IV. The Road to Ruin

By Arthur Kitson

From the *National Review*, London Tory Monthly

IS IT POSSIBLE to arouse the intelligent people of this country to the imminence of their peril? By what other means than the publication of the warnings that have appeared in the pages of this journal from time to time during the past eleven years can one drive home the seriousness of our country's situation, and the causes that have created it?

In the September number of the *National Review* of 1920, on page 71, the following appeared: 'We are threatened with wholesale bankruptcy and national ruin through the policy now being strenuously advanced by the Treasury and Inland Revenue officials, aided by certain financiers, both national and international, and their organs. Unless the true nature of this policy is exposed and the conspiracy that lies at its root defeated, the British taxpayers will not only be saddled with a debt that will become practically inextinguishable, but we shall witness a period of industrial depression and social upheaval far more terrible than that following the Napoleonic wars!'

This policy, which was started soon after the appearance of the article from which the above quotation has been made, consisted of raising the purchasing power of the bankers' commodity—credit—by reducing the volume of legal tender and raising the bank rate. This policy caused a rapid fall in the price level of all other commodities, increased the costs of production, lessened the demand for goods, depressed trade and industry, increased the burden of debt and of taxation, and started the present era of unemployment and industrial ruin. A similar policy adopted in other countries is responsible for similar results.

Repetitions of these warnings have appeared in this and other journals since 1920, but without any apparent effect upon those responsible for this suicidal policy. It is true that several of the advocates of this policy have recently recanted and admitted their mistakes, but this has not deterred those in charge of our national finances from pursuing their ruinous policy.

The crisis that has led to a change of Government has been predicted for some years past, and it was no surprise to those of us who have done all in our power to try to enlighten our parliamentary and industrial leaders as to the real cause of our economic disasters. The Prime Minister has stated the position that confronted him some weeks ago, but he has shown in his statements that he is entirely ignorant of monetary science, and the measures that he has proposed for overcoming the crisis can only lead to a far more serious crisis in the near future.

He considers that any fall in the purchasing power of the pound sterling in relation to gold would be disastrous to the people of this country and to the world generally. And, in order to prevent this supposed calamity, he suggests a régime of rigid economy to be adopted by all classes. The public must consume less and purchase less, which means that, bad as our trade is, it must be further depressed, resulting in increased unemployment!

The present crisis is not by any means the first that has occurred in the financial history of this country. On several former occasions the Bank of England has found itself in serious difficulties by reason of the preposterous Bank Charter Act, which compelled the Bank to buy gold at a certain fixed price in sterling whenever it was offered, and to sell it also at a fixed price to anyone who presented Bank of England notes in payment.

Take the last crisis, which occurred as soon as the shadow of war first appeared in July 1914. For weeks previously, German bankers had been dumping securities on the British market and taking away gold. The export of gold continued until the Bank had scarcely enough to pay three shillings in the pound.

There was no panic, and the difficulty was speedily and easily surmounted by the issue of treasury notes. These notes proved the country's salvation through the greatest crisis in our history. It is true that this was done on the advice of the bankers themselves, and consequently the press raised no objection. On the contrary, they welcomed them and the public accepted them in place of golden sovereigns. In fact, the public voluntarily exchanged their sovereigns for these treasury notes. Mr. MacDonald has told us that the present crisis was as serious as the war crisis. Why could he not have met the issue in the same way as the Chancellor met the war crisis in 1914?

Again, we read almost daily warnings from the financial writers of the danger of what is called 'the flight from the pound'! Direful pictures are painted of the ruin and havoc that will occur to the whole of our population if the pound ceases to be equivalent in exchange value to 113 grains of gold. *Never was greater nonsense written.* The periods of this country's greatest industrial prosperity—measured by its output of goods—have been those periods when the pound was cheap; and the periods of our greatest industrial depression and social misery have been those during which the pound has been the dearest.

