CHAPTER IX

THE MONEY MARKET (*Continued*)

THE GOLD STANDARD

A FRAUDULENT STANDARD

MR. ARTHUR KITSON has called the Gold Standard as applied to financial credit the "Fraudulent Standard." The term is justified; it is not a standard; it is a bondage based upon monetary policy that is an anachronism.

The theory of the gold standard was imposed by the Bank Charter Act of 1844. Since the passing of that act a new world has been created; new powers have been commanded to the service of Man. Machines like an army of Robots stand ready, that are capable of producing economic utilities and a standard of culture undreamt of by the old economies. But the outstanding features of modern civilization are: poverty within nations, and international wars. Twenty-five per cent. of the inhabitants of the countries of luxurious poverty have been condemned, apparently, to remain on the subsistence level, and periodically there is the spectacle of the great army of producers loitering disconsolate at the doorways of the factories, gazing in idleness at the silent machines awaiting the order to produce, while all the land is filled with the great cry of "Want,

want." Consumer's desire, the "real demand," is there, insistent and insatiable; the Robots and their masters are there, anxious to produce; what demoniac Presence is it that strides the centre of the way, cutting a path of tragedy between frustrated "supply" and unsatisfied "demand"; cold names these, that harbour a world of sorrows. Is it indeed a periodic malady, that descends upon men to cause them thus to penalize themselves, in the midst of plenty, with the degradation of poverty?

PRACTICAL OPERATION OF THE GOLD STANDARD

Sufficient has already been said to justify the assertion (in Chapter VIII) that one of the penalties imposed by the present functions of the Money Market, is complete domination of productive industry by the Gold Standard. It is now further asserted that this, the actual "hall-mark" of the monetary system, with its twin progeny of ill-fame, inflation and deflation, is the hidden cause of the poverty of nations, and, in the practical working of these operations, is the cause of war; the economic war imposed by the inevitable necessity to create and protect foreign markets.

These are serious statements. But they need not be propped by original supports nor imposed by lengthy arguments. They are proven by the words of the strongest advocates of the Gold Standard itself.

Let it be remembered then that Currency is a medium of Exchange to aid the struggling masses of mankind to provide themselves with the animal necessities of life and the cultural necessities of the higher aspirations. Refer again to the demonstrated facts of Currency as used to-day, through the financial system of perfected barter. Finally, consider the actual command of Nature's bounty at the disposal of mankind; the machines of any one great country capable of supplying the world, while the brothernations went on holiday; and, in the perspective of this knowledge, examine the practical working of the Gold Standard as expounded by the Cunliffe Committee in 1919. This, a commission of financiers, described the pre-war monetary system and advocated a return to it at the earliest possible moment; if the present submission is justified, their ideal must be questioned with the force of a bitter experience :—

Extract from the Report of the Cunliffe Commission
"The Currency System before the War"
(Paragraphs 2 to 7)

2. Under the Bank Charter Act of 1844, apart from the fiduciary issue of the Bank of England and the notes of Scottish and Irish Banks of Issue (which were not actually legal tender), the currency in circulation and in Bank reserves consisted before the war entirely of gold and subsidiary coin or of notes representing gold. Gold was freely coined by the Mint without any charge. There were no restrictions upon the import of gold. Sovereigns were freely given by the bank in exchange for notes at par value, and there were no obstacles to the export of gold. Apart from the presentation for minting of gold already in use in the arts (which under normal conditions did not take place) there was no means whereby the legal tender currency could be increased except the importation of gold from abroad to form the basis of an increase in the note issue of the Bank of England or to be presented to the Mint for coinage, and no means whereby it could be diminished (apart from the normal demand for the arts, amounting to about £2,000,000 a year, which was only partly taken out of the currency supply) except the export of bullion or sovereigns.

3. Since the passing of the Act of 1844 there has been a great development of the cheque system. The essence of that system is that purchasing power is

largely in the form of bank deposits operated upon by cheque, legal tender money being required only for the purpose of the reserves held by the banks against those deposits and for actual public circulation in connection with the payment of wages and retail transactions. The provisions of the Act of 1844 as applied to that system have operated both to correct unfavourable exchanges and to check undue expansions of credit.

4. When the exchanges were favourable, gold flowed freely into this country and an increase of legal tender money accompanied the development of trade. When the balance of trade was unfavourable and the exchanges were adverse, it became profitable to export gold. The would-be exporter bought his gold from the Bank of England and paid for it by a cheque on his account. The Bank obtained the gold from the Issue Department in exchange for notes taken out of its banking reserve, with the result that its liabilities to depositors and its banking reserve were reduced by an equal amount, and the ratio of reserve to liabilities consequently fell. If the process was repeated sufficiently often to reduce the ratio in a degree considered dangerous, the Bank raised its rate of discount. The raising of the discount rate had the immediate effect of retaining money here which would otherwise have been remitted abroad and of attracting remittances from abroad to take advantage of the higher rate, thus checking the outflow of gold and even reversing the stream.

5. If the adverse condition of the exchanges was due not merely to seasonal fluctuations, but to circumstances tending to create a permanently adverse trade balance, it is obvious that the procedure above described would not have been sufficient. It would have resulted in the creation of a volume of short-dated indebtedness to foreign countries which would

have been in the end disastrous to our credit and the position of London as the financial centre of the world. But the raising of the Bank's discount rate and the steps taken to make it effective in the market necessarily led to a general rise of interest rates and a restriction of credit. New enterprises were therefore postponed and the demand for constructional materials and other capital goods was lessened. The consequent slackening of employment also diminished the demand for consumable goods, while holders of stocks of commodities carried largely with borrowed money, being confronted with an increase of interest charges, if not with actual difficulty in renewing loans, and with the prospect of falling prices, tended to press their goods on a weak market. The result was a decline in general prices in the home markets which, by checking imports and stimulating exports, corrected the adverse trade balance which was the primary cause of the difficulty.

6. When apart from the foreign drain of gold, credit at home threatened to become unduly expanded, the old currency system tended to restrain the expansion and prevent the consequent rise in domestic prices which ultimately causes such a drain. The expansion of credit, by forcing up prices, involves an increased demand for legal tender currency, both from the banks in order to maintain their normal proportions of cash to liabilities and from the general public for the payment of wages and for retail transactions. In this case also the demand for such currency fell upon the reserve of the Bank of England, and the Bank was thereupon obliged to raise its rate of discount in order to prevent the fall in the proportion of that reserve to its liabilities. The same chain of consequences as we have just described followed and speculative trade activity was similarly restrained. There was therefore an automatic

machinery by which the volume of purchasing power in this country was continuously adjusted to world prices of commodities in general.

Domestic prices were automatically regulated so as to prevent excessive imports; and the creation of banking credit was so controlled that banking could be safely permitted a freedom from State interference which would not have been possible under a less rigid currency system.

7. Under these arrangements this country was provided with a complete and effective gold standard. The essence of such a standard is that notes must always stand at absolute parity with gold coins of equivalent value, and that both notes and gold coins stand at absolute parity with gold bullion. When these conditions are fulfilled, the foreign exchange rates with all the countries possessing an effective gold standard are maintained at or within the gold specie points.

CRITICISM OF THE REPORT

This, then, is the system to which the Committee definitely advised the Government to return, and to honour which the country has been reduced from a stage of universal prosperity and full employment, to a lamentable condition of trade depression, with millions of workers unemployed and they and their dependents living miserably on an inadequate dole.

Let these statements, therefore, be examined individually, and thereafter let the collective and cumulative effects of the suggestions be observed, when applied to the needs of commerce.

In section 2 it is stated that prior to the war, currency consisted entirely of gold or notes representing gold. But the third section admits the growth of the cheque system since the passing of the Act of 1844.

Reference to the chapters on Banking and on Currency-creation prove that the gold and notes were in fact the small change of commerce; all the major transactions were operated by cheque, on the system of perfected barter. Yet it is not considered wrong to harness the cheque-system, the invention of the gigantic organisation of modern industry, to a constraining and controlling regulation imposed while the present conditions were in embryo.

Further, when it is stated that there was no means whereby the legal tender currency could be increased except the importation of gold from abroad; and if this gold is to form the only basis of credits for the expansion of industry; it becomes obvious that industry is no longer regulated by the inventiveness of man and his control of the bounties of Nature, with currency as but the tickets wherewith to distribute the ever-increasing shower of natural riches; on the contrary, industry has become but a function of the monetary system, and its expansion has been made subservient to the possession of stated quantities of a callous and useless metal, that is not even used as money.

Again, if gold is thus to be imported from abroad the importing country must be the creditor of other countries:—all nations cannot have favourable exchanges, as we have seen, nor can all nations export gold. Hence if the applications of applied sciences continually tend to equalise the industrial power of ambitious nations, and the offensive power of their armaments, and if those nations, by the decree of a fatal system, find it imperative to have a favourable exchange implying control of huge overseas markets, then indeed the seeds are sown of strife and aggression, ending in the mutual disaster of war.

Thus the standard of living within nations tended to become dependent upon precarious international

balances. Section four describes the actual operation and effect of gold-removal, and section five continues, mounting to the statement that the most important consideration is not the happiness and economic security of the British people, but the maintenance of London as the financial centre of the world.

That this is indeed a fact, is disclosed by the considered statement of the effect of the raising of the Bank's discount rate (paragraph 5).

Let these words be recapitulated:—

> There is to be restriction of credit;
> New enterprises must be postponed;
> Demand must be lessened;
> Unemployment must occur; because
> The demand for consumable goods must be diminished.

Such is the unconsidered complacency of human nature, that these statements can be penned calmly by well-fed and kindly old gentlemen of great erudition, with a sincere belief in their necessity and ultimate benefit to the community. It may be, indeed, that they have no faintest inkling of their interpretation in the life of the commonplace man who earns his precarious living subject to the terrors of unemployment and insecurity.

For in blunt language these statements mean that, to maintain the equilibrium of the monetary machine, the command, "Thou shalt not," must be issued by the great god Mammon, and straightway the hum of industry must hesitate and cease, and, that the demand for consumable goods be diminished, the worker must go home and instruct his little household that forthwith they are on forced rations. Demand must be lessened, and holders of stocks must be forced to sell them at a sacrifice; therefore the