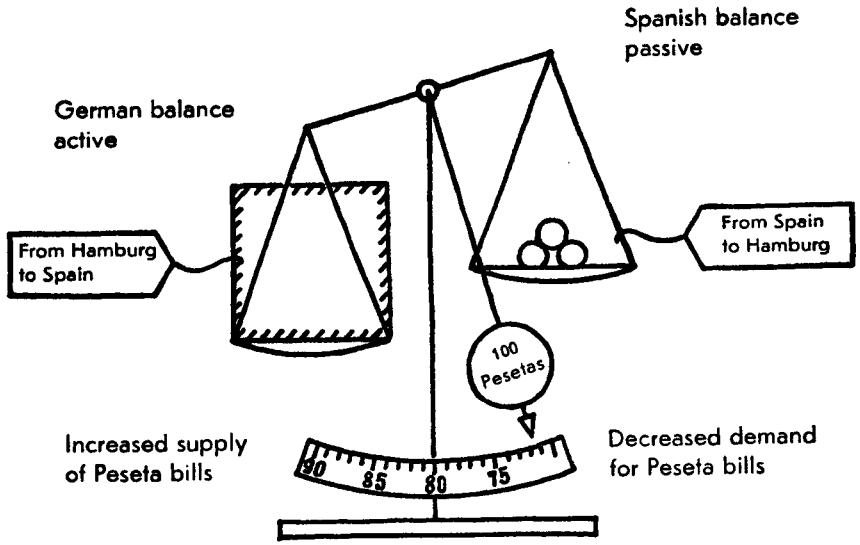

Figure 6A. German-Spanish Balance of Trade.
Surplus of German Export.

The supply of peseta bills increases, and the demand for peseta bills decreases, so the German rate of exchange falls (in the figure to 72 marks for 100 pesetas).

The German exporter then loses, and the Spanish exporter gains, on the rate of exchange.

becomes unprofitable, while import into Germany from the countries with which Germany normally competes in the world market becomes increasingly profitable. Fewer foreign bills of exchange are then offered for sale in Germany, whereas there is a brisk demand for them; this means higher prices (in German paper-money) for foreign bills, and the rising price (rate of exchange) of these bills automatically restores the equilibrium between imports and exports.

Fluctuations in the rate of exchange at one moment favour and at the next injure exporters or importers and so add greatly to the risk of commerce. Between two countries with different paper currencies there is evidently no limit to such fluctuations in the rate of exchange, for they depend simply on the internal currency policies of the two countries. But does not the fact that it is possible

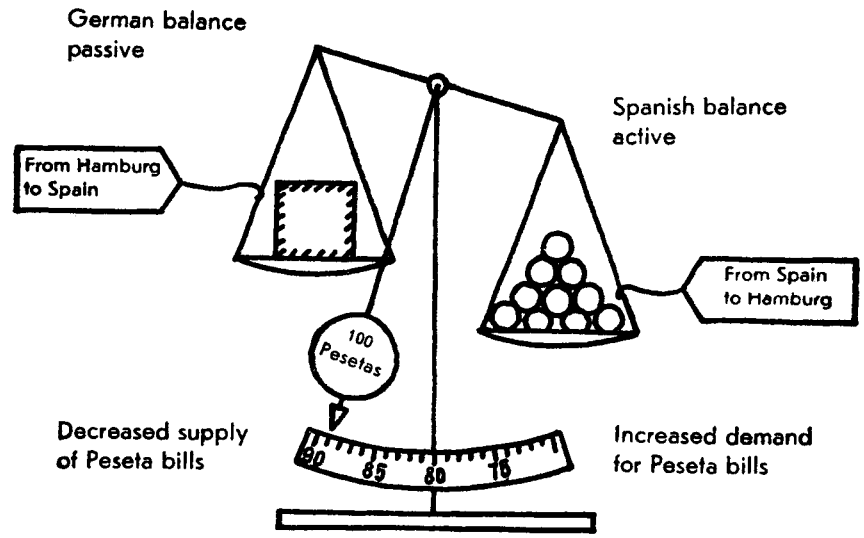

Figure 6B. German-Spanish Balance of Trade.
Deficit of German Export.