What is it that gives value to money and to credit? It is certainly not a paltry few millions of pounds of gold held in bank vaults. To-day we are all using the promissory notes of the Bank of England, against which there is not sufficient gold to redeem more than a small proportion. But this redemption is not legally obligatory on the part of the Bank—except in special cases and only for amounts equivalent to four hundred ounces of gold and over. *The value of money is created entirely by the public and by the Government when they accept it in exchange for goods and services.* No one, except those engaged in international exchange, stops to think of the *basis* of the currency. The one and only question that arises is, 'Will this money be acceptable to those whom I wish to purchase goods from and pay my bills to?' John Stuart Mill announced three-quarters of a century ago that, if every golden sovereign was replaced by a one-pound note and the gold withdrawn entirely, each note would have precisely the same value as the golden pound. We have innumerable instances of this. During the War the Bank of Sweden refused to exchange its notes for gold. Gold was at a discount with paper. And to-day the value of gold is purely artificial and is due to the legal-tender laws enacted by this and other countries since the War. And, if the Governments of Europe and of America were to do with gold what they did with silver half a century ago, gold would fall in value just as silver has done. Gold is a commodity like all others, and is affected by supply and demand. It is not owing to the demand in the arts that gold retains its high value. There is enough uncoined gold held in bank vaults to last the arts for the next fifty years. What would the value of cotton or wool or copper be, if it were known that there was enough of these commodities held in storage to satisfy the industrial demand for the next half-century?

Again, it is claimed by the advocates of the gold standard that the yellow metal furnishes *a stable measure of value*. How much longer will the public allow themselves to be deceived by such a baseless claim? We have only to go back to the war period and compare our treasury-note system, unbacked by gold, with the dollar of the United States, where nearly one-half of the gold supplies of the world were collected. The only correct method of estimating the fluctuations in money is by means of index numbers. I quote the following from the speech of Mr. Reginald McKenna, chairman of the Midland Bank, delivered on January 27, 1925. After mentioning the variations of the pound sterling with the dollar during the War, he says: 'In 1922 the mean deviation from the British average [index number] was 2.87 and from the American 6.34. . . . If we take the whole period, 1922 to 1924, the respective mean deviations were 4.30 and 4.90. Thus, on the basis of the official index numbers, the price level in England has been more stable during the last three years than in the United States. Measured by the standard of purchasing power, the pound, which is not on the gold standard and has no regular restriction on its issue, has maintained stability better than the dollar, which is based on gold.'

If we take a history of gold values from the beginning of our present industrial era we learn that from 1789 to 1809 gold fell in value 46 per cent; that from 1809 to 1849 it appreciated 145 per cent, while between 1849 to 1874 it fell again 20 per cent. Its fluctuations since that date have been more numerous and more harassing to trade and commerce than any other single factor.

Moreover, the value of gold can be seriously affected merely by its removal from circulation. Its use as the basis of currency provides a means by which financiers can enrich themselves to an almost unlimited extent. The bankers' magazine some years ago gave an illustration of this. It related how a certain American syndicate during a period of three weeks withdrew £11,000,000 in gold from the Bank of England and shipped it to New York. Before doing this they sold British securities heavily and bought American securities. The withdrawal of this gold caused a fall in the prices of 325 of our leading securities of £115,500,000, while the expansion of credit in America, due to this additional gold, led to an advance in American securities to a similar extent. As a financial writer said at that time, 'These speculators were playing upon two tables—one in London and the other in New York—at the same time, and winning on both without any risk of losing. They were gambling on a certainty!' Similar operations have taken place since this and are in fact being continually practised, but without the same publicity.

THERE is not one scientific reason for employing gold as a basis for currency at the present time. In the days when credit was unknown, when mutual trust was impossible, in short, when society was in a semibarbaric condition, the use of the precious metals was probably the simplest and best method of trading. But this method was simply barter. The exchange of commodities for commodities is confined to unorganized or uncivilized communities. The business of the world generally is now carried on by means of credit. The credit of a nation is the real basis of a safe and sound currency. This credit comprises all its wealth-producing facilities. It includes capital and labor and raw material and natural wealth; its mines, its soil, and even the skill and genius of its people and especially their moral qualities. The credit of Great Britain does not rest upon the contents of its banks' vaults. It is based on its wealth production and the services of its people. *Can anything be more ludicrous than the spectacle of a nation reducing its economic standard of life, abandoning a large percentage of its works, machines, mines, fields, and farms, for the purpose of restoring its credit!*

And yet this is precisely what the policy of the so-called National Government amounts to. Professor J. M. Keynes in the *Evening Standard* of September 10 writes as follows: 'There is scarcely an item in the Economy Programme of the May Report—whether or not it is advisable on general grounds—which is not certain to increase unemployment, to lower the profits of business, and to diminish the yield of the revenue; so much so, that I have calculated that economies of £100,000,000 may quite likely reduce the net budget deficit by not more than £50,000,000, and we are just hoodwinking ourselves (unless the real object is to *pretend* to balance the budget for the benefit of foreign financiers) if we suppose that we can make the economies under discussion without any repercussions on the number of the unemployed to be supported, or on the yield of the existing taxes. Yet, if we carry "economy" of every kind to its logical conclusion, we shall find that we have balanced the budget at nought on both sides, with all of us flat on our backs, starving to death from a refusal for reasons of economy to buy one another's services!'

Mainly through ignorance, the Prime Minister is leading the country further down the road to ruin. Both he and his Chancellor are relying upon the trade and financial theories of a century ago, when our trade was a mere bagatelle compared to that of the present century.

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

What is the real position of this country in regard to its obligations? By the adoption of the gold standard, the Coalition Government and its successors placed us at the mercy of that nation that was able to control most of the gold supplies of the world. Our keenest industrial rival in the world's markets managed to secure one-half of the available gold, and consequently, since we are now a debtor nation, we have become to a large extent subservient to our transatlantic neighbor. Consequently we must make such terms with our principal creditor as she demands. Fortunately, the resources of Great Britain with her oversea Dominions would enable us to discharge our liabilities if we had a truly national banking system. The annual gold productions of South Africa and Australia (to which may be added Canada) would—under a league of British nations—furnish all the gold necessary for meeting our foreign obligations. Unfortunately, we have no such system. We have no national bank in the sense of a government bank functioning entirely in the service of British interests. On the contrary, the Bank of England is an international trading company, and is permitted to carry on its business as its directors deem most advantageous to themselves and their shareholders.

We now learn that the crisis that has given us a new Government was precipitated through the policy of the Bank in making *long-time* loans to Germany during her recent troubles. This necessitated borrowing from France and the United States—which loans were made for *short* periods. The publication of the Economy Committee's Report, which was one of the most indiscreet acts on the part of the late government, created a feeling of uneasiness abroad and led to the calling in of loans and the reduction of the Bank's gold reserves to the extent of about £35,000,000 within a week or so.

But think of a Government's placing the whole of the national credit, together with the trade, commerce, and industries of this great nation, upon a basis of *borrowed* gold, which could be taken from us at any time! A more dangerous or more insane policy it would be difficult to imagine.

IT may be asked why the bankers of this country have adopted a policy that can end only in ruin. The reply is that they are merely continuing a policy that has been in existence for considerably more than a century, and that, whenever a crisis has arisen in their affairs, the Government has always obliged them by coming to their rescue and supporting their institutions with the national credit. Moreover, the gold-basis policy has been enormously profitable to the City of London. Owing to the insufficiency in the gold supplies and to the volume of legal tender based upon it, the bankers have created a substitute in the form of bank credit, which has no material existence. It consists of figures in the banks' books. But this invisible money, which exists only in the books of the banks, is loaned and draws interest charges precisely the same as if it had a material existence in the form of golden coins.

During the war period, the amount of this bank currency was increased to the extent of £1,000,000,000! Is it any wonder that the system is attractive to those who deal in money? This vast sum representing all the world's gold output for ten years was created by the pen! But this invisible currency, although profitable to its creators, constitutes the weakness and unsafety of our whole financial system. If every bank was compelled to keep pound for pound in legal tender for all its deposit accounts, there would be no danger of a panic or a run on the bank. But when the public know that no bank can furnish more than a percentage of their deposits in what is called 'real money,' the danger from any political crisis becomes apparent. Hence *public confidence is really the basis upon which financial operations are able to continue!*

Admitting the necessity for gold in respect of our foreign obligations, there is not the slightest reason for maintaining our national currency on a gold basis. Every monetary system is national in character. Gold is an international commodity, useful for the settlement of foreign-trade balances. But legal tender functions only within the jurisdiction of the laws under which it is created. And there is no real necessity for making the monetary units of different countries equivalent in exchange according to definite weights of any particular metal.

The system of index numbers is a far safer and a far more scientific method than a comparison of pieces of gold.

Nations employing different currencies—some using gold, some silver, and some paper—have had no difficulty in trading with each other all through the ages. The attempt to place all nations on the so-called gold basis is quite a novel experiment and has already proved a failure. The system is bound to collapse sooner or later, for the simple reason that there is not enough gold in the world to enable nations to carry on their normal activities. Moreover, the debts created during and since the War are of such a gigantic and almost inconceivable amount that the attempt to redeem them would produce universal disaster. The attempt, however, to pursue this policy is enslaving the people of all nations to a group of international financiers who are acquiring power of such a character as to endanger the world's peace.

Money is the greatest power that man has yet created. It functions as the lifeblood of all nations, and, like the blood in the human body, it should have freedom to circulate. Interference in any channel may produce congestion, paralysis, and even death. It is a *social* instrument, and it is society that gives it its power. No individual or syndicate is responsible for the value or power of money. It is the creation of law, and obedience to law forms the basis of civilization.

To allow any group of individuals or any private institution to control this power is to jeopardize the safety and well-being of the people. The safest basis yet discovered for any monetary system is the national wealth. Indeed, its main purpose is to facilitate the exchange of the wealth products. Employed in its natural capacity, it is man's most valuable servant. Used by a few for the purpose of self-enrichment and aggrandizement, it becomes the most oppressive autocrat ever known. Nations have been intimidated against employing their national credit for currency by the stupid cry of '*Inflation!*' Only a few weeks ago the Bank of England was allowed to issue £15,000,000 in one-pound promissory notes *without adding a single ounce of gold to their reserves!* This act of currency inflation excited no adverse comments on the part of the press or politicians. But, supposing that Mr. Snowden had suggested issuing this amount in treasury notes as legal tender to help balance his budget, the cry would have resounded from one end of the country to the other—'*INFLATION! INFLATION!*'

In his *Modern Democracies* published in 1921, the late Lord Bryce said: 'Democracy has no more persistent or insidious foe than the money power, to which it may say, as Dante said when he reached in his journey through Hell the dwelling of the God of Riches, "Here we find Wealth, the great enemy." That enemy is formidable because he works secretly, by persuasion or deceit, rather than by force, and so takes men unawares. He is a danger to good government everywhere.' He continued as follows: 'The truth seems to be that democracy has only one marked advantage over other governments in defending itself against the submarine warfare that wealth can wage, namely, publicity and the force of public opinion. So long as ministers can be interrogated in an assembly, so long as the press is free to call attention to alleged scandals and require explanations from persons suspected of an improper use of money or an improper submission to its influences, so long will the people be at least warned of the dangers that threaten them. If they refuse to take the warning they are already untrue to the duties that freedom prescribes.'

But what is to happen when these safeguards of publicity are taken under the control of the money power? *And this is precisely what is happening!* Already the bulk of the press in the United States and other countries, together with the cinemas and radio corporations, is controlled by a single group of international financiers, who, by means of these channels of publicity, can mould and form public opinion in almost any way they choose. Never since the beginning of time has mankind been in greater danger of losing its freedom than now.

The inventions and discoveries of the past century,—and particularly of the last fifty years,—which it was believed would raise civilization to a far higher level than ever previously reached, may yet be employed in degrading and enslaving humanity, and some of us may live to see the beginning of another thousand-year night after the break-up of the British Empire—like that which followed the downfall of Rome!

Not since Napoleon's time have the French dominated Europe as they dominate it now. One Englishman, two Germans, and a native son diagnose the case.

High Tide *in* France

AN INTERNATIONAL SYMPOSIUM

I. WHITHER FRANCE?

From the *Economist*, London Financial Weekly

A SURVEY in last week's *Economist* of the unresolved economic and financial world crisis led to the conclusion that 'any economic or financial schemes for the restoration of prosperity presume that political troubles are out of the way,' and that 'the key to the situation lies in the relations between Germany and France.' Is it not fair to add that these relations—and the fate of the world, which hangs upon them—depend upon decisions that will have to be taken in the near future by French statesmen in the light of French public opinion, and not by German statesmen in the light of German public opinion? France holds the initiative in international affairs in this thirteenth year of the post-war period as unmistakably as Germany held the initiative before 1914. The immense advantages of the initiative lie to-day in French hands, and its immense responsibilities on French heads.

That France should ever stand again where she actually stands to-day would have seemed incredible on the morrow of the Franco-Prussian War and hardly credible on the eve of the war of 1914. France now finds herself on a pinnacle of military and financial and political power which is higher than any that she has attained at any time since 1815. She is in the position of the hero in the opening scene of a Greek tragedy when he finds himself overtaken by unexpected and overwhelming good fortune. How will he meet the inevitable strain upon his character? Will he meet it with restraint and with saving wisdom, or will he lose his head, harden his heart, and overreach himself to his own destruction—the περιπέτεια that follows ὕβρις? The envious gods are watching and waiting to see which course he will follow; and, if he goes to destruction, he will draw after him all his fellow men.

Which choice is France going to make in the present international drama in which we are all implicated with her? The question is being debated in France at this moment; and foreign listeners can hear the argument being carried on between two French voices.