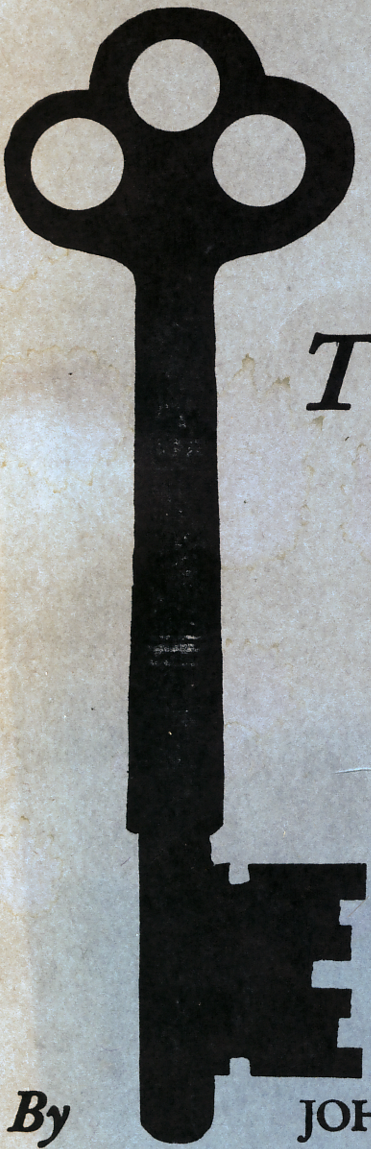
MONEY



The Master Key...

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CHAPTER XX

Some Paper Money Experiences—Guernsey Island—Part I.

The proposals outlined in these chapters have never been tried in combination. Certain of them have been during limited periods employed.

State issued money has been attempted scores of times as we have already indicated. But it has never been employed with a dividend for distributing it as purchasing power out to the depth of the population where it can do the greatest amount of good (a) to provide markets (b) to stimulate new production. Neither has it ever been applied in conjunction with price adjustments which again provide new markets, provoke new production and prevent prices from rising.

This third factor would prevent inflation at the very source, causing prices to *fall* rather than to *rise*.

Time and again governments have attempted to keep prices down by penalties. But when has any government *bought* low prices, *paid* sellers for cutting prices—borne the losses itself? Anyone, disposed to be fairminded, must and will, allow that until all three of these devices have been applied together, no man can be sure that they will not work, greatly to the advantage of all. It must further be conceded that they do bear evidence of having within them much virtue. In times as grievous as these no wise man will ignore them.

The key to the whole set of proposals is the source of money. Several noted cases of state-created money are frequently referred to. Would it not aid us in our study of money if we were to consider certain of these in some detail? We could observe them to see whether or not in those cases the money truths developed within our chapters were demonstrated or exemplified or confuted.

Believing that such study would aid us, I have selected for examination, several of the most frequently mentioned money experiences of the world.

The first one so dealt with ought to be Guernsey Island's famous experiment.

Guernsey Island has a Parliament of its own.

is there for you to use again to buy a farm, found a modest business, or to get an educational course. It is as though that sum had been definitely set aside for you to use as long as life lasted, the only stipulation being that you get the money all back every ten years. Could you imagine a more happy arrangement?

Such was the situation for the Guernsey Island State. For as soon as that £3000 were all in and cancelled, the authorities knew they could at once issue it again as before. Surely if the Island could stand without inflation £3000 injected into its currency in 1815, it could stand safely the repetition of the procedure ten years later! Especially would this be the case if meanwhile its production, its "Pile" of goods, had increased at the rate of 3% a year compounded.[2] Did the Islanders pay an annual tax? Very well, their tax was being put into a public strong box for them where it would all be available at a certain time for any purpose. How delightful! Did they pay interest at 10%? Good! The interest was paying off the principal as well, thereby building, of both principal and interest a fine store against a "rainy day". Were they, in instalments, repaying a debt? Again every £1 note repaid was a £1 note saved for future use. If, since Confederation, Canada had but followed the same principle, how blessed in comparison would out lot now be!

We regretted, above, that we have no definite knowledge of the effect of the new issue upon the price level. Everything we do know, however, seems to show us that the authorities conducting the experiment were fully aware of, and watchful against, any danger. They must have known of the possibilities of inflation. They must have been alert for any rise in prices.

Yet within five years, by June 14th, 1820, they authorized a new issue of £4000,[3] apparently to pay off part of a floating debt.

The Finance Committee while advising this new departure says, "Respecting the floating debt, which consists of sums payable at times more or less distant, it would be easy to discharge it by £1 notes put into circulation as need requires. The extinction of the whole of the floating debt could thus be brought about without the necessity of new loans. If loans should be raised it would be necessary to provide for payment, both of the principal and of the interest. If, on the contrary, recourse is had to £1 notes, the interest alone which would have been paid will suffice".[4]

One feels almost safe in concluding that the Committee fully sensed that the new £4000 as well as other issues must be recalled or more notes might produce 'saturation'. Hence they collected interest. Had they been content to leave the amount circulating as it was, there would have been no need to withdraw any of the £1 notes as "interest". But the officials realized that, if they recalled none of those pounds they could issue no more. They desired to issue more. Hence they taxed for "interest" so as to take out of circulation a number of pounds to leave room for the injection of later pounds.

The economic life of the Island must have felt no ill effects. On March 29, 1826, the authorities provided for the issue of a considerable quantity of notes, to help Elizabeth College and Parochial Schools. They would appear to be "feeling their way", so to speak. They have been growing conscious that in this power of creating state money they have discovered a potent instrument, one to be employed with caution, yes, but nevertheless, to be *eployed*. They limited the new issue so that the total number in circulation should not be more than £20,000. At the same time, the Bailiff, Daniel de Lisle Brock, summoning the legislature made known his belief that paper money could be used by the States advantageously. He assured the people that there could be no inconvenience as great care was being exercised in the issuance of the notes.[5]

Watchful discretion continued to be used, doubtless, yet, from time to time, a considerable number of new pounds were printed and used. William Collings, one of the Finance Committee stated in 1829 that there were circulating 48,183 notes.[6]

Some would see in this marked increase during fourteen years, signs that the States (the Island's Parliament) was going to far, running risks. Not necessarily so. If the resources of Guernsey had been rich and varied enough, then the production throughout that period had grown as rapidly as had the number of Notes. Hence the "pile"of goods in 1829 would be as adequate support for the increased money as was the "pile" of 1815 for the smaller

We, will, for a time, disregard the 3% growth in production so that the money needed by Guernsey remains for a few years constant, with £40,000 Government Notes in circulation. The State raises annually, say £500 in taxes. Let us imagine £300 of this goes to pay interest and principal on old debts yearly, the rest or £200 being used in government expenses. Of the £300 paid on debt at least £100 will go out of circulation—be saved. In ten years there would normally develop a shortage of money circulating, to the extent of £1,000. The State can issue another £1,000. of Notes.

If the States has eliminated its debt and interest problem it can then deliberately tax back the £300 a year and either destroy it or put it away in a sort of resting fund. At this rate in five years the Finance Committee would be able to issue £1,500 of new Notes.

Now let us regard the increase of 3% a year in production. With £70,000 in circulation there should be three times £70,000 or £210,000 of national income. Since a community can hardly have an income greater than its production, this must be its wealth output. If the increase in this is 3% per annum then the Island will add to its goods and services pile (if its resources are ample) 3/100 of £210,000 or £6,300 worth of goods and services per year. To effect exchange of these, without fall of prices, will require additional money, perhaps one pound for every three pounds of wealth. There might then be room for the issue of £2,000 of new pounds to meet the community's needs.

If the banks are creating the state's money, the banks will originate these new pounds and profit from them. If the Finance Committee is doing so, then the people own these pounds and any profit deriving from them.

If, then, the new pounds were employed by the Finance Committee deliberately and scientifically to stimulate production, more gratifying still should be the results. Guernsey Island did this sort of thing in a way when it erected a Market House as we above noted. If the Committee went still further to loan money to a farmer to buy more or better cows for instance, or to build a larger hot-house; loaned it at 2% or on easier terms, thereby bringing into production resources otherwise idle or partially unutilized, then the State would conceivably see, not a 3% annual growth but a 4% or even greater development. If the cards were managed right the trick could be done again and again. And the sums of money involved would grow progressively greater.

Or the Finance Committee might occasionally have purchased interest bearing securities, as England used Currency Notes to buy such securities to go into here Currency Notes Redemption Fund.[7] (The Currency Note: (the Bradbury) somewhat resembled the Guernsey Island £1 Note). This would have brought interest in to the Committee and certainly would have helped "turn the trick" again.

We have touched briefly upon the Guernsey Island £1 Note, upon its uses as they were, and as they might have been. We pointed out that, at one time, there were in circulation 48,183 of the Notes. We have indicated our conviction that they caused no inconvenience because they were carefully managed so as to induce no rise of prices, and we have suggested the reasons for our conviction.

Readers will be able to see why Sir Norman Angell has said that "Guernsey's method" . . . "speaking broadly" . . . "was successful".[8] Readers will also understand what Sir Norman means when he says the reason for the success was that "each note stood for consumable goods"[9] either on the market or coming upon the market, and the issues were not allowed to exceed the value of those goods. (The Market House in this particular case.)

What are the teachings of this famous experiment?

There are several.

(1) State paper money can be sound without gold in it or behind it, and without being issued by a bank, or as a debt..

(2) A democratic people, well-informed, and supplied with the truth can manage a State created money.

(3) With State money a people can increase their prosperity in any country reasonably equipped with resources.

(4) With State money any democratic people can increase its revenue.

(5) Through State money any democratic people can pay off its debt.

(6) Through State money, wisely used, any Government can gradually decrease, and finally eliminate interest.

(7) Through State money it is possible for a community to have money debt-free and interest-free.

(8) The cause of inflation and other destructive results of monetary policy is the "Money Power". It will destroy any people through debt. The money Power's motive is more selfishness than patriotism.

What application can Canadians make of the principles discovered by the Guernsey Islanders?

In the first place, there is not in the Dominion of Canada a town that could not use a sort of tax redemption certificate, or scrip, to pay its ordinary running expenses, and thereby save a considerable sum of money annually in interest. Every Province in the Dominion could save great numbers of dollars, annually, by the simple application of the principles used by Guernsey Island.

How are municipalities and provinces prevented from so using their credit?

By ignorance and by our banking laws.

Why are they so prevented?

They are thus prevented that *bankers* might flourish not the *people.*

Finally, the Dominion Government itself can apply the principles of the Guernsey Island experiment with incalculable benefit to the Canadian people. Thus, the municipalities, provinces and Dominion could be using their own credit for the benefit of their own people.

For Canadians to come to see this, how long, will it take? How long?

What might be the possibilities of the Guernsey system for a province of Canada or for the Dominion we cannot even dimly vision. When we read that Guernsey Island is but a tiny country "roughly triangular in form, 9¼ miles long from N.E. to S.W. and has an extreme breadth of 5¼ miles and an area of 24.5 sq. miles. Population (1931) 38,283:[10] when we learn that its soil is generally a light sandy loam, that though its "climate is mild and equable" Guernsey is just not warm enough in summer to grow grapes and tomatoes intensively in the open",[10] and that its industries are gardening (much under glass) and dairying centred around its famous Guernsey cow, and some stone production and the "maturation of southern wines;" when we reflect that this tiny parcel found use for £55,000 of its own Notes besides whatever other money may or may not have been at work; and then when we think of Ontario or Alberta or Quebec or Nova Scotia, or Canada, and the wretched conditions which therein everywhere prevail, in the midst of resources incomparable and incalculable, we cannot but hang our head in mortification and shame. The key to the lock which enslaves us is Money—State Money issued debt-free.

[1]"An Example of Communal Currency" 1911, page 10; Sir Norman Angell "The Story of Money" page 266.

[2]Quoted from Sir Norman Angell's, "Story of Money" page 267.

See "An Example of Communal Currency" 1911, by J. Theodore Harris B. A. page 13.
[2]See Carl Snyder, 'Controlling Depressions" p. 181 by Paul H. Douglas.

[3]Story of Money, page 267.

[4]Quoted from Sir Norman Angell's "Story of Money" page 267. See also Harris p. 15.

[5]The Story of Money, page 267.

[6]The Story of Money, page 268.

[7]On Feb. 11, 1927 there were in the fund £231,951,041 of securities earning for the British Government between 9 and 10 million yearly. "Currency Credit and the Exchanges," 1927, Dr. Wm. A. Shaw, p. 56.

[8]"The Story of Money" page 271.
[9]"The Story of Money" page 271.
[10]Encyclopedia Britannica 14th Edition, Vol. 10, page 940.