The supply of peseta bills decreases, and the demand for peseta bills increases, so the German rate of exchange rises, (in the figure to 89 marks for 100 pesetas).

The German exporter then gains, and the Spanish exporter loses, on the rate of exchange.

Both figures (6A and 6B) show how a surplus balance of trade depresses the rate for foreign bills of exchange and restricts export. Fluctuations in the rate of exchange tend, therefore, to counteract their causes.

through currency policy to cause arbitrary and unlimited fluctuations of the rates of exchange prove that it is also possible through suitable currency policy to stabilise, to fix arbitrarily, the rates of exchange? If the equilibrium of exports and imports can be disturbed by currency policy, it must be possible, by currency policy to forestall the fluctuations of imports and exports, even those due to natural causes, such as failure or unusual abundance of the harvest. All that is necessary is the adoption of a uniform currency policy by the countries concerned. If we in Germany and the Spaniards in Spain by suitable regulation of the currency maintain a stable level of prices, the ratio of exports and imports will

also remain stable. The ratio of demand and supply of bills of exchange and, finally, the rate of exchange will then also be stabilised. For a solution of this problem we only need an agreement between the two countries and action based thereon.

What we here demand of the currency administration was realised, to a certain extent automatically, by the international gold standard. When the currency (gold and banknotes) in any country became over-abundant and prices consequently rose above their natural level in the world market, what happened was exactly what now happens in a country with a paper standard when the circulation is increased. The bills drawn on the country with rising prices had a falling rate of exchange. If, for example, the country was Spain, the rate of exchange of the peseta in Hamburg fell from 80 to 79 or 78 pfennigs and continued to fall until the seller of such gold peseta bills (in our example the exporter of parasols) wrote to his correspondent in Seville: "I find it difficult to sell the bills drawn on you for the parasols supplied. I am offered only 78 pfennigs instead of 80 for a peseta. I therefore cancel the bill and request you to remit the amount of my invoice in gold coins of your country." Our parasol exporter has now of course to pay the expense of this shipment of gold, so he will not have recourse to this expedient unless the loss on the rate of exchange exceeds the expense of shipping the gold. The Spanish gold coins are delivered to the Reichsbank, which converts them for the parasol exporter free of charge, into German currency, or else exchanges them for banknotes at the fixed rate of 2790 marks for a kilogram of fine gold.

Now what happens here and in Spain in consequence of this business custom? In Spain the currency is diminished by the amount of the gold shipment from Seville. If the gold is withdrawn from the Spanish central Bank of Issue, this bank is obliged to withdraw from circulation three times the amount in banknotes, in accordance with the law that the notes issued must be covered up to one-third of their value by gold. In Germany, on the contrary, the circulation of money is increased by three times the amount of the shipment of gold from Spain. The effect is that prices in Spain fall, and prices in Germany increase, and this increase continues until equilibrium is restored.

Had the general rise of prices which caused the fluctuation in the rate of exchange occurred in Germany instead of in Spain, the lemon importer in Hamburg would have acted like the parasol exporter. He would have written to his Malaga correspondent that on account of the high rate of the peseta in Hamburg he was sending German gold coins, instead of making the customary remittance by bill of exchange in payment for the lemons he had received.

As gold shipments of this kind were frequent, it was generally believed that reserves of gold were necessary for this purpose, but that was a misconception. For equilibrium would have been restored automatically without these gold shipments, through the obstacles or facilities to import or export resulting from fluctuations in the rate of exchange. The effect of the shipments of gold, and of the gold reserves which rendered them possible, was not due to the shipping of the gold itself, but to the influence of the gold shipments on commodity prices. It was the change of prices and not the gold shipments that restored equilibrium. If the currency administration in countries with rising rates of foreign exchange (for example in Germany when peseta bills fetched a high price in marks) had reduced the circulation of currency by withdrawing banknotes from circulation, the consequent fall of prices would immediately have restored equilibrium of exports and imports, and the rate of exchange would have returned to par. A very simple action, namely an increase of the rate of discount for bills of exchange by the Bank of Issue, would have rendered gold shipments and the gold-reserves destined for them superfluous.

A conscious action must be substituted for a dead mass of gold, since the monetary standard cannot be conceived as a substance, but only as an action, as an administrative measure.*

With the gold standard fluctuations in the rate of exchange could never exceed the cost of shipping gold. At a low level of civilisation, in which no intelligent State control is possible, such automatic compensation of currencies has certain advantages. But at the present day, the retention of the gold standard for this reason is an insult to the national administrations.

* See also: Frankurth und Gesell: Aktive Währungspolitik.

For a machine automatic regulation may be preferable to the human hand, but the currency cannot be compared with a machine. The regulation of the currency under the gold standard is moreover, automatic only in a restricted sense. The shipments of gold are not automatic, for the gold has to be counted, packed, shipped, insured, recoined. The withdrawal of an equal sum of money from circulation as an administrative measure of the Bank of Issue would have the same effect, with less effort and no expense whatever.

We must further keep in mind that with the gold standard fluctuations in the rate of exchange between distant countries, allowing for interest, may amount to 4% or more.*

The automatic mechanism of the gold standard does not prevent fluctuations; it begins to act only when the fluctuations have reached the maximum, at the so-called gold point (the cost of gold shipments mentioned above), or in other words, with the setting in of the import and export of gold. When the fluctuations in the rate of exchange have done all the damage they can, and not till then, does the remedy begin to operate. With a paper standard, on the other hand, if the statistical service of the currency administration is reasonably efficient, the remedial measures make themselves felt simultaneously with the first signs of a disturbance of the equilibrium, and the fluctuations of the exchanges are confined to these signs. With the gold standard it might indeed also be possible to prevent and forestall fluctuations, and the central Banks do assert that they are not mere automata. But if the gold standard has to be assisted by a conscious act, what remains of the automatic functioning claimed by its advocates ?

What has here been said applies to ordinary paper-money. With Free-Money, owing to its compulsory circulation, the measures of the monetary administration are immediately effective, and the claim that no reserves of any kind are necessary to maintain stable rates of exchange becomes doubly true.

* The expense of a shipment of gold from Europe to Australia is fully 2%. It is composed of the interest lost during the voyage, freight, insurance, packing and brokerage. The rate of exchange between Europe and Australia may therefore fluctuate above or below par by 2%, so in this case the margin may exceed 4%. That is what was called a standard !

2. Stabilisation of the International Exchanges: Theory. Some Facts.

1. Silver five-franc pieces circulated freely before the war in the countries of the Latin Currency Union. (France, Italy, Switzerland, Belgium and Greece). These five-franc pieces were free to pass from one to another of these countries; they were legal tender at par with the national currencies, and usually circulated at par with them.

2. Yet these five-franc pieces were " fiduciary " money; they were for some time " covered " only to the extent of 50% by the silver they contained; they could buy double their weight of silver. Hence, of two such coins, one could be regarded as purely " fiduciary " money. Five-franc pieces lost half their value in the melting-pot.

3. Because of their freedom of circulation, these coins had a regulating effect upon the international exchanges, and acted as an automatic arbitrage mechanism, bringing prices to a level in the different countries.

4. The balance of trade and payments was regulated by this automatic arbitrage mechanism.

5. If one country of the Latin Currency Union increased the quantity or the rate of circulation of its currency out of proportion to the other countries, its general level of prices rose above theirs. Hence the imports of this country increased, its exports decreased, and its balance of trade and payments closed with a deficit which had to be made good by the export of five-franc pieces.

6. The export of five-franc pieces lowered prices in this country and raised them in the other countries, especially as five-franc pieces were counted as " cover " for notes and, if removed from a Bank of Issue usually caused the withdrawal of double the quantity of notes from circulation. The effect of exporting five-franc pieces was usually, therefore, doubled. The export of five-franc pieces lasted until equilibrium was established in the balance of trade and payments.

7. If the increased issue of notes continued until the country was completely drained of five-franc pieces, it could no longer make up the deficit by exporting them. The automatic arbitrage mechanism

then ceased working and an agio (premium on foreign money) appeared.

