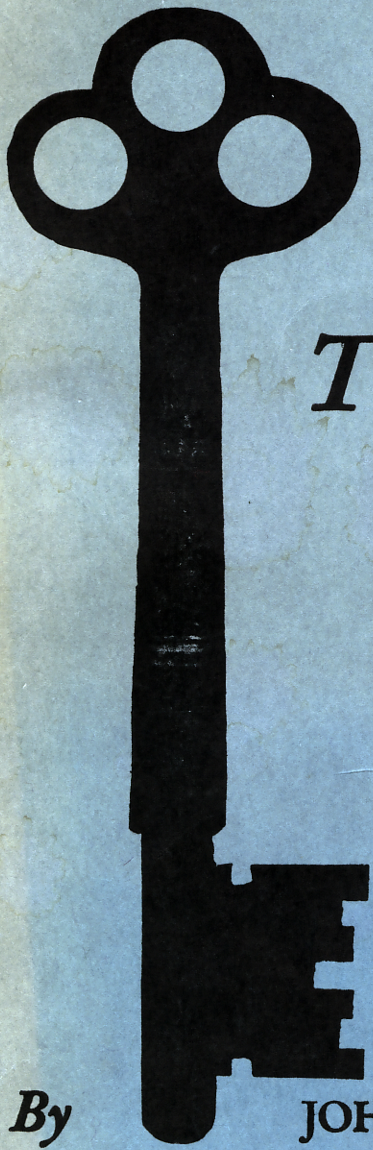
MONEY



The Master Key...

By JOHN H. BLACKMORE

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John H. Blackmore, B.A., M.P.

PREFACE

While visiting various Canadian communities, lecturing on money, I have often been asked if I could not send to, or leave with leaders, an account of my speech.

Frequently people have written me asking for a simple explanation of some aspect of money theory.

Consequently, I have many a time felt that there was a need for a simple concrete account of the fundamentals upon which are based the essentials of Monetary Science and Theory.

The opportunity has presented itself: here is the account.

In my effort to make the treatment concrete enough, I have used many illustrations which to experienced economists must appear almost childish. I urge them to remember that, when we face a situation utterly new to us, we are all children; we all need primary instruction.

This work is written for the special assistance of hundreds of thousands who must face and master the principles of a study, worse than utterly new to them. They have my fervent best wishes for their success. Great is their need.

J. H. Blackmore

AUTHOR'S NOTE

In the following pages I have expressed the ideas which I have formed after a study of the subject of money. They are the views of the student and layman, written for lay students as an introduction to the subject. No attempt has been made to give any sort of detailed plan for putting the principles into operation. Neither does the book purport to set forth the case for any particular school of monetary reform. In fact I have drawn generously upon the views of quite orthodox authorities, and if anything I have gone out of my way to concede much to financial orthodoxy.

I know how much I would have been assisted by such a book as this—and I am hopeful that it will help the lay reader. There are, of course, in the text technical points about which opposing schools of thought will disagree. Many of the views expressed will call forth criticisms. I care little about such matters. I am more concerned about the picture as a whole which I have endeavoured to set forth. If my efforts result in the reader obtaining a more realistic outlook on the subject of money, and its importance in Canadian social and political life just now, I shall feel amply repaid for my labors.

J. H. Blackmore

CHAPTER I

WHY STUDY MONEY ?

Importance of money.

How important is Money? How important to your body is blood? Well, that is how important money is to a community. After a few moments of reflection we realize that, without the blood, life itself is impossible.

Those who ought to know tell us that about 1/13 of one's body weight is blood. In the body of a 130 pound boy, therefore, there ought to be 10 pounds of blood. Of the millions of little living cells which make up that boy's tissues, every single one depends immediately, constantly and vitally upon those 10 pounds.

No matter how much food he may eat or may have around him, how much water he may drink or how much air may be available, or how pleasantly warm the temperature about him may be, no little cell from his hair to his toe-nails could long use any food, water, air or warmth unless very nearly that full 10 pounds were in his body and were doing its work.

Similarly in any community under our present system of exchange, the individual living units, the human beings, can use for long no food, water or air, unless first, in that community there is enough money to do the distributing work; and unless, secondly, that money is being delivered sufficiently freely and widely to come into adequate contact with those human beings.

It therefore appears that the most important concern of any community whatsoever ought to be its money. Much as there are several important matters to be looked after respecting blood, so are there similarly several aspects of money management requiring careful attention.

What of a shortage.

In the body, whenever there is a shortage of blood either through bleeding or through growth in size, certain agents seem immediately to detect the lack. At once they bestir themselves to produce more and they keep themselves active in that vital work until there is enough. Meanwhile the heart and blood vessels toil vigilantly and relentlessly to see that every remotest cell gets its share.

These facts would suggest that in a community like Canada, there should be: first, a group of genuinely intelligent men, well informed, skilled and sincere, ceaselessly testing to ascertain whether the country has at any given moment, enough blood (enough money). An equally dependable group of people should be alertly determining whether or not that money were circulating deeply and widely enough to reach, in sufficient regularity, every person in Canada.

Is Canada looking after any shortage?

Now has Canada two such groups? Do you know what people in Canada are deciding how much blood her citizens shall have and what its nature shall be? Do you know whether these people realize or care whether or not we have enough? Do they know how the money should circulate and how to remedy any defect of distribution?

Supposing that in any of these important functions they are failing, through ignorance, inefficiency or selfishness, have you any idea whether or not the Dominion Government is able and willing to force them to act for the well-being of Canadians as a whole? Are you confident that our Government has, within it, men who know how to detect whether or not our "money-managers" are doing their duty?

What should Canadians do about it?

If it should be found that Canada's rulers do not know how to guage or to remedy the nation's money condition, or that even if they do know how to govern the managers of Canadian finance they haved ceased to have the desire or to exercise the power to control these managers, have you any idea what we the people should do under the circumstances?

Remember, Canada is a democracy, at least in name. The Government is supposed to have to do what the people tell it to do. Do we know enough about money to be able, through our vote, to tell our Parliament what to do? to demand that it shall obey us? If, to any considerable number of these questions, we should confess, "no!", then manifestly our most important present duty to our country is to study money .

Anglo-Saxons knew more centuries ago.

In the days of such monarchs as Edward the Third, Henry VII and Queen Elizabeth, the ordinary member of Government, knew, it seems vastly more about money and its effects than we do today. [1] Strange indeed! It would appear that in those times, people generally knew that, if prices rose too high there was too much money, if they fell too low there was too little in common use. Further it seems, they knew that the more goods and services a country produced, the more money it needed to have among its people. Also they realized vividly enough, apparently, that the more money put into circulation the more goods and services would be produced, provided there was an abundance of willing and capable workers and plenty of resources such as good soil, climate, stock, seed, coal, forests, fish; and skill with which to produce from these. Would you say that the average educated Canadian knows as much about Canada's money?

Old problems now passed

Edward III faced problems which now hardly exist. All money in his day was made of gold or other precious metal. Such was costly and scarce. How and where was the monarch to get enough of it to supply his people's needs? As we shall show, there need be no concern about this question today. Our money is paper, or something more inexpensive still. Edward had much trouble keeping people from smuggling England's money out of the country. In certain forms this difficulty about our money is with us yet. But it is not nearly so hard for us to deal with as it was for Edward. Some annoyances have ceased to vex us.

Problems of circulation new and unsolved

On the other hand some new ones are facing us. Edward hardly had to worry about distribution at all. Most of the goods were manufactured or produced in homes and hamlets. Hundreds of trades like barrel-making, tinsmithing, cabinet-making and the like were profitable in any district. (Older folks, living

(1) Read "The Two Nations" by Christopher Hollis for new and refreshing treatment.

now, can remember when a watchmaker found plenty of business in even a large village). Those hundreds of trades have now disappeared because of machines. There is now therefore, no chance for people to go into such lines of activity to produce goods and exchange them for their needs. At present, then, the individual's need for money is far greater. At the same time his chances of getting at or acquiring it are far less. The more machines come to replace men, the more urgent becomes the need for managing money distribution. To date, except for the dole and for niggardly relief allowances, except for largely disappointing public works projects, we have done next to nothing* to manage it. When do we begin something effective?

To meet a particular need, in 1694 the Bank of England was formed, in the reign of Wm. of Orange. Little by little the people were rendered, by false education,[1] less and less capable of comprehending finance as the generations passed. At the same time, financial matters, with the increasing complexity of civilization, were becoming more complex — hence difficult to comprehend.

By 1819 even statemen as wise as Sir Robert Peel were, it seems, deluded, for in 1819 that leader was, either through deception or clever manoeuvring, led to pass the Act by which according to Mr. Christopher Hollis, the British Government actually made it impossible for that Government to create money. Later in 1844 the Bank Charter Act was passed which put monetary control into the hands of the Bank of England and therefore presumably under the domination of the International Money power.[2]

These two Acts of 1819 and 1844 will probably come to be looked upon as the greatest blunders in Great Britain's history. Mr. Hollis believes that by them the British Parliament placed itself two degrees away from sovereignty, that the first of the two, rendered the Government powerless against the banks; that the second rendered the bank powerless against the Acceptance Houses.[3]

(1) "The Two Nations" 1935, by Christopher Hollis.
(2) See ,'The Old Lady Unveiled" by Mr. Jarvie, pp. 11 and 12 cited by Christopher Hollis, Breakdown of Money p. 56.
(3) See "The Breakdown of Money" Christopher Hollis, pub'd 1934, page 56.
*See note end of chapter.

If, as it is devoutly to be hoped, Fortune ever so far favours us as to enable the Anglo-Saxon people as a whole to understand the almost unbelievable suffering, destruction and frustration which have resulted from England's mismanagement of money, generations who come to understand will, I fancy, look back upon the first half of the Nineteenth Century amazed and astounded. They will realize why Sir Basil Blackett has said that, considering what we have done with currency and currency with us during the last twenty years, we are all of us fit for the lunatic asylum. [1] This eminent authority's words, no wise man will treat lightly.

Reverting to our blood illustration, we might say that England — a great virile, vigorous, growing boy, needing and thoroughly capable of having, a rapidly increasing blood supply, did commit into the hands of a private company, — The Bank to England — governed largely by foreigners, many of whom were or might become her deadly enemies, the monopoly of the power and the function of generating her new blood! Worse, still, she allowed those monopolists so to control her educational policy that her noble youth thereafter for generations were destined to remain and to be deliberately kept, unaware of what had happened, unaware of the true facts governing the growth in her body of new blood (new money). If a parent did such with respect to his boy, what would you think of him?

From England this pernicious condition spread to all the nations of Anglo-Saxondom and to many other civilized countries. Among the frightful consequences of the ensuing mismanagement of Western Civilization, the Great War of 1914-18 was only one. Increasingly many of the world's best informed thinkers are coming to realize that unless the people can come to understand the facts about the financial aspect of our economic system, thereby enabling themselves to think, to vote, to demand effectively, then, the whole of our glorious civilization will sicken and succumb from a malady more hopeless and pathetic than anaemia.

Since communities began, men have dreaded a would-be world conqueror, a dictator. Against the Alexanders-the-Great,

(1) Halley Stewart Lectures, 1931, page 104.

the Attilas, the Napoleons, the Kaiser Williams, peoples have ever combined. Alas! while fixing their eyes upon visible tyrants they have been touchingly inattentive to the stealthy but relentless encroachments of an invisible Monster whose power was the more dreadful because it was incomprehensible. All too frequently, especially during the last century and a half, the Cavours, Metternichs, the Bismarks, The Louis Napoleons and the other figures who played against each other on the world's political stage were really hardly more than puppets who acted their little parts at the bidding and under the direction of a Designing Will that pulled the strings from behind the scenes. That Will was the Money Power.

Back in 1792, Meyer Amschel Rothschild said, it is reported: "Permit me to control the credit of a people and I care not who makes their laws." Not only did he see the possibilities of becoming the "hidden master of the peoples", but he set promptly and effectively to work to exploit his knowledge, as anyone who has taken the trouble to read Count Corti's "Reign of the House of Rothschild" will have discovered.

There is on record a remarkable letter, written by the Rothschild Brothers of London, England, to a New York firm of bankers on June 25th, 1863. There had recently been passed in the United States under the motivation of clever schemers, a Banking Act. It might have been done at the instigation of the Rothschilds. They commented as follows: "The few who can understand the system (cheque money and credits) will either be so interested in its profits or so dependent on its favours, that there will be no opposition from that class, while on the other hand the great body of the people, mentally incapable of comprehending the tremendous advantage that capital derives from the system, will bear its burdens without complaint and perhaps without even suspecting that the system is inimical to their interests".

The average reader will readily gather from these words that there has been secretly and skillfully planned, and clandestinely executed, an organization designed to bring the whole business of creating and distributing the money of the people — the blood supply of nations — under the absolute control of a

Hidden Power as mysterious to the average voter, as intangible and therefore as inaccessible and impregnable as the force of gravitation.

The credit of a people! One has but to remember that in the years 1927-28 and 29, 95% of all the business done in the whole Anglo-Saxon world was done with bank credit which is nothing more nor less than figures-in-books, created and put into the books by bankers, and transferable from one man to another by cheque, — this, one has but to recall, to realize that the controllers of credit are the controllers of the nation's money — the nation's blood — and the controllers, therefore, of everything that is the nation's.

The men who devise and the men who are executing the plan to bring into their own hands the monopoly of creating the money not only of one people but of all the peoples — those men are becoming world conquerors in a way which makes all the Napoleons, Alexanders, Ghengis Khans and Attilas look like pygmies. How is mankind to check their arrogant onslaughts? Only by learning and using the truth: "the truth shall make you free."

Can Canadians do it alone? Yes! Canadians can do it alone. Some people must lead. Situated as you and I are, it is perhaps our sacred privilege and duty to do so.

To show how urgent is the necessity to study money need we say any more?

In this hasty, sketchy little survey, we have suggested that the secret of the whole world's troubles today is money, that the principles underlying money are not necessarily complex either to learn or to apply, but that essential truths, relatively simple, have been deliberately obscured and confused to the average mind through designed manipulation of the people's education; that if a democracy is in any real sense to govern itself, its people must know the facts; that selfish and cunning men are doing all in their power to make us further captive, and keep us, through darkness, hopelessly enslaved.

We look around us and reflect that never in this world's history have men been able to produce so much of every sort of life's good things. In the midst of it all, however, poverty numbing and hopeless, war more threatening, more horrible and more apparently unavoidable, would seem to be here to stay. Our rulers shake their heads in utter helplessness to remedy it. It must be evident to every thinking soul that it is high time the best minds of Canada began to concentrate, determinedly and relentlessly to find the reason why. Under it all somewhere skulks a terrible criminal. Suspicion has fallen upon our monetary system. Let us examine it.

*The Expansion of cash which has resulted from the operations of the Bank of Canada has promoted an increase in Canadian bank deposits of approximately $500,000,000, during the years from 1935 to the present. These have been loans however, many of them to governments.

CHAPTER II

MEN'S HEARTS FAIL THEM

Millions in the United States and Canada today are unemployed, cast out by machines. Many more millions receive for their work incomes so meagre as to keep them undernourished, virtually impoverished. Most people live in almost daily fear, lest their job evaporate or their business fail — through no fault of their own, be it remembered! Of the disturbing multitudes of relief recipients, hardly any can move from one community to another. They are serfs! surely we are slaves! slaves to what? To plenty and to the means of increasing plenty — to machines.

There must be some way out! We have plenty, with possibilities multiplying. Surely we can learn to distribute it. Thousands of years men strove on this planet in constant fear lest they be unable to have enough. Then almost suddenly between 1913 and 1928 the word rounded some prodigious corner, left behind an age of scarcity and sped into an age of abundance. It is yet bewildered, groping uncertainly about, fearful, prone to panic. For it finds its inherited rules of conduct grown faulty.

Small wonder! With the machinery of the United States in 1929, 4000 men could have done all the work of cultivating that nation's crop that year. With the machinery of a century earlier, it would have taken 5,000,000 men to do the same work. [1] A machine in Los Angeles operated by two men, assisted by two helpers and a few operatives for odd jobs, turns out 1000 pairs of shoes a day, while one girl tending 25 automatic machines can turn out 3600 pairs of socks in a day.[1] One man and a boy in 1935 were making with a machine as many bolts as 6000 men had made by hand.[1] A mechanized planter could set and water 25,000 celery plants, for instance, in an hour where an experienced workman could set but 700. "It is estimated that if the resources of the United States were fully used they could supply all the needs of five times the number of people at present existing on the earth." [1] And yet statisticians estimated that less than 21% of United States people could afford their nutritional needs of food, costing in total $12.75 per week, per family of five! [2] (And Hitler, Mussolini, and the Mikado, because of scanty resources were at their wits' ends to produce enough to keep their people eating!) One would believe the Indians would have managed America better!

Only one thing reassures us. We can see everywhere more goods than we can buy; more industries, factories, mines than we can keep running full time; more resources of forest, fishery, farm, than we can use; more men than we can give jobs — there must be a way out.

There must be a change. Present ways are corrupting our world. Our youth are being wasted away through inactivity and lack of hope.

Our birth rate is not encouraging. People are losing faith in democratic institutions. Frustration, inactivity, even despair, are growing. The warm ardent pulsating patriotism of 1914 hardly exists anywhere, yet our need for it is great as ever. Men think of their churches as having failed to rise to the occasion just when we needed their leadership. There is noticeable a definite trend towards centralization of control, — towards dictatorial government. The most careful thinkers dread the onrush of some passionate, surging movement, blind, unthinking, reckless, dangerous, for men can endure but so long! What is the change?

Before presuming to prescribe a remedy let us ask: What are our symptoms?

(1) A. L. Gibson, F.C.A. of England speaking in Central Hall, Westminster, London, England in 1935. Quoted from The Case for Alberta Pt. II.

(2) Hambidge; "Your Meals and Your Money" p. 152.

The first generally alarming one is debt. Prominent Canadians of vision are coming to realize that the interest upon Canada's debts [1] is now, or very soon will be, greater in a year than the value of all the goods she produces that year. It is a hopeful sign that several prominent newspapers are sounding an alarm but the hope disappears when one reflects that they offer no possible solution.

It is time for anxiety. On page 832 of the Canada Year Book for 1938 we read the Grand aggregate public net direct debt and guaranteed or indirect debt of Canada on March 31st 1936 was $7,039,091,538. On the same page appear the following words: "Thus in their fiscal years ended 1936, the total ordinary expenditure of the nine Provincial Governments was $248,-141,808 as compared with $53,826,219 in 1916, only 20 years before — an increase of over 361 per cent. (The aggregate interest payments of Provincial Governments rose from $7,817,844 in 1916 to $79,893,083 in 1936)" And these are only part of our debt worries!

United States people are deeply troubled by reason of the 3 billion (approximately) which Roosevelt adds each year to their national debt! They worry: "Where are we going?" "How will we ever pay this debt?" These are vital questions.

The world as a whole must soon be pondering them. Professor Rautenstrauch "quite irreproachable" industrial engineering authority of Columbia University, having spent considerable time studying the growth of debt, has issued a statement upon the subject. During the 1600's the debts of the world increased 47%; during the 1700's they were increased 466%; during the 1800's they grew 12000% while at the present time they are increasing as the fourth power of time.[2] All this in spite of repudiations, bankruptcies and other types of debt reduction.[3]

12000% in the 1800's! Let us ponder that a moment. For every 1$ the world owed in 1801, it owed in 1901 120.00. Concerning the 1900's to date, the story is quite as apalling.

(1) Dominion, Provincial, Municipal, Corporate and Individual.
(2) Taking 1800 as the year of origin and 100 years as the unit.
(3) Major C. H. Douglas in a speech delivered in 1935 to the Oslo Merchant's Club before His Majesty the King of Norway, quoted in The Case for Alberta pt. 2, p. 35.

"Is there anyone in this audience who believes this mounting of debt can safely much longer go on?" I have asked of hundreds of meetings throughout Canada. Never a hand meaning "Yes!" "Does anyone here know what causes that growth?" Hardly ever a hint of "Yes!" "Does somebody here have any idea how to stop it?" Silence! Now such growth of public and private debt must be stopped, and soon. The cause of it must be disclosed and removed. A means of decreasing it must be devised and applied. Otherwise we are betraying our children into hopeless and certain destruction.

Without being exhaustive we might with profit dwell briefly upon some causes of debt. Is it that men are becoming less and less trustworthy, less disposed to pay their way? Hardly! Some will say it is because of the higher and higher standard of living we demand, and they think of automobiles, radios and silk stockings. Partly, perhaps. But can anyone see, when we can produce more of these and other good things than we can use, why we should not enable people to buy them and so enable our producers to sell them? But the causes of debt accumulation go deeper!

Many folks do not know that England had no national debt until the Bank of England was formed in 1694 under William Paterson[1] (see "The Breakdown of Money" and "The Two Nations" by Christopher Hollis of Notre Dame University). This is a most arresting truth. Britain fought wars before that event, too! Yet she incurred no perpetuated national debt.

Contrast with that happy debt free condition what has occurred since the Bank of England came. Christopher Hollis in "The Breakdown of Money" recalls to us that "The Great War" 1914-1918 added to Britain's debt £7,000,000,000. Of that amount, £1,000,000,000 were borrowed from the United States, £2,000,000,000 were collected from the British people. The other £4,000,000,000 — where did it come from? From British banks it came, most of it. They created it, in the form of Bank Credit.[2] This they were able to do because of the producing

(1) "The Breakdown of Money" 1934, Christopher Hollis, page 71.

and consuming power of the British people. It therefore, belonged to those people. Yet the banks claimed it and hung it about the necks of the citizens to be borne with interest by them and their posterity to the last generation. Must nations thus forever carry the burdens of not only present but past and future wars! If so, what will the end be? One cause of the debt, we see, is the way we finance wars.

Another cause is the way we get the money we use. Every dollar you and I ever possessed was borrowed from a bank or out of someone's private holdings. It was and is, therefore, a debt, and is accumulating interest. To appreciate the effect of that fact, consider a moment the following situation: Suppose a new village, XY, is founded, and a bank opens there. For simplicity, imagine that no one in the community to begin with, has any money. The community borrows from the bank $1000 at 7% interest. One year later it has to repay the $1000 with interest on each $100, a total of $70, that is $1070. Where is the community to obtain the extra $70?

"It will sell to another community, say ABC, enough of its grain or other produce", retorts someone, half impatiently, perhaps. But where will community ABC get the $70? Has it not borrowed $1000 from a bank also? Has it not to repay $1070 likewise? Clearly if ABC sends $70 to XY and does not, through sales of its own, get back a similar $70, then it will be in debt to its banker its own $70 of interest, plus the $70 it surrendered to XY; a total of $140. The same would be true of any and every neighborhood in the civilized world. As long as men continue to use only debts for money, clearly debts and interest must and will grow. Now imagine to what colossal proportions the borrowings of the not remote future promise to attain.

Enough has been said, perhaps, to show that very soon there simply must be discovered and sufficiently used an adequate means of dealing with debt. Who knows what will be that means? The gravity of our plight safely admits no delay.

We shall glance now from debt to other symptoms of the disease afflicting us. Three of these may be illustrated by a set

(2) "The Breakdown of Money" 1934, Christopher Hollis, page 75 and 76.

of figures. President Roosevelt, examining into conditions existing in his country, discovered through the committee investigating the automobile industry, some interesting facts. Whereas in 1930, 250 men could produce 100 motor blocks in a given length of time, in 1935, 19 men could produce 250 motor blocks in the same length of time.

These figures tell one of the most tragic stories imaginable. In goods (motor blocks) the United States was 2 1/2 times richer in 1935 than she was in 1930. This should cause rejoicing. To make national well-being, what else do people need but goods? Plenty of food, of clothing, of shelter, of means of convenience — what more does man desire? Of at least one kind of commodity, here was abundance. And if 250 motor blocks were not enough, were there not 231 men displaced, each 19 of whom could be set at work to turn out 250 more? Clearly an age of riches had dawned, of riches (wealth) for everyone! Let all be glad! [1]

But there was no gladness! It was becoming sensibly more difficult to sell the motor blocks; so was it with virtually every other kind of product. More and more was being spent on advertising, salesmen and servicing; more being risked in selling on attractive terms and yet the baffling dearth of sales! Why? Everyone of these 250 workmen had received 75c an hour, eight hours a day yielding him some $1700 per year. Before 1930, 250 times $1700 were being poured annually into the stream of purchasing power distributing the goods and services of the home town of the factory. Think what a boon to the butcher, the baker, the proprietor of the corner store! Then in five short years 231 times $1700 were dried up, evaporated. Reflect what that meant to the barber, the insurance agent, the producer of milk, coal, and eggs. Markets withering away!

Nor were these the only sufferers. For the car factory, too, the combination of developments was bad. Back in 1930 many of the cars had been sold to those 231 men, whom machines have by 1935 displaced. Machines do not buy motor blocks. While the manufacturers were busy putting in labor saving devices, similarly busy were the makers of virtually everything else, in-

(1) Further details to establish this proposition were given earlier in the chapter.

cluding the builders of Government Post Offices, roads, etc. Work was done, money spent, but purchasing power was diminished, progressively.

Even primary producers, quite as effectively as manufacturers, were destroying jobs and with jobs, potential markets. There was, for example, the wheat raiser. In 1900 he used slow, small capacity, horse-drawn ploughs, and small binders, stooked all his grain, stacked much of it, threshed it with a machine which required 12 men to operate it, and in many cases, 10 horses on a "horse-power" to run it. Picture the horse-feed, harnesses, ropes, single trees, chains, that the horses used up. Visualize the gloves, overalls, socks the men wore out. Then remember that somewhere, someone was busy supplying all these necessities.

Then the wheel of progress turned. Four men toil handling the straw at the "tail-end" of the threshing machine: a blower comes in and the four men lose their jobs. Two men feed the separator: a self-feeder displaces them both. And so it goes on. Now power machinery, a great tractor instead of many horses, ploughs and processes the land. A combine harvester, operated by at most two men, leaves idle the bindermen, stookers, haulers, threshermen—leaves them, too, without income; worthless, as buyers.

Some solicitous apologists have been striving of late years to show that machinery increases jobs. Their delusion results from contemplating only the automobile industry. However, realities covering the whole field of production are flatly against them. Otherwise, how comes it that the United States having by far a greater amount of machinery per capita than any other nation, has, along with it, so grievous an unemployment problem? No! Machinery, on the whole destroys jobs, and with them destroys its own markets.

And so, wherever the would-be seller turns, he views the same deterioration of the buying means of his one time customers — sees millions of them, in fact, impotently on relief. Years earlier, it required his best management to sell his 100 motor blocks. Now, with 250 motor blocks to sell, he faces a public with more and more impoverished buying power. Everywhere, as if overnight, a palpable shortage of purchasing power in the hands of the people, spreads as a devastating blight. What is he to do?

Looking again at our case of the motor blocks, we notice that there were 231 men thrown out of work, dispossessed. They became part of the army of the unemployed, another of this generation's bewildering problems. Unused man power seems such a profound absurdity! The most valuable source of wealth in any age ought to be a human being. Such a creature can produce any conceivable kind of goods, any conceivable kind of service. How can a country possibly afford to leave men and women idle? Goods and services are wealth. We want wealth. We have all the resources our entire people could busy themselves upon. Yet resources remain untouched, millions languish in poverty, lacking goods and services, and millions more find themselves unwanted. One's whole soul rises in revolt. It is unthinkable, intolerable. But it bears directly upon the question of our money supply.

Meanwhile, think of the shame of it! The American Constitution set out to achieve for all Americans, "Life, Liberty, and the pursuit of happiness". Yet right here, in the very Promised Land, but a few generations later, tens of millions of the free citizens of United States and Canada are, through no fault of their own, deprived of all three. The cautious and far-sighted dare not marry, or, if they marry, dare not have children. Thus, life is denied. The unemployed forced upon relief, know thenceforth no more liberty. Let them go to another town and frequently they lose relief and find no work. All but the most fortunate or least far-sighted of our people live in constant dread of loss of position and income, dread of insecurity. Without reasonable security there can be no happiness. Debt and machines have defeated the American Constitution!

Meanwhile the condition grows worse. Preparations for war temporarily relieve it. Enrolment for war further helps. But both of these are increasing debt. All the while, the relief recipients must be supported. This means higher taxes, greater government debt. Higher taxes fall upon the consumer, further decreasing his already depleted purchasing power, further impairing markets.

Some of the added taxation will fall upon the producer, upon our automobile plant. This will enhance its costs, raising the prices of its output. Selling again is made harder. The factory, unable to dispose of its produce profitably, restricts production, discharges men and so again weakens markets. The burden of the levies may so injure the plant that it may have to ask the Government for a subsidy or for a tariff to keep foreign motor blocks out. This again hurts the consumer. But what can be done?

From contemplation of our motor block establishment we have observed that because machines are so rapidly replacing man our age is developing at least three gathering symptoms.

(1) Goods, so many of them ,that we do not know what to do with them. And, with these, increasing capacity to produce more and more goods, more and more rapidly.

(2) Workers, more of them than we can use.

(3) A shortage of money in the hands of those who would and should buy. Our patient then suffers from too many goods, too many workers, too little purchasing power, and, as we showed at first, too much debt.

Our urgent national problem is what to do about it. Too many—shamefully, disgracefully too many—do nothing about it. A scandalously large number seem not to know there is a problem—and seem not to care!

On the other hand several suggestive solutions have been proferred. These are so varied, so mutually antagonistic, and are advocated with such bitterness that the number, contradictions and truculence of the physicians cause almost as much misgiving as do the maladies.

Which proposal, if any, is right? How are we to judge? Any plan to be worthy of serious consideration, should:

First: Show how the Government can get enough money.

(a) to stop going further into debt.

(b) to pay off what it adready owes.

Second: Show how the Government can enable the producers to sell their mounting abundance of goods and services. (for example: How the U. S. Government can get into the hands of the 231 men displaced an amount of purchasing power equal to at least that of the $1700 a year they lost.)

Third: Show how the Government can put the unemployed to work.

CHAPTER III

What is the way out?

World wide is the struggle for change, for a remedy. We have Fascism, Naziism, Communism, Socialism, Free Trade, Economic Nationalism, High Protectionism. Almost everyone you meet considers himself a reformer and has his little set of changes which he thinks would redeem the world.

A difficulty one encounters is this: Just what is Fascism? Communism? etc.? Exactly how has Hitler achieved his remark able results? How Mussolini his? What is the secret of Communism's strength? These questions, it seems hard to get most men to discuss calmly and constructively. Any such questions it is far from our province in this little work to consider. It does seem in order to observe however that: Even a dictator in Canada or in the United States unless he had a genuine change of system, would get us nowhere.

In Canada, it appears to be true that all the changes advocated could be grouped into three main classes.

First: Modifications of tariffs and trade agreements. What we call the Old Line Parties (Liberals and Conservatives) profess to believe in these. One is obliged to conclude that such people think that international trade will remove all ills. They forget, it seems, that their policy has put us into our present morass of hopelessness. Again: Canada has 9 provinces, United States has over 45 States. Among them they produce most things they need. If trade would solve our ills why do the States not solve theirs? Why do the Provinces not solve their? They could have among themselves absolute free trade or any degree of protection. Why not?

Governments seeking to apply the theory and practice of international trade, encounter some real contradictions:

(1) Under the present system each country must have a *favourable* trade balance, that is, it must sell or export more goods and services than it buys, or imports. How can, say, forty nations carry on, *each* one selling *more* than it buys? Manifestly it is impossible.

The struggle for markets causes the losers in the strife to "go to the wall". Rather than do so they fight. Thus *war* results.

(2) If some nations produced all primary products such as wool, wheat, meat, wood, coal; while others produced all manufactured or secondary commodities such as sweaters, flour, lumber, machinery, then we could see how the primary producers such as Canada, Australia and South Africa were, seventy-five years ago, might trade indefinitely with manufacturing countries such as were England and Germany.

(a) But the first obstacle was noticed when men began to realize that all primary products were sold on unsheltered markets while secondary products were sold on sheltered markets. Thus the primary producers, farmers, fishermen and others, were unable to raise and sell enough to pay for the manufactured goods they had to buy. Hence the primary producing countries inevitably tended to fall into debt to manufacturing countries, with whom they traded. [1] It was increasingly difficult to have a favourable trade balance.

(b) Then the primary producing countries like Canada began to manufacture textiles, shoes, machinery, etc. , themselves. Because this gave employment, home markets and new exports, and because it helped to cut down necessary imports, the Governments began to raise tariff walls against outside manufactures. This soon developed a large population of persons who profitted from "protected" industries. These people became the wealthiest section of the electorate. They therefore controlled whatever Party was in power. Every duty *restricted* trade. Here was the second obstacle.

(c) Difficulty number three then put in its appearance. Erstwhile manufacturing countries like England found much of their former markets for textiles and other commodities disap-

(1) Even the United States up until the Great War was a debtor nation. Why? One reason was that so much of her products were primary, like cotton.

pearing; Canada and others fabricating their own. England had to export one way or another nearly as much value in prices as she imported. She could not go on buying Canadian wheat, meat, wool, etc. indefinitely and selling Canada less. She therefore had to begin *protecting* her primary industries, — her agriculture. Other manufacturing nations had to do the same. Trade was yet more difficult.

(d) The Great War brought into being another impediment. Nations realized that it was bad for a country at war to be unable to produce what it needed. If Germany could cut off from England, Canadian wheat, England might starve. Each nation began feverishly striving for self-sufficiency. It protected and helped, by quotas, subsidies and other devices, industries which perhaps in that nation were economically not paying propositions. Trade was harder.

(e) Another factor accelerated by the Great War was overproduction, so-called. Canada for example, spared approximately half a million of her best producers to stand in battle array. Somehow she did without them, producing enough goods and services, not only to keep them supplied, but also to feed, clothe and shelter her other citizens in considerable prosperity, even though many of her home citizens were manufacturing armaments, goods that her people would not consume. The world learned to produce more than it could use — at least more than it could buy. Thus vast surpluses of such commodities as sugar threatened the markets. In this way, if Canada sold her wheat, butter, cheese, wool, etc. she had to outmanoeuvre other countries having these commodities for sale. Trade prospects grew dimmer.

(f) Yet another stumbling block should be noted. Much of foreign trading had been rendered possible by foreign loans. If United States wished to sell agricultural implements or other products to South American republics, for instance, she loaned those customers credits. With these they bought her goods and for these her companies sold. "Business" was brisk and everybody was happy. But the time for repayment arrived. What could Argentina, for exeample, return to the United States? Only goods or services, or gold. But what goods? Cattle? Wheat? Wool? Of all of these the United States likely had more than she needed.

Gold, in most cases, the debtor nation could not get because United States and France already had an enormous portion of the world's holdings. What then? South American republics could not pay. Loans that you know you cannot get back are not made with enthusiasm. Foreign lending is more and more impracticable — except for war preparation. .The Outlook for trade becomes decreasingly bright.

These are but a few of the hardships in the way of foreign trade. We all, of course, want all the markets we can get. But to hope for any combination of tariffs and trade treaties to cure the maladies we have in the forepart of this chapter glanced at, requires either ignorance, stupidity or unjustifiable optimism.

Second: Varying degrees of Government ownership and centralized control coupled with a more or less thorough—going policy of sharing the wealth of the country. Such propose the Socialists. The underlying idea appears to be that there is money enough if it were evenly distributed; distribute it ,then. Eliminate or at least greatly restrict profits, then; abolish big incomes; divide up the national income equitably. Such would appear to be in the main the proposals of the various types of Socialism. In Canada the Canadian Cooperative Commonwealth Federation and the Communist elements might, with, accuracy, perhaps, be mentioned as exponents of Socialistic doctrines in modification or combination.

To make a nationalization proposal concrete let us again turn to the motor blocks industry mentioned earlier. Suppose the Government took over that automobile factory, then let us reason.

(1) Where would the Government get the money to run it? would be the first embarrassing question. "The Government would take over the Banking System", might be the reply.

Then would the Government through the bank *give* money to the factory management or would it merely lend it? If it gave the money then soon enough the present reserves of the banks would be exhausted. Would the Government then give the savings of the people also to industries? If the Government merely loaned the money, would it require interest? How long would it allow the loan to run? In what respects would its policy differ from the policy now pursued by the Banking System? If the Government required interest, then the factory would have to make a profit.

Again, would the Government through the Banking System create new money? If so, would it create currency or credit or both? And how much of each? And how would it be able to judge when to stop in order to prevent inflation?

Now if the Government would propose to loan only, much as is done at present, could it not completely control the industry through the banks alone, much as these institutions at present control industry. Then why own the industry outright?

(2) The next question for the new management would be, "How will you sell your surplus goods?" Could the Government sell the motor blocks better than the present officials can? If so, why? Can the state-owned C. N. R. sell its tickets more successfully than can the Company-owned C. P. R. ?

(3) Then we should have to demand: "How is the Government going to put the 231 men to work?" Can the Canadian National use more men per 100 miles than the C. P. R.?" "Well," I fancy someone retorts, "the state would cut down the hours."

Suppose it does. Then what! Let the hours be reduced from 8 to 4. Then you would have 2 x 19 or 38 of your original 250 men at work. At the same time you would reduce a day's income from 8 x 75 cents to 4 x 75 cents — from $6.00 to $3.00 a day. Have you enabled your workmen, as a whole, to buy more goods? Clearly not!

You would increase wages? Very well. If you gave your men $1.25 or $1.50 an hour, then what? You would increase the costs of your plant, increase the price of your goods. Has that helped the Government to sell them? Your progress with the unemployed is, I fear, not yet very gratifying!

(4) But there is another annoying question: "How is the new system to put into the hands of those 231 men an amount of purchasing power relatively equal to the $1700 a year they lost?

"We will build great public works," someone replies. Quite so. Where will you get the money? Will you seize it? Borrow it? tax it? or create it? If you do not create it, do you suppose the Government will have much money to spare after it finances all the mines, factories, farms, etc. necessary? It is doubtful! And the more one examines the statistics of Canada's economy, the more doubtful it looks.

Then how can you devise public works of sufficient variety and of wide enough distribution to put all the dispossessed to work? How will you transport a convalescing teacher recovering from nerve strain — how will you take him to a road camp, provide his keep while there and leave him enough to support his family for a year? You will give pensions, state-medicine, allowances? Yes, but if you do not create money, where will it come from?

And even if you put a $6.00 per day man into a road camp, will you pay him $6.00 per day? And if you send him there will you use men, horses, and scrapers or will you use the superb road-building machines of today, each displacing men by scores? If you set about constructing public buildings will you use machines or men? I read as I write these words: "Digging a sewer job four blocks in length employed forty men for ninety days in 1914; steam and ten men for three weeks in 1938."[1] If you would discard these machines, why? If you should use them, where will you get the money to buy enough of them to put your hundreds of thousands of men to work?

(5) Before leaving the general subject, two other questions ought to be disposed of. First: How will you encourage men to do their best? What manager of a factory or an institution would assume the burden of worry and annoyance incident to his position and accept the mediocre income of a workman down in the ranks who meets no such irritating experience? What government employee would, even if he could, put in the long anxious drudging hours that a farmer holding his own will devote to his farm just to "make it go?"

Second: How will you support and discipline the tremendous army of civil servants needed to supervise and to effect the economy of a state owning its own industries? Can a democracy possibly use and apply such a system? Perhaps.

(6) Finally, would you have the state take over all the sugar factories, for example? Would the state assume the losses of those now going "into the red?" Enough of such, would *lose*

money for the country, not make it. And how about the taxes? Would you have the state-owned and state supported industries pay taxes to their owner? And if they were to lose money in a given year, who would make the taxes good?

Honestly, the further one investigates such proposals the less attractive do they appear.

Third: Monetary Reform. There are a number of people who believe that in our money system lies the root of our troubles and that through reform of our monetary and financial system lies the way out. Among these are the New Economy advocates and the Social Credit Movement.

To be able to appraise the contentions of these reformers one must know money well. Of that matter much more will be said during the succeeding pages.

To meet the needs of our situation, certainly it does seem that we must somehow get more and more money. As we operate the present system we act as though men could obtain money only by taxing or borrowing. If these two be the only ways, then the outlook is dark indeed. But are they the only ways? Monetary Reformers do not believe it. History they say, does not show it. Neither does common sense.

Money, they urge, has been and is now being, created. In fact new money must be created regularly as productive power grows. They point to such statements as Karl Snyder's [1] to the effect that production increases about 3% per year compounded annually. [2] Now the more goods and services a people can produce and exchange, the more money they require to exchange these. In 1834 the American people had $12.35 per man, woman and child. In 1930 they were using $515.33 per capita. [3] It was all good American money, created in U. S. A. Most of it was created by bankers and claimed by bankers, greatly to their profit.

"Is it not possible and would it not be safe for the state to create such new money?" New Economists query. If it could be shown to be both possible and safe, then the creation of new money might offer a practical way out.

(1) Eminent statistician of the United States.
(2) See Controlling Depressions", Paul H. Douglas, 1935, p. 181.
(3) "Inflation" 1933, Woodward and Rose, pp. 66 and 68.

They contend that through properly managing money the Government could so supervise the economic system that the community could gain from it the greatest advantages with the greatest efficiency. They argue that national money can be used to pay off the national debt. They believe that the state can, by wisely placing loans, bring about any amount of production it desires, so long as its resources are ample; that such loans would bring into employment a majority of the present jobless people, absorbing them naturally just as they used to be absorbed before machines displaced them. .

Canadians now can have a very high standard of living Monetary Reformers argue, if they can be enabled to buy what the country's resources can produce. The wages paid out to workers in this new burst of productivity would go far towards providing purchasing power to buy the goods. What goods could not thus be bought, could be moved by means of purchasing power, definitely put into people's possession.

Monetary Reformers have to meet many objections to their ideas such as:

(1) Issuing state money has been tried time and again; e.g. John Law's money, the Assignats of France, the American greenbacks, Germany's abundant marks in 1923. Always the experiment has led to inflation. Can you show that it would not do the same again? It's too great a risk.

(2) Money, to be of value, must be made of gold or be backed by gold. How could you make your money have any value?

(3) The only other thing that gives money value is its scarcity. You will make dollars so plentiful that they will not be worth picking up.

(4) The great money illusion is the belief that money is wealth. You cannot increase a country's wealth by merely printing dollar bills. Wealth consists of goods and services. You have merely become the victims of the great illusion, just as others often before you have done.

(5) Your plan might work under a dictatorship. But it requires too much regimentation for a democracy. Human nature is too weak.

(6) You cannot entrust a nation's money to any government especially in a democracy. The party in power would create money in vast quantities and would corrupt the whole electorate and destroy our money.

(7) New money is just a form of tax. Prices go up so far that people have to pay just as much in extra costs as if the whole of the amount created had been taken from them in a sales tax or other levy.

(8) Your money will fall in value in the world's eyes. Therefore the exchange will be against you, greatly impairing your trade.

(9) If there were anything of value in your ideas, England would have applied them long ago. You can't get something for nothing!

A formidable array of hurdles to be leaped! They all pertain to money and our financial system. It will be our interest in the pages which follow, to find what light the facts will shed upon these arguments. Such will help us to see whether through money lies the way out.

CHAPTER IV

A FEW MONEY TRUTHS ILLUSTRATED

The writer, remembering his own difficulties when, less than ten years ago, he commenced to concentrate on the money maze, will endeavor to illustrate financial realities sufficiently clearly and concretely to enable anyone to grasp the essentials.

What is money

Of course the first essential is to know what money is.

Let us go back to the history of money. Thousands of years ago, we would find a situation somewhat as follows:

There would be a man with cows: not far away would be another man with grain.

Mr. Grain-man would approach Mr. Cowman saying: "Let me sell you some of my grain."

"I would like to buy," replies Mr .Cowman, "but I have nothing to pay you with. Will you take a cow?"

"Sorry" rejoins his neighbor, "but I have to carry on and get rid of the rest of this grain. A cow would get in my way."

"I have it," exclaims Mr. Cowman, "I will make a little leather tag, and on it I will put a cow's head and also my private mark. You leave the grain and take the tag. When you are ready for the cow, bring the tag back to me and the cow is yours, for the cow stands behind the tag."

"Agreed!" says the Grain-man as he leaves the grain, pockets thee cow (the tag or claim on her) and goes his way.

In due time, having disposed of most of his grain, he has collected in his pocket a whole herd of cows (little leather tags that stand for cows, that is, that are claims on cows)

Bye and bye he comes to a maker of shawls. Wishing one of these for his wife, he offers some grain for one.

"What would I do with grain?" queries the Shawlman.

"I will give you a cow for one, then."

"Yes?"

"Yes!" affirms Mr. Grain-man as he takes forth a leather tag, saying; "You see that mark on this tag? That's Jim Jackson's private mark. He is the fellow that lives by the ford, you know. You take this tag to him and he will give you a cow, for one of his cows stands behind this tag."

"Settled," says the shawl-man, turning over a shawl for a tag.

"In time he presents his tag to Jim Jackson and receives his cow. Even today we use the word pecuniary coming from the Latin "pecu" meaning "cattle". This little story actually was lived through, many many times.

Now when Jim Jackson made that little leather tag he made something that enabled him to sell his cow, the grain-man to sell his grain, the shawl man to sell his shawl; each of the three to buy the thing he needed: he made a medium of exchange, a medium of distribution — he created money.

Experienced students will add: "Money is a standard of value, the means of measuring a debt, the means of repaying a debt," etc.

To them, I say; "Yes. Bye and bye we can study advanced money theory, but for now, this definition is good enough. The little leather tag was currency in that far off neighborhood."

What gives money value?

How many tags could Jim Jackson make? Naturally, as many as he had cows of course! Partly right! But some cows might die, stray away, or be stolen. Allowing for all such possibilities, we might say that if Jim Jackson had 13 cows, for example, he could safely create 10 tags which he might trade off for coal, lumber, sheep, land, shoes, fruit or for any other goods his district is producing. These tags would go circulating among the people for many weeks, perhaps, even months. In time, however, each would return to its maker and find awaiting it a cow — goods. This made it a good tag — sound money.

Meanwhile the grain-man, having for example, 13 cows worth of grain could also create 10 tags backed by his goods. And the shawl man, supposing he had 13 cows' worth of shawls could create 10 shawl-backed tags. Thus in our little community there could be 30 tags backed by cows, grain and shawls, each a good tag (sound money) not because it was made of gold, silver, or banker's paper; not because it was backed by one of these, either directly or indirectly, but because it was backed by plenty of goods.

This conclusion requires some elaboration to allow for the influence of other factors. Modifying elements will receive attention in their appropriate place. Notwithstanding any and all, of these, let the important vital truth be realized: Fundamentally *what gives money value* is the goods that back it.

What weakens its value.

In those by-gone times, such currency served well until a "sharper," conceiving a "bright-idea," made a leather tag and "sold" one of Jim Jackson's cows. That was serious for several reasons, the chief of which was this: that in time if the practice went on, there would be 14 cow-tags for the 13 cows — more tags than there were cows.

Before long, a tag would return and find no cow to back it, readily. Men would therefore begin to lose confidence in the cow tags. The shawl-man would demand more of them for a shawl or he would require a bonus. Thus prices would rise, that is, there would be inflation.

Inflation

Inflation, which all opponents of monetary reform trot out every time anyone breathes a word about increasing a country's money supply means broadly speaking, having more money (tags) circulating (coming into the markets or demanding goods) than there are goods and services for it to buy without rise of prices.

This statement again needs elaboration, for there are several possible causes of rise in prices. The chief of these influences we shall deal with sufficiently in their place. This very important money truth, however, stands: Inflation arises from having more dollars coming into markets than there are goods and services there.

Community creation of money

Meanwhile, let us go on with our tag story. The producers sensing the danger which too many tags might induce, met and resolved to take precautions regarding tag-making. They appointed a Committee to make all tags for them. Each tag was to carry some definite mark, easy to recognize, hard to imitate. The number made was to be enough, not too many.

Let us call the group the Monetary Committee. Now if you were on that Board for any community, what is the first thing you would want to know? "Naturally" you say, "I must learn how many cows, pigs, vegetables, coal mines, etc., there are available for use; how much fruit, grain, clothing, and the like the community has for sale or coming upon the market."

Money not necessarily debt.

Let us imagine you and I are members of the Tag-Committee in our story. We soon learn that we can create 10 cow tags, 10 grain tags, 10 shawl tags, which we proceed to do. Is there any conceivable reason why the Committee should *owe* anyone for the tags? Clearly not.

If the cow-man chooses to pay us something like a piece of meat or a bit of butter for our work, well and good! But surely everyone's common sense back in those realistic days, would tell him that the Committee was able to create the tags only because of Jackson's cows, the grain-man's grain, etc. The tags, therefore, belonged to *them* and to the *other producers* of the neighborhood.

Why interest?

Jim now wants a tag with which to buy some grain. He comes to the Committee and asks for it. Imagine this from the secretary: "Well, Jim, you will owe us that tag, you know. You will repay us one year from today with interest at 10%."

Can you hear Jim exclaim," Owe? Repay? Interest? What next?"

What gives money value?

The Committee concludes that in its community there is justification for making 30 tags backed by cows, grain, shawls—*goods.*

Absurdity of government borrowing.

Now suppose that the Committee finds that after the various people have come in for tags to do their business it still has say, 15 tickets or tags lying idle. The municipal government needs 12 tags to build a sidewalk. Then what? Must the Government *borrow* those 12 tags from the Monetary Committee? And must it pay the 12 back? and with interest? Assume that it has thus taken and spent 12 tags. It now taxes Jim and his neighbors to pay interest! Then it taxes them to raise tags to pay the 12 back! Supreme justice!

The sidewalk is for everybody. If the lumber and other materials are all products of the community and if the laborers all live there, why should the 12 tags not be *given* to the Government? The cows, grain, etc.,. the dentist's and blacksmith's energy and skill (the backing of the tickets) are all ready to honor the tags. If the Government does not take the tags out and spend them they, the tags, will lie idle. If it takes them out then they will be used to buy much of the goods and services, otherwise lying unused. It will thus provide markets and employment otherwise not available. These things make for well-being, for prosperity. To have the Government take the tags debt-free, interest-free, and wisely disburse them surely seems wisdom.

To buy in an age of plenty causes production.

"But," warns a thoughtful one, "what will happen when the tags come back and consume all of Jim Jackson's cows? The community will then have no goods. Then what will happen to the tags?"

When a tag comes to Jim he can destroy it. This he would do if he had made the tag. But if the Committee made it, it would not be specifically a cow, grain, dentist tag, but a *general* tag of 1 cow's value, for example. When it comes to Jim now, he produces a new cow, having marketed the one. And the purchasing power, the tag, he turns over for coal, lumber, fish, wool, or for any other community product he needs. If he has adequate soil, pasturage, buildings, breeding stock and skill then, *to buy from him will be to make him produce promptly as much more.* This principle, sound even long ago, is, in our age of plenty and speedy "over-production" an imperiously important money truth. *Demand today creates its own supply.*

Effective demand creates its own supply.

This last truth will need more elaboration. It must be appreciated, if a modern thinker is to avoid utterly perversive error. The case today is almost the opposite of what it would have been, say 75 years ago, in an age of comparative scarcity. Then "supply created its own demand" — a thing it cannot do today. So rapidly have matters moved.

Even at the risk of tedium, let us use another concrete illustration. Suppose that all the Canadian-made goods at present in our storehouses and upon our shelves, awaiting buyers, are in a great classified heap, and that you are in charge of the heap.

To complete the picture, imagine all the factories and industries which produced those goods and which stand ready to produce more goods like them — imagine these to be disposed around the heap, conveniently accessible to it — awaiting orders. Also around the heap, imagine Canada's 11 millions of people, many of whom are painfully in need of the goods upon the heap, yet unable to buy of the plenty before them.

Until the goods are sold, distributed, it will be useless to add to the pile. It is your task to distribute *so that the industries can produce more.* The people's needs, we shall, for the moment, forget altogether.

Money is the means of distribution.

For some time you have been giving out goods only to those who have offered you money. You have therefore learned that, no matter how much goods a country has, no one can buy them without money. You cannot distribute without it.

In fact, goods, despite their real intrinsic value, despite the hard work, time and money that went into their production, despite the fact that they are the only real wealth — (stressed wearisomely by orthodox economists) — despite all these realities, the goods mainly appear *practically worthless unless money comes for them.*[1] You have learned then a great truth.

Goods almost worthless unless bought with money.

You see a particularly needy woman; you make a tag with the word "rubbers" written upon it. You send the tag to the woman with instructions that if she will return it to you, you will send her the pair of rubbers behind it.

She returns it; you send her the rubbers, and dispatch the tag to the rubber factory as proof that there is room on the pile for another pair. The factory accepts the tag as an order and immediately manufactures and forwards a pair to replace those consumed.

What can the factory do with the tag? The manager can give it to one of the workers who needs rubbers. The worker will

(1) This, of course, is true only under the circumstances existing under the present complex money-economy.

turn it to you for his requirement. He might, if he chooses, trade it to a fellow worker who wishes the footwear.

Money is merely a special form of ticket.

Suppose, now, that instead of writing "rubbers" upon the slip of paper you had written "a pair of rubbers' worth of goods". Then the factory would have been able to "buy" with it, from the pile, oil, machinery, raw materials or other commodity useful in its business. The manager might have given the claim to a worker who in this case would be able to buy the ticket's value of any kind of goods on the pile, butter, meat, flour, eggs.

Money spent calls forth production.

If he claimed butter, the ticket would at once go to the creamery, call forth more butter production, go to an employee and return to the pile, this time for flour, say. As often as it went to the pile for goods it caused those goods to be consumed, then flitted to the industry where it caused the same amount and kind of goods to be produced, and then it went to labor to pay for service.

Now let us assume that you use not a ticket but a piece of paper with "One Dollar" written upon it. Then what? The paper will go back and forth from consumer to pile, to factory, to consumer indefinitely, as long as there are factories and resources, and workers to produce, and consumers to consume. You create in that "dollar" ticket another distributing agent to help you. You make it, and can make it, because there are in your pile, goods that no dollar is calling for, (the rubbers for instance).

Needed number of dollars depends upon money work or exchanges to be effected.

How many tickets (dollars) can you, and should you make? Anyone can readily see that the number of dollars necessary depends in large measure upon: First: The quantity and the variety of the goods upon your pile; Second: Upon the number and variety of factories around your pile (in your community) and the capacity of those factories to produce and to deliver goods, as, when and where required; Third: Upon the number of people ranged around the pile able and willing to use the goods; Fourth: Upon the number of tickets already available to the people producing and consuming the goods of the pile; Fifth: *Perhaps* upon the speed with which the tickets (dollars) change hands, that is upon the 'velocity of circulation'; [1] Sixth: Upon the variety, richness, and inexhaustibility of the resources behind the industries as well as upon their availability to the industries.

Dollars not wealth but essential to wealth

The dollars, whether you make them or whether they were already in the markets, are purely mediums of exchange, of distribution. They have no value, except for the work they can do. But that work is so important that their presence adds value to the articles of the pile. Without enough dollars, many of the articles may even waste. Many others may be sold at so low a price that the industries which produced them lose money. This will discourage production, even, perhaps, ruin those industries. Thus, *while dollars are not wealth, dollars are made possible by wealth (goods and services), and are absolutely necessary to wealth.* This is an ill-appreciated but indispensable money truth.

The Two Great money Illusions.

This brings us naturally to a consideration of two great money illusions; one age-long; one exceptionally modern.

(1) *The First "Much money is Wealth".*

The first of the two, Sir Norman Angell calls "The World's Chief Money Illusion."[2] This illusion is: That money is wealth. For several centuries in Europe the statesmen seemed to believe in something like what was called the "Mercantilist Theory."

They aimed to export all the goods they could and to import not goods but *gold*. Spain especially followed this belief. She accumulated practically mountains of bullion but became poorer for it.

(1) Much disagreement exists among economists as to the exact importance of velocity. See later discussion.

Some New Economists insist that velocity of circulation plays no part at all. Since so many orthodox thinkers stress velocity I deem it wise not to disregard it as a possible factor.

(2) See "Your Money" page 6.

Many individuals and movements in history have become filled with the idea that if a state had more money it would be more prosperous. That idea is a fallacy. It caused, in part, the disaster of John Law's money, and of the Assignats and of many of the colonial paper experiments in the United States.

The Second Great Money Illusion. Scarcity of Money brings Wealth.

Records of these mishaps have scared statesmen and people alike into the opposite prejudice; *That Goods and Services alone without money as effective demand coming to buy them are wealth.* It could be true that the second illusion has done the world's peoples vastly more harm than the first.[2]

Each of these illusions leads to pitfalls. Can we any way clarify our thinking about them? Can we calm our strong feelings about them? Let us try.

Recall Jim Jackson's leather tags, and the other tags which followed.

Notice, now (1) the cattle were there, so were the grain and shawls. (2) So also were the men (a) *desiring* a cow, and (b) *willing* to *exchange* for it, *grain or a shawl.* So, too, was (3) Jim's (a) *desire* for grain and (b) his *willingness to exchange* his cow for it. *All seven* of these conditions had to be present before the tag could have worked.

Wealth-value of Dollar illustrated.

That cow, which Jim was inclined to dispose of for grain, was valuable *in herself,* in a general way. She was goods. But her owner did not need to eat her, to milk nor work her, nor to make shoes from her skin. She was not for him, then, an immediately available, consumable commodity. She would be about as useful to him as would be a second thousand bushels of wheat to a lone man on an inaccessible island. But to the shawl-man, the cow doubtless was of instant service.

The tag — just what part did it play? Did it add to the cow's worth? Clearly it did. Without the cow being there first,

(2) See Note 1 at end of chapter.

it would have been but an idle trinket: with her there first, and with the other conditions as they were, the tag became almost as valuble as the cow herself. Because of it, she became of present value (a) to Jim, procuring him grain; (b) to Mr. Grainman procuring him (1) a market without which his grain might have remained a drug on his hands (2) indirectly, a shawl which he needed, and (c) to Mr. Sharl-man, procuring him a market and a cow which he needed.

The tags, then, unquestionably added value to the cows, the grain and the shawls, and, beyond them, to the pastures, the grainfield and the sheep. Furthermore, by providing markets, they obviously encouraged production, and so increased prosperity. *Granted surplus goods and services,* new dollars add value to goods and are wealth.

Dollars needed only for exchanges.

Let us notice, before we turn from the problem, that the tag was needed only *when Jim Jackson and Mr. Grain-man needed to exchange* without barter. If they had traded "straight across" cow for grain — there would have been no tag. If one could have worked for the other's commodity, no ticket would have been needed. Even if they could have arranged a three cornered barter, no medium would have entered into the transaction. As an elaboration of other money truths which we have developed in this chapter, let us lay it down: *That dollars are needed only when exchanges or distributions are to be effected.* Money therefore is primarily a mechanism for distributing the goods of the community.

Importance of money grows with civilization and mechanization

It is important to bear in mind that all of the illustrations we have thus far used are drawn from very simple communities. In such, barter was the rule: money was little needed, and relatively little used. If tags were so important in such a neighborhood, how vastly more important are they (as dollars) in our highly complex neighborhoods of today!

How the need for dollars increases as grows the complexity of civilization can be gathered from considering the following figures [1] showing what has happened in the United States economy: In 1834 there were circulating $12.35 per capita; in 1860, there were $19.61 per capita; in 1880 there were $58.23; in 1900 there were $128.67; in 1915 there were $237.04 per capita and in 1930 there were $515.33 per capita. There was most remarkable growth during the years from 1860 forward. The amount of dollars almost doubled between 1900 and 1915 — fifteen years, — and more than doubled in the fifteen-year period from 1915 to 1930. *The more we specialize it would appear, and the more we use machines the greater are our money needs per capita—hence the more money affects the value of real wealth, or goods and services.*

In this chapter we have dealt briefly, with a number of matters which pertain to any community's money. We have observed and set down tentatively several fundamental conclusions, or money truths.

1. Money is a medium of exchange and a medium of distribution.

2. The value of money depends upon the goods-and-services-producing power of the people who create it, and upon the exchanges they wish to make.

3. Money tends to lose its value when there are coming into markets more dollar than there are goods and services coming into those markets. This condition causes a rise in prices called Inflation.

4. Inflation is a rise in prices resulting when there are in the markets more dollars than there are goods and services for the dollars to buy at a given price level.

5. A community having good resources and efficient means of production resulting in goods and services can create its own money out of any substance it chooses.

6. Money need not be a debt either to the community as a whole or to the citizens of that community.[2]

7. Interest on community-created money is unjustifiable and is unnecessary.

(1) Taken from "Inflation", Woodward and Rose, pages 66 to 68.
(2) Witness the $26,000,000 Canada created and used 1914-17.

8. Government borrowing in a general way, in a properly managed community, is an absurdity.

9. In a productive country equipped for abundant production, buying goods (spending money) causes more production.

10. In other words (effective) demand; (that is people wanting goods and having money to buy them with) creates its own supply.

11. While goods and services are the only real wealth, they can be, and practically are, worthless unless they can be distributed, called for or *bought* with money.

12. Thus *money,* too, is an essential element in making up wealth. Its part must not be overlooked, if disaster is to be avoided.

13. The number of dollars a community needs in its markets depends upon the number of *exchanges of goods and services* its people must effect, that is, upon the money *work* to be done.

14. There are two great money illusions: First: That money is the real purchasing power or wealth, Second: That goods and services alone are the real purchasing power or wealth. Both of these notions are genuine illusions. Both are in their effects upon us today pernicious. Sound money theory lies between these two extremes.[1]

15. The importance of money in national well-being increases as civilization increases in complexity and in mechanization.

The aim in this chapter has been to illustrate concretely these essential money truths. In succeeding pages they will be enlarged upon, and examined to find whether or not they can be successfully supported.

Perhaps no one will refuse to accept our answer to the question: What is money? Much additional information bearing upon this answer will be adduced as we go forward.

In the next three chapters we shall consider in some detail the answers to three other questions, namely; What gives money

(1) That is: Effective demand without goods is valueless: goods without effective demand are equally dead, practically useless—only potential wealth.

value? How much money can a people have? What do we now use for money?

Without the answers to these, it is quite impossible for anyone to think effectively about monetary matters.

(1) In our present economy we have many goods and services (real wealth), unused, therefore virtually worthless; vast resources unused, therefore as good as worthless, great amounts of productive machinery, largely unused, even huge pools of money idle because it cannot become active. Could one imagine a situation more tragic and at the same time farcical?

CHAPTER V

WHAT GIVES MONEY VALUE ?

All our lives we have been taught or led to believe that the value or acceptability of money depended upon its being made of some precious metal or upon its being "backed" by such metal. These notions we must now completely forego.

Money can be made of any material whatsoever, Stones, shells, playing cards, skins, salt, etc., have been used.

Money need not be backed by any kind of metal or by anything else but goods and adequate resources and equipment. Three characteristics only are necessary: First; It must be legal tender;[1] that is, the Government must pass a law declaring that *all people shall accept it in payment of any debt. Second*: There must not be too much of it for the goods and services to be exchanged among the people; Third: Men must have confidence in it, that is, be willing to accept it.

To help ourselves feel at home with this concept of money, we might think of our dollar bills as being "backed by" the *goods and services* in the country. Recall the illustration of the pile of goods you had to distribute. Imagine yourself as the Government or as the Minister of Finance of the Cabinet. You, the Minister, create tickets (dollar bills) as a device to distribute the goods and services in Canada's stores and storehouses (on Canada's heap). It is not hard, then, to think of the dollar bills as having behind them Canadian goods and services — hats, shoes, music lessons, and the like.

(1) This is not absolutely necessary. Financial credit at present is not legal tender; neither is a note of a chartered bank.

"But," contends someone, "the Finance Minister does not own the goods, nor the industries that produced them. How can he create dollars backed by what he has no title to? If the Government had taken over the factories and other means of production, then it could print the tags. Otherwise its tags (dollars) won't work."

Let us reason together. On page 22, para. 47 of the Report of the Royal Commission on Banking and Currency in Canada, published 1933, we read that the Dominion Government under the Finance Act of 1914 issued, between 1914 and 1917, $10,-000,000 uncovered by anything (that is having no gold or anything else behind them) and $16,000,000 backed by certain railway securities guaranteed by the Dominion Government, (that is, the securities were virtually worthless without Canada's guarantee). These $26,000,000 apparently were used for governmental purposes.

Now, suppose I had obtained $100 of those bills. Would any merchant in Canada have refused to take them? And for any kind of goods whatsoever? Certainly not. Would any farmer, mine owner, or other primary producer have refused them? Would any manufacturer? Would any workman of what sort so ever? Not at all. Would any of those bills be accepted now? Surely! Evidently, then, all the goods and services in Canada were and still are, behind those dollars. Did the Canadian Government in those days own the factories, farms, etc.—the means of production? No. Then why should Canada's Minister of Finance before issuing dollars now, or at any future time, own the means of production?

Those $26,000,000 were legal tender (Canada's Parliament legislated them so), there were not too many of them for the goods and services we had to exchange, they were willingly accepted, given confidence, by Canadians. That was enough. Though merely strips of paper, they were *good* money, *sound* money, backed by all the goods and services of the nation.

Some teachers of money would say that the $26,000,000 were backed by Canada's natural resources. In a sense, this idea is true, but it needs careful examination.

Go back again to our pile of goods. The ticket which moved and so distributed to the woman the pair of rubbers, caused them to be consumed. That pair was then no longer available for the ticket to buy. What then was the backing of the ticket? This is a pertinent question.

What actually happened? The ticket went to the factory. Let us assume, for simplicity, that when it came to the pile next,[1] it claimed a pair of shoes and then went to a shoe factory. A new pair of shoes was thereupon fabricated, one that *would not have come into being* if the consumed pair had not been *used*. Thus when you made the ticket, not only did you distribute, (market) a pair of shoes, but you also called into existence a new pair, created it, as it were. This is one of the greatest money truths to be learned by Canada: For a government in a land of plenty to create new money[2] debt-free, and so to use that money that it becomes purchasing power for consuming surplus goods is for that government to cause promptly the production of more goods.[3] In the case of the pair of rubbles, the ticket (money tag) was created and used definitely to procure a market, to *consume*, yet it caused to be produced another pair of shoes.

Meanwhile a new pair of shoes was brought into being. The factory used leather, the leather came from cattle, the cattle were nourished upon grass, which came from soil and climate managed by man. These three, soil, climate, and labor are part of Canada's resources. Upon these particular ones the shoes ticket drew. In that sense those resources in a very real manner, back the ticket.

And so when, instead of tickets, you began to issue dollar bills, which could call out of the pile any kind of goods, your dollar bills were drawing upon the natural resources of the country; forests, fisheries, mines, lands and climate as well as the acquired resources of labor, machinery and organization.

When the Dominion, then, printed those $26,000,000 they were backed, too, by the resources of the Canadians. We could express it fairly satisfactorily by saying the dollars were backed by the goods-and-services-producing-power of Canadians.

(1) Note I end of chapter.
(2) Note 2 end of chapter.
(3) Note 3 end of chapter.

None of the resources, none of the factories, or other means of production, was owned necessarily by the Government any more than the workers were owned by it. Yet all the resources of the country, natural, human, and mechanical, working together, gave the money value.

Rich and varied resources well nigh inexhaustible are important, but the *speed* with which they can be *worked up* into goods is likewise a weighty factor. How credit-worthy your tickets will be, will in a very large measure depend upon how fast, into your pile, new goods can be produced and delivered.

When you sent the woman the ticket to claim the pair of shoes, how long did it take the factory to make and to place in the emptied space a new pair? A century ago, think how many hours it took to cut, shape and sew or tack, by hand, a shoe. It took long to tan the leather, long to transport the hide from farm to tannery, long to transport the leather to the factory, and the shoes from factory to selling point. Today for most of these details, only hours, perhaps minutes, are needed (when we take into account mass production). Today the 1000-pairs-per-day machine, referred to above, exists. Even the orders flash in by telephone or air-mail. These facts have created a new set-up or stage setting for money to perform in. The effect of it all upon money's reactions has not been, with any scientific sincerity, calculated.

To render present realities[1] in some sense concrete, picture the pile once more and imagine the ticket to be a fast flitting bird, which flies from pile to fctory and to workman and back again, say, in 24 hours. In the next 24 hours it claims another pair of shoes, flies to the factory and to a workman and back again to the pile and so continues.

Now suppose that a new pair of shoes can be manufactured and delivered to the pile also in 24 hours. Then by the time the ticket gets back each time it will find, standing in the space it cleared in the pile, a new pair of shoes. And no matter how many times it flies from factory back to pile it will find in that place every time a new pair. It will never be able to empty more than

(1) Assuming once more that the velocity of circulation theory is correct. If that theory be disproved as it may be before long then of course we need no further trouble ourselves about it.

one space. If the shoe factory takes two days to deliver a pair, then the ticket can move shoes from more than one space. On the other hand if it takes only 1/2 of a day to deliver, then obviously the ticket will be able to keep not even one space empty. The shoes will then tend to "pile up," so to speak, in spite of the ticket's efforts. Now the more goods there are, or can be, for a given number of tickets (dollars), the greater will be the demand for tickets. Demand for dollars acts much as demand for other things — it raises their price or value. If the price of the dollar rises, that means the price of other things (goods and services) goes down. (The dollar buys more). It is manifest, therefore, that, other things being equal, the faster the factories can produce and deliver, (a) the more tickets will be needed to distribute the goods (b) the higher will tend to become the value of tickets and the lower the prices of goods.

Now, if the number of tickets (dollars) is not increased, then the faster a people can produce and deliver goods and services the greater will be the goods-and-services backing of that people's dollars. Thus it becomes clear that actual and potential *speed of production of both goods and services gives value or acceptability*[1] *to money*. The import of this money truth can, in this age of plenty, of over-production of goods and of unemployed services, hardly be overestimated. It is dangerous to ignore it.

Canada, in particular, has, to back her dollars, superabundant and highly varied resources. She has, or could at will have, more farms, mines, factories, fisheries working to produce more than enough, plentifully to supply all her people's needs. Few, indeed, are the commodities which she could not manage to adapt herself to make. Furthermore, her machinery is capable, or could readily be made capable, of tremendous speed of production, of great promptness of transportation (witness buses, trucks, fast trains). Who can possibly say that new Canadian dollars need be unsound?

(1) A dollar might be looked upon as a credit instrument. A credit instrument might be regarded as a title or claim to the goods a community has for sale, or can promptly produce for sale.

The ability to produce goods and services are the communities *real* credit. Whatever increases that real credit increases the acceptability of the credit instruments representing that real credit. The acceptability of a dollar constitutes that dollar's value.

Let us briefly, now, foreshadow what will follow in our later pages. Suppose now that an adequately increased number of new Canadian dollars were created as were the $26,000,000. Suppose then that (1) an appropriate number of these new dollars representing, as they would, a portion of the considerable amount of goods and services now "frozen" as it were,—stagnant so to speak, on Canada's pile, were used to distribute (find home markets for) that idle wealth. Suppose further (2) that against the remaining portion a suitable quantity of new dollars (either bills or credit) were created and loaned to producers to enable them to bring into being, and to deliver upon the pile, other adequate amounts of new goods and services. Suppose, finally, (3) that additional dollars were then created to represent, to synchronize with, the new goods and services thus caused to be brought into existence. Remembering and applying the principles of sound money thus far laid down, who can, with reason, say that each and all of these new dollars would not have full value, would not be *sound?*

That we might be able conveniently to recall those principles, let us summarize them: Money is valuable;

(1) Not because it is made of, or backed by, gold, silver, or any other precious metal.

(2) Not because a bank creates it, for we found the $26,000,000 of Dominion of Canada bills were just as good as any bank bill Canada ever had.

(3) Not because it is loaned by somebody on security (witness the $26,000,000 again).

Money is valuable when:

(4) the community behind it has produced and delivered, and can with adequate immediacy, produce and deliver, so many goods and services whenever and wherever required, that all the money likely to come into the market as claims for goods and services can be promptly supplied without rise of prices and when:

(5) the people of the community are willing to give any kind and quantity of those goods in return for the money. This means confidence. (All I wish is goods or services. If I know there are plenty of those available I can and will have confidence).

To have plenty of money, then, all a state needs is to be able to produce and to deliver, as, when and where required, sufficient of goods and services of the kinds it uses.

To be able to do this that state needs:

1. Plenty of resources of enough different kinds.
2. Plenty of machinery, manpower, skill and organization to work up these resources into human wants.
3. Plenty of railroads, highways, etc., to deliver the wealth.
4. Plenty of companies to distribute it.
5. Plenty of laborers to man all its equipment.
6. Enough consumers desiring to use the wealth.

It is not necessary that the Government should own any of either the resources or of the means of production.

Being assured that the community can have much money the government can, and should, either create, or have created, debt-free, enough to bring prosperity, and see that it is used for the people's welfare. .

"Ah, but the money will have to be backed," objected an experienced bank official when in a conversation with him in recent months, I had laid down the arguments I have thus far used.

"I am open to reason," I replied. "Tell me what backed the $26,000,000 of 1914 to 1917."

"In those days," he said, "it was understood that, if requested to do so, the Government was obliged to give gold for every paper dollar it issued. The Finance Minister took a risk. He was just lucky when no one demanded of him".

"I will grant that," I agreed. "Now suppose I had won $1,000,000 of those bills right after they were issued, and had put them away in my private vault. I bring them out today and offer to deposit them in your bank. Would you accept them?

"Surely!"

"Would you discount them?"

"Of course not!"

"Well, if you present one to the Government tomorrow, you cannot get gold. You cannot demand gold for any bill in Canada.[1] Your bank, years ago, would pay gold for bills on demand. It will not do so now. Neither will any other bank."

(1) See first Note (1) bottom of p. 54.

"But," he contended, there is backing for Dominion dollars, nevertheless".

"Tell me what it is," I urged.

"My bank could buy a million dollar Dominion bond with your money!" he retorted.

"Not unless the Dominion or someone else holding it, wished to sell it," I modified. "But supposing you bought such a bond, except for such interest as you might draw upon it, how much better off are you?"

"You could sell it," he informed.

"Sell it for what? For the million unbacked bills again? With them you could buy $1,000,000 worth of any goods or services for sale in Canada, is it not so?"

"But, I tell you, the Dominion must guarantee those bills — every one it issues," he pursued with some warmth.

"Granted," I persisted. "But guarantee with what?"

"With whatever I demand," rather sternly.

"All right" I challenged. "I'll play the Minister of Finance. You have the million dollars. Demand! What will it be?"

"Coal!" half humorously.

"Good. Give me the bills! I buy the coal from Southern Alberta mines for delivery on Sept. 15th, I turn over your receipt. Is it satisfactory?"

"We will talk again about your crazy ideas," he laughed.

And I apologized for having used so much of his time.

The goods and services produced by the Canadian people give value to Canadian dollars. The more goods and services we have and can produce, the more dollars we ought to be able to have.

(1) See Report Royal Commission on Banking and Currency in Canada, 1933, p. 22, paragraph 47, (end) where we learn that on April 10, 1933, an Order in Council suspended the redemption in gold of Dominion Notes.

(1) Just here it is necessary to stress an important difference of opinion regarding circulation of money. Orthodox money students believe that a dollar, after it is borrowed for production, goes from hand to hand often many times before it returns to the lender to pay back the debt the loan of it created. Orthodox thinkers therefore conceive that that dollar does much money work (effects many exchanges) before coming back to the bank to be cancelled out of that particular cycle of use, (circulation). I am not accepting or rejecting their view or taking sides in this essay. Since most of my readers will have been trained in orthodox thinking, I am *assuming* for the sake of familiarity that a dollar does circulate several times and that velocity of circulation is a factor to be reckoned with. The ideas of those who oppose the velocity of circulation theory might be expressed thus: "When the pair of rubbers came on the market,

there existed a monetary debit against the community to the extent of the retail price value of the rubbers, less the merchant's net profit. The surrendor of the money to the merchant resulted in (a) the cancellation of this purchasing power, (b) the concurrent liquidation by the community of the price liability. The fact that the rubbers were sold told the merchant that he should restock—and thus the transaction acted as an order for more rubbers; an order which emanated from the consumer and was transferred to the producer". The surrendered purchasing power went either to repay the loan which the merchant obtained from his bank or it replaced depleted working capital. It was not available *as purchasing power.*

(2) When we speak of creating money in this case, we speak of money that will be immediately turned into purchasing power. Such money will be spent for milk, cream, eggs, meat, wheat, etc., and so will cause increased *production* of those commodities.

(3) It is important to bear in mind the difference between money in a country, and money which is *available for the people to spend in a country.* In both Canada and the United States today there are huge sums of money which are locked away, as it were, so that nobody can get at them. Bankers and other holders of money think they must not let their dollars out except on secure loans. People who could borrow will not. The money, therefore, which could be borrowed is non-available. At present we know of no acceptable way of getting this money into consumers' hands. Hundreds of Billions of such money might be utterly useless to us. Our problem is to determine how to get money into the hands of the people who will spend it. As soon as money is in the hands of consumers that money becomes *purchasing power,* in the sense in which we are here using the expression.

CHAPTER VI

WHAT DOES CANADA USE FOR MONEY?

Further studies in the subject of money will be more difficult unless we know more as to what Canada use for money.

About this matter there exists much disagreement, most people being almost unable to believe many of the facts which we are now to set forth. We shall aim as we have done heretofore to keep the discussion as concrete as possible refraining from too many references and figures, yet taking care to quote and refer enough to satisfy our readers that the statements we make are true.

Paragraph 1. From our childhood we have seen and used coins — coins made of silver, nickel, copper or gold. We have also used bills of $1.00, $2.00, $5.00, and so on. If we have been in banks, we have seen bills of very large denominations — of hundreds of dollars, perhaps. Such large bills rarely appear in public, but many of them exist.

Paragraph 2. Most of us have seen and used cheques. Those with much experience have handled very large cheques, of $500. or more. These highly valuable instruments, we do not ordinarily cash; that is, we do not take the money out of the bank—this, for various reasons. If we have a $500 cheque, and are doing business on a scale which justifies our dealing in such large amounts of money, we normally, merely turn the cheque over to the bank without ever seeing the cash behind it, leaving our banker to take care of our monetary affairs. We write cheques to pay our bills, and assume that the banker will move our money from our account to the accounts of those with whom we have business relations.

Paragraph 3. Most of us, in so doing, always believe that there are in the banker's vaults just as many dollars of cash as there are dollars of cheques circulating in the community. It has never occurred to us that the banker might not have enough dollars to "cash" all the cheques which are being turned in to him. If we ever do wonder vaguely about this matter, we think of our safe banking laws in Canada, and reflect that Canadian banks have rarely ever failed, and with justifiable satisfaction we inwardly thank our wise governments for their present good management.

Paragraph 4. In many respects our governments deserve our gratitude. For one thing, they have built up a system in which a banker may safely allow cheques to circulate in a community calling for a good many more dollars than he actually has in his vaults. In other words, if, at any given time, he were suddenly called upon to hand through the wicket, dollars for every cheque in circulating, and at the same time give out to everyone having money in his bank all the dollars placed in his bank, he would most likely be obliged to close his doors. There would be a "run" on the bank, as we say.

Paragraph 5. Naturally, we ask, "How can a run be possible?" The mere fact that it has many, many times occurred, and could conceivably recur at any time now, will help us to see that the banker in any average community probably has loaned, or promised to pay, more money than he actually has; yet the people go on using his promises as money, accepting them as sound, and believing them to be so. And for that reason they are sound for all practical purposes.

Paragraph 6. What concerns us just here is that we should realize that in Canada we do use, as a third kind of money, bankers' "promises-to-pay," and we transfer these promises from your account to your neighbor's by means of cheques. Now, this intangible kind of money, has been called by many people, 'cheque-book money'.

Paragraph 7. For convenience, let us now classify money. All of our money falls into two main classes, which Professor

Fisher has called, — First, pocket-book-money, consisting of coins and bills; Second, cheque-book-money, consisting of promises to pay. These latter as we shall see, are merely figures in the bankers' books — figures which record the amount and the whereabouts, of the promises he has made.

Paragraph 8. Pocket-book-money is tangible, that is, we can feel it, see it, handle it, keep it in our pocket books. Cheque-book-money is intangible; we cannot so handle it. The only evidence we have, outside the bank, that it exists, is the cheque, or perhaps figures in our bank book. These truths impress upon us again that it is cheque book money — 'figures-in-a-book-money'. It is often called merely credit, or bank credit.

Paragraph 9. I have spoken with many men of wide experience and great knowledge who have sternly contended that bank credit, as such, does not exist as money. Such men maintain, often with passionate assurance, that bankers cannot lend more money than they actually have; in other words, that bankers cannot and do not create money.

Paragraph 10. The question — Can and do banks create money? — is so important for our future discussion that we must spend some time on it just here. Let us try to make our conception concrete. Hundreds of years ago, goldsmiths played a highly prominent part in business and financial affairs. Let us imagine we are back in those days. We will assume that I have $100 worth of gold. As it is not handy to carry around, and I fear I might lose it, I take it to the goldsmith, and say, "Keep this treasure in your vaults for me".

Paragraph 11. He consents and gives me a statement somewhat as follows: "I, Jacob Klinker, Goldsmith, hereby affirm that I have in my keeping $100 worth of gold left with me on June 1st, 1600. I hereby promise to deliver the said gold to the holder of this document." Signed, Jacob Klinker. I put this statement in my pocket; it is as precious to me as the gold would be. If I lose it, I may never get my gold. It is in very deed a gold certificate.

Paragraph 12. Several days later, I see in the pasture of my neighbor a fine cow which I wish to buy. We are 15 miles away from the goldsmith's. I say to my neighbor, John Jones, "I want your cow; what will you take for it?" He replies, "$100".

Paragraph 13. "I have in Jacob Klinker's vaults," I say, $100 worth of gold which I will give you for the cow. Since it is a rather long journey for us, it will be easier if I give you this certificate. You can get the gold whenever you want it." John Jones knows the goldsmith and trusts him; he also trusts me. He takes the certificate and the transaction is complete.

Paragraph 14. Next day he wishes to buy $100 worth of hay. He turns the certificate over just as I had done. Two days later the seller of the hay turns over in a similar manner, the certificate for a piece of land. Next day the seller of the land buys sheep with the certificate, and so on. The certificate has now become money — a medium of exchange.

Paragraph 15. It might change hands many times before anyone ever goes to the goldsmith to see the gold. It might stay out in "circulation" as we say, for months, because the people, having plenty of goods and services to exchange with each other, need such an instrument.

Paragraph 16. Meanwhile, the goldsmith has been doing some thinking. He has wondered several times why no one has come in to claim the gold, and it has occurred to him that he might have been using that gold for his profit during many weeks.

Paragraph 17. At this stage of his thinking, there comes in, one morning, an acquaintance who asks for $100 to supply an urgent need. At first the goldsmith contemplates letting him have the gold, but remembering how long the gold certificate has remained out, he suggests as follows: "How would it be if I give you a statement to the effect that you have $100 of gold in my keeping? Most people are likely to accept such a written statement, almost as willingly as they would gold. It is more handy and safe to carry."

Paragraph 18. The customer takes the written certificate, and goes out and pays his debt. The receiver of the certificate buys seed potatoes; the seller of the seed potatoes buys a plough; and so our second $100 statement ("Bill", we might call it) has been launched on its way, as money. We now have two $100-credit-instruments "backed by" the original $100 of gold, each of them good, each of them performing full monetary service to the extent of $100.

Paragraph 19. As long as no one suspects what has happened, the two bills will continue to function indefinitely. The more goods there are in the community to exchange, and the more services there are to buy and sell, the more likely is each of the instruments to "stay out in circulataion", and the less chance there will be that anyone will come in to claim the gold. In time people become accustomed to using such paper, and to feeling safe about it.

Paragraph 20. One day a particularly cautious man gets the first certificate and demands his gold. The goldsmith, strickne with anxiety, produces it. His customer merely looks at it, and says: "Oh, you might just as well put it back in your vault; I merely wanted to be sure it was here." And so, certificate No. 1 goes on its way again. The goldsmith heaves a sigh of relief and congratulates himself on his cleverness.

Paragraph 21. In due time, grown bolder, he writes a third certificate, and a fourth, and a fifth. There are on record, cases in which goldsmiths wrote as many as ten, and drew interest on them with substantial profit. Each of the ten was money, and served just as though it had been gold. The goldsmith, in writing any one of those instruments, was creating money — credit money represented by paper.

Paragraph 22. Before turning from the goldsmith, we ought to pause to notice that the borrower of each of the nine was bound to return to the goldsmith $100 of gold, unless he could bring back the paper certificate. Not many people are able to assimilate this idea fully into their thinking. That goldsmith was creating not only a means of drawing interest on $900, where he *had* only $100, but he was also creating for himself the means of obtaining real wealth in other ways.

Paragraph 23. Suppose for example, the goldsmith wrote a $100 certificate, and with it himself bought $100 worth of gold, or a $100 bond, or a $100 share in a factory. He would acquire the gold, the bond, the share, just as really as though he had given gold for it. Many people violently oppose this idea, declaring emphatically that no such thing occurs, but the evidence against them is too strong.

Paragraph 24. A concrete negotiation which most people will recognize, would be this: A merchant comes to the goldsmith, borrows a $100 certificate, and gives as security, a mortgage upon his store. If he fails to return the certificate, or some other cretificate ,or gold, to the goldsmith, then the goldsmith forecloses upon his business, and thereafter owns it. For a discussion of the principles I am here setting forth, the reader may turn to chapter 9 of "Controlling Depressions, published 1935, by Professor Paul Douglas of Chicago University. We have seen enough to convince us that the goldsmith was the creator of money — credit money.

Paragraph 25. Now, who are the goldsmiths of today? They are the bankers. Just here it might be well for accuracy' sake to classify bankers into three main classes; savings bankers, commercial bankers, and investment bankers.

Savings bankers, as a rule, loan only money that has been put into the bank by somebody. The remarks which follow do not apply definitely to them, but the other two classes lend, in the main, not savings but newly created money.

In the little community of "X" a new branch of one of our ordinary banks is opened.

For simplicity let us use only small easily comprehensible figures and transactions.

We must recognize that this bank is not only a branch of its own great banking organization, but that its organization is a part of the banking system of Canada, and is in cooperation with other Canadian banking organizations. This will mean that other banks will honour its cheques and generally recognize it as an equal; furthermore, it will be governed by the rules and laws of the Bank Act which control Canada's banks; moreover it must follow the same policy that the banks of the whole Canadian banking system are following. That is, it must keep "in step" so to speak. Thus it cannot loan freely when other branches of its own bank and other chartered banks in the banking system are not loaning freely. If the other banks are curtailing loans it must also curtail loans.

These reservations having been made for the sake of accuracy, let us follow our bank's actions.

The banker opens his doors on Monday morning with One Thousand Dollars of coin and bills in his vault (on deposit). At 11 o'clock he can loan on suitable security One Thousand Dollars and still have his One Thousand Dollar in his vault, much as the goldsmith could give a One Hundred Dollar Certificate and still have the gold in his vault. At 2 o'clock in the afternoon he can lend another One Thousand Dollars and still have his One Thousand Dollars in coin and bills in his vault. Concerning the truth of my last few statements there exists very much contention throughout Canada; the bankers generally aiming to show the people that they have not this power; the reformers determinedly maintaining and proving that they do possess and exercise the power.[1]

To go forward with our illustration: When the banker closes his doors on Monday night he says that he has *Three* Thousand Dollars on deposit. This fact is exceedingly important for the 'man in the street' to understand: Bank deposits are of two distinct kinds; First, what someone *puts into* the bank is called a deposit; Second, what a banker *creates* and *lends* to people is also called a deposit. Our banker would say on Monday night that he had not loaned more money than he had 'on deposit'; yet, as we have seen, he started with One Thousand Dollars, created and loaned Two Thousand Dollars, and finished the operation with Three Thousand Dollars 'on deposit'.

Now the banker in the community of "X", providing the Canadian Banking Fraternity is lending freely, can, under the banking laws and in accordance with the banking practice of Canada, safely continue to create loans or deposits upon his original $1000 until he has put into circulation $10,000 of his own

(1) Macmillan Report on Finance and Industry, published 1931, at page 34.
For practice in Canada see also "The Depression Its Monetary Problems" a speech delivered by Hon. C. H. Cahan in Toronto, Nov. 13th, 1933.

promises-to-pay. Under Canadian banking laws he can legally upon his $1,000, create and issue $20,000 of promises-ti-pay.[2] On each of these he is to receive interest. Of course he takes a great risk, hence the demand for security.

Some argue that it is the security which the borrower gives to the banker that makes the Banker's 'promises-to-pay' or figures-in-a-book' money, sound. This is true. But the main reason why the banker wants security is to guarantee that he will have the money paid back. The soundness of the promises to pay, as we have in large measure already shown, depends upon other considerations.[1]

A few remarks of explanation will suffice. In a little neighborhood such as we constructed for Jim Jackson and Mr. Grainman, and Mr. Shawlman, a Banker issues 10 figures-in-a-book upon $1.00. What is behind those 10 promises-to-pay? Behind the first one is the dollar bill. Behind the other nine there are the notes, securities, collateral, etc., which the borrowers were required to submit before obtaining the loans. But in very reality, the figures-in-a-book are the little leather tags in a new guise. They are made possible and made sound by the cows, grain, and shawls of the producers.

"But," it is sternly maintained, "bankers cannot and do not create money as you assert". For the edification of such minds, the following quotation from the Report of the Committee on Finance and Industry submitted to the British Government in June 131, by Lord Macmillan should help: "It is not unnatural to think of the deposits of a bank as being created by the public through the deposit of cash representing either savings or amounts which are not for the time being required to meet expenditure. But the bulk of the deposits arise out of the action of the banks themselves, for by granting loans, allowing money to be drawn on an overdraft or purchasing securities a bank creates a credit on its books which is the equivalent of a deposit. A simple illustration in which it will be convenient to assume that all banking is concentrated in one bank, will make this clear. Let us suppose that a customer has paid into the bank £1000 in

(1) See Note 1 bottom of page 64.
(2) "The Canadian Banking System" 1938, James Holladay, pp. 140-141.

cash and that it is judged from experience that only the equivalent of 10 per cent of the bank deposit need be held actually in cash to meet the demands of customers; then the £1000 in cash received will obviously support deposits amounting to £10,000." [1]

"Still," some will persist, "surely there is more backing than that behind bankers' money". Let us see. Under the Bank of Canada Act 1934, the Bank of Canada can take one dollar of gold, and upon that gold, as "backing", can print four $1 bills. According to the Banking Acts of Canada, the Bank of Montreal or any other Canadian chartered bank can legally take each of those four $1 bills and create and lend or use $20 of bank credit, (figures-in-a-book). [2] Since 1934 Canada's banks it appears, have created hundreds of millions of such credit dollars and have loaned them to Canada's Government. We say they bought Canadian government bonds. Upon each of these dollars Canadians pay interest.*

Now behind any one of those credit dollars how much gold was there? Well, behind one of the dollars advanced to ordinary borrowers according to accepted banking practice (10 to $1 expansion) there would be 1/10 of 25 cents, or 2 1/2 cents of gold. Behind a credit dollar of the kind when the banks are expanding to the limit of the law (20 to 1 expansion) there would be 1/20 of 25 cents or 1¼ cents of gold.[3] But, does this matter to the ordinary citizen inside the country? Hardly. Have you ever asked for the gold? Has any one of your acquaintances done so? What the bankers agree to supply is paper one dollar bills, exactly as valuable as those $26,000,000 of Canadian bills. Nothing more; nothing less.

And such bills are all we want or need. But ordinarily, unless we require hand to hand cash, we pay each other with cheques. As we pointed out earlier, 95% of all Canadian business is done with the bank credit dollars, "figures-in-bankers' books," transferred fom account to account by cheque. Of the very

*See Note 1 bottom of page 65.

(1) It must be observed that the bankers in creating $10 of credit money for each $1 of reserves in their possession must follow certain lines of procedure in order to render themselves safe. A discussion of English practice is found in The Macmillan Report pages 36 and 37. The important fact for all to know is that bankers do create Canada's money.

(2) " The Canadian Banking System" 1938, pp. 140 and 141. Jas. Holladay, Ph.D.

(3) Of course there is actually a much higher percentage of gold than that because Canada does not create as many dollar bills upon her gold as she legally could print.

existence of this credit money literally millions of our people are either quite unaware, or are only vaguely and confusedly conscious. Most of us when we think of money have in mind only coins and bills.

"But what is this credit money like?" some will ask. Take an illustration. Suppose that the first $1000 the Banker loaned back a few pages, was to Farmer A, that the second $1000 was to merchant B, Then Farmer A. brought in $100 worth of potatoes that afternoon to merchant B's store. The merchant paid him with a cheque. (We are assuming that each of them left his $1000 in the bank to be chequed out).

Farmer A turns his cheque into the bank next day. What happens? Some people think of the banker as having the dollars as bills in certain drawers and as moving the $100 of bills from B's drawer over to A's. Such is not the case.

The banker, in this situation, merely put $1000 of figures to the credit of each of the two borrowers. When A gives in the cheque, the Banker adds $100 in figures to A's $1000 making him $1100 in his favour. The Merchant's $1000 he subtracts $100 of figures from, leaving him $900 in his balance.

One hundred dollars of figures in the banker's book, are transferred from B's account to A's by a cheque. And the farmer is paid as really as if the merchant should take from a drawer $100 in gold and hand it to the farmer, and the farmer should take the dollars home and bury them under his barn.[2]

Such then is the nature of Bank Credit, figures-in-a-book, cheque-book-money, the intangible kind of medium of exchange which the Anglo-Saxon World especially has been coming to use more and more in its business dealings, particularly since the passage of the Bank of England Act of 1844.[3]

The money used in Canada resembles that of United States, perhaps, in proportion of Bank Credit to coin and currency. A mere casual glance at the figures cited shows anyone that, beyond

(1) G. G. McGeer, M.P. gave a fine speech on this matter in House of Commons on June 27th. See Hansard 1938, pp. 4636 to 4644.

(2) It is worth while to notice that by selling the potatoes the farmer has changed $100 of the credit which the bank had created and advanced to the merchant into another kind of deposit altogether. It is still in the banker's books, but now an actual deposit, as most people use the word.

(3) See Note (2) bottom of next page.

question, the money of our generation is book entries made of fountain pen ink by bankers.

Besides Bank Credit, Canadians use coin and currency of the following classes:[3]

(1) Token currency consisting of: (a) Canadian silver dollars, 50ct., 25ct., 10ct., and 5ct. pieces. (These are legal tender up to $10 only.) (b) Nickel 5 cent pieces (Legal tender up to $5.)

(c) bronze coins (legal tender up to 25 cents).

(2) Dominion Notes issued before March 11th 1935 at which date the Bank of Canada took over the issue of Canadian notes. (They are of denominations of 25 cents, $1.00, $2.00, and $4.00 (not now being issued), $5.00, $50.00 (not now being issued) $500.00 and $1,000.00.

(3) Bank notes of $5.00 and multiples thereof. (now these are no more to be issued and are to be gradually replaced by Bank of Canada notes).

(4) Certain bills and coins of other countries as United States and Great Britain.[2]

Such is an account of what we now use as money in Canada. Readers have been able to see where our money came from, what is behind it, and who now makes it. Most will be surprised to notice how little part gold plays in our money. Whatever factor limits the amount of money Canada can have, certainly it would seem that factor is not gold.

(2) The following table already twice used will show how the United States people *have* been coming to use a larger and larger percentage of Bank Deposits, (Bank credit) in their transactions:

Money in circulation among United States people.

Date	Coin and Currency	Bank Deposits	Total Money
1834	5.24	7.11	12.35
1860	9.76	9.85	19.61
1880	13.93	44.30	58.23
1900	17.10	111.57	128.67
1915	18.56	218.48	237.04
1930	29.76	485.57	515.33

These figures appear in "Inflation" 1933, p. 66 and 68 Woodward and Rose.

(3) For greater detail see "Currency and Banking in Canada" reprinted from Canada Year Book 1934-35

CHAPTER VII

HOW MUCH MONEY CAN A COMMUNITY HAVE?

Importance of this question.

At the present time there are two[1] schools of thought, concerning money.

How much ought a people to have? Some say a scarcity; some say as much as may be necessary. No one demands too much.

But what is too much? Just at the present stage of our learning, no one knows. Too little brings prices down, paralyzing the economic life of the nation and inflicting hardships upon the people; too much sends prices far up inducing a condition called inflation.

Extremes either of much, or of scarcity, ruin a country's economic life. Too little, discourages production for two main reasons: First, because farmers and other would-be producers cannot get enough money to produce with; second, because prices are so low and purchasing power so scanty that there is insufficient incentive to produce.

Too much money discourages production, likewise, for two chief reasons; First, because while prices are rising very fast, those who hold goods hesitate to sell them, choosing to wait for still further advances; second: Consumers, finding prices going up faster than their income goes up, can buy ever less.

Too much money, raising prices, helps debtors to pay off their debts because their wages become higher in value and so do the selling values of the goods they produce.

Too little money, lowering prices, hurts debtors, for wages fall, as do also prices of most products, while debts do not fall.

Men naturally take sides, with considerable heat, on the question of more or less money in circulation.

If, without harm, we can have more money coming out into people's hands than we now have, everyone of us ought to know it and work for it.

(1) These two schools might be classified thus:
A. Orthodox thinkers who believe in controlling economic activity by a policy of money scarcity. They assume that all money must come forth in the form of debts or borrowings. They therefore use debts for money.
B. Money reformers who believe that economic activity should control money.

It will help us if we think of the money distribution as of a water supply in an irrigation district.

With too little water, plant life (production) shrivels up or grows meagre; on the other hand, too much water, waterlogs soil, drowns or sickens the plant life.

Again, granted that there is enough in the reservoir or in the source, then if all the soil receives its even share, equitably distributed, the plant life grows and thrives evenly; if, however, the right amount of water is concentrated wrongly so that it remains in a small area, then much of the crop suffers from drought, while most of the rest of it deteriorates from excess moisture.

So is it with money. We must first ensure an adequate supply, then provide for suitable spreading of it.

Is our supply equal to our needs? Is what we have, being properly dispensed? With the first, we shall occupy ourselves in this chapter; with the second question, in later chapters.

Let us recall the illustration we used sometime earlier — that of the blood. Money, we saw, in a community's economic body, perfoms much the same services as does blood in your body. Money has been fitly called the blood stream of the state.

It will be recalled that 1/13 of the body weight should be blood. That is, if you are a healthy boy weighing 130 lbs. you should have 10 lbs. of life-giving fluid. You have that amount because you weigh 130 lbs. You require it, you get it.

Then, if you grow to 143 lbs, immediately you are supplied with another pound of blood, because you weigh another 13 lbs. — (not because a banker thinks you ought or ought not to be allowed to *borrow* that amount!)

If, through mishap, you bleed away 4 lbs., instantly certain watchers in your being, sense the fact and report. At once the appropriate agents in your marrow begin toiling, and continue until the full 11 pounds is restored.

When you had less than 11 pounds, your blood stream was *deflated*: you suffered from blood *deflation.* When your marrow cells were making more, they were *reflating* your blood stream. If they had gone beyond that 11, they would have *in-*

flated your blood stream — given you too much for your needs. But the marrow cells knew their business; they did not create too much.

Suppose, now, that Canada has exactly the right amount of money. Then she loses much of it as she did when after 1929, some 600[1] to 932 million dollars of Bank credit was withdrawn by the banks.[2] What watchful monitor would report that loss and to whom? And what are the marrow cells that would promptly *set* about replenishing that money stream? You recognize that there appear to be no such agents.

Banks had created and loaned to Canadians what funds they were using; banks withdrew those hundreds of millions by calling loans and by refraining from renewing. Canada was afflicted with *deflation,* resulting in *depression.* In large measure, she with the rest of the world still is in deflation. How is she to recover?

How much more money circulating among her people does Canada need? What constitutes her "body weight"?

To make the problem concrete, may we look at two other countries? Suppose that all the money were suddenly withdrawn from England and at the same time from Newfoundland. Then fancy yourself appointed to provide for each of them a new supply. To which would you expect to have to give the larger quantity?

"To England," you quickly reply.

Right! Now why did you choose England? She is larger? Yes. Larger in what respect? — geographically?

"Only partly," you answer. "England has more factories, farms, fisheries, mines, forests, etc. That is, she does, and can produce many more goods and of a wider variety".

Then you say the amount of goods a country produces has something to do with the amount of money it needs? You feel that, instinctively? You are right.

But are goods the only consideration?

"No," you rejoin. "The number of people living in the country have something to do with the matter — the number of people willing and able to consume the goods, and the number

(1) Economic Intelligence Service of League of Nation, Volume 1.
(2) Hon. C. H. Cahan, speech in Toronto, Nov. 13th, 1933.

capable of doing work of various kinds — able to render *services.* There again you are right.

The "body weight" of a community, is, in a very real way, its ability to produce and to consume goods and services.

To appreciate how true this is, one needs only to bear in mind that we use money to "pay for" goods and services, that is, to move them from one person to another. Henry Ford not long ago was reported to have said that a dollar is only a part of our transportation system, like a freight car, for instance. Ask anyone how many freight cars a country needs and he will readily tell you, "As many as it can use." The more goods are to be moved, clearly the more freight cars will be required. So with dollars. *The more goods and services a community can produce and transfer for people to consume, the more dollars it can consume, the more it needs, the more it can have.*

This money truth is but very little known, still less understood or realized. When fully appreciated and applied it will revolutionize our monetary thinking and practice, and will point the way to, if not usher us into, a heaven upon earth.

To illustrate how it will change our thinking: Most people now-a-days, the minute one mentions new money, or more money, think or exclaim "Inflation!" What do they fear? Germany's experience!!

That nation issued more and more marks! her mark fell in purchasing power growing less and less valuable. A vast majority of folks assume that all of that country's troubles financial, came entirely because she issued much money. They imagine there came to be too little gold behind her marks, or that some other mysterious deficiency developed in the mark itself because it was of paper, or, they think, because the Government printed it, etc. And they conclude government paper money must be unsound.

Yet between 1914 — 17, as we saw above, the Canadian Government printed $10,000,000 of paper with no gold or other backing behind it, and it was sound. Why was Canada's unbacked government-issued paper money sound causing no inflation while Germany's unbacked paper money caused disaster?

Now think again of the freight cars. To equip 100 miles of railway across a desert might require a given number of cars, say ten. Would 100 miles through industrial highly productive Ontario require 10 cars, or more? More? Quite so! Why? There is more work to do.

Then suppose that on our desert railway, we introduce 10 more cars. Would the new cars be of any value? Of course not. Would they tend to decrease the value of the cars already there? They would, and it would matter not who manufactured the cars or of what they were made. The second 10 would cause an inflation of rolling stock, because there would be too many cars for the work to be done.

Next along our desert railroad, several mines develop, towns spring up. Will the 10 extra cars be then inflation? Not at all! They may even be too few. There may grow up such use for them that yet another 10 will be needed. Until that other 10 arrive, there would then be actually a shortage of cars, a deflation. Does this not help us to see that the *number* of cars (or *dollars*) is not at all what causes or prevents inflation? Neither is it the agency that builds the cars. No more is it the material from which they are built. The vital question is: "Is there enough work for the dollars to do?" Germany made more marks than her supply of goods and services enabled her to use without a rise in prices. Hence her trouble.[1] Canada did not. Hence Canada's success.

Great authorities on money are coming to realize that the value of dollars depends upon the *use* the community can make of the number of dollars it has.

Turn to pages 13 and 14 of Sir Norman Angell's, "Your Money What Is It," reprinted from "The Financial Post" in 1936. There, in discussing the Quantity Theory of money, he refers to various money experiments, among them John Law's Money and the French Revolutionary Money (the Assignats).

He tells us definitely that if the *quantity* issued in those two paper experiments had not been too great, their value would have geen kept up.[2] Having *too much money* for the *quantity of*

(1) This is one view held by careful students. Another view is that a deficiency of goods developed in Germany. This caused a rise in prices. The rise in prices caused demand for more and more money. Thus rise in prices *caused* more marks.

(2) "Your Money" p. 13 second column.

goods was what destroyed them.[3] He quotes the great economist, Ricardo, to the effect that specie (gold or silver) behind money is not necessary, and that all that is needed is that its *quantity* should be regulated.[4] Repeatedly throughout this excellent little work Sir Norman stresses that the quantity should be regulated in relation to the exchange of goods to be effected.[5]

Sir Norman proceeds to point out that, since we know the value of our money depends not upon its backing but upon its quantity then man can make his money his servant not his master.[4]

Turn next to pages 103 and 106 of "Planned Money," by Sir Basil P. Blackett. Sir Basil has elaborated the idea that it might be necessary to have two kinds of money (currency); an internal one for the ordinary business within the country, and an external one for trade with other nations. Having granted that, he insists that the purchasing power of the money circulating depends, only upon the *amount of it available* as related to the work it is required, at any particular time, to do.[1]

Later he refers to the fact that most countries oblige their central banks to have behind their notes a certain backing of gold or securities. He declares that such restrictions are unnecessary for local currency. He goes on to tell us that the right quantity of currency to have circulate at any chosen time is the amount which will do the needed work at a desired price level. If a community has too much money prices rise (inflation); if too little, prices fall (deflation)[2]

We can conclude, then, that a community can safely have as much money as is necessary to distribute the goods and services it has, either on its markets, or immediately *coming upon* its markets, — distribute as much wealth, in fact, as it can *produce and consume*. The more goods and services it can produce and consume, the more money it can, should, and must have in circulation, that is, reaching all of its people.

And the buying power of the dollars will depend upon the *use* Canadians can make of them. If there come to be more dollars

(3) "Your Money" p. 14 second column.
(4) "Your Money" p. 13 second column.
(5) "Your Money" p. 14 second column.
(1) "Planned Money" Sir Basil P. Blackett p. 103.
(2) "Planned Money" Sir Basil P. Blackett p. 106.

working than there are goods and services to buy, (without rise of prices) and people willing and able to buy those goods, then the buying power of the dollar will go down; ie, prices will rise. We then have inflation. If there come into action only fewer dollars than there are goods and services to buy and people willing to buy) then the prices will go down. That is, we will have deflation.[3]

It will be fitting, perhaps, to digress, just here, far enough to give some evidence to show that rise of prices is produced by increased money. Everyone has probably noticed that, during the last few years prices pretty nearly all over the western world have risen. Why?

"Oh," people superficially retort, "we are coming out of the "Depression". *Perhaps* we are coming out! More likely we are not. But why do we *seem* to come out, why do we *appear* to have better times?

"Well," say some, "there is a new Government in power at Ottawa, at Washington, at London." But is that the reason?

Paul Einzig, world famous and respected writer on economics, in his book, "World Finance 1935-37" gives the cause of the 'recovery'. He says it is the rearmament program of Europe. Many billions (estimated, I have read, at over nine per year) were spent annually. The tremendous demand for raw materials helped especially the British Dominions and the South American Republics —even Chile.[1] What pertains to our discussion is the fact that great quantities of money were disbursed.

Most of this money finally produced munitions which were not consumable, not available for the holders of the money to buy. (No miner producing copper for example, is likely to be spending any of his wages for high explosives or for bayonets). Thus the number of dollars has been increasing faster, perhaps, than have the pounds of butter and cheese, than the number of hats or shoes or shingles. Hence expenditures for rearmament tend to cause rise in prices of commodities.

(3) H. D. McLeod in his "Elements of Banking" p. 186 expresses the same idea; namely, that the value of inconvertible money is affected only by the question "of the quantity of it in circulation, compared to the *operations* it represents."

(1) "World Finance 1935-37", Paul Einzig, 1937, page 303.

Other contributing factors to our "recovery" are Roosevelt's vast spending projects and the huge sums spent by various governments in rehousing. Notice again that much of the products actually resulting from such efforts were not available for purchase and use by the average workman. (He is not, for instance likely to buy one of the houses, one of the roads nor Boulder Dam!)

One more bit of evidence I cull from many possible sources. The London Economist of August 15th, 1936, contains these words. "The most obvious and significant fact which emerges, is that no single major country, has overcome the great depression without undertaking a *policy of monetary expansion* of one kind or another. It is, of course, open to anyone to maintain that recovery would have come without positive expansionist policies, if only the countries concerned had waited long enough. In fact, however, it never did. Holland and Switzerland are waiting still.[1]

The article goes on to say that the recovery takes place only when the money which is used by the state in its expansionist policy is *not savings* but comes from *the creation of fresh credit.*

Finally this quotation from a speech[2] delivered in 1936 by Rt. Hon. Reginald McKenna, Chairman of the Midland Bank of England, has a definite bearing upon our proposition:

"We learned that a shortage of money may be just as vicious in its effects as an excess. It is becoming more and more widely recognized that greater productivity calls for an increased supply of money for otherwise prices will fall, business will stagnate, and the growing productive capacity will be unused. For money to be thoroughly sound, there must be enough of it to finance an ordinary growing volume of trade, yet not so much as to give rise to an inflationary movement of prices."

Whether, by "volume of trade," the Right Hon. Gentleman meant *internal* trade as well as *external,* cannot be gathered definitely. If he did not, then his meaning must be so extended as to make it include *internal.*

(1) Vol. 124, July to Sept. 1936, page 292.
(1) An address delivered at the annual meeting of the Bank, Jan. 29th, 1936, printed in the Monetary Review of Jan. Feb. 1936 also The London Times Jan. 30 1936, page 23.

How does knowledge of these truths affect the Canada of 1939? Let us reason. Reverting again to our motor-blocks illustration, we will recall that we discovered we have more goods than we know how to sell, we have more services than we know how to use. A glance around at our business houses and our pathetic unemployment problem assures us that both of the above conclusions are sound. The condition persists throughout Canada.

We realize, too, that the more machines came in to multiply production and to displace men, the greater would become our unusable surplus of goods and services, if we gave industry a free rein. At the same time we have unquestionably a tremendous and incalculable amount of *need* for goods (e.g., houses, clothing, food, fuel) and services (e.g. dental and medical care, special vocational training, etc.)

There is in our society, then, a greatly increasing *use* for money to distribute our rapidly growing wealth, both actual and potential.

Countries like our Canadian provinces have almost limitless resources, have highly adequate and efficient machines, factories and general means of production, have well developed railroads, highways and other distributing facilities.

What are our immediate possibilities we may conjecture after learning of the potentialities of the United States. Harold Loeb, Director of the National Survey of Potential, Productive Capacity, in that nation issued a statement in 1935[1]. He said that if the United States fully employed its existing plant and manpower in producing honest goods and services for consumers the output valued in 1929 dollars would be sufficient to provide every family in the republic with $4400 per year, in goods and services. All this was possible without considerable change of plants or processes.

Would every family use that $4400 of goods and services per year if they could get it? Assuredly! Why do they not get it? It must be a matter of money. Business, compared with what it could be, on both sides of the line, is 'stagnated', growing productive capacity is unused. The situation presumably "calls for an increased supply of money".

(1) Chart of Plenty, 1935, Harold Loeb, page 13.
(2) See next page for reference.

While no report for Canada corresponding to Mr. Loeb's has been made accessible, our own potentialities must be very great — perhaps $3000 per family per year, in *goods and services.* It ought to be feasible for us to have safely a greatly increased amount of money.

If that money were properly used; First, to increase our production ,enabling our people to have a greatly augmented possible number of *exchanges.*

Second, to enhance our consumptive potency to make our people able to use enough money to make those augmented possible exchanges,

If, I say, that money be used as it indubitably can be, to bring about a substantial increase in "the exchanges to be effected" then the stage would be all set for still more generous issues within the limits of safety, as they would be kept discreetly "in relation" to those exchanges.

Thus through our monetary policy, it would appear, could be found the way out, the way to plenty of sound money.

How can issues of new money, both bills and credit, be so managed as to increase the exchanges as above suggested?

To the answering of this question the next pages will be devoted.

Let us close this chapter with the assertion: that the amount of money a community can have depends directly upon the goods and services producing and consuming power of that community.

CHAPTER VIII

CIRCULATION OF MONEY — DEBT MONEY HAMPERS IT. — (A) WHY WE MUST HAVE CIRCULATION.

1.—*National income depends upon circulation.*

Everybody would like to see Canada's national income grow. What can we do to cause its growth?

"We can all get down to good hard work," will be the retort of many of our so-called 'successful" men. I have heard it hundreds of times, within Parliament and without.

"Our Government will have to get out and find new markets," will be another answer.

But astonishingly few will think to say: "We must have our banks lend producers more money to produce with". Still fewer will say "We must provide our consumers more money to consume with."

Yet the size of a nation's income depends directly upon the amount of money it has at work in producing and in consuming goods.

Here are some words of Hon. Robert L. Owen of The United States before a committee of the U. S. Senate, 1937.

"There is a fixed relationship between circulating demand deposits and our national production, of about 3 to 1, as will appear from the following table.

Date	Demand deposits	National income	Ratio
1929	$24,300,000,000	$81,000,000,000	3.3.
1930	24,000,000,000	75,400,000,000	3.1
1931	21,300,000,000	63,300,000,000	3.0
1932	16,400,000,000	48,900,000,000	3.0
1933	15,200,000,000	46,800,000,000	3.0
1934	17,600,000,000	52,800,000,000	3.0
1935	18,300,000,000	52,900,000,000	3.0
1936	20,000,000,000	60,000,000,000	——"

What applies to the United States, doubtless applies also to Canada with at least sufficient precision to convey the great money truth: *For every* $3 *of national income a country is to have there must be in ACTIVE circulation* $1[1] *or some other definite amount.*

Notice, now, the dollar must be *working*. Idle dollars waiting for opportunities, acting as reserves of corporations, or of individuals, will not do.

Later in the same evidence, Mr. Owen said:

"The employment of labor decreased as the money supply decreased, and increased as the money supply increased. At the depth of the depression, with the money supply at a minimum, we had 15,000,000 unemployed in our private industries. We still

Hearings of a U. S. Senate Committee 1937.

(1) N. B. This $1 does *not* provide enough purchasing power to consume the production with. There is developing an increasing shortage of purchasing power in the hands of consumers.

have over 9,000,000 unemployed in our private industries. Our adult population increases annually by 1,200,000 men and women net, who need employment to maintain life.

"The bank loans to private industry which created our money supply and liquid working capital, was 41.6 billions in 1929 and is 20 billions less now than then." [1]

Later still in the evidence, he said:

"Remembering the manner in which the money supply increased and decreased you will observe that our national physical production, month by month, rose and fell with the expansion and contraction of our money supply. As complete evidence of this I have in my possession a letter from the Federal Reserve Board, giving the monthly index of production through a series of years from 1919 to date, proving this fact". [2]

In the face of such remarks by one of the greatest authorities on money, and of the striking figures with which he supports his views, one must, it would seem, acknowledge that production and national income do depend directly upon the quantity of money actively at work among the people.

Life of the people depends upon circulation.

Some distance above I stated that money has aptly been called the blood stream of the state. On that occasion we were intent upon the amount of money a communinty needs. Your body must have enough blood. That blood must properly circulate too. Every limb and every organ, every remotest cell, it must reach, regularly and in sufficient quantities, or the neglected limb, