The Theory of Money

OR

It is a Fine Day To-day

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THE TANGIBLE THING.

(1) Anyone who needs hundreds of pages to express what money is, must be wrong. Of course, it is possible to express a theory of money at this length, but the thing which everyone understands money to be must be something which can be expressed in about a dozen pages. If this treatise contains more than that number, it is chiefly because the generally accepted errors prevailing in the minds of most people dealing with money theories have to be discussed. Therefore, I have to say a great deal about what money is not, in order to be able to say what money is.

(2) All the existing wealth of the world consists of visible, tangible things, including such structures as roads, bridges, protected sea shores, in short, all that the hand of man can contrive on the surface of the earth, above it, or below it.

Whoever has wealth has a certain part of the total amount of such visible tangible things existing within a nation, or generally available on the earth. He may express his wealth in figures, and say that he has so much money. He may say that he has none of these tangible things, but an amount of money in banknotes, or in the form of an account with a bank. In effect, however, he has nothing else but a part of these tangible and visible things and " institutions " as I will call them.

(3) In order to come nearer to the true state of things, it is necessary to conceive that everyone who has money in the shape of banknotes, or an account with a bank, has a claim, and that there is another party to that claim, who is the debtor.

All the wealth which one has, and which is not visible and tangible, and consists therefore generally in claims (maybe banknotes, a credit balance with a bank, or credit balances with private persons) is offset by another's liability to fulfil such claims.

Money, generally understood, is such a claim.

One has to forget about all these claims, which are all offset by liabilities, in order to reach a clear view of the position prevailing in a social order. It is so difficult to forget all these claims, to imagine them as absent, that this clear view will more easily be reached by transferring this complex of ideas into an ideal, non-existent community such as one could imagine on an island where such claims and liabilities had not developed.

This is the reason why everyone who begins to explain the meaning of money guides the reader into some far-away island, where life is conducted very simply. This detour is superfluous. It is unnecessary to transplant this complex of ideas into such an imaginary island, and it is possible to understand the meaning of wealth (and after that the meaning of money) applied to our modern world, without any such simplification, which, like all simplifications, must be a lie.

(4) It is fundamentally necessary to see that a piece of paper which is regarded as money consists of a claim and a liability. The owner, that is the holder of money, may be an individual, or it may be the state. In the case of a banknote the party liable is ultimately the state.

When the state has liabilities expressed in such papers, called banknotes, then the state is only a party, as any private individual might be, within the above-mentioned complex of claims and liabilities. This edifice of claims and liabilities obscuring the true conception of wealth can be imagined away, and there will still be available in the world all the visible and tangible things which alone constitute wealth. This wealth may consist of precious metals, especially silver and gold, and it may consist of anything else one can see and touch. A piece of paper, however, whatever may be written or printed on it, would have, from this point of view, no higher value than that of the labour and materials used in its manufacture.

He who has been able to forget about all these claims and liabilities, that is, to think that they have been destroyed, leaving existent in the world only the tangible and visible things, has reached the state of mind necessary for understanding the ideas which follow.

(5) An individual may be in possession of tangible and visible things, and he may also have rights and liabilities. This is the rule for any individual engaged in economic life.

All his assets minus liabilities would constitute a certain quantity of wealth, and could be expressed in figures, measured on agreed units. Instead of being in possession of tangible things, plus claims, *minus* liabilities, an individual could be said to have a certain fixed claim on the total wealth (tangible and visible) available on the earth.

After imagining away all the claims and liabilities in the world, this individual would therefore have *one* ideal claim on the available wealth (tangible and visible) on the earth. His situation would not have been altered by destroying such claims and liabilities. Instead of having in his possession tangible things, and being moreover a holder of claims, and the subject of liabilities, he would have only one claim, expressed in one figure, on a part of all the wealth available (tangible and visible). Then all the claims and liabilities, which have so far only been imagined to be absent, could be actually destroyed, and yet the position of the specific individual would be unaltered, if the equivalent ideal claim on the available wealth were given into his hand.

(6) If all that visible and tangible wealth were under the control of one party, and the value of the total expressed in agreed units, it would then be possible to give any specific person a right or a claim against that one controlling party, expressed in the figure which I arrived at before, when I said he was entitled to one part of this available wealth.

This claim or right could be called his money. Instead of making him the possessor of one piece, or many pieces, of the total available wealth constituting in value exactly his share, he could be given an imaginary part expressed on paper, or written down in a book.

All this is obscured by the building up of an edifice of intermingled claims and liabilities of many parties, one against the other. However high you build up that edifice of claims and liabilities, you do not increase the amount of total available wealth—the amount of visible and tangible values on the earth.

(7) The true conception of money has always been present, and there are always those who feel what money is. However, in times of crises and upheavals, this conception has always

been obscured. In times of crises, too many who are not fitted to think or to know about economics and money, begin to add their ideas to the ensuing discussions.

The evil starts with the Government. As long as individuals deal only with each other, they can arrange their affairs exactly, and when they have claims against one another they can express them in their respective wealth and possessions.

If, on the above-mentioned island, there were two inhabitants and one had cattle, and the other fish, and the cattle owner wanted fish, he could give only cattle in exchange, or could say he owed fish, and would state how much.

As soon as there are more than two people, they require someone to govern their affairs, and this party must necessarily become the controller and judge of their contracts, all of which contracts express their rights and liabilities.

In this way state-controlled rights and liabilities come into being. These are what our money is. The party controlling these rights and liabilities becomes the controller of money.

(8) It may now be clear that this controlling party cannot make money, but can only sanction existing rights and call them money. It can, of course, create written or printed tokens expressing titles and liabilities (banknotes). It may call these banknotes money. But by doing so it does not add so much as the value of a pin to the available wealth.

Everybody can " make money " but the state. It is probably one of the most fundamental errors that only the state, and no one else, can " make money." As money is a claim against the total available wealth, tangible and visible, everybody can " make money " who can make additional tangible and visible things.

(9) If someone creates fuel by digging coal out of the depths of a mine, if someone grows a forest and produces wood from the trees, he adds to the available wealth. This creation of wealth may consist in transforming available material, in making hides from cattle, shoes from hides. It may consist in refining any article, in combining available

materials into a unit of higher value, and applying human labour to these materials.

Whoever mingles successfully in daily economic life, that is, whoever by his activity adds in a given time to the total available wealth more than he consumes, is "making money"—is making wealth, and therefore adding to the "total available."

Having added to the "total available," his personal claim, expressed in some manner, is increased. He has made a claim for himself against the "total available," and besides this he has increased this "total available."

(10) I will illustrate this train of thought by a practical example. Supposing someone digs coal, then the total available wealth of the world is increased by the additional amount of fuel. The man who digs the coal may have no use for it whatsoever, but he can offer it to others, and exchange it for claims on their possessions. In that way he is drawn into the system of claims and liabilities built up in the community of which he is a member. If these claims and liabilities of one individual against another were entirely wiped out, every party would be left with a claim against the total available tangible wealth. The coal-digger, by his activity, would have created a claim for himself against this total available wealth equivalent to the value of the coal dug, in proportion to the value of all the tangible visible wealth existing beforehand.

This must necessarily be so, however complicated the system of claims and liabilities may be. It can make no difference to his claim against the available wealth if we imagine him living in a community where he has an ideal mathematical claim expressed in a right on the "total available," which he will address to the controller of all the wealth; or if his claim arises in our modern world with all the claims and liabilities already built up. He must necessarily increase his claim by his activity. It is the task of the economist to show that the "veil" of money put between the tangible thing and the active person cannot make any difference whatsoever, and cannot have any influence upon the actual "making of money" by any person.

I shall refer again and again to this point, which is of vital importance. To imagine as non-existent, or to destroy this "veil" of money, is the foundation for the understanding of the conception of money as it is outlined in this book.

(11) Whilst creating wealth, this digger of coal must at the same time be consuming. He may, as a member of a community, temporarily consume more than he creates. He may not possess what he consumes, and may be allowed to consume other people's possessions, and so to create in his person other people's rights, under which he would be liable. Should these rights, under which he is liable, constitute a higher value than that which he is able to create by digging coal, he will then be consuming more than he creates. He will not have made money, but will have destroyed wealth, and taken away something from others. He has created in his person other people's rights under which he is liable, and if he has not the personal power to make them good, he will very soon have consumed more than he has created, and will have decreased the amount of wealth in the hands of all his fellow-men. Their claims against the total available wealth are in proportion unaltered, but the existing wealth has been made smaller by the coal digger, and therefore the shares of all the others must have been reduced.

On the other hand, if, by his activities in coal digging he adds more than he consumes to the available wealth, he then creates (when he is clever enough) claims for himself. If he is not clever enough, or not powerful enough, these claims do not arise for his benefit, but they enrich the parts of all his fellow men.

The main consideration is, therefore, whether the individual creates more than he consumes, or less. If less, and if he has not the power to make good the difference, then the individual is continually taking away wealth from the other individuals, that is in reality, from all his fellow men.

The next consideration is whether the creator of wealth creates this wealth for his own benefit, and by this creates rights, called money, for his own benefit.

(12) Everyone mingling in daily economic life therefore, if he has enough ability, can increase his claim, can make money.

The state cannot "make money." Of course, the state can appear in some of its departments as a competitor in economic life. The state can be a contractor, as, for instance, the Post Office, and can "make money" in that way. But at present I am not dealing with the state from that point of view.

When I say the state cannot "make money," I mean that whatever the state may do by arranging the economic life of the nation, it creates nothing whatsoever.

Banknotes, government credits, loans, government bonds, are all nothing but further "complications," further built-up rights, claims and liabilities constructed upon those already in existence.

The state being the supreme judge of the contracts, and therefore of the rights and liabilities of its subjects, must at the same time necessarily have control over these claims and liabilities, i.e., control over money.

(13) Whatever the state does in money affairs outside the sanction of existing rights and liabilities, is therefore nothing but a disturbance of the existing order.

If the state were to print and circulate new money tokens, it would give certain individuals rights, and the state would be the only party liable under those rights. As the state represents every subject, then every subject must be liable under the newly created rights or claims. Therefore, the creation of new money tokens brings with it a new distribution of the "total available" of visible and tangible things.

Should the state withdraw money tokens, it would not rectify its previous mistake, but would add yet another mistake to it. Claims and rights once having been added, a new order is established, and everyone's previous claim is made smaller. If the state interferes afresh in withdrawing money tokens, it is adding a certain value to all the remaining money tokens, and generally to all claims now left existent.

BANK MONEY.

(14) I have said that only those mingling in daily economic life can make money, and therefore the state, as such, cannot make money.

In contradiction to this, a school of thought originated by Professor Georg Friedrich Knapp wants to assert nothing less than that money can be made by the banks, as institutions, under the control of the state bank.

The banks, if they are efficiently managed, make money just as individuals make money, and increase for themselves their share of the available wealth on earth. But it is not with the making of money in that sense that I am now dealing. The theory of bank money asserts that the banks can create money in the sense that they can, without harm and disturbance to economic life, make money for others, not for themselves.

This theory of bank money has had detrimental consequences far beyond the confines of economics. It is the underlying justification for all planning and socialism.

The originators and defenders of the theory of bank money develop the idea broadly as follows. They assume that there would be only a few banks, and all payments made within the specific national system would be made by the drawing of cheques. They further assume that the banks would be of approximately equal size. The customers, after credits were granted, would draw cheques, and, as no other money tokens would be available, the credits granted must immediately increase the deposits of all the banks to the amount of the credit extended.

This is so far undoubtedly correct.

(15) According to the argument of this theory, were only one of the banks to extend such credits, the deposits of all the banks would be increased, but only the status of the one bank extending the credit would be weakened. All the other banks, except the one that extended the credit, would have higher deposits without weakening their status, and would have an advantage over the one bank which extended the credit.

That one bank extending the credit would be in a more dangerous position than the other banks. The customers to whom the credits had been extended might not all be in a position to repay them. Therefore, by this independent action, the one bank which extended the credit would have damaged and weakened its position. It is therefore necessary, as far as this theory is concerned, that all banks should simultaneously extend credits in proportion to the part they play in the business life of the nation—that is, in proportion to their total assets and liabilities.

If all the banks were to extend credits in this way, and one bank were to refuse to do so, then that one bank would have an undue advantage over all the other banks.

From the point of view of this theory, therefore, it would be necessary for the banks continually to see that they move forward in step. They would have to watch each other continually, so that the extension of credits they grant should be in proportion to the part they otherwise play in the business life of the nation.

The theory states that a central bank, to which all these banks are subordinated, plays, so to speak, the role of conductor of the orchestra, and sets the tempo.

(16) If such an ideal state of affairs were possible, and there were no outside private bankers who were not co-ordinated in the system, and if the banks in question were entirely backed by the central bank, and if foreign rights and liabilities were entirely excluded, then this would mean nothing else than that the one central bank would be doing the business of the several banks. One would have to substitute the central bank for the several banks, and, instead of saying that the banks were acting "in tempo," the total system could be regarded as *one*.

This central bank, being the controller of the total monetary business of the nation, is again subordinated to the state. Were it necessary to satisfy the money claims created by the new deposits with money tokens, then the one central bank would have recourse to the state in order to get the additional money tokens, that is, the banknotes. This would be nothing else but inflation. As all the citizens of the nation would do their business through the banks, and the banks through the central bank, and the central bank through the state, then all the credits extended, eventually to be satisfied with newly-printed money tokens, would mean that an inflation had been allowed to take place in this complicated and entirely superfluous way. So much for the theory of bank money.

(17) In reality, something quite different would take place. First of all, not all business is done through the few banks. There are always outsiders, owing to the private banks in some countries not being subordinated to the system. Secondly, not all payments are made by the drawing of cheques. Thirdly, foreign banks are drawn in as creditors and debtors. However, none of these is the real objection to the theory of bank money.

The real objection is this: should one of the banks fail to go forward in step with the others, that bank would lose customers, giving less credits and allowing less inflation to its particular customers. If, on the other hand, one of the banks were to step forward too quickly, it would go bankrupt, for not all the credits it had extended would be repaid. A certain number of them are always lost.

The competition between banks as enterprises presses them into the necessity for granting credits, and the fear of losing holds them back. This imaginary " step forward " as suggested by the theory of " bank money " does not take place at all. Every bank manager is directed solely by the fear of losing the advances made, and by the desire to gain business.

(18) This theory of bank money has given (entirely unintentionally) a sort of justification to the socalistic trend of our times. Socialistic ideas, that is, planning and artificial credit, would be entirely justified if it were possible to create demand at will. In turn, to create demand at will would be perfectly possible if one could create so-called " bank money " at will, and it is just this that the theory of bank money claims to be possible. It is therefore the theory of " bank money," made possible on the basis of Knapp's ideas, which brought about the enormous masses of books and publications with the object of justifying planning and creation of demand at will. It is only these theories which would justify the exist-

ence of such a thing as "poverty amidst plenty." It is only these ideas which would suggest that there is something wrong with economic life, and that it is the distribution of purchasing power which is at fault.

Only if you believe that you can successfully interfere with and direct the stream of economic life, and therefore the stream of all life, at will, can Professor Knapp and his successors be right.

It is solely on account of these reasons that I have to deal in detail with this theory of "bank money."

(19) Whilst it is impossible to avoid poverty, and whilst there must always be "poverty amidst plenty," this term has lately acquired a sense of its own. It has come to mean that the avoidance of poverty would only be a matter of proper distribution. According to this slogan, "Plenty" must remain in solitary isolation—unable, for lack of distribution, to find its way to the party who could use it.

Such a state of affairs (poverty amidst plenty) is the result of an artificial credit given somewhere. There must have been an unwarranted and unjustified credit, for instance given to agriculture, and this credit must have created agricultural products. It what way this credit was given is immaterial. It might have been as protection, as artificial price regulation, as tariff barriers. In all these cases agriculture would receive an unjustified and unwarranted protection. Had the protection not been there, it would then have been impossible for so many to have tried to invest their means in agriculture. By reason of the protection, or of the credit, :t appeared to these investors that agriculture was a paying business, whereas in reality it was not. Agriculture was boosted, and articles were created for which no demand existed. A production was started outside the natural trend of events.

(20) To give another example: if a bank were to give me a large amount of money, say £10,000,000, and with this I were allowed to produce some article, say watches, the following consequences would ensue. There would be no increased demand. All these watches would be unwanted. In order to sell them I should have to do so at a much lower price than the genuine watchmaker could afford to accept. In this way I

should do harm to all the watchmakers, and destroy the value of their factories. Because they could not sell their watches, their factories, or the shares of their enterprises, would fall in value until it was so low that the value of the plant justified the price of the output.

Thus after some time a stage would be reached at which all watches, that is, both those created by my new enterprise and those created by the previously existing ones, would be equal in price. Then the old watch factories, if otherwise well managed, would be paying propositions, but a part of the capital would have been lost, and would have to be written off. A very large part of the capital of the newly created enterprise would also have to be written off. It is this loss sustained in the newly-created competing enterprise, the loss suffered by the artificial credit, which shows that the credit was unjustified.

On the other hand, if I had invented a device on the basis of which I could make cheaper and better watches than my competitors, then the credit would be justified. The credit given to me would not be lost, the business would be paying its way. Others would lose, but that could not be avoided. They would lose as everyone has to lose who is beaten in the ordinary way of life.

(21) When and whether a credit is justified is judged not by any government nor by any regulation, but solely by free competition. It is this free competition which indicates the possibility and the limit of credits. Such credits can only be given out of available assets. No banks are necessary to give such credits. Whenever a new enterprise is found to be remunerative, and paying its way, then means in private hands will find their way to that enterprise.

If the theory of " bank money " as promoted today by the majority of economists were right, it would be possible to create deposits at will, by that means to create demand at will, to create prosperity at will.

To create prosperity at will means that it would be in the power of the government to guide economic life successfully into such channels as it wished, and to extend and expand production and consumption *ad libitum*. It would mean that all the planning that has been going on in western countries during the two decades after the World War would be justified, and the socialistic idea would have a proper foundation.

The socialist group of ideas can be traced back solely and entirely to the belief that it is possible to direct and create demand on the basis of newly created money. For that reason it is of great importance to destroy the belief in "bank money."