8. If the country wished to eliminate the agio, it withdrew notes from circulation. Prices then fell, imports decreased, exports increased, the deficit in the balance of trade and payments gradually decreased and was replaced by a surplus. The five-franc pieces which had been driven away by the increased issue of notes then began to flow back and conditions were reversed—until a general equilibrium was reached. Prices in the different countries were levelled by the five-franc pieces, as water, after a disturbance, is levelled by a system of communicating pipes.

9. If all the countries of the Latin Currency Union were guided, when issuing notes, by the danger-signals described in paragraphs 7 and 8, the fluctuations of their exchanges remained within the cost of transporting five-franc pieces from one country to another.

10. The countries of the Latin Currency Union therefore stabilised their exchanges by declaring one class of coins an international medium of payment, not by internationalising their whole currencies.

This was not, of course, the original purpose of the Union, whose founders could not have foreseen that silver would become "fiduciary" money.

The regulating effect of the five-franc pieces upon the exchanges can be explained only by the theory of paper-money.

Inferences from these Facts.

1. The play of forces described above is in accordance with the quantity theory of money and is a proof of its correctness.

2. The results would have been the same if five-franc notes had been substituted for the five-franc pieces—which acted as an international medium of payment because of an international agreement, and not because of the silver they contained.

3. International paper-money issued in one denomination under the supervision of the countries concerned, and for this purpose only, would circulate freely like the five-franc pieces and regulate import and export, thus keeping the exchanges in equilibrium.

4. An unusual influx of these international five-franc notes would prove that insufficient national currency was in circulation.

An unusual efflux of the international notes would prove that the national currency was over-abundant.

5. The complete disappearance of the international notes and the resulting agio (premium upon the international notes) would be a warning signal that the country in question should proceed to drain the market of national notes until the agio disappeared and international notes began to flow back.

6. Too large an influx of international notes would mean that insufficient national currency was in circulation—unless all the other countries were expelling international notes by issuing too much national currency. The latter supposition leads to the question of currency standard, which must not be confused with the question of the exchanges.

We shall now give a summary of our proposals for an international union for regulating both the currency standard and the exchanges: The International Valuta Association.

3. Stabilisation of the International Exchanges: Practice. The International Valuta Association. (Iva).

1. Countries desiring to join the International Valuta Association adopt the "Iva" unit of currency standard.

2. This new unit is not static (substance); it is dynamic (action). As the result of a continuous active currency policy it can remain a fixed quantity only as long as that currency policy keeps it so.

3. The currency policy of the Iva countries is based upon stabilisation of the currency.*

4. The statistics of prices required for a policy of stabilisation are recorded on a unified system by all the countries of the Association.

5. An active currency policy with stabilisation as aim depends upon the quantity theory of money, upon the fact that if the general level of prices fluctuates, it can under all circumstances, even in time of war, be brought back to a starting point by an increase or decrease of the monetary circulation.

6. The currency systems of the Iva countries remain national,

* By currency stabilisation is meant the equilibrium between the supply of money and the supply of goods—the fixed general level of prices—resulting from an active currency policy with this aim.

but are based on unified principles, valid in all circumstances and for all stages of development.

7. This unified national currency policy removes the chief cause of disturbances in the balance of trade and of the resulting fluctuations in the exchanges.

8. Small disturbances in the balance of trade caused, for example, by the course of the seasons, are still possible.

9. To eliminate completely the effect of these disturbances upon the exchanges, a special form of international paper-money is issued which is imported and exported without hindrance by all the countries of the Association and is recognised by them as legal tender at par with the national currency.

10. This international paper-money is issued by the Iva Office, say at Berne, to the countries of the Association and under their supervision. The Iva notes are issued free of charge, except for the expense of printing and administration.

11. The quantity of Iva notes is determined solely by their regulating effect upon the exchanges, about 20% of the national issues being required for this purpose.

12. For the amount of the Iva notes issued to each country the Iva office at Berne receives a bill of exchange payable only in case the country, by mismanagement of the national currency resulting in a permanent deficit in its balance of trade, has forced the export of its Iva notes, Iva notes being obtainable only on payment of an agio. From the date of this occurrence the bill of exchange bears interest.

13. The Iva notes are issued in a denomination especially suitable for retail trade. Scarcity of superfluity of the notes is therefore felt immediately.

14. It is in the interest of the countries of the Association to take the measures necessary for keeping the Iva notes at par with the national currency.

15. For this purpose national notes are issued when Iva notes are flowing into the country, and national notes are withdrawn when Iva notes are leaving the country.

16. If this international currency policy, undertaken in the interest of the Iva note, leads to an appreciable and lasting discrepancy with currency stabilisation, an international investigation

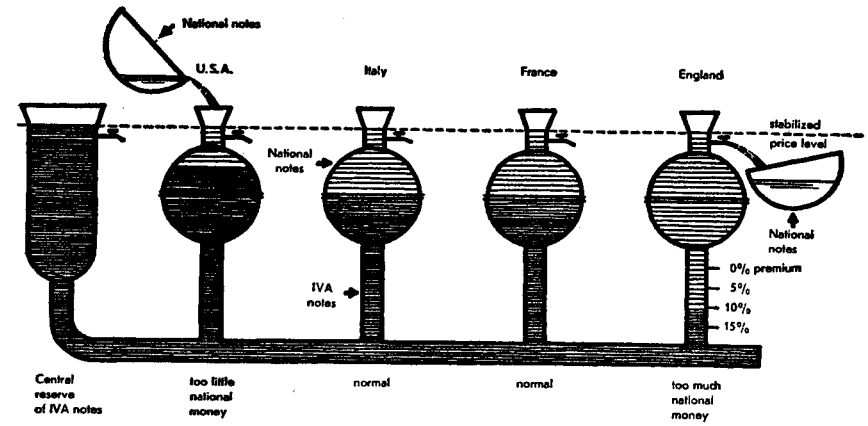

Figure 7.

Stabilisation of the International Exchanges by means of international (Iva) notes.

The upper, lightly shaded part of the reservoirs represents national notes; the darker shading international notes.

Explanation of Figure 7.

Just as water in a system of communicating pipes tends, when disturbed, to return automatically to the same level, so in countries which link their currencies by means of Iva notes, prices will remain at the same level, or tend, if disturbed, to return to that level—provided, of course, that the national currencies are based on the principle of stabilisation.

If one of these countries abandons the principle of stabilisation and pays no heed to the danger signals (export and import of Iva notes), it will become flooded with Iva notes (U.S.A. in the figure), or completely drained of them (England in the figure). But it is detrimental to a country to become flooded with international notes, since it loses the interest on the national paper-money that it might have issued. And it is still more detrimental to a country to become drained of Iva notes, on account of the resulting premium on these notes which disturbs its foreign trade. The normal situation is shown in the reservoirs marked France and Italy. In the reservoir marked U.S.A. the plethora of international notes is being relieved by a strong dose of national notes. In the reservoir marked England, on the contrary, the premium on Iva notes is being removed by withdrawal of national notes. (The open tap in the figure).

The drawing represents a closed system, but the communicating pipe is shown with a coupling (on the right) to facilitate the entry, later, of other countries into the Iva system.

Any form of international currency, not only gold, will stabilise the international exchanges. Countries adopting the gold standard had stabilised exchanges but a fluctuating price level. Countries adopting the Iva system have stabilised exchanges but, as well, a stabilised price level.

is instituted by the Iva Office to discover the cause of the disturbance and to issue to all the countries of the Association the instructions necessary for its elimination.

17. To exclude the influence of the cost of transport (import and export) of Iva notes upon the exchanges, this expense is borne by the Iva Office.

18. The expense of administration is divided among the countries of the Association in proportion to the amount of Iva notes issued to them.

19. Any non-European country observing paragraphs 1 and 9, and adopting the principle of currency stabilisation can join the Association and will then receive the usual amount of Iva notes (20% of the national issue).

20. A country can leave the Association at any time on redemption of the bill of exchange mentioned in paragraph 12.

21. To dissolve the Association, these bills of exchange could be paid to the Iva Office which could then destroy the Iva notes so recalled.