(22) It is necessary to start with the destruction of that belief on a broader basis.

If someone were given credit, and with that credit he built machinery or plant or, generally, means of production, he would be acting usefully to the community only if he could make his business pay. The credit would only be justified if it were given to someone who had a better or stronger idea of creating something better and stronger than his fellow competitors. It would be justified only if the means of production built with the credit on the basis of such an idea were of a remunerative character.

If the credit is given by a community or by the state in order to create some non-remunerative means of production, the result must be disastrous. With these means of production goods would be produced, that is, goods for consumption offered to the market, and for these goods there would be no demand. The means of production created with the unnecessary and unjustified credit would be a superstructure on the economic basis of the nation. This superstructure would be damaging and superfluous. It would mean nothing less than wasted credit.

It can be said that wealth is only what one creates and is able to maintain. If, for instance, one builds a palace and is not able to maintain it, then it soon changes hands at a much lower sum than has been invested in it, and the greater part of the purchasing power invested in it is lost. When things are allowed to run their own free way the result always proves whether a credit is warranted or not. If one does not give artificial and unwarranted credit, but only credit justified on the basis of a remunerative idea, then it cannot be harmful. As soon as a credit is given artificially, a state of affairs must arise which is called "poverty amidst plenty."

DISSOLUTION OF MONEY TITLES.

(23) All the wealth of the world consists solely of tangible things. Trade deals in these things through titles on tangible things.

Modern economic life became so complicated that on these titles on tangible things, which I will call titles " A," another title was made out, which would then be a title on a title, called " B." Then further, on this title " B " another title is also given, which would be title " C."

To give an example: a certain man owns a house. On it he has a mortgage. A mortgage is a title on that house. A building society owns many such titles. Someone else has shares in the building society, these shares being partly titles on the titles which the building society has on the houses. The owner of the building society's shares pawns these shares with a bank, which advances money against them. This is a new title on the previous one. The bank itself has issued capital, and the owner of the bank's shares partly owns the assets of the bank, that is, the above-mentioned pawned titles, and so on without end.

Every title is offset by a liability. The wealth of the world is not augmented by merely setting title upon title. The millions and billions of apparently available amounts of money (titles) are offset by liabilities to the same amount. It is only the complicated nature of modern western life that has made it necessary to multiply and pile up these titles.

(24) If one tried to dissolve that structure of titles, that is, to pay off as many of the liabilities as possible, one would soon find that it is not so easy to take to pieces that structure that has been organically built up by economic life. A certain quantity of titles could probably be dissolved, but soon this process would be arrested. All these titles are based upon agreement. In so-called normal times, nobody thinks of taking the structure to pieces and liquidating these liabilities. In these " normal times " it is found that people easily arrange their affairs in liabilities for longer periods. When, however, gross mistakes and miscalculations have been made, and a " crisis " arises, then a man A, being a creditor to a title under which a man B is a debtor, finds that it is possible

to dissolve that liability only when the man B has arranged other affairs, in which he is a creditor, under the same terms.

In the process of dissolving this long line of liabilities, one point is reached where a debtor cannot fulfil his liability (quite apart from mistakes and miscalculations he may have made), for the sole reason that he has bound himself down for a longer period. At that point the title is destroyed, but no wealth is actually destroyed.

In times of crises everybody strives to arrange new titles for shorter periods of time. Short term debts are prevalent to a much larger extent. This is not a disease nor an evil, but a remedy. In such times economic life finds its own remedies. Should it be necessary to dissolve titles, there would be a long range of short term titles that could easily be dissolved. It would take quite a long time to come down to a long term contract or a long term liability.

Titles may be made out on movable goods, on raw materials, on plant, and on every work of man. If one tried to dissolve all the titles and to come down to the tangible wealth, one would soon find that a very large proportion of the real wealth consists, not in movable goods, but in other arrangements on the earth, all of them the work of man. Such, for instance, are roads, railroads, protected sea shores, gardens. All these arrangements have no value other than in connection with the ability that controls them. As such, they are not transferable. Being of value only in connection with the brain utilising them, they must become valueless as soon as they are disconnected from that ability.

The effort to dissolve titles would therefore destroy wealth, if carried to the extreme.

(25) This dissolution of titles, which, when taking place within a nation, causes bankruptcies, may take place in international trade. Then it is found that the title, that is, the right to wealth outside one's own nation, cannot be maintained. Such right to wealth outside one's own nation simply vanishes.

In times of economic crises between nations, defence measures are set up between nation and nation. These measures are all quite in vain. Trade barriers, quotas and currency devaluations can do nothing to help to bring home an investment outside one's own nation.

The dissolution of titles internationally proceeds on the same lines as the dissolution of titles within a nation. When it is found that a certain title is no longer realisable, an attempt is made to dissolve that title. But whilst, within a nation, a remedy is usually found for this development of title destruction, no such remedy is available in the economic life between nation and nation. Within the boundary of a nation, titles are no longer contracted for long periods, and they are slowly substituted by a deep layer of relatively short term contracts. Therefore in the internal economic life of a nation it takes quite a long time before so many titles are dissolved and one comes down to the actual thing itslf. This deep layer is a sort of buffer lessening the shock against the only real wealth.

(26) In contrast, in economic life between nation and nation, no such buffer can be formed. Instead of substituting long period contracts by short period contracts, the debtors rather insist on having their liabilities expressed in contracts of still longer periods. As creditors are not willing to enter into new liabilities, and to substitute a liability, which is in danger, by new liabilities expressed in longer terms, a deadlock arises.

This is quite natural. The only thing behind these liabilities is again the real thing, the tangible thing, the only real wealth. If, for instance, beneath the whole structure of liabilities there lay a railway plant in some foreign country, it would not then be possible to get hold of the real wealth by dissolving this structure. This real wealth would not be transferable from one country to another. The result must be that, in times of crises, the whole structure of liabilities built upon it must collapse. As soon as an attempt is made to get hold of the real wealth, the tangible thing (and every attempt to dissolve liabilities is really an attempt to get hold of the wealth underneath) the title and the structure of liabilities built upon it must fall to pieces.

(27) Nations have other ways of transferring wealth. They produce transferable articles, which articles move, as exports and imports, from country to country. But even this way is

barred against the attempt to transfer wealth if one looks deeper into the real meaning of export and import.

A debtor country in which the real wealth, say a railway plant, is situated, can get rid of a debt built upon this real wealth by exporting movable goods. The export of goods and services from one country to another means, not only to export, but to produce, the extra wealth. It must be produced on the basis of some extra ability, some higher ability, higher, that is, in comparison with that of the competing nations. Only if a country is able to do a thing or to produce an article better or more cheaply than the others, will that country be in a position to have certain extra goods ready for export.

(28) To make this clearer, it is once more necessary to forget about the term money. In order to have a real perception of economic life between nations, one must think of the tangible things alone.

All nations, if we look at them as competitors, would work first of all to keep their house in order. They would create their own food, arms and so on, every citizen contributing to the common welfare. After that—and this is the second stage—the nations would exchange amongst themselves, giving goods for goods (or services) of equal value. The third stage is that some nations may be able, on the basis of their abilities, and on the basis of their highly-developed labour or power of organisation, or on the basis of higher intellectual qualities, to create some extra goods. They may be able to reserve some extra strength, which can be used either for the production of extra goods, or as the foundation for extra services to be rendered to the rest of the world.

These extra goods or extra services can be kept at home, and built up as a reserve. They can be taken out of the country and offered to competing nations. In the latter case, they are either taken out and given away, left on credit, or simply exported and left abroad as the property of the exporter (foreign investment).

I am not dealing with the actual exchange of goods or services. The exchange of goods or services, exported and imported between nations, takes place first of all, and all these exports and imports first of all liquidate each other. I am dealing only with the surplus which one competitor creates on the basis of some superior ability. It is necessary to remember that it is only those nations able to create such a surplus which are superior to the others in economic rivalry between nations.

(29) I will now return to the argument dealt with in paragraph 27. Some debtor is placed under the necessity to make some repayment into a foreign country. The actual wealth which is the foundation of the structure of liability cannot be moved. Suppose it to be a railway plant that cannot be transferred. The debt to be paid may be the interest on the railway shares, or the principal which is now due for repayment. The only possibility, then, of covering the debt is by such above-mentioned surplus goods, which must be movable and transportable. Such surplus goods, as I have said before, could only be ready and available for export if the debtor were a nation which could, on the basis of superior abilities, produce them, or have in readiness the power and strength for extra services.

As, however, we are dealing with a nation which by force of circumstance is a debtor to other nations, so this nation must thus be one which is not gifted with such a superior ability. On the contrary, this nation must be one which is still on a lower level than the others, and one where superior competitors amongst nations place their extra goods and extra strength. This debtor nation is one where "foreign investments" are placed, and where extra goods and extra services are left, either on credit or as the property of the foreign investor. Therefore it will not be possible for such a debtor to get rid of the debt by the export of movable goods.

(30) The conclusion at which I arrive is that the real wealth left in a foreign country, the foundation on which liabilities have been built, cannot be re-transferred. Neither is it possible to pay home by export the debt arising from such a transaction.

The only exception is the case in which the debtor nation where the investment has been made, or where the wealth has been left, ceases to be a debtor nation. This is the case when the natural development within that debtor nation brings about such forces and accumulates such wealth as to change the nature of the economic standard, letting it grow slowly from a debtor into a creditor nation. Then, no further investments are possible there, and wealth may no longer be left there. That nation becomes a stronger rival on the international market than it was before, and will now in its turn deposit wealth within the boundaries of other nations. Through such a development the repayment of an international debt is possible.

INTERNATIONAL INTERFERENCE.

(31) The debtor nation, in order to achieve the repayment of the debt with which it is burdened, will probably first make an attempt to force exports, and make that effort which I formerly (para. 27) described as superior ability. However, as the superior ability is not there, the effort is without result. Only in the quite exceptional case of a country raising its standard from that of a debtor to a creditor country will this effort succeed (para. 27).

It is considered possible to make some extra exports by bringing down the value of the currency. That would only mean that an item, which by international valuation (expressed in gold) would be worth 100, would be valued at a lower figure, for instance, 80. The debtor nation, in that fight which is the whole meaning of competitive life, has first of all to cover its own imports. If exports are made, and less goods taken in exchange (on the basis of the altered value of the currency), then the foundations at home for further exports are weakened. Instead of making progress within the nation, the reverse must ensue. And so it remains with the effort.

(32) However, the competing nations, especially all the creditor nations, look at it in a different way. They do not see that it is an effort which will never become a permanent

achievement; they only see the beginning, they only see that effort, and the extra export made on the basis of that effort. They become afraid, not realising what is actually taking place. So they defend themselves. They think that these extra goods coming into their country at a lower figure will destroy their productive life at home.

On the basis of this mistake, which all nations have made and will go on making as long as this fight goes on, the first step is to defend themselves against a danger that does not exist. The attacked nations impose quotas against the intruder who is offering cheaper goods on the basis of a devalued currency. As not all countries impose quotas, the debtor must look somewhere else to export and to apply this primary effort (which will never become an achievement). Other countries are, as they think, attacked, and as they may be countries which feel themselves economically and politically in a very strong position, they impose a fine against this supposed danger in the shape of an extra duty to be paid. The result is only that the exporting country must further reduce the value of its own currency unit and with it the value of the exported article, and must further weaken its own position.

(33) Strangely enough, all debtor countries are afraid of letting the value of their currency go down. They are under the impression that a natural decline of the value of their currency may end in inflation. They see that with the lower value of their currency their possibilities for import are restricted, and that their stand as one of the fighting nations becomes weaker. If they would let the value of their currency go down officially, the real position as to their international strength would become clear. Their real position as poorer and weaker countries would be established, and they would be reduced to the rank to which they belong.

To emerge from such a situation in the most economical way, the correct procedure would, of course, be to maintain the standard of the currency, and if bound to gold, to stay with gold. In this connection I refer to Chapter "Gold."

(34) An investment outside the boundaries of one's own country is of no stability. The value of the investment can

be maintained only as long as it can be protected. It is impossible to take it back. If, furthermore, such liabilities have been incurred outside a commercial basis, they are entirely in the air, and must be an impediment to all further trade between nations, as the war debts and reparations have proved. Not only are such liabilities entirely worthless, and cannot be repaid unless the debtor nation rises to the rank of a creditor nation, but on top of this they bring about further impediments (quotas and import duties) and bar even the normal exchange of goods and services between nations, quite apart from the artificially imposed liability.

An investment abroad (and such an investment is a liability imposed on a foreign nation) is a live thing. It is only of value as long as the ability behind it is vigorous.

(35) Inflation consists of the creation of new money tokens. No real wealth is created. The new money tokens are simply new debits and credits built up upon the already existing economic structure. The existing wealth is in no way augmented. The damage caused at home and abroad by inflation is well known. It tends to weaken still further the international position of the country where the currency is inflated.

After an inflation the units of currency are of less value reckoned by foreign currencies. The articles to be purchased from abroad have to be paid for with a larger amount of money units. However, in order to see if anything is being gained or lost in the exchange of goods with foreign countries, it is necessary to forget about money entirely. Instead of saying " forget about money," one might say, " remember that money is nothing but a reckoning factor." It will, however, be easier to conceive the situation if money is left out of the argument.

(36) A certain quantity of goods to be exported, say coal, measured on a standard common to the exporting and the receiving countries, say on gold, would still bring into the country, in spite of the inflation, the same amount of another article which was imported before, say butter. It would be a necessary condition that in both countries no other changes took place. A quantity of coal would still be changed for a

quantity of butter, and their quantitative relations would remain equal.

Theoretically, therefore, the inflation would have no influence at all upon the goods and services to be exchanged between the inflating country and the outside world.

This inflation is, however, a sort of interference, and all the parties concerned do not immediately realise to what extent it has taken place. The new figures (prices and values) are not immediately adapted to the export and import trade. The smooth running of this export and import, this exchange of goods and services, has been hampered, miscalculations must take place, and these miscalculations are a loss to the country where the currency is inflated. They will not be a loss to the outside world, as the latter must be the stronger party, and will not, as far as the exchange of goods is concerned, believe that the inflation that took place has stopped. The outside world will apply a margin of risk, and will not accept the goods at the value they would possess if exactly altered in value in proportion to the inflation.

(37) As export and import are regulated on the basis of the economic strength of the country, or the relative economic strength of the different countries, the manipulation of the currency by inflation can have no influence at all. No extra wealth (extra tangible goods) can be created by the inflation. Only if that were possible would any advantage be achieved. International trade between countries is nothing but the exchange of goods and services. After imports and exports are balanced there remains the business of placing the so-called extra wealth. This extra wealth (tangible goods or services, which, as I have said, have to be left abroad as the property of the home country or as a loan to the foreigner) can be created only by new abilities, better or finer devices invented at home, or by the finding of wealth (minerals and so on) of international value. No creation of extra money tokens can achieve that goal.

When, therefore, in times of dissolution of debits and credits, it is thought possible by means of inflation to save and keep tangible wealth within the boundaries of the country, this purpose will not only remain unattained, but the very reverse must take place. Through the interference of the inflation continual small losses are made in the exchange at the expense of the inflating country.

(38) The imposition of tariffs is a fine imposed upon foreign countries, and is a sign of the strength of the country erecting the barrier. The foreign competing country has, after the erection of the tariff, to reduce still further the value of her goods for exportation. If the tariff-imposing country has over-estimated her own strength, the result will be that the value of imported goods does not fall when measured on an international standard, and in that case the tariff is borne by the citizens of the tariff-erecting country themselves. Then the tariff is an indirect taxation.

(39) All these means to stop the process of dissolution of international debits and credits are entirely futile.

In the case where the wealth has not been a loan to the foreigner, but property (tangible things) left abroad, the same effect must take place.

No investment abroad is durable. While investment at home holds good only as long as some activity stands behind it, an investment abroad holds good only as long as it is actually regarded as doing so. Any doubts about the safety of an investment abroad immediately kill that investment.

AVERAGE MONEY.

(40) It has been maintained by those engaged in the search for the cause of crises that gold is detrimental. Instead of binding the value of the unit of the currency to gold or to some other precious metal, it has been thought possible to find another measure of value in the form of an average of goods.

The procedure was to visualise a bundle of goods consisting of the most necessary articles of daily economic life, and to call the average value of this bundle the unit. It was thought that this average value of the bundle would be a consistent foundation for the money unit. If that value were then to be called the unit, and everything were measured on it, one would have found a consistent unit of money. Should the value of the goods, of which the bundle consisted, rise, then the value of the unit of money would rise, and vice versa. It was thought that in this way fluctuations and discrepancies between value of money and value of goods could be evaded.

This is a fallacy. It might be technically possible to find an average value of a certain bundle of goods, and to call that average the unit of the currency. There might be many technical obstacles, but let us suppose that it would be possible to overcome them. The difficulties lie elsewhere.

(41) The following argument is built up on the differentiation between goods for consumption and means of production. I know that the differentiation between goods for consumption and means of production is fictitious. The differentiation is one of grade, not of character, and means of production are being consumed more slowly than goods that are ordinarily called consumable goods, but it is just this differentiation in the speed of consumption which constitutes the foundation for the following argument.

The average value of a bundle of goods will be found and fixed. The bundle consists partly of goods for consumption and partly of means of production.

(42) Let us suppose the unit of money would be called 1,000, and that the number 1,000 is the sum total of the values of a large quantity of articles out of the bundle of goods mentioned above. A certain quantity out of that number would then represent what I have called consumable goods, and the balance would represent means of production, or plant.

After some time a rise of prices would be felt, say, in consumable goods. The consuming population would then approach the board formed for the purpose of controlling the average money, with a request to renominate the unit. They would say that prices for consumable goods had risen, and if the correct new prices were inserted into the "bundle," then the result would be not 1,000, but, say, 1,010.

The board would accede to this request, and would call the unit of money 1,010.

Everyone who, up till this point, had had 1.000 in his possession, would now have 1,010. All rights and liabilities expressed in money would, for every 1,000, now be 1,010.

(43) At the time at which the rise of price in consumable goods took place, there was no such rise of price in means of production (plant). With the alteration of the value of the unit, the owners of plant, and all engaged in industry, would find themselves in a new position.

As no rise of price took place in plant, liabilities, for instance mortgages, on plant would be felt more heavily. On the other hand, people with free money in hand would find themselves in the position of being able to buy with that money a larger quantity of plant than they could before.

When, as I said before, no rise in the price of plant took place, this did not mean that there was any devaluation. But with the new nomination of the unit, plant becomes devalued. Such plant as is in the hands of industrialists who now have larger liabilities is no longer remunerative to the same extent.

Such a devaluation of plant must have the immediate result that the output, that is, consumable goods, is being sold at a lower price. The reason why goods come to be sold at lower prices is partly that some industries have got into difficulties through higher liabilities, and partly that more people have engaged themselves in industry because, after the renomination of the unit, more free money was in their hands, so that production generally was enlarged.

(44) So we find that immediately the unit of money is renominated, consumable goods fall in price, whereas the renomination actually took place for the very reason that prices of consumable goods had risen.

Now the board directing the value of money will find it necessary to sit again, and to find afresh the value of the unit on the basis of the sudden depreciation in the price of consumable goods. Now they call the unit 990, and by this means they decrease the total amount of purchasing power.

At this point it becomes necessary that the larger output of consumable goods available on the basis of the increased plant, and available from the distressed industries, should find a ready market, that is, more purchasing power in the hand of the consumer. This ready market for the extra output is not there, since the total amount of currency in circulation has just been decreased. The result must be that industry is still more distressed and plant still more devalued, so that a much smaller quantity of consumable goods is produced.

This sudden scarcity of consumable goods, and the smaller offer to the market, will immediately bring their prices up, and consumers will violently urge a new sitting of the board for the control of money.

The board controlling the value of money must sit at increasingly frequent intervals to renominate the value, and the oscillations must become quicker and wider, and must eventually bring about a complete destruction of economic life.

(45) The value of the money unit cannot be fixed artificially in proportion to goods. The rise and fall in the value of money must not be interfered with. *This rise and fall in the value of money is the painful educator of mankind.* As soon as producers over-step the limit of safety, as soon as they miscalculate the requirements of the market and produce more than the market requires, then the value of means of production must fall. This fall is measured on the value of money. This is a sign for producers that they must call a halt. Should they not do so, they would then be heavily punished. They would have to undergo heavy losses. If the value of the money unit were regulated, according to the wishes of the proposed institution of average money, then this warning would not be manifest, and producers would go on producing in spite of the fact that the requirements of the market were over-satisfied. This would accentuate any crisis that might be in its early stages.

(46) When, on the other hand, consumers live beyond their means and consume more than is justified by their incomes and future discounted incomes, then, under this pressure of demand, the value of consumable goods would have to rise.

Prices would rise. Things would become dearer. If, under the ruling of the proposed adjustable currency, the value of the unit had risen, then consumers would not feel that they had exceeded their limit. They would go on living beyond their means. This would bring them finally to ruin.

If, however, there were no such thing as an artificial unit adjusted to the value of goods, then as prices rose and things became dearer, the consumers would consume less. From their point of view it would look as if the value of money was about to fall. This fall of the value of money must not be stopped. It is once more the painful educator of mankind, which must be allowed to function. Should it not function, and should the consuming population go on consuming beyond its means, then, in times of general crises, when production meets with difficulties, the population would over-consume and would live on its "possession" instead of its income.

CITIZEN AND STATE.

(47) (The following is a generalisation which will be corrected in pars. 163—171.)

Money is a reckoning of available wealth all over the globe. It is a term under which the holder is entitled to a certain part of that available wealth. If by some chance the total available wealth on the earth is augmented, every individual's share becomes larger, and if such wealth is diminished or destroyed, this share becomes less.

The creation of new titles without increasing the available wealth (tangible things) must have the result of diminishing the value of all other existing titles.

Everybody is engaged in gaining such titles for himself, which titles are shares in the total available wealth.

(48) Wealth (tangible things) cannot be created out of nothing. It is only possible to make a thing out of available components, and to create an article of higher value by putting them together. This may be done by simply putting

the component parts together, or by altering them, or by adding to them a device which has its origin in the brain of the man engaged in the particular industry. It is also possible to bring articles (tangible wealth) from one part of the world to another by adding service, that is, transport, to their value.

People engaged in trade or industry or production are not necessarily bound to possess the titles with which to acquire the wealth (tangible things). It is possible for them to acquire it on the basis of being credited. After having acquired the articles, they add something to their value by manufacturing or transporting them. They add, so to speak, their own ability. Whereas the tangible wealth which enters their possession only makes them liable to the extent of, say, 100, after their activity they may become creditors to the extent of 110. By this activity they have therefore brought the difference into their possession. This difference is the reflection of their ability.

(49) It is therefore everybody's business to mingle in the economic life of the world in such a way as to become at the same time a creditor in a greater degree than a debtor. All these titles, the debits and credits built upon the tangible things, mean nothing. The only thing that means anything is the *difference* which someone holds in his name, which difference, if it is a positive credit, entitles him to a definite share of the total available wealth within his own nation or generally on earth.

Therefore whatever new debits and credits are built upon the total available wealth, that is, upon the tangible things, they have no influence whatever upon the wealth of the world.

(50) It is clear that the one who has the power to interfere with the unit in which these debits and credits are reckoned, can interfere with the shares which everyone possesses of the total available wealth. The one who can interfere is the state. The state has never been able to withstand the temptation to interfere, and it never will be able to do so. In times of danger (war), the state makes such shares; but in times of peaceful political evolution the state gives way to the wishes of sections of the population, allowing them more than that

to which they are entitled. The ways of doing so are numerous. To some industries and trades bonuses are given (import bonuses, subsidies to manufacturers). To other sections of the population houses and lands are granted at less than they cost.

In this way the state interferes with the share each man has made for himself. This interference may be compared to a revolution. A revolution is no longer a revolution if successful. Falsified money (and that means all the money created by the interference of the state) is no longer falsified money as soon as it exists. Once it exists the state of affairs arising out of its creation can no longer be altered, and the new shares created can no longer be withdrawn.

(51) In the first instance everyone is trying to gain for himself his share of the total available wealth of the world or within the boundary of his own nation. If a nation enlarges its share of the available wealth on the earth by what we call trade arrangements, political treaties and eventually by war, then the shares of all the citizens of that state become larger. Their shares of the available wealth on the earth were first of all shares expressed in titles within their nation. When the title of a nation called " A;" measured on the titles of all the other nations, becomes larger, then the share of the citizens of the " A " state of the total available wealth on earth becomes larger.

This is the meaning of the value of one currency unit expressed in the value of another currency unit. When the wealth (quantity of tangibles) of a nation is augmented without new titles being created, and is augmented in proportion more than other nations' tangibles, then the international value of this nation's currency unit must increase (exchange value). Of course, the total of the titles count, not only the quantity of currency tokens. The value of a currency " A " measured on another currency " B " therefore depends on:

1. The proportion of tangible wealth of the nation "A" measured on the total wealth on earth and also measured on the tangible wealth of " B."
2. The titles of "A" measured on the titles of all nations and on the titles of " B."

THE MAKERS OF MONEY.

(52) It thus becomes clear that the man who makes most headway in fighting for his share is making money for himself. That does not necessarily mean that he is a maker of wealth. The making of money, meaning the making or enlarging of one's share of the total available wealth, has nothing whatever to do with increasing the quantity of tangible things.

Even if the total of tangible things remained unaltered, many people could increase their share, and this would mean that others would have a smaller share. It is only to the detriment of others that one can increase one's own share, unless one simultaneously contributes to the quantity, or increases the value, of available tangible things.

There is, for instance, an increase in value if articles are brought from a place where they are of less value to another where they are of higher value, and the trader thus increases the tangible wealth, while at the same time he successfully arranges the alteration of his share.

From this point of view it is easy to conceive distinct classes of money makers. The commonest case is that of the man who has not so much the ability to increase his own share by brain power, but who, by his activity, increases the available wealth (tangible things). It must not be under-estimated that this man is all the time destroying wealth, even in spheres where it is not visible. Like everyone else, he is destroying wealth by simply being a citizen of a community, and thus being a burden to the community from the point of view of security, order and health.

(53) For every individual there must be a certain minimum of wealth-creating activity before it can be said that he has added to the wealth in the world. This minimum of activity must cover the individual's personal consumption and his share of the cost of local and national control.

A very large number of human beings are evidently creating less than they are consuming. The amount they add to the total available wealth on earth by their daily activity can certainly be measured. What they consume can also be measured. But what they consume is not limited to things such as houses and clothes and other articles they use and handle daily, for they also use, for instance, streets, street lighting and public organisations.

All this has to be taken into account before one can say that a certain man has added to the wealth of the world, and that he can make a margin for himself, this margin being the difference between what he consumes and what he makes. Whether that difference *comes to him* in the form of an increase of his share of the tangible wealth, *or not*, is another matter.

(54) Then there is a class of individuals who probably would not make anything at all and can only increase their share by their mingling in economic life. These are the middlemen, agents, brokers, the "pure" traders. I do not wish to say that such individuals are unnecessary, or still less that they are a burden to economic life. On the contrary, they are highly necessary, and are inevitable. They are, one and all, a sort of clearing account in their individual sphere of trade, and by their activity they reduce to simple transactions what would otherwise be an enormous and complicated affair. At the same time, in acting in this useful way, they make a margin for themselves. Every middleman, every trader, who by his activity does not actually "touch" and transport the article he trades, and who by his activity does not necessitate the forwarding and moving of tangible wealth, belongs to this class.

These individuals do not restrict their activity to economic life within their own nation, but their activity embraces the trade of the world. If the strongest and cleverest are within one nation, they must outwit their competitors belonging to other nations. Their trading accounts transfer credit and debit points from one place to another without moving the tangible wealth. They create credits, without "touching" the tangible wealth, in favour of the place where they are domiciled, to the disadvantage of individuals outside the boundaries of their nation.

(55) I should like to illustrate this point by an example: If a trader in London buys articles to the value of 1,000 and is, by his personal ability, able to purchase at 900, this means

that goods to the value of 900 are given to the foreigner and leave the country, whereas goods to the value of 1,000 are coming into the country. It is true that a difference of 100 remains in the hands of this specific trader, but as long as his domicile continues to be London, so the credit point of 100 and the wealth represented by it remains in London too.

This is the role of the international trader and banker, who becomes the means of enriching his own nation. These individuals, far from being a burden and a nuisance, by increasing their own share at the same time increase the share of their nation to the detriment of other nations.

(56) It must now be clear that if, within one nation, or even in the whole world, everybody, in proportion to the shares which they hold at any given time, should increase their shares, and also increase the available wealth, no one would get any richer in proportion. It would be possible for everyone to create more, consume more, and have more, and still to be at the same point in comparison to his fellow competitors throughout the world.

If any one person were to go ahead at a quicker rate than the others, he must necessarily diminish the shares of his fellows. This fight to increase one's share out of proportion, to the detriment of the shares of others, is often carried on by federations or associations of individuals. Being an enormous number of individuals within a federation, they are in a position to enforce the enlargement of their share to their own credit and out of all proportion to their abilities. This can only be to the detriment of other federations, associations or classes.

Again, if such an enforced means of increasing one's share is carried out by a nation, and by force, that is, by war, it can only have the result of diminishing other nations' shares of the total available wealth on earth.

THE FREE PARTY TO A FREE CONTRACT.

(57) The most important element in the economic world is the free party to a free contract. These contracts of free parties bring about the sharing out of the available wealth. This free party to a free contract is, for instance, the housewife buying in the shop. Such a free contract is the purchase even of a paper or a cigarette.

I must therefore consider this free party to a free contract more closely. Suppose that free party to a free contract did not spend his titles (as I shall call money), but chose to retain them for himself, he would create a reserve of such titles. This we call saving. If that saving became a habit of a certain class, it would considerably alter the sharing out of the wealth.

(58) All those savers who by their activity made their share and did not eat it, and therefore reserved it for themselves, would increase for themselves, and, if they all belonged to one class, for their class, the share of the available wealth. This saving would be their power.

If, however, other classes saved at the same time to an equal extent, the saving would have no effect whatever. It is not what one saves, but only what one saves more than others, that counts. If all saved to the same extent, I mean in proportion to what they have, that would mean that they all reserved an amount proportionate to that which they originally held. The distribution of the tangible wealth, the sharing out between the individuals, would not be altered.

(59) Let us say, however, that one class only, say the labourers, were to save to a greater extent than they do at present. This would result in other classes being beaten by them. The labourers, by that saving, would bring into their power a greater share of the available wealth.

The next result would be that other classes, who by reason of that saving must definitely have smaller shares, would find that they could not go on as they did before. First of all, the shopkeepers, or the small manufacturers, would suffer. The shopkeepers, on the strength of the argument of having a smaller share of the available wealth, would have smaller stocks. The small manufacturers would go bankrupt, as their share would probably be less than nothing.

Production and trade cannot suddenly be diminished, and cannot suddenly be converted into smaller dimensions (the organisation being there). Goods which are exposed, so to speak, to trade and industry, would be of less value as a result of such saving, and this would still more increase the power of the saving class.

(60) As far as the sharing out of the available wealth consists in this saving, it is evident that the making of money is a matter of education. I mean here education in behaviour, education in how to plan one's life, education in how to spend and how not to spend. But it must be called education.

An educated nation has in this way a great advantage over other nations, and this is one of the reasons why, in comparison with the share of others, the share of the English nation stands so high.

THE QUANTITY OF MONEY TITLES.

(61) Money must thus be each and every claim anybody has against anybody else, provided that this claim can be substantiated.

When taking part in economic life, one often uses claims already in existence. One never actually creates new tokens. Whoever enters into a contract does not require a tangible thing in exchange for the tangible thing he parts with. Everybody is satisfied to receive in exchange a piece of paper or a given word. Everybody is willing to accept a claim.

The party who pays for the tangible wealth with a state-created piece of paper (money) does not create new money. Most people use such claims (money) as are already in existence. However, the party who gives a promise (written or verbal) in exchange creates new money.

(62) As evidently the total available wealth (tangible things) on earth increases by the activity of man, one might come

(following the generally accepted theory of money) to the conclusion that things must become cheaper at a very rapid pace, for the sole reason that the titles are not increasing, whereas the quantity of tangible things increases enormously. This fear, however, is unfounded. However quickly the tangible things, that is, the real wealth, are increasing, there is someone who is increasing the titles still faster. The governments, the states, the heads of states are interfering, and will for ever interfere, creating new titles.

(63) Apart from the argument elucidated in par. 64 ff, the generally accepted theory is unsound, and the increase of wealth cannot be considered academically, but only in connection with events causing such increase or decrease, par. 184—187).

In paragraph 118 f., to which I refer, I describe how bank credits, government bonds, loans of public and semi-public bodies, increase the available money titles. I come there to the conclusion that all bank credits that are not repaid constitute an increase in the quantity of money titles.

(64) Obviously, when following the theory of bank money, one should come to the following conclusions: (a) a bank credit creates a deposit; (b) the repayment of a bank credit destroys the deposit; (c) if a bank credit cannot be repaid (failure) the bank credit (new money) becomes immortal.

All this is undoubtedly correct (always taking the theory of bank money as a sound basis). Of course, point (c) would be fully correct only if an unpaid bill were for ever prolonged until the state collapsed. In reality the new money disappears and the loss is covered by the bank's capital or profits in other directions. Therefore the amount of money titles is solely increased by all government bonds and public loans because they are never repaid and live until the state collapses.

(65) Were not new money titles created by private bankruptcies, and by public credits, then the quantity of titles would quickly fall. The generally accepted theory comes to the conclusion that prices would quickly fall with the increase

of wealth, and that this fall of prices is counteracted, to a certain extent, by the newly created money titles.

Thus there are two movements in progress:

(a) The creation of wealth by labour, ingenuity and enterprise, and by the finding of natural wealth (oil, gold).

(b) The temporary creation of money titles by miscalculations, bringing about private bankruptcies, and the permanent creation of money titles as the result of political developments (public loans and public expenditure) and semi-public loans (debentures).

With the first movement going ahead more quickly, prices will fall; with the second, prices will rise. This argumentation would be wholly correct only when following the generally accepted money theory.

For correction see pars. 183—186.

(66) In conclusion I would like to state here:

No one but the state, and through its medium the central bank and the banks, can interfere and can make new titles. On the other hand, everybody except the state can really make money, that is, become credited with a share of the existing wealth, existing titles.

THE FOUNDATION OF PLANNING.

(67) There are cases where by one action tangible wealth is created and simultaneously a share of the existing wealth is brought into the possession of the individual.

This is an example: One who digs coal adds the result of his labour less his consumption to the wealth of the world. As long as his production of wealth is greater than his consumption (within a certain time) he will add to the available wealth. By offering the surplus to the market a share comes to him.

The more refined and more complicated the activity of the party engaged, the less is it visible how much he actually increases the tangible wealth by his activity, or how much he only increases his share of the existing wealth. If, for instance, he uses wealth, say, fishing boats, by his activity, then clearly the use of that wealth has to be deducted from the "plus" he creates by his activities. Only in a very few crude cases can it therefore be safely stated that the party engaged is definitely creating a tangible thing, and is at the same time making a share for himself; in most cases it is not evident how much wealth is created.

The farmer who went out west in America, with nothing but a few implements, and created all he needed, as well as something over to offer to his fellow men, added a tangible thing, and by offering it to the market, brought a share of the wealth of the world into his possession.

(68) Planners and socialists say: an individual mingling in economic life can either increase the available wealth by his activity, in creating more new tangible things than he consumes, or he can increase his share of the total available wealth to the detriment of others holding such shares (see para. 81).

The planners then draw the conclusion that no good can be derived for the nation or for humanity if people exert activity solely with the purpose of increasing their own shares to the detriment of others. Their argument is that one and all should exert themselves solely with the purpose of increasing the wealth on earth, and that no one should start out with the purpose of increasing his own share of the available wealth of the world to the detriment of others.

(69) In periods of crises the very foundations of economics are for a little while forgotten to mankind, and are substituted by something which seems new, but is only the repetition of an old story.

The argument of idealists and planners is roughly as follows:—

The energy used by individuals who only increase their own shares of the total available wealth to the detriment of others could be used for the creation of new wealth.

And: The state and community can take care of the available wealth much better than can individuals, and can see that it is rightly distributed.

These arguments seem, prima facie, to have little to do with money. Actually, they go right to the root of the meaning of money. Money is merely a matter of convenience, a matter of reckoning and sharing out the available wealth. Therefore it must concern money affairs if this sharing out is regarded as something that can be done artificially and according to plan.

(70) The following passage shows the mistake of the idealists and planners:—

The individual making money for himself, that is, increasing his share of the available wealth to the detriment of others, is the trader, the merchant, the banker and the manufacturer. It would seem at the outset that the manufacturer does not fall within this class. However, he does. The manufacturer starts out on the basis of purchases of articles, producing out of them a refined or changed or synthetic article. His activity is the same as the trader's, who buys an article from one man and sells it to another, getting a margin of premium for himself. The fact that the manufacturer alters or fits together or refines articles does not make him fundamentally different from the trader.

(71) Were the planners right and their arguments sound, then the activity of the state and the community could be substituted for that of the trader. It would mean that the manufacturing and trading class had to be exterminated.

If trade and manufacture were to be excluded as a basis of activity for the individual, the result, as I will now proceed to show, would be that the shares of other classes would be increased. All of us, taking part in economic life, are consumers. Besides that, many of us, some to a small, some to a large extent, are something else besides: traders, merchants, bankers, manufacturers. I shall call these the "*holders*."

This class *holds* tangible wealth in the shape of a share of the total available wealth. This share they have formed for themselves at the expense of the rest of humanity. They *hold* that share with the intention of *not consuming* it.

Were that share not held (and here I mean by "share" the total of the shares of the traders, merchants, bankers and manufacturers), were that share not held and kept out of consumption, were it not taken out of economic life and kept as a basis for future production, then the shares of all of us, as far as we are consumers, would be increased. We, the consumers, would be the possessors of that wealth.

(72) It is no good saying that the state could be substituted for these holders, and that the state could hold that share. The state is nothing but a representative of all of us as far as we are consumers.

It cannot be a representative of all of us as far as we are "holders." The state cannot hold for all of us, excluding some of us; it cannot hold for some of us, excluding the rest of us. "Holding" means to hold to one's own benefit, excluding the benefit of others; to one's own advantage to the detriment of others. Therefore it would be nonsense to say that the state holds on behalf of all of us, and, at the same time, to the detriment of all of us. Everyone, if he were a holder, would hold to his own benefit and to the detriment of others, increasing his share whilst decreasing that of his fellow competitors. The state, in taking the place of the trader, merchant, banker and manufacturer, would stand for them only as far as they are consumers. We must therefore forget about the state, which can never take the place of the "holder."

If, therefore, the holder (as a class) were to be excluded, then, as far as we are consumers, all our shares would be increased. Our shares of the total available wealth within the nation, or even all over the world, as far as we are consumers, would increase, with the result that no one would be interested in holding, but only in consuming.

(73) If the holders were only excluded within one nation or within certain nations, this would be to the benefit of holders within other nations, and the nations first taking such a step would commit economic suicide, as, for instance, did Russia, and as Germany and the United States are now doing in some measure.

Another nation, however, which invites into its territory persons able to increase their own personal share, must at the same time increase its share of the total available wealth on the earth. No one can increase its own share without increasing the share of his nation at the same time. The wholesale exclusion of persons trading to their own benefit must be to the detriment of the state where such action occurs.

(74) The creation of a centre of international trade, and for the interchange of goods, within the boundary of a nation, must be to the benefit of that state.

The expulsion of the Jews from Spain has brought Spain to ruin, and it will bring Germany to ruin. The creation of an international trading centre in this country has brought about its leadership in the world.

(75) The "holding" of a share of the economic wealth is an institution which cannot be abolished. We have to allow an individual to increase his share by whatever means are called honest and fair trading in economic life. This activity may extend as far as outwitting and tricking. It is always on the border line of the allowed and the disallowed.

The one who can go nearest to that border line without endangering himself must be the most successful. Of course, it is understood that, apart from this, position is created by ability. Therefore the most successful are not the delicate ones, not the best educated, but rather people who can "stand a lot."

Such people who can "stand a lot," and still be on the right side of the allowed and the disallowed, being nearest to the border line, are often detestable characters. But such is life; it is not always clean. On the contrary, he who can touch a dirty thing and still remain clean is successful.

These successful people are men and women who give their best service to mankind on the basis of their abilities. *Their* capital, and everybody's capital "is nothing but the crystallisation of a practical ability to fulfil an immediate requirement of mankind."

These holders, as I have called them, are increasing their shares and making money titles for themselves in accordance with their abilities. They get as much as they are able to make. They do it, and must do it, to the detriment (exclusion) of all others; and as a class they must do it to the detriment of other classes; and as a nation they must do it to the detriment of other nations. They and their class and their nation must increase their share of the available wealth on the earth always to the detriment of others.

(76) Were the planners right, they would first of all have to abolish saving. Everyone who saves increases his share to the detriment of people who have not saved, but simply consumed. The saver is the first enemy of the planners and the socialists.

(77) However, it is not the saver whom we have to deal with, but, so to speak, the "greater saver," the one who saves more than others. If all saved to the same extent, this would not have the slightest bearing upon their relative wealth, and their shares would remain unaltered in proportion to the shares of the others.

Only the amount one saves more than others is of importance. Only when saving creates different ranks, when it creates classes who have saved in varying degrees, only then does it become important. It is only by the differentiation of shares that saving becomes of importance. Such differentiation of shares can only be created if some classes save more than others, and some still more again.

(78) Individuals cannot merely be said to save. One cannot simply state as a fact that a certain class has saved, and has saved more than others, thus raising itself into a more prominent and wealthy position. The economist has to see for what reasons, from what well, and from what original dynamo, that saving starts. There must be some inner force that makes boys and girls of some classes act differently from those of other classes. There must be something that tells them, something that drives them, not to use their time for recreation, and not to go in for the "brighter side of life," but to work at home, and try to educate themselves.

That "something" which makes them act differently is some superiority in their personality which cannot be described, and the root of which cannot be more closely approached. It is a psychic superiority, and it is in fact the smallest germ of capital. Capital is here traced back to a product of the brain.

(79) If the planners were right they would have to forbid anyone to save. If they did not do so, they would leave the way open for the restoration of differentiation. This differentiation, which makes one man rich and one man poor, appears at first sight as the result of outwitting and tricking. But when it is examined more closely it is found to be ability, the germ of which ability is saving.

This saving is not made possible solely by a desire to save. No one can save simply because he wants to do so. He must be able to do so. The trader or manufacturer, who at first sight looks like an outwitter and a trickster, is equipped with a certain sort of ability—so also is the saver.

CREATION OF WEALTH BY BUYING AND SELLING.

(80) I have said (para. 11) that the economic activity (and all activity is economic activity) of an individual is directed either towards the increasing of wealth on the earth by creating more wealth than he consumes, or it is directed towards the increase of the individual's share (see para. 67). This is a simplified statement which cannot be maintained in this form. I made it to facilitate the foregoing exposition, and I will now correct it.

(81) This division of individuals into the two classes, those increasing their own share, and those increasing the available wealth on the earth, is the foundation of socialists' and planners' ideas. Upon this division they build up their conception. The class of individuals who only strive to increase their own share should, according to the planners, be replaced by the state or the community. They say that no such

activity intended only to increase one's own share should be allowed, and they call such activity immoral. They have set up standards of what is good and what is not good. They are trying to educate the nation to accept the axiom that no one is entitled to increase his own share solely to the detriment of others. They call such action evil.

I accepted this division (para. 68) in order to deal generally with the theories of socialists and planners. However, no such division exists. No one can increase his own share of the available wealth on earth without at the same time increasing that available wealth. The individual acting in such a way is in most cases a manufacturer or trader, and I will deal with both of them.

(82) In most cases a trader dealing in tangible things moves the goods he is trading from one place to another. Goods are of different value in different places. For instance, in Anatolia oil is of a very low value, whereas the same quantity of the same article is of very much higher value in London. The trader's activity in buying the raw material and buying the services necessary for its transport, and then for the re-sale of the oil, moves the article and increases its value. It might be argued that it looks, prima facie, as if nothing has happened and that this activity has not caused to increase the available wealth on the earth. That is wrong. Otherwise, one could say that everything that may possibly be produced in future centuries is already available in some form in or upon the earth, and no actual increase in value can take place. Values have to be judged from the point of view of the one who is using the article. Oil, even when it is on the surface of the earth in Anatolia, does not constitute a large addition to the available wealth on earth, whereas the same oil in London does. Therefore it is the activity of the trader which brings about this increase in wealth. The trader brings this increase about while intent only on increasing his own share of the already existing wealth.

(83) Many a trader's activity does not consist in moving or transforming goods at all. In many cases it consists in purchasing an article, or the title to an article, and re-selling it,

whilst the position of the article remains geographically unchanged.

In such cases the goods move from the "seller's" hand into the "buyer's," that is, from the weaker into the stronger hand. In such circumstances the seller sells only as he is forced to, and the buyer purchases only as he sees, by so doing, a possibility of increasing his share, his title on the available wealth. In being transferred from the weaker into the stronger hand, the goods are transferred into the possession of a better "holder." (para. 88).

The buyer, so far as he is a holder, buys goods not with the intention of consuming them. He buys them to rescue them, to avoid the destruction of the article. Every trader who purchases goods, even if he purchases them for the purpose of consumption, is rescuing them, getting them away from the weaker hand, where they would only be destroyed. The seller is not so well equipped to maintain the value of the goods as is the buyer. The buyer, in increasing his share through the activity of buying cheaply, brings the purchased article into a safer position.

(84) The action which takes place, when an article is bought and sold without being moved, is one by which the article changes hands at a price lower than that at which it has been valued in the hand of the buyer. In this way the buyer reserves a saving for himself, which saving increases his share of the available wealth.

In the hand of the buyer, the article has, say, the value 100, and he buys it at 90; then the article, which was valued at 100 for general purposes of reckoning up the total available wealth on the earth, is now valued at 90, whereas 10 is the extra reserve of the buyer, who thus increases his share by 10 points.

(85) This point of the buyer increasing his own share has to be kept in mind. The accumulation of such savings, of such reserves, is the foundation for the creation of new wealth. Were such saving, such creation of reserves, not to take place, then all goods would quickly be consumed. By such transfers of goods into the stronger hand, and by the building up of such reserves, the foundation is laid for new production. A

part of the value incorporated in the sold article has been taken away and rescued, so that it cannot be destroyed when the article is finally delivered to its ultimate use, consumption. The trader is thus performing his sacred duty of saving for the benefit of his nation, and ultimately for the benefit of humanity. He simply acts in his own interest, and endeavours to increase his own share. This may be to the detriment of his fellow traders; it is to the advantage of his fellow citizens, his fellow men, within the nation and without.

(86) This is of such vital importance that it cannot be over-emphasised. The trader and the middleman are regarded as the enemies of the consumer. Consumers try to eliminate them as much as possible, believing that without them they would be much better off. They do not see that this middleman is the saver of value, the one who increases wealth for the community to which he, the consumer, belongs, and that by his activity, the middleman necessarily increases the well-being of the consumer, too. It is true that no wealth (tangible things) is created by the act of buying; but a reserve purchasing power is taken out of circulation and saved.

In the case of the manufacturer, it is simpler to see how his activity, by which he intends to increase his share of the available wealth, has at the same time the effect of increasing the available wealth on earth.

The manufacturer, like the trader, purchases materials to which he adds service. He refines, assembles or alters. The article thus produced is, from the point of view of the consuming community, always of higher value than the total value of the components plus services incorporated in the article. Were this not so, then the work of the manufacturer could not go on. It would not be worth while to manufacture the article. Thus, the individual engaged in manufacture who sets out only with the intention of increasing his own share of the available wealth, is at the same time increasing the total available wealth on the earth.

(87) I would like to illustrate by an example the action of creating by purchase. Suppose a purchaser has a purchasing power of 100 units at his disposal. He is endowed with a

high ability of choice and judgment and purchases for 90 units a commodity which in his trade, for general purposes of reckoning, is valued at 100.

The balance of 10 is available as an additional purchasing power in the hands of the able buyer. It seems on the face of it as if the sellers would have lost this difference of 10, and that therefore no benefit has been derived for the community to which the purchaser and the seller belong. This is a mistake.

There is no doubt that the difference of 10 is available as additional purchasing power in the hand of the more able purchaser. If such savings are accumulated in large amounts they result in becoming the foundation for the holding of goods, for the holding of articles, for the beginning of a trade or a production, and so for the increase of wealth on earth.

(88) The sellers have not lost this difference of 10 mentioned before. They were the weaker ones. In their hands the goods could not be held. They had to give way in order to maintain their position. The goods had to change hands, and that saving had to be established in order to avoid the destruction of the goods. Had the purchase not taken place, the goods could not have been maintained in such a safe position. They would not have found their way to ultimate consumption in such good condition as was possible after the particular purchase which brought them into a safer position. In this way the able purchaser has reserved for himself, and thus for his community and nation, the difference which has been made by the saving of 10.

As all economic life is only competition, the seller who had to give way has only been put back into his natural place by the loss of those 10 points. Through this purchase which took place on the basis of the higher ability of the buyer, different levels were established for the buyer and the seller. The seller, in whose hand the goods were in a weaker position, had to give way, and the goods had to be saved and transferred into the stronger hand, the hand of the better holder.

(89) The result is that pressure is brought to bear upon the weaker seller. He has either to increase his activity, that is,

to win back this lost difference by harder work, or to spend less in order to make it good, and to maintain the position in which he stood before the sale.

Thus the thrifty purchaser, by creating for himself a margin, a saving, a reserve, creates at the same time such a saving and such a margin for his community and his nation. This saving is the foundation for new production and new wealth.

The act of selling and purchasing and the creation of reserves through that act is of such importance that I should like to approach this question from another point of view.

By an act of sale and purchase, the purchaser, by purchasing at an advantageous figure, would make a saving in the first instance for himself, and then for the community and nation.

(90) The argument has been put forward that the purchasing power left in his hand does not come into the hand of the seller, and therefore it might make no difference if the purchase and sale had been effected at a higher price. It is said that what saving the purchaser makes is lost to the seller.

This is entirely incorrect. Assume, for instance, that the purchaser who buys at an advantageous figure does not come forward in time, that many of them, eventually all of them, do not come forward. If several of them did not come forward in time the result, first of all, would be that the act of sale and purchase would not come about at that time, and as the seller has to sell for obvious reasons, the sale would later come about at a much lower figure after destruction or deterioration had occurred.

It is clear that the purchaser is acting as one who arrests the falling value at a certain point, preventing it falling still lower. He is the saviour who prevents the destruction of the goods offered for sale by taking them into safe custody at a certain point. Left in the hands of the weak sellers, they would no longer be safe, and probably would not be maintained in the same condition, but would be exposed to deterioration.

(91) It is argued that through interference of the state acting as buyer, it would be possible to bring about sale and purchase at the higher figure. This is not the case.

The purchaser who purchases at a certain figure. and whose duty it is to take the goods into his custody and to reserve for himself through that act a certain saving, a certain margin, would not reserve that margin if he were the state.

The seller, on the other hand, would not benefit from the higher figure. From his point of view the higher purchase price would be mistaken for the normal price obtainable on the market, and this would lull him into the belief that the economic and commercial position, from which such a high figure was reached, was safe and sound. He would buy, if he were a trader, and he would manufacture, if he were a manufacturer, at corresponding prices.

In one case (without the interference of the state) a sale is effected at a lower figure, and the purchaser holds a margin, getting the article at a lower price and retaining for himself a difference, his saving. In the other case (the state interfering) the seller retains an extra profit when the article is artificially sold at a higher price.

(92) In both cases a certain amount of purchasing power changes hands. The planners say that it is quite immaterial if that extra profit and margin is left in the hands of the seller when the sale has been effected at an artificially higher figure. Their opinion is that he, the seller, can use this extra saving in the same way as the buyer.

This argument does not hold good. If the price level were artificially kept higher, and the seller gained an artificial profit, the results would be that the level of prices would rise accordingly. At his next purchase the seller would be bound to make such an expenditure that his margin, which had been artificially made larger, would once again disappear, or, at any rate, would once again be as small as it was before the artificial rise of the price level. He would have to go on purchasing, as it is his business to go on either trading or manufacturing, and he could not withhold that saving, that margin, from circulation. He would have to invest it in the purchase of new goods, and he would not get a greater quantity of goods for it.

In the first case (without the interference of the state) where the buyer, on the basis of his higher ability, purchased more cheaply than other buyers, he, the buyer, is enabled by the extra margin which he kept for himself, and which he accumulates, to purchase on the market an extra amount of goods. Through his cheap buying the price level is not forced down (as in the other case it was brought up). On the contrary. Through his purchase he has arrested the falling price level.

(93) The difference is that in the case of the artificially raised price level the amount of money in circulation always buys only the same quantity of goods, whereas in the case of the "natural" purchase of the more able buyer purchasing at a lower level, more articles can finally be purchased with the same amount of money.

(94) The argument of those who defend state money, and the artificially raised price level, goes on to say:—The manufacturer (to use an example), who by his ingenuity is able to make a saving and to produce an article by the employment of four men instead of five, is withdrawing from circulation the wages otherwise employed for the pay of the fifth man. He is withholding these wages from circulation and he is making labour idle.

(95) To see the fallacy of this argument we have to return to the tangible thing. We are all out to make more wealth, to produce more tangible things, and to do it with less energy. If, by his ingenuity, a manufacturer is able to produce the article by the employment of four men instead of five, he achieves the goal we aim at. He has managed to produce the same thing with less energy, and that energy which he has not used must be left for the benefit of the community and the nation, to produce in addition to this more tangible things, more wealth. This one man who is not employed has some energy to exert. His personality is free for the benefit of the nation to create wealth which would not otherwise have been created.

Of course, if by the adoption of a wrong principle he is kept idle, and paid a subsidy which becomes a burden on the community, then this benefit is wiped out. It is not totally wiped out, as he is getting less than when employed as a fifth man and fully paid.

(96) However, if things were left to go their own way, this energy would and should be the foundation for the production of something more on top of what has been produced by the employment of four men. His energy, however little it produces, is producing something more for the benefit of the community and the nation, and this is the goal we wish to achieve.

The wealth consumption of the fifth man is equally high whether he is kept unemployed or allowed to do something, however little, by the strength of his personality.

(97) If traders and manufacturers save, they can only do so when, on the basis of some superior ability (superior in comparison with that of competitors), they are able to achieve the same result with less material and less energy.

(98) The planners say that this purchasing power which is left unused does not purchase available goods for consumption. One must never forget, however, that wealth is solely a tangible thing. This tangible thing is maintained, less energy (four men's work instead of five) is used. The fact that reckoning units (and that is *money*) are *left unused* does not make the slightest difference to the available wealth (tangible things).

(99) These unused reckoning units (usually called available purchasing power) are an asset as far as the nation as a whole is concerned. The fact that this extra purchasing power is available makes no difference to the value of the money unit, looked at from the point of international exchange. This extra purchasing power is an additional weapon so far as competition between nations is concerned, if the value of the unit is not changed. The reserve can buy extra wealth (tangibles) from abroad.

The international traders (Jews, Greeks, Armenians) are hus the benefactors of the country of their domicile. Purely nternational trade, insurance and transport from nation to ıation, for instance, brings wealth to the centre from which such trade is managed. On the other hand, these traders are a danger if they are not domiciled and if by their migration wealth is prevented from being nationally bound.

SAVING.

(100) The saving effected by individuals who are not traders and manufacturers is something different from that described in pars 97—99. Their saving means that they do with less, that is, they consume less and put aside purchasing power placed in their hands. This may strengthen their class, but it is of detriment to the nation.

Saving means that one must be in a position to save. One cannot simply say: "People are going to save," or "People have decided to save." One should add that because of certain circumstances people find themselves in a position to save. It is necessary, therefore, to consider what these conditions are that allow people to save.

(101) If every individual within a nation were to save in proportion to his own wealth, that would mean, theoretically, that the part one individual possesses of the total wealth of the nation would neither be increased nor decreased.

Say the total wealth (tangible things) of the nation were divided into a million equal parts, and a certain individual held five parts, and another individual held ten parts, and they both saved in proportion. Say the one brought his part up to six, and the other up to twelve (still speaking theoretically), they would still have relative parts of the total wealth of the nation. In proportion to other competitors within the nation, these two people would have more, but in relation to each other, nothing would be changed.

(102) Before going further I must deal with one difficulty There are people who have a deficit, that is, they have les

than nothing and are indebted to others, and, for the purpose of this reckoning, they are indebted to the nation. These people would have to increase their deficit proportionately (to increase their indebtedness) if the argument I am now about to outline is to hold good in every way.

Still, we can neglect the small percentage of individuals who only have a deficit. I will now assume that it is possible to ascertain what percentage every individual within a nation possesses of the total available wealth of the nation. Pursuing that reasoning to the very end, an allotment would have to be made to everyone in a specified part (tangible things) in accordance with the percentage of what belongs to him out of the total wealth of the nation.

All those who have a deficit would be put down as having nothing. Their creditors would have their parts decreased to that extent. If one starts dividing up a tangible thing, one cannot have less than nothing. One can either have a part of it or no part of it, but one cannot have a negative part. In dividing up the total available tangible wealth, one cannot have less than nothing.

(103) Let me return to saving (argument in par. 101). If it were possible for everyone within a nation to start saving (and I outline this only to show that such saving is not possible—pars. 108—110), this would have an influence upon the economic structure of the country. To see what influence it would have, let us assume that the process of saving came to an end after a certain period, and that, by saving, everybody had increased his previous possessions by one third. Besides his former wealth he would have one third more in the shape of money tokens or titles.

I am quite aware that it is not possible for everybody to save, and it is still more unlikely that all would save in proportion to their wealth. In endeavouring to deal with the problem of saving as part of the ruling theory on money, I will for the present assume that such a thing is possible.

On the face of it, it is clear (individuals with a deficit being left out of consideration) that everyone has exactly what he had before, as far as the tangible and visible wealth of the nation is concerned. Everybody has exactly the same part or proportion of " the total available " within the nation. If this process could be carried out, *and at the same time the value of the currency left unchanged*, then the saved money tokens and titles in the possession of every individual would constitute an additional purchasing power and additional wealth as far as the world outside the nation is concerned.

Assuming that other nations would not have done the same thing, this nation would have an increased part of the wealth of the world, as it has so many more titles to the available wealth (of the world) in hand, with which to purchase outside the borders of its own country. (We have assumed that this process has left the external value of the currency unchanged).

(104) Let us consider what would happen whilst such saving was going on. As the saving individuals would all have withheld money tokens (purchasing power), the goods which they usually purchased with these money tokens would have been left unpurchased, and prices would have dropped. The means of production which produced these goods measure their own value by that of the produce which they turn out. If the price of that produce falls so much on account of the fact that it is not purchased, then the price of the means of production also falls.

On the other hand, these money tokens (purchasing power) which are put aside are a continual threat to the market. At any moment the behaviour of the savers might change. Individuals might throw the saved money tokens on the market and purchase tangible things. Such a threat would be discounted and would—to a certain extent—hold up the price of goods and the means of production.

(105) If all saving individuals saved in this way. it would mean nothing more than that they would consume less than before. Actually, as a result, less would be produced, and therefore less means of production would be necessary. Some of the less remunerative means of production would be left derelict.

It is evident at this stage that the total available wealth, that is, the total of tangible things available, becomes less.

There are *not* so many goods produced for consumption, and there are not so many means of production maintained.

(106) Such saving would therefore have the effect (if it were possible to hold the external value of the currency at the same level) of:—

(a) Increasing the strength of the nation internationally (see para. 103).

(b) Decreasing the wealth of every individual within the nation concerned and accordingly decreasing the internal wealth of the nation (see para. 105).

Such saving would obviously be ridiculous, and could not be called saving. This, however, would happen if the nation, or large parts of the nation, turned to saving.

(107) I made one condition: that the value of the currency could be maintained. That condition would be fulfilled. It seems first of all that through the withholding of purchasing power from the market the value of tangible things falls, and an incentive is given to export. However, *only* as much can be exported as is imported unless balances of purchases over sales can be covered by extra services, or are borrowed.

As, however, our assumption was that the nation is taking to saving, this nation will not purchase from abroad, and cannot import more in order to export more. Neither can it leave a balance abroad, as such a balance is finally left to deterioration and destruction (see above para. 35—39), whereas we have assumed that the nation is taking to saving and putting aside purchasing power.

This shows that such a thing as a general saving by a large part of the nation, let alone the entire nation, is something that cannot be assumed.

(108) I outlined this argument only in order to show what saving means. There is no such thing as a wish to save or a willingness to save. People save

(a) if they are afraid of something which might happen,

(b) if it is not worth while to purchase.

Saving is a matter of competition, a matter of strength, a matter of being superior to others. An individual saves if he is able, on an otherwise equal basis, to achieve similar results with less consumption. Every individual's life is some sort of machinery, which machinery needs to be attended to, and requires fuel. The machinery gives a certain output, and that output is for everybody what he can make out of his life. If someone has a higher class of machinery (embodied in his personality) than his competitors, and that machinery works with less attention and less fuel, then he is ablé to reduce his consumption and still achieve the same results. This lower consumption is his saving.

(109) It is therefore utterly ridiculous to assume that the largest part of a nation will save. In every rank of life there are always some who save, and some who save still more, but the large majority does not save. One does not save as much as one wants to save, but as much as one is able to save.

Saving is the expression of an ability, of a superiority. It is a matter of distinction, differentiation. Therefore, it is a *contradictio in adjecto* to say that the whole nation, or the larger part of the nation can save. Saving as a habit could not occur and could never affect, in the way I have outlined above, the economic structure of a nation.

Economists who talk of saving should therefore, instead of speaking in the abstract of "saving," leave that entirely alone and consider the individuals who save. It is impossible to visualise saving in the abstract, and then go on to say what would happen if so-and-so should save, and in what way the economic structure of the nation would be effected by such activity.

(110) Considering the individual who saves, we find that saving is not only conditioned by the higher ability of the individual in question, but by his education, and even by his temperament. Whilst one individual's ability might be higher, placing him in a more favourable position with regard to his competitors, there might be defects from the economic point of view in his economic machinery (his personality being regarded as machinery).

These defects might not be such from the human point of view. They might be hobbies, or they might be inclinations which would make that individual stand very high from the human point of view. But they might be defects when regarding his personality as a piece of economic machinery. Saving is constituted by ability, by character and education.

THE INFLUENCE OF FAILURES.

(111) Everybody who mingles in economic life has not only tangible things in his possession, but he must necessarily have titles on the tangible things of others, and he must be a debtor under titles which others hold against him. To abolish these titles would mean to abolish trade and manufacture entirely, and to return to barter.

(112) Under this system of titles some individuals make miscalculations, and their affairs do not bring the anticipated results. A party entangled in this system of titles loses what is due to him under his title upon another, if that individual has miscalculated. If a failure occurs, the title is destroyed, both as from the active side and from the passive side.

The destruction of the title does not destroy any tangible thing whatsoever. It reduces the edifice of titles built up upon the tangible thing, and leaves intact the tangible thing underneath that structure. Not only has the destruction of titles no influence upon the tangible thing, but events take place in the reverse order.

(113) Let us assume that, at a given time, a very large number of failures occur. Such a happening would enormously reduce the number of titles, active and passive. It would diminish money, as the term is understood from the generally agreed point of view. (It is quite different, however, if the failing party is a bank or a public body, Par. 124 ff.)

As evidently such a failure has no direct influence upon the tangible things (though it has a certain influence, as I shall later show), and as, on the other hand, "money" (as the term is generally understood) is being destroyed, it is evident that money cannot be wealth in the same sense as the tangible thing. Events happen in a reverse sequence: the destruction, that is, unjustified consumption, took place beforehand, based upon misjudgment, and brought about the failure.

(114) Should the nation become so panic-stricken that everyone endeavoured to cash his titles, that is, to dissolve the structure of titles built upon the tangible thing, and to get into his possession, instead of a title on the tangible thing, the tangible thing itself, that would mean that all the titles would be dissolved, and everyone who had titles would get his part of the wealth of the nation in the shape of a tangible thing.

(115) Whenever a panic arises from the disclosure of many miscalculations, then such a dissolution of titles and purifying of the system takes place. Everyone gets nearer to the tangible thing which is in the end the only object of all his economic activity; instead of having a title on someone who has a tangible object or a title on an object, the intermediary, or several intermediaries, are discarded, and the owner of the title gets down to the tangible thing. He gets possession of it, he puts his hands on it.

(116) I have just said, in paragraph 113, that failures have a certain influence upon tangible things. Evidently in such a process of dissolution of titles, consumption and, as a sequence, production must be reduced, and such reduction must have an effect upon the quantity of the available wealth. However, the crisis is swift. The largest percentage of the available wealth of the nation consists of plant, the word being taken in its widest possible sense. In a crisis it is mainly the quantity of quickly consumable goods which is reduced. Through this the nation as a whole, and in consequence every individual, must be a loser. Many individuals who were holders of titles are entirely excluded and are no longer holders of any available wealth. Many others who have a portion of the available wealth must find their portion reduced.

(117) Failures, whenever they occur, bring with them a reduction in the quantity of money titles. As failures cannot be avoided, and as a certain percentage of all liabilities are dissolved, not by being paid off, but by failure, one might come to the conclusion that after a certain time all money titles might be eaten up and disappear under the heading of failure.

(I have now to make a short detour—par. 118—123).

(118) This diminution of money titles is, however, offset by a process under which more money titles are continually created than are destroyed. As long as progress is being made, and the wealth of the world (tangible things) is increased, the economic activity bringing the tangible things into being is, as I will show later, creating more titles than are simultaneously destroyed.

THE CREATION OF BANK MONEY THROUGH FAILURES.

(119) Such a creation of titles (par. 118) would be impossible in a community where the government or the head of the community was totally excluded from the money affairs. However, it seems improbable, even impossible, to imagine a state whose sovereignty does not include the management of money.

(120) Economists, in order to make something clear and easy to understand, have a habit of guiding the reader into a primitive country, showing him how things would go on in such a land. This procedure is evil. It is even a lie. All simplifications are untrue. If I follow the same procedure, I know I am doing wrong, and that I shall have to correct the mistakes afterwards.

In such an imaginary state of affairs, that is, in a community with very simple economic life, a certain amount of money units in the shape of coins or other valuable things would be available, if we do not imagine the state of affairs to be still more primitive, with economic life proceeding on a basis of barter.

(121) In this primitive land, whoever would act economically, that is, buy or sell, would get from his contract partner in exchange for the article bought or sold (a tangible thing) money in the shape of units recognised in the community. None of the buyers or sellers would produce these coins specially for the purpose of the transaction. Whoever wanted to produce such coins would have to get the material necessary to do so, and would have to expend upon it the necessary labour. This material and this labour would probably be more costly than the result, the money coin.

In such primitive communities, these coins were either produced by the state, or an institution or individual was commissioned to make them. However primitive the country, it is impossible to imagine it without the head of the community interfering in the management of money. The production of money units would in some way constitute the foundation for such interference.

(122) In such a state of affairs it was easy for the government or head of the state to interfere with the economic system if, owing to lack of money, special measures were found to be necessary. It was done by producing money units which had less value (material plus labour) than the recognised value of the unit accepted within the community.

At no time and in no place has a government been able to withstand the temptation, in times of danger, to produce money titles on that basis. Coins were made of less value than that written on their face. The crime or fraud or theft was obvious. Then it was a simple fraud, if the act of a state can be called a fraud at all.

In a more progressive community, with paper tokens instead of coins, it is not so obviously a fraud, but it is one just the same.

The production of such money units would in no way increase or decrease the tangible wealth within a nation, and would only bring with it another distribution of that wealth.

(123) The government, by making additional units on a profitable basis, would bring into its possession more tangible wealth than the value of the units distributed. The people in power would be the first to benefit from such a procedure.

In autocratic governments, the goods purchased in that way were the property of the sovereign. Under a less autocratic system, all the individuals near the sovereign benefited; and in more modern and democratic governments the beneficiaries are all the individuals, corporations or groups of persons—parties attached to the government or supporting it —who benefit directly or indirectly through the action of the government to the detriment of the nation as a whole.

There is, in substance, no difference at all between the sovereign of an autocratic state who makes money coins and purchases with them for his benefit, thus bringing the wealth of the nation into his hand, and the sovereign in a democratic community who allows groups within the nation, or parties who are near him to have the benefit of such money-making.

Instead of making coins, a simpler method is adopted, and in dealing with that we come to the root of our money system.

(124) A citizen of a modern state, if participating in the economic system of his country, uses a bank. He is either a wage-earner depending on an employer, he is an employer himself (active or retired) or he is a servant of the state. If he is employed he becomes attached to that economic system through the medium of his employer. If he is a servant of the state, he benefits directly from the state, as I shall shortly describe.

The employer, the independent economic unit, i.e., the manufacturer or the trader, has to make use of the bank as a medium through which to make his payments. There are still people who do not use a bank, and purchase with ready money paper or coin), but their number is negligible.

The trader or manufacturer effecting and getting his payment through a bank, either holds in the bank a certain amount of credit which he never draws to the full extent, or he belongs to the other class who take credit from the bank (overdraft).

(125) These traders and manufacturers working within that economic system must from time to time lose some of their titles (credits given to others) and so must the bank in whose system these individuals are incorporated. That bank does not stand in isolation. The bank, and all banks, are subordinated to a central bank, and they take credit from the central bank. The central bank again is not independent. It is subordinated to the state, and is covered by the state.

(126) In this way, every individual, apart from direct servants of the state, has his place in the banking system under the leadership of the state. Should a bank of importance suffer failures, the bank would never be allowed to be swept away. All the other banks would have to suffer equally through the medium of the central bank.

In the ordinary way the banks give only as much credit as they can afford. If they suffer heavy losses through their clients' miscalculations, they have to take credit from the central bank. If the nation as a whole has spent too freely, and its anticipation of profit is not fulfilled, the central bank has to take credit from the state. The state can give credit at will, making the losses good by interference in the value of the money titles. Whilst in a community with a simple organisation the state made money coins, in a state with a modern banking system other ways of producing such credits are available.

The credits given by banks seem to lead to the increase of the money in circulation. I said "seem" to increase. In normal circumstances they do not do so.

The generally accepted theory of bank money takes it as proved that every credit of a bank increases its deposits. It is necessary, from the point of view of "making money," to deal with this argument again.

(127) Again it is necessary to simplify, although at the end the simplification must itself be corrected.

Suppose that there were in the country only two banks, A and B. The bank A is dealing with a certain group of clients and bank B with another group. One day both banks decide to give all their clients an advance in proportion to the total advance they have already, for instance, to double their advance. Then let us assume that all the customers of bank A buy, to the extent of the new advance, consumable goods which they consume, i.e., destroy, and by this purchase transfer the credit they received to new people, the sellers, who had no bank accounts before, and would start accounts with bank B. And vice versa.

As far as the banks are concerned, the result would be that both banks would double their deposits. They would therefore double their liabilities. At the same time, both banks would have a large number of clients who were bankrupt, and the banks themselves would be in difficulties.

As the banks are institutions which are covered by the central bank, they would not be allowed to go bankrupt, and would receive credits from the central bank, which in its turn would receive a loan from the state in order to avoid its failure.

(128) In practise, of course, such a thing would not happen. But the argument of the theory of bank money asserts that a bank can give credit in excess of its own resources, and by this means increase its own deposits. The defenders of the theory of bank money say that banks make profits, and can give additional credit to the extent of their profits; therefore, so they say, the banks can increase their deposits to the extent of their expected profits. This again is wrong.

(129) Let us assume that the normal profits would not be taken out of the bank in the shape of dividends, but were left there. This would mean the same as an increase in the bank's capital. The argument then continues that if the banks have allowed their credits to swell to the extent of the new capital, they have increased their deposits, and have therefore "created money." It is now necessary to examine these profits in order to disprove the theory of bank money.

(130) Suppose a bank enters into a transaction, advancing to a client A against security 1,000; the client sells the security to client B for 1,100, and from the profit 100 the bank retains a commission 10. This is the usual way in which banks make profits, and all profits can be traced back to a procedure of

this kind. The commission of 10 comes from client B. This client B had a previous deposit with the bank, and his deposit goes partly to A (1090) and partly to the bank (10). The profits of the bank therefore come from money titles that were available beforehand. This is the result: the banks enter into the economic activity of the nation, and by doing so they get a certain profit, that is, a certain part of the total available wealth. No money titles have been made in the process of the transaction, but only money titles that were available previously were used. Some of the titles that were available before came into the possession of the bank (the commission of 10 out of client B's deposit) to the disadvantage of the rest of the community.

(131) As all the profits of the bank are created in this way, the bank gets by its activity a part of the total available wealth of the nation, and a part of the total available titles. This simply reduces the parts of others.

If, then, the bank uses its profits in another form instead of paying them out in the shape of dividends, it is the same as if the bank had acquired new capital. The bank has not created anything by lending its new profits.

If the bank paid no dividends at all, and continually used the profits made, to give new credits, the deposits would, of course, be increased in that way. No bank, however, can be conducted on this principle, i.e., that no dividend is paid. Everybody who holds shares in the bank expects to have a return and requires a dividend to be paid out. Were the dividend not paid, the shares would be valueless, and the bank could not go on doing business.

Thus the argument that the bank could allow new loans to the extent of its profit, and so create new deposits, falls to pieces.

(132) New money tokens and new money titles, in addition to the old ones, come into existence only by the will of the state. If the state has a total income of 1,000 (after having exhausted taxation) and has a total expenditure of 1,500, then the difference of 500 has to be created. The state is the only one that can spend more than it earns. The balance is

created by an internal loan. The internal loan is taken up with the intention of repaying it. History, however, teaches us that in the end these loans are never repaid. They are renewed, replaced by others, consolidated, or whatever else one may call the transaction. They come to nothing in whatever crisis befalls the state.

(133) The loan is sold on the market. It is an additional title, previously non-existent. Against this title banks are willing to advance money. This money is, of course, a title that was available beforehand. An additional title, however, is actually made by the expenditure. By earning 1,000, and making an expenditure of 1,500, the 500 had to be paid from something. It was probably paid in the first instance by bills for which no cover was yet available, and when the bills fell due the loan had to be provided. Of course, all the holders of the bills were entitled to get them cashed in banks, and as these bills were from the government, there was no one for the government to fall back on. If the loan were not arranged at the time the bills were due, money tokens would have to be printed. When, however, the loan is arranged, then the bonds are legitimately printed pieces of paper exchangeable (saleable) at any bank against a credit note. *Then we have an entirely new title created out of nothing, and adding to the total of available titles.* Naturally, no tangible thing has been added to the wealth of the nation by this activity. The wealth of the nation is unchanged. Only the distribution of this wealth has been changed by the government's intervention.

(134) Here I have to repeat a few points which have already been discussed.

If every individual were to make up an account and arrive at a certain figure which constituted his wealth, these figures, when added up, would represent, for accounting purposes, the total wealth of all the individuals. In order to arrive at his figure, every individual would take into consideration what was due to him, and what he owed to others—he would value all that he had in the way of titles and tangible things. Banknotes and, indirectly, bank credits are in this connection titles against the state.

It is to be assumed that all individuals would assess their wealth by the same methods. The sum total of the figures at which they arrive we will call the "accounting figure."

(135) There would be some individuals whose figure would be negative, that is, they would owe more than they possessed, and/or was owing to them. For the purpose of this investigation they would have to be ignored and reckoned to possess nothing. Their liabilities, insofar as they exceeded their rights and titles and tangible things, would have to be called nil, and the creditors to such titles would, for the purpose of this investigation, have to call such titles nil.

The national and local governments are "persons" in this sense, because they possess tangible wealth. Their liabilities (ironically called stocks) far exceed their tangibles. This excess covers practically the whole of the government bonds. Therefore it is to be called nil in the balance sheets of private individuals.

(136) A stock-taking is to be made at the same time. The total of the available tangible wealth within the nation is to be valued. Tangible wealth is all that is of value to human beings, and can be valued from the economic point of view. But it is understood that only tangible things come into this valuation. For instance, a banknote, for the purpose of this valuation, has only the value of the paper of which it is made, and has therefore less value than a corresponding piece of wallpaper. However, a gold coin has the value of the gold it contains. A canal share would be of no value, since it is not a tangible thing. But the drawings, papers and descriptions constituting a patent would have a certain, if small, value. An oil well has the value which the shares represent, but the shares themselves have no value. Roads, land, forests, sea shores, railroads, embankments, animals, all these are things which have the quality "tangible," and so have their place in the balance sheet.

(137) This valuation of the tangibles shows a total, and this total has to be compared with the above-mentioned total of

the accountancy valuation (see par. 134). The two totals have to be set equal.

Every individual has a share in the total accountancy valuation, and he is to get the same proportionate value out of the total available tangible wealth (the stocktaking value).

Then all the titles can not only be forgotten, but they can actually be destroyed, and an ideal part of the total available wealth can be allotted to each individual.

(138) Were it practical and possible to dissolve our economic structure in this way, it would be found that everybody, instead of possessing rights and titles, and instead of owing on rights and titles, would own only a certain proportion of the total available tangible wealth. It would not be possible to allot to him an item out of the available tangible wealth. But this is not necessary for the conception of the idea with which I am proceeding.

(139) It would appear that as long as anyone has money, or owes a sum of money, this state of affairs, in which he is entitled only to an ideal portion of the total wealth, has not been reached.

All the rights and titles would be entirely dissolved by such a procedure and a state of affairs would be reached in which everyone would be entitled only to a certain proportion of the total available wealth.

(140) I will now try to reach the same result by theoretically dissolving the money system.

Let us imagine that everyone would call in what is due to him and pay what he owes. Rights, for instance shares, would also be called in or paid out and dissolved. All companies would sell their tangibles for cash in order to pay for the shares issued. Then the shares in the hands of the issuing party, being valueless, would be destroyed.

(141) The holders of bank shares would have to exchange their shares against banknotes, and the shares would return to the bank, where they would be valueless, and would have to be destroyed. At this point individuals would have large

amounts of banknotes in their hands, which banknotes would represent a title against the state. The banknotes would be presented to the state bank, and the state bank would have to pay against the banknotes the gold which it promised to pay, taking the banknotes in exchange. The banknotes would then be valueless in the hands of the state, and would have to be destroyed.

(142) In order to arrive at this state of affairs it is probable that a large amount of banknotes would have had to be printed. If the state were unable to give gold for them, it would then have to give whatever it otherwise possessed in exchange for the notes it had handed out. It would then appear that the future economic possibilities of the nation had been to a large extent discounted, and that banknotes, that is, titles, had been made out without regard for the future.

A large quantity of banknotes would be without cover. However, from the point of view of the conception with which I am now dealing, this is of no importance. It would only mean that every one of these banknotes would have less value than was attributed to them before the dissolution of the economic system.

(143) It is clear then, that in such a dissolution of the economic system all money disappears, and as long as it has not disappeared, the economic structure has not yet been fully dissolved. When it has been fully dissolved no one possesses anything but tangible wealth.

We must assume that it would be possible to allot to everyone, against his proportionate title, a definite tangible thing. Money that would then be available would disclose the fact that someone had not yet given up a right against someone else, and that this state of affairs which we were trying to reach had not yet been attained. It would show that someone had not yet cashed that title, had not changed it back against the tangible which the debtor under the title had in his possession. The one who still holds money in hand still renounces his right to the tangible thing, whereas we want him to give the money back and to get hold of the tangible thing.

(144) *Money is born out of the act of renunciation which everyone performs who leaves his tangible wealth with another and takes in its stead a title on that wealth.* Were it not already clear from other points of view, it would be clear now that no one in the world can create money, but everyone can make it for himself. *Everybody is in a position to renounce his right to a tangible thing and leave the tangible thing with someone else, and to take a title for it, and so create with that title that which is called money.*

(145) It was necessary to show the theoretical destruction of the economic structure now prevalent in order to come down to the point where this structure no longer existed, and where everyone had a tangible thing in hand instead of having rights and liabilities. From this lowest level, where no money actually exists, we return, in pursuing this theory, to a point where such rights and liabilities reappear in someone's hands, and we see what constitutes money.

It is now necessary to revert to the so-called bank money, and to repeat the fundamental statement of the theory of bank money. We may assume that there is only one bank in existence. Were this bank to extend a credit to an individual, and there were only bank money in existence, the credit would immediately return to the bank as a deposit. In this sense it is therefore entirely correct to say that the credit of a bank creates the deposit.

(146) The individual who receives the credit can repay it only by having someone else's credit transferred to his account, whereby the deposit that has been created disappears entirely. Those theorists who maintain that the credit of a bank creates the deposit would necessarily have to add that the repayment of the credit destroys the deposit.

However, not every credit can be repaid. Many to whom credits are extended, fail. To that extent the deposit created through the extension of credit cannot die.

(147) It is quite immaterial whether we assume that there is one bank or several in existence, as of course banks must benefit from the credits extended by all the other banks. It

is quite correct to say that the banks *must* proceed *in* step, and that they are directed by the central bank as to the speed at which they are to proceed in giving credits. The fact that there are many banks instead of one would not make any difference to the correctness of this theory, if it otherwise held good.

(148) Only those credits that cannot be repaid are, therefore, of importance, i.e., the credits given to individuals who fail. Such credits, having created immortal deposits are, of course, limited, and cannot exceed the bank's profits in other directions, plus the bank's capital and reserves. Such credits diminish the normal profits, and may reduce such profits to nil. Were the business of the bank otherwise highly profitable, then the high margin of profit would allow of many failures and many new deposits that could not die.

It is to be observed that in this way new immortal (irrevocable) deposits are created to the same extent as credits die (become valueless, not repayable).

(149) Suppose there were, for example, only one bank, with a capital plus reserve of 1,000, and two customers. The bank would extend to customer A, who does not possess anything else, an uncovered credit of 100. Customer A would purchase from customer B an article to the value of 100, pay for it, and customer B would deposit 100 with the bank (no other money than bank money being in existence). A would fail, having consumed the article purchased. The deposit of 100 would be an additional deposit to whatever customer B would otherwise hold as a deposit. The bank would, in this case, have to pay on demand to B out of its own capital, assuming that no profits were available.

(150) When banks make large profits, this means (to return to the argument discussed above (par. 130), conception of tangible wealth) that they increase their proportionate part of the total available wealth of the nation or the world. The total number of titles (the amount of units) owned by the banks may in this way be constantly and continuously increased without having any effect whatever on the total avail-

able tangible wealth. However, to conclude from this that the bank can create money is a fallacy. As long as the banks followed principles of sound business they would only give to a small extent credits that were not repayable, and these would be covered by profits made in other directions. It is only to this small extent that new credits that cannot die would be created.

(151) The opposite effect would take place in the case of a failure of a bank, provided the state allowed it to take place.

This obviously means the disappearance of a large quantity of deposits, of a large quantity of reckoning units (accountancy units) in which the total available wealth is expressed. This, too, however, would be without influence on the total available tangible wealth.

(152) The differentiation between bank money and real money (so-called) is only an artificial one. It is based on the experience that the population has a habit of paying with cash and to some extent by cheque (bank money). Were it necessary at some time or another for large parts of the nations to draw their deposits, preferring to keep them in the shape of banknotes in their pockets, this would be the beginning of the previously described procedure of the dissolution of the economic structure. This, if carried to the extreme, would bring about the total disappearance of all that is called money, as the paper in the hands of the individuals would have no value if the central bank should refuse to give the gold in exchange for the paper which originally constituted a receipt for this gold. Thus the differentiation between bank money and so-called real money is only the expression of a certain habit of the population.

Such a disappearance of all money could actually arise if a State refused to keep its promise to redeem the issued promissory notes (banknotes) with gold, and at the same time the bank money died through a change in the habits of the population.

IMMORTAL MONEY.

(153) A loan that is not repaid becomes, as described above, an "immortal" deposit (see par. 148). By far the greater part of the floating titles and rights in our economic system are such loans. Quite apart from the loans of the government, there are the loans of the municipal bodies, the loans of the public services such as railways, electricity, gas, and there are the loans taken up by the largest industrial and trading concerns in the form of debentures. Such loans and debentures are either devaluated, substituted by new ones, prolonged, reshaped, consolidated, or whatever other name one invents for that process. Under each such procedure their sum total gets bigger, until they are finally defaulted. They cannot be repaid.

An exception to this rule seems to be the case when a company's debentures are repaid on the occasion of the company being acquired by a larger concern. Upon investigation, however, it will always be found that the debentures are repaid with money borrowed on other tangibles owned by the larger concern. So in reality the debentures are not repaid. They resurrect in another form, until they die by default.

(154) I want to analyse the procedure on the occasion of the taking up of a public loan. Say the County Council of Richam has decided to furnish all the dwellings within its boundary with new and up-to-date sanitary appliances. That part of the payment for these appliances which could not be found out of the ready money or normal income, would have to be found by means of a loan.

Before the appliances were installed, a certain "status" had existed within the boundaries of the said County. After the appliances were installed, another "status" would be found. If all the inhabitants had taken stock before this installation, everyone would have been found to possess a certain quantity of wealth. Above (par. 134—136) I have described how such a stock-taking would take place. Everybody would be found to have theoretically a certain part of the tangible available wealth, or a certain article valued accordingly out of the total available wealth would be attributed to each, and the money would have disappeared.

(155) After the installation of the sanitary appliances, the same stocktaking would find the citizens in a different position. The loan, being a charge on the community and on all the citizens in a certain pre-arranged proportion, would modify the shares each one had of the total available wealth. The total available tangible wealth of the community (but not of the nation) would have been increased, the appliances having added to the value of the houses. At some other point within the nation a decrease of the tangible wealth would have taken place as the material and labour used for the production of the sanitary appliances must have been taken from some source.

It would be found that the rearrangement was to the benefit of all those who were not chargeable under the loan taken up by the community (escaping taxation), and in proportion their share of the total available tangible wealth would have been made larger.

Every such loan, far from being a charge on the future, is a charge on all that exists now.

(156) If it were not clear prima facie by looking at the flow of events within the social structure of our state, it would be clear from the above-mentioned procedure that all those who are not chargeable under present arrangements by a new charge laid upon the community, are benefiting from the continuous ameliorations and new arrangements applied to all the public and private services open to the community.

A public loan, that is, a loan taken up by a public body or a semi-public body, as, for instance, the railways, means a redistribution of the available tangible wealth, and is in so far the most painless form of revolution in the communist direction.

By floating further enormous amounts of loans, the distribution of the available tangible wealth will always be further modified. The effect is none other than a new way of accounting and attributing to the citizens all the available wealth. The idea that there is a charge under which the total system may break down one day, is misleading. At any given moment the total mass of loans, however large they are, may be imagined non-existent and imagined as dissolved.

(157) Money is a matter of accounting. Our economic system gives power to public bodies to rearrange this accounting of everybody's share of the total available wealth. However hard a man may work in creating wealth for himself, he is deceived; the system under which public loans, never repaid, are floated, interferes with the money he has made and decreases the units which he accumulates.

No one can make such units of accountancy but the state and the public bodies and the semi-public bodies, by way of loans taken up and actually never repaid, so that they become immortal money.

At this point the search for what is money ceases to be a matter of economics and becomes a matter of politics, which is outside the sphere of the economist.

(158) The state makes accountancy units for those who are closest to it, that is, the servants of the state, and for all who are close to the party in power.

The money distributed in such a way direct from the state gets the flavour of "honest money." "Honest money" is the name given, in this connection, to what someone earns by being directly subordinated to all the public bodies and public services. In the distribution of this money so-called "honour" comes in.

By contrast, "dishonest money" (in the opinion of the earners of "honest money") is all such money as is made by people who have to fight for it, that is, by the independent traders and manufacturers. These are the people who are not "entitled" to it under direct contracts with the state, public and semi-public bodies. It is held that these people make their money by tricking and outwitting each other.

It seems quite natural that those who can *ex officio* interfere with money should call their own titles honest, and by that give all the rest the flavour of dishonesty. The economist, however, would say: "honest money" is the money that came into existence naturally—the money of merchants, manufacturers and banks, and "dishonest money" is that which came into existence through the interference of the state, by distribution through the medium of the state.

LIMITS TO THE CREATION OF STATE MONEY.

(159) Theoretically it would seem that public bodies and semi-public bodies could take up loans indefinitely, as such loans create the above-mentioned "immortal deposits," and *the money for such loans* is always provided by the loans themselves (see par. 133). It would seem that the only result of such loans, if taken up on a very large scale, would be a redistribution of the available wealth. Such loans, if taken up on a very large scale, would create an enormous total *of units of accountancy*, and would, in a general stock-taking of the nation, bring with them a distribution of the wealth in such a way that the original possessors of wealth would finally have so little that it would not be worth reckoning. It seems that it would amount, finally, to an equalisation of all possessions. In practice, however, such a point could not be reached.

All the wealth that exists at a given time, say before such loans on a large scale are being taken up, is identifiable with some economic undertaking, even if it is only the investment of a smallholder. All this wealth has to produce revenue, and the state reckons with that revenue in its yearly budget. The state wants part of that revenue for its expenditure and for the balancing of its budget.

(160) Loans created on a very large scale bring about new economic undertakings which do not come into being from the point of view of producing revenue. On the contrary, these undertakings might work at a loss, and this would not matter. They are all in competition with undertakings that existed before, and the more loans are created the more difficult will all economic undertakings find it to make a "profit" to give a revenue. The revenue of the nation must fall. The income of the state, insofar as it is drawn from death-duties, supertax and income tax, must shrink, and the point must be reached where the state cannot balance its budget. At this point a catastrophe must take place, which, however, will not mean the disappearance or breakdown of the existing economic system.

(161) The danger of the procedure under which loans are created is entirely disguised by the fact that the loans must

always find an open market, for the reason that these loans create their own deposits, being so-called "immortal loans."

When the catastrophe came it would mean a decline in the value of public loans and semi-public loans from 100 to practically nil. In what way the situation would dissolve itself, and what the situation would be after the catastrophe had taken place, are not matters for the economist to describe. Moreover, it is not easy to estimate the weight of all the events liable to take place at such a moment. It would most probably be a reconstruction of some magnitude from a political point of view.

If one wishes to imagine the state of affairs after a catastrophe, it is necessary to keep in mind the following facts:—

(a) Tangible wealth would be available, probably to the same, and even possibly to a larger extent than now.

(b) The greater part of this tangible wealth would be in the hands of individuals who are not interested in its maintenance.

(c) A large proportion of all plant would be doomed to ruin. To use an exaggerated analogy: this plant could be compared to palaces in the hands of single persons who are unable to maintain them in their own strength and have no use for them.

(162) A relapse on a gigantic scale would take place. The working of the new economic order would be something like the functioning of the ancient gold and silversmiths' companies in this country. Such new organisations would act as bankers on the fundamental experience that a banker's duty is:—

(a) To receive value (bullion and other articles of similar value) and give a receipt for it, which receipt is the money unit.

(b) To receive money and make a charge for keeping it in safe custody.

(c) To transfer money.

They would regard it as their supreme law that it is not the duty of a public banker to lend money, which function would be left to private enterprise.

The inflation periods in the various European countries could provide a basis for an estimate as to when such a catastrophe might take place. Some countries have already brushed off their public and semi-public liabilities, others have taken political steps providing for all the necessities in the event of a catastrophe.

CAN ALL MONEY BUY ALL GOODS.

(163) It is generally agreed that "all money" can buy "all goods."

It cannot be the task of an economist to deal with every error; if this were his task, he could never stop fighting. But the slogan, "All money can buy all goods" is so generally accepted that it is worth while to destroy the fallacy.

If at a given time a stocktaking by all the people of a nation or in the world were to take place, and everyone's part were expressed in accepted units, and, on the other hand, the total wealth were computed, then clearly a certain ideal part of the total available tangible wealth could be attributed to everyone, and all the titles and liabilities would be non-existent.

Such a procedure does not mean that all the goods are bought with all the money. Otherwise the money would then be in the hands of the sellers. In this stocktaking the money is wiped out, and to every individual is allotted his part of the total available tangible wealth.

(164) It is necessary to take refuge in the simplification lie to make this clear. Say there were in the world twenty individuals, eighteen of whom had no titles and no liabilities. Two of them would have the relationship of debtor and creditor, the one having signed a paper under which part of his house belonged to the other. Further assume that this debt were expressed in terms of money, and the terms of money were recognised by all the others as the unit of reckoning, no money however, being in existence.

It would be difficult to imagine how such a state of affairs could develop. But let us say that the money was in coins, and the individuals had deposited it at a house which they had called their bank, and that bank had been destroyed by an earthquake and all the coins were gone. They would all be in possession of their tangible wealth with the exception of their coins. Eighteen of them would have no money contracts, and two would have money contracts. Then the coins would be produced by the debtor, with the approval of all the others, from gold in his possession. The debtor would pay his debt to his creditor with these coins. Certainly these coins, being the only money available at the moment, are not buying all of the goods—the total available tangible wealth.

(165) In a community which has reached a more advanced stage of economic development, many such original contracts have been made. Each time when someone has been willing to leave the possession of his wealth in the hands of someone else, without taking tangible things in exchange, i.e., to sell, he has created a title for himself on what he has allowed to remain in the other man's possession. This is the act of creating money, if the title (the money token) has been made expressly with reference to the transaction.

No one who has ever conceived money accurately (namely, as the renunciation of the holding of tangible wealth and the establishment of a title recording such a renunciation) could come to the idea that all money could buy all goods.

(166) Once the false idea that all money can buy all goods is accepted, many other mistakes must follow. The next conclusion would have to be that an increase in the quantity or in the value of the tangible wealth must necessarily be accompanied by an increase in the quantity or in the value of money, and if it is not accompanied by such an increase, then—it is said—a distortion or crisis must arise. It is concluded that the available money can no longer buy the larger amount, or the higher value of goods, and that therefore, economic life must be paralysed, and many people must remain unemployed who otherwise could be employed if the money were there to purchase the extra quantity, or to make good the extra value.

(167) If we wish to know how much wealth (tangible things) can be bought by all money, we again have to go back to the stock-taking which has already been mentioned several times. The total wealth (tangible things) of a nation could be recorded, and to every citizen his part of that wealth could be apportioned. All the money would disappear, all liabilities and rights would be wiped out, and everyone would either be in possession of the actual tangible thing apportioned to him, or in possession of a theoretical part of the total wealth, that is, of a percentage of the nation's wealth. His part could, for instance, be recorded in a book.

(168) After having assessed the total wealth, and assessed each individual's part of the wealth, it would be found that one group of people to whom wealth (tangible things) has to be apportioned, are already in possession of some part of it, but not so large a part as they ought to have. In so far as they already have wealth in their possession, it is not necessary to allot wealth to them. Only the balance due to them in this stocktaking would have to be allotted to them.

This balance which is still due to them is equal to the excess of their rights over and above their liabilities. This excess is, so to speak, their "money in hand" against somebody else's "wealth (tangible things) in hand." Only to the extent of that excess are they now going to "buy" goods. The total of these excesses is balanced by an equally high total of "liabilities and wealth in hand" of another group of people. All money can only buy this last-mentioned "wealth in hand" in the possession of people with an excess of liabilities, and only to the extent of their liabilities exceeding their rights.

It is quite possible to imagine a situation in which everybody has actually in his hand that portion, which, by the stocktaking, would belong to him. Then no money whatsoever would exist. The further away we are from such a situation, the more money must exist. It is quite clear from this that money is the book-keeper and the indicator that someone is still entitled to someone else's wealth. (See also par. 174 ff.).

(169) At no time can it be said that all money can buy all goods.

This would only be possible if not one of those who were entitled to the goods had any goods (tangible things) at all in hand. If such a thing were possible, and if all wealth were actually in the hands of others than those to whom it was due, that would mean: one set of people who have an excess of rights over liabilities has no possession of wealth at all, and another set of people, who have an excess of liabilities over rights, has in its possession exactly that wealth which is covered by this excess, and these two sets of people constitute the whole population.

(170) This reasoning has now to be differentiated. (See par. 174 ff.) We have to consider separately the money which consists of unsecured titles against public bodies and the state. As far as the titles against the state are secured by gold or other tangible things (public buildings, roads), the title is in no way different from the title against an individual. The only difference might be that the public authority or the state has the power to nullify the obligation; for instance, to refuse to hand back the gold received for the banknote. However, as long as the obligation is kept, and as long as the belief exists that the state and the public authority will return the security against the title, so long is this money, too, a record to the effect that someone has renounced his right to the holding of the tangible thing, and has taken a title in its stead.

(171) The aggregate of liabilities of the state and other public authorities is, however, not covered by securities. The uncovered excess of liabilities (that is, the total amount of currency notes plus public loans, less value of tangible things in public possession), is a kind of money quite different from the money in the sense used above (that is, the title and right against an individual). It is still called money, but it is nothing but a charge upon the total available wealth of all the citizens. How this charge is going to be brought home is a matter of legislation, which is expressed in the laws of income tax and death duties. In the investigation (par. 163)

how much all money can buy, this last-mentioned money, this charge upon the wealth of the citizens of the nation, will now be disregarded and treated separately (see par. 174 ff.).

This money (uncovered state liabilities) is valued daily. Its value depends on the chances the money has to be brought home and to be exchanged into tangible wealth. There may be strong chances one day in the sound management of state affairs, and frail chances the next day when gamblers are in office.

THE GIBSON TEST.

(172) What I call the Gibson Test is known in economics as the Gibson Paradox.

Mr. A. H. Gibson has drawn attention to a close relationship between the rate of interest measured by the yield of Consols, and the level of prices measured by the wholesale index number. He finds that interest and prices have been rising or falling together for a period of 130 years. Mr. Gibson and other economists have tried to explain this phenomenon, and as no satisfactory or reasonable explanation has been found, it has been called the Gibson Paradox.

However, instead of calling it by this misnomer, it should be called the Gibson Test, meaning that a conception of money or a conception of all events in economic life must be wrong if they cannot fit in satisfactorily with the undoubted facts stated by Mr. Gibson.

(173) There is no doubt whatsoever that for the period of 130 years, for which we have correct figures, the wholesale index number of the price level and the rate of interest of consols are always closely connected, and rise and fall together. If, therefore, both the known conceptions of money and the reigning theories cannot be reconciled with the facts to which Mr. Gibson drew attention, then these conceptions and theories cannot be correct.

If we tried to dissolve our present economic structure, and were to apportion to everybody his part of the available wealth in the form of a tangible thing, all the titles, including money, would disappear. Everybody would be in possession of his part of the available tangible wealth. In practice it may not be possible, but in theory it is, and it can be imagined that everybody has made out his claim, and that the total tangible wealth has also been assessed, so that the proportionate part that belongs to each person has been found.

(174) Into this procedure we will now introduce a modification. In this balance sheet, comprising the claims everyone has put forward, we will, in the first instance, leave undissolved the claims everyone has against public bodies. Public bodies are, in this connection, the state, the county councils, and whoever can get rid of his liabilities by making them a charge on the people.

Therefore in the first stage of the dissolution of the economic structure, we will treat these titles against public bodies as equal to the tangible thing, i.e., we will give them the same status as tangible things.

Then when everybody had made out his claim against the wealth of the nation, and had been allotted his part of the available wealth, he would have it either in tangible wealth and/or claims against public bodies. All the other claims and titles would have disappeared. The claims against public bodies would consist solely of currency notes, of government stock, and of shares in public bodies.

(175) In the second stage the holders of these claims against public bodies would then ask for a redemption. As far as public bodies still had tangible wealth, they would give this against the titles presented. They would first of all give the gold against the currency notes and/or government stock, and then all the other tangible public possessions. The notes would then be destroyed, having no longer any meaning when returned to the body originating them. Government stock and the shares of public bodies would be dealt with in the same way.

However, the tangible wealth in the hands of public bodies would not cover the total of claims presented, and there would remain a large amount of unsettled claims. These unredeemed claims would be a charge enforceable by the public bodies upon the total available tangible wealth of the nation. At this stage only individuals would hold tangible wealth. There would be no money titles in existence other than titles against public bodies. Public bodies would possess no tangibles whatever.

(176) In the third stage a new distribution of wealth would have to be made. All the holders of tangible wealth would be faced with a new charge upon their wealth, which the public bodies could enforce upon them. The way in which the distribution of this charge upon the tangible wealth of the nation would take place is a matter of politics. The daily fight in Parliament is the struggle to get this or that charge of the government's liability enforced upon the nation's wealth.

However, the way in which this charge is distributed is immaterial from the point of view of the economist. The only things of significance are the amount of the charge and the amount of the tangible wealth. This charge is the balance of the liabilities of public bodies after all their wealth has been used up in redeeming as many of these liabilities as possible.

(177) With this conception in mind we see that at certain times the valuation of the total available wealth is high, and at other times it is lower. This higher valuation of the available wealth arises at times of higher demand, higher ability, the result of more vigorous life, fairer weather, better seasons. This may bring with it a reshuffling or another distribution of the wealth amongst the citizens. It may also be that the quantity of the tangible wealth in itself (expressed in units of goods) has been increased.

The rule, however, will be that without increase in quantity, higher valuation takes place when the demand is there, based on higher activity and on newer, better, or stronger ideas governing economic life.

(178) Here I must make a digression to deal with the theory of demand. There has been much controversy about the

meaning of demand. It has been associated with money and the meaning of money. Demand, however, has no connection with the money side of economics at all.

Clearly, demand originates from a person or a group of persons entering economic life as demanders.

Whenever a person or a community, or even a nation as a whole invents devices which place them economically over and above the competing persons, communities or nation, outdoing these competitors, then they enter economic life as active demanders on the basis of such an invention or device. With that the demand is created.

Such originators or inventors of devices become active when they see some possibility of a profit, a margin, a difference in value between components and the final articles made from these components, or between trading articles at one place and trading articles at another place to which they would have to be transported, or between raw material in one condition, and the same raw material in another condition.

This originator becomes aware of a state of affairs which he is the first to notice. He sees a new device for transporting or transforming or trading or making. On the basis of this idea he enters trade or manufacture or transport and appears in economic life as a demander. This has nothing whatsoever to do with purchasing power, which may or may not be in his possession. The purchasing power, the money, will find its way to the inventors and to the new idea.

(179) Now let me return to the trend of ideas pursued in par. 177. This increase in value of the total wealth may affect some classes so that they get more, and may affect other classes so that they get less, when the above-mentioned apportionment and reshuffling takes place. However, it would have no influence upon the claims and rights of all persons against one another, and all these claims and rights would still disappear entirely under the above-mentioned stocktaking and apportionment. (Par. 174).

(180) The public bodies' charge upon the total available wealth would stay at the same figure as before. As, however, the available wealth is valued higher at the time of increasing

demand, so the charge must appear to be a smaller one. The charge becomes lighter as the value of the tangible wealth becomes higher. It seems now that the tangible wealth could bear a higher public charge:

(a) This public charge, as far as it consists of currency notes, is not elastic, but it is rigid, and the rigidity is felt in the way that the currency notes now buy less goods (the value of the goods having risen). They cannot expand as their value is written upon them.

(b) It is different with government stock and the shares of public bodies. Their value is likewise written upon their faces, but they can expand in that their yield may become higher.

(181) Therefore in times of the higher valuation of the tangible wealth, the public bodies' charge upon the wealth is felt less, and the security which that wealth affords against the charge is greater. If the security is greater, the charge is of higher value, and the government's charge *as far as it is expressed in consols and the shares of public bodies* must show a higher yield. These times of higher valuation of the tangible wealth are the times of rising prices. So it is no mere coincidence, but a simple and unalterable economic law that rising prices and a greater yield of consols appear simultaneously.

On the strength of the same argument, in times of lower valuation of wealth, when prices are falling, the public bodies' charge is felt more heavily, the margin of security is smaller, the value of consols is lowered, and the yield must give way.

(182) Obviously one objection will be made against the accuracy of the finding in the previous paragraph. If the government were to print currency notes, and inflate on a large scale, this would seem to make the charge upon the available wealth much larger. At the same time, a large scale inflation would bring up prices. We should have, therefore, rising prices at a time when the charge upon the tangible wealth seemed to be increased. This is a fallacy.

(183) I said in the previous paragraph that the charge *seemed* to be increased. However, it must not be left out of sight that every artificial increase of the money tokens (paper currency) has no influence whatsoever upon their total reckoning value, and however large their number of units may be, their total reckoning value would not have been increased. The value of the unit would be smaller, and the purchasing power of the money unit would be decreased.

Far from being a bigger charge upon the available wealth, the government stock plus the currency notes would in a mysterious way now be an even smaller charge, in spite of the number of the units being enormously inflated. The charge would be smaller, as the inflated quantity of money tokens would be valued at less than the smaller quantity before the inflation, because possible future inflation would be discounted. Therefore the smaller charge would be of higher value, the yield of consols would rise in spite of depreciation of the currency and a large scale inflation, and we would have this higher yield at times of rising prices.

(184) We have, therefore, to deal solely with the fact that prices are rising or falling, and that the tangible wealth is valued higher or lower, *as the result of natural economic activities*. Even on this basis mistakes are easily made. It is argued: the quantity and total value of the tangible wealth of the world has increased, therefore prices must fall. The currency notes and government stock are a smaller charge against the available wealth, the yield of the government stock must rise, and so we have the paradox of rising yield of stocks when prices fall, whereas experience (Mr. Gibson's tables) shows the contrary.

(185) To disprove this argument I repeat:

Solèly natural economic happenings have to be considered. Wealth in any shape or form does not just appear out of nothing. All men are competitors in life, continually working to increase the quantity of the tangible wealth and its value. They do not want to do so. They are compelled to do so. They all want to make a living, that is, to create more than to consume. In this process everybody is out to do something better or stronger or finer than his competitors in life. One becomes active when one finds an idea, a device, however small or insignificant it may be. Immediately someone conceives a better or stronger or wiser idea, he becomes active, he goes on buying or selling or creating or manufacturing. This activity of trading and manufacturing brings about what is called "demand."

Therefore, demand is simply and solely the result of someone's ability or ingenuity. This does not mean that this ingenuity has to be a precise idea. It is the daily and hourly conception of the manufacturer and trader.

Demand, therefore, arises out of this fight for one's place in life, on the basis of competition. This demand is the organic basis of the increase of price levels. At the same time, however, the activity behind this demand is creating something—it is creating more than the creating individual consumes. So we see that while the wealth is increased in quantity and in total value, prices do rise simultaneously quite contrary to the theories of most economists that prices must fall when the quantity of the wealth is increased.

(186) I now return to the argument in par. 184. All this remains true only so long as there is no government interference. As the wealth becomes larger in quantity and in value, and the government stock and the currency become a smaller charge upon the wealth, so the government stock must be found to be based on a larger security, and its yield must be increased. It increases at the time of rising prices.

So long as economic life is healthy, prices must rise. Normal activity and demand must go on, and must bring about a continuous increase in wealth and in the value of wealth. This continuous increase in wealth would naturally allow for a continuous increase in the charge upon that wealth. So within limits, larger government loans would quite naturally be covered by a proportionately increased security.

If, on the other hand, no further loans were taken up, nor any new bank money created, then, with no government interference, the security would grow quite out of proportion, and the value of the government stock would continue to rise. The rising yield of the government stock is, therefore, the best indicator as to whether or not the government is entitled to take up loans or to increase its expenditure.

THE VELOCITY OF CURRENCY CIRCULATION.

(187) The velocity of currency circulation is thought by many economists to be connected with the price level. The argument is as follows:

The quicker the money tokens change hands, the more often are they applied to commodities, so that they are pressing harder on the goods in the form of demand and cause prices to rise.

The velocity of currency circulation has nothing whatsoever to do with the price level. It is again necessary, in order to get a clear view of what is really happening, to forget about money, and to fix the attention on the tangible thing. Money does not circulate in order to be passed quickly from hand to hand, but in order to bring goods from hand to hand. Money is in this way a sort of book-keeper. However quickly a book-keeper might work, he would not increase prices. Instead of giving money, that is, tokens, for goods that change hands, we can easily imagine that entries are made in a book. Say everybody had his wealth in his hand, and what he owed was written in a book. More and quicker entries would have no effect upon the price.

(188) If for some reason goods were to change hands more quickly, currency circulation would increase, that is, more and quicker entries would be made in the above-mentioned book. This might have various causes. One might be that everybody wants to get rid of the goods as quickly as possible. Another might be that the value of the unit in which the goods are reckoned is exposed to government interference and depreciation, and everyone wants to get rid of the currency tokens or the credit entries in the book as quickly as possible. But this would only bring us back to the question of larger consumption, or to the question of government interference, and it does not constitute a new problem, the problem of the quicker currency circulation, in itself.

(189) It is possible to demonstrate the mistake in still another way. The money token is, so to speak, applied in a purchase transaction to a specific piece of tangible wealth. Before it can be applied to another article the money token has, as it

were, to leave the article to which it was applied before. Whether this process is repeated for one money token ten times or only twice a day can in itself, therefore, make no difference to the price level. A money token can be applied to only one article at a time, and before buying another article it must have severed its relationship with the previous article.

There is also a theory prevailing that a quicker circulation is to be compared with a larger amount of available money tokens. People say that these money tokens circulate more quickly as there are not enough of them, and the quicker circulation has to make up for the lack in quantity.

All these mistakes would not be possible if, when thinking of money, it were realised that money is nothing but a matter of book-keeping, a matter of recording the fact that someone has renounced his right of possessing the tangible thing.

THE DIFFERENCE BETWEEN THE THEORY OF BANK MONEY AND THE THEORY OF REAL MONEY.

(190) The influence of failures may best be illustrated by thinking first in terms of tangible things and afterwards in terms of money.

A failure is a disclosure to the effect that wealth was destroyed or had otherwise vanished, whereas the recording of such movements was not effected simultaneously. A point is reached where such movements can no longer be hidden. The disclosure comes abruptly and suddenly.

As money is a recording of the fact that the rightful owner of tangible things left his possession in other hands, then the seemingly sudden disappearance of money titles makes a new statement of the records necessary. The records have to be brought up to date, adjusted in accordance with the movements that took place beforehand.

(191) The business of banks is the management of such recording; they have to keep the records up to date and are paid for doing so. They are the book-keepers They can be

defrauded by defaulters and often they are. The business of the nation may be badly managed (compared with other nations' business), but the book-keepers of the nation (the banks) should not be allowed to go bankrupt as long as the business of the nation goes on. Accordingly the state bank will not allow the banks to go bankrupt.

This management of recording the nation's business, the activity of the banks, costs money. Means are invested in that management. These are usually called the bank's capital.

If large style defaulters defraud the nation's book-keeper, then what the book-keeper makes in other directions (profits) and all the means at his disposal (bank capital) can be eaten up by such defaulters. However, on the basis of the theory of bank money such recordings of defaulters' accounts have a completely different effect, which I will now describe.

(192) Instead of many banks working under the control of a central bank and a state bank, the effect would be the same if one imagined there was only one bank existent instead of many. Say the total wealth of the bank is 1,000 covered in full by gold and other tangible assets belonging to share-holders who hold 1,000 shares at one.

Say the bank has only two clients, A and B, both with a square account (no debit and no credit). To A, the future defaulter, an uncovered credit of 100 is allowed. A is credited, no other account is debited. The amount of 100 is created for the time being. A purchases goods from B, pays him with the credit of 100, A is debited, B is credited with 100. If later the goods are resold to A for 100, then B pays with his credit, he is debited, A is credited with 100. A pays back to the bank his uncovered credit of 100 and the previously created credit (bank money) dies naturally.

(193) However, should A consume the article purchased and, possessing nothing else, become bankrupt, then B remains credited with 100 for ever. A cannot repay the credit to the bank. It is not necessary. The bank, upon notice of the bankruptcy, enters a contra in his account. When the credit was originally given, no other account was debited, now, in

cancelling the account out, no other account is credited. The credit in the bank's book in favour of B could now only be wiped out if there were a debit account open in the bank's book to which the credit in favour of B could be transferred (as a consequence of the transfer of wealth), but there is no such debit account. The credit in favour of B lives on for ever. It has been caused by the failure of A.

(194) This failure created immortal bank money. B will require his credit to be satisfied. The bank cannot take it from its capital, which would soon be exhausted. The bank, being in our assumption a substitute for several banks, i.e.. a state bank or central bank, cannot as such go bankrupt. The credit in favour of B must be satisfied with newly *ad hoc* created money tokens, this being the *sigillum officiale* for the state money created by the loan to A and made immortal by his failure.

This is undoubtedly the effect of unrestricted credits in our present banking system. There can be no doubt that the failure of a private individual creates money just as the public loan which is never repaid (see para. 153—157). Were our banking system entirely closed, invulnerable from without (foreign trade), and were all payments made by cheque, then the theory of bank money could be put into practice. The banks, that is, the controlling central bank, or really the state, could give credits *ad libitum* with the above-mentioned effect.

(195) But we are not alone in the world. The banking system cannot be closed against the outside world. Foreign trade enters into the system. The bankers of this country do not look up to the central bank for the tempo of credit expansion, they look down to their customers. Yet everyone of these customers is directly or indirectly connected with traders outside their banking system dependent in turn on their foreign central bank.

A wilful expansion of credit could have no influence upon the exchange of goods with foreign countries. Only as much value could be imported as is exported. The expansion must then result in an alteration of the value of money. The value of the unit must fall, measured on the currency of foreign nations, when the quantity of money is wilfully increased. This inflation with its consequences could not be avoided.

(196) Therefore the bankers will not watch each other for the tempo of credit expansion and the central bank will not give credit at will. If they wish to expand credit they will look at the soundness of their clients, and they will be held back by the fear to lose. They will watch the business abilities of their banking competitors and the interest of the nation as a whole.

(197) Every failure, insofar as finally borne by a bank, actually increases the money titles (increases deposits) under a very strict ruling of the theory of bank money. Say the capital and reserve of the bank were at their disposal only as a cover for the management and that capital was reserved for the shareholders who had a first charge on it, then only the profits of the banking business could be cover for any failure. Say there were no other business apart from the transaction resulting in failure. The creditor (as mentioned above) would get his money through the medium of the central bank from the state. This would be an inflation with a detour and completely veiled. The state has simpler methods at its disposal if inflation is required. However, should the state or the central bank give to the banks the signal for reckless expansion of credit, then such failure and increase of deposits and inflation must arise.

(198) Where, then, lies the difference between the theory of bank money and the theory of real money? The difference lies in the application of the banking method to the business of the community (par. 200).

Money is the recording of the fact that somebody has given up his right of wealth-possession to somebody else. If the bank gives uncovered credit to the prospective bankrupt A, and the bank's capital is pledged to the shareholders, then the bank simply does not release any tangible wealth to A, yet in spite of that gives him a title to the wealth of the nation, and the credit is inflation by order of the state.

(199) I said above that a public body is a body which can get rid of its indebtedness by making it a charge upon all the citizens. A public loan is accordingly a loan which could be dissolved by taxation, namely, by being turned into an indebtedness of all citizens.

Under a strict ruling of the theory of bank money, every loan which ends in failure is such a public loan, and every prospective bankrupt ranks equal to public bodies and can make his debt a burden to all citizens. In this respect he is a public body.

The method of banking is not applied to the nation's business in accordance with the rules of the theory of bank money. Bankers are not mainly guided by the wishes of the central bank. They are guided by their judgment of their customers' character and abilities, and by the attitude of their own competitors.

STATE VERSUS CITIZEN.

(200) The state, which in the first instance is called upon only to be the judge and arbitrator of the money contracts, must of necessity interfere in the working of the economic life of the nation. Its power or the power of those who manage the affairs of the state must increase so as to embrace the management of money.

The management itself requires wealth-possession, most easily obtained through interference with the money value. Some sections of the population are nearer to those in power than others and obtain privileges, again through the money machine. Other sections of the population then require adjustments under the plea of " justice " or " general welfare of the nation." So the state is forced to accept control of ever more and more provinces in the economic field, beginning with security and extending to health, education, research, transport, enforced insurance, public highways, public amusement, nutrition: all that takes place via taxes and national income, that is via interference with the money machinery.

(201) So the state must drive nearer and nearer to a communistic order, of which order the state and those in power are the greatest adversaries. Thus two forces are at work. On the one side the individual possessing something, whether it be much or little. On the other side the state arranging a redistribution of the order of possessions, always encroaching further upon the economic field through interference with the money value. This is actually done by a new distribution, by a manner in which the national debt, the excess of expenditure over income, is made a charge on the available wealth, by redistribution of the mortgage, which all money titles constitute, on the wealth of the nation.

(202) Each further encroachment must bring new difficulties in the economic life; the individuals who still possess something, though little, adopt in money affairs a policy contrary to that of the state. To their mind the state appears as the greatest competitor in all provinces of economic life, and this competitor at the same time can make money dear or cheap (interest), enforce export or import (duties), make agriculture or industry flourish or flag (subsidies). The effect of all these steps is very short lived; economic life rights itself very quickly.

Many crises must follow at intervals. A remedy is sought. The disease, however, cannot be cured. The disease is identical with the functioning of the life of the state itself. On the basis of the theory of bank money or state money it must seem that a new interference will bring stability and health into the economic life.

On the basis of this theory the state can successfully interfere in the working of economic life, can successfully raise prices at will, create demand through rising prices and create prosperity through demand. When in a crisis individual enterprise withdraws, it is assumed (following the theory of bank money) that this enterprise can be forced into activity through what is called the " prime pump."

(203) There is no final and lasting solution. Were the state to succeed it would turn the nation into a universal mutual assurance society. But the state cannot succeed. Private enterprise cannot be stamped out. Those in power themselves,

the party in power, would lose their wealth-possession in such an ending. The state, while wishing to resist, is driven to this end.

The driving forces are born out of the state machinery. These driving forces are the natural result of the knowledge that the state can interfere and does so all the time, and that the state must interfere in order to live.

(204) The state's resistance against the demands of all sections of the population for further interference creates a separation into parties. Some think they have been curtailed and invent terms of insult for the power they cannot curb and influence. They call that power capitalism. Thus capitalism is a term of insult with which the smooth running of the economic life of the nation is besmirched by those who fail to find their proper place in it.

(205) The state cannot create prosperity at will, it cannot create demand at will, it cannot raise prices at will for any length of time. That such successful activity of the state is possible, is solely an assertion of the theory of bank money.

The individual alone can create prosperity with rising prices. The individual alone can make prices rise by demand. How? Whenever a conception of an individual creates a better, finer, stronger device, one which lifts him up above his fellow competitors, then he steps out into the market as a demander to purchase the materials necessary for pursuing his idea.

This inventor may be an individual, a family, a tribe or people. The device may be a complicated invention, the result of deep research, but it is also the daily, hourly vision of the trader and manufacturer for a better achievement in trading, manufacturing, transport, in all spheres of economic life. Even the housewife's knowledge of how to use better than others the victuals she has bought is such a device, and so is the more effective cry of the paper boy.

(205) Prosperity and demand come into being with these new devices, when life is healthy and strong, when climate changes for the better, with fairer seasons, constant weather, finer days, when one steps out in the morning with the all embracing question, ever beset by the doubt:

"It is a fine day to-day, is it not?"

GOLD.

(206) Gold has nothing to do with money. Several of its outstanding qualities recommended this commodity to the state banks for service in a special capacity. It is rare, thus making it easy to accumulate large value in small space. It is able to withstand external influences, thus preserving its value. Before the state banks selected gold for special services, this commodity was used by individuals for the same purpose, that is, for hoarding, accumulating wealth.

The state banks made out their money tokens as receipts for a weight of gold so that it seemed that gold and money became inseparably connected.

(207) The price of gold is conditioned by the cost of its production, transport, insurance and safe custody. It cannot sink lower. It can rise higher if the largest buyers in the world, the state banks, find it useful to pay more for it. They will pay more for it if they wish to increase the production of gold. They will also pay more, that is, give more of their previously issued receipts for the new purchases if they wish to reduce the value of these previously issued money tokens and all money titles under their control, which are receipts for a weighed quantity of gold.

(208) As long as one or a few currencies (the main ones) are in a fixed relation to gold, all the others are also in such a fixed relation if they maintain a connection with the gold-bound currency. The connection is created by international trade. Therefore a state bank, though not directly bound to gold, reduces the value of its currency unit when offering a higher price for gold.

INTEREST.

(209) Interest has now for some time ceased to play the rôle it used to play in money questions. The knowledge that the state can interfere with the value of the currency unit makes all interest illusory. Even when there is no interference, the fear of such interference must have an influence on the rate of interest.

Without that interference of the state the value of money would rise and fall naturally. In times of rising value of money the lender should pay interest to the borrower, who undertakes to repay at a later date the same amount which would then have a higher purchasing power. Formerly, when the interference of the state was rare and one could bank on stability of the value of the unit, the rate of interest was the finest instrument in economic life. Now this instrument has lost its meaning.

CHARITY MONEY.

(210) Individuals and the state who distribute money outside an economic transaction transfer the title of wealth and therefore wealth itself. The state is guided by political, the individual by emotional considerations. The distribution of money by the state follows a previous interference in the economic structure, by which dislocations and hardships were created. The distribution of money by the individual follows increased inequalities in wealth possession, often the result of state interference.

(211) The distribution of money by the state is a result of political struggle: because the state had formerly given to one group of persons, it is now forced to give to another group.

Such distribution of money does not smooth out the evil it wishes to remedy, but increases it. If money were given to everybody equally in proportion to what everybody possessed beforehand, nothing would be altered in the wealth-possession of the people, nothing would be achieved from the humanitarian point of view.

(212) The inequality of distribution of charity money is therefore of importance. If money is given only to one group or to single individuals, these are lifted above their fellow-competitors. All help must of necessity be restricted in space and time. The wealth situation must be regarded afresh after each such action.

A new order in the wealth distribution has been brought about by this help. Whilst relief is given to an extremely small minority, the vast majority who were not helped must now be in a worse position. They are not in the position in which they were before. This will be clear if we look at economic life as a race. If some are taken out of the race and given a start, then the rest are handicapped in proportion.

(213) Economic life is a competitive struggle. Some part of the population must be the lowest economically, must perform the lowest functions for the community. It cannot be otherwise, unless, fate forbid, all were equal. If all the persons forming economically the lowest level of the community received a guaranteed minimum for maintenance as they do under the unemployment relief, then these persons would no longer start from scratch. They would no longer form economically the lowest level.

Yet the lowest functions have still to be performed, and they will be performed by the section of the population which before was economically just above the section which has been helped. This section now becomes the lowest, because that part of the population which before was economically the lowest, is no longer in that race which constitutes economic life. The lowest paid employed artisan and the unskilled employed working man are the parties most hurt by unemployment relief. The beggar in the village is the party most hurt by the gift received by his competitor in town.

(214) Money is the visible sign of somebody's renunciation of wealth-possession. This renunciation arises of necessity

from an economic transaction. Therefore all charity transfers without economic foundation are an interference. Theoretically there can be no difference between public and private charity. In the case of public charity the interference is obvious.

From the political and humanitarian point of view, this interference is at present unavoidable. In the search for the meaning of money this interference, like any other, must be classified as harmful.

TWO FORCES.

(215) It is difficult to avoid dwelling on economics when describing money. This difficulty could not arise, however, were it not for the fact that the theory of bank money or state money means interference in the economic life. Thus most writers on money theories have written books on economics when they only wanted to write on money. In clarifying the antagonism between the two theories, I had to make the same mistake and had to deal with the repercussion of money on economics. I now have to deal with one more economic aspect:

(216) Two forces are at work. One is the state. It may be said that it advances to the present position in four steps:

1. The state is asked to be the judge of the disputes and the money contracts of its subjects.
2. The state sanctions money contracts, thus sanctioning the birth of real money.
3. The state interferes with the meaning of existing money contracts, thus with the value of the already sanctioned money tokens.
4. The state makes (forges) money.

(217) The other force is the individual. Here, too, four steps can be observed:—

1. The individual takes refuge with the state for his disputes on money contracts.

2. The individual asks the state to sanction his money contracts, thus creating official money tokens.

3. The individual withdraws his money tokens from economic life, counteracting the state's policy of redistribution of wealth.

4. The individual flees with his wealth (emigrates).

(218) There are many phenomena in this battle between the individual and the state. They are of no interest in the search for the meaning and working of money except in their extremes, where they can give a clue.

(219) The individual is the representative of ability, that is, of brain. In its unavoidable extremes, this individual force is represented by the brain-endowed cripple, by the intelligent ape, out of place or unwilling to play their part in the life of the community. The state fights in the first instance against these extremes, but also against the mightiest individuals who counteract its policy.

(220) The extremes on the other side are the brainless Hercules or Apollo, who are otherwise fitted to play their part in the community. These receive in the first instance the help of the state. After that redress is offered to all the down-trodden, the down-and-out.

(221) The weapon and wealth of every citizen is his ability, and ability is everybody's capital. All creation of wealth, all increase in value, all existing wealth can be traced to personal ability, that is, to brain. There is no other capital than ability, that is, brain. A capitalist is thus everybody endowed with ability, endowed with brain. Capitalism is nothing. It does not exist. If it had to mean anything it should mean the upholding of the social order in which everybody has his place in accordance with his ability. That means nothing. As a rule, everybody has this place, anyhow. There are exceptions: those who failed. They wrought the word capitalism into a term of abuse for the smooth running of the economic life of the community which they misunderstood.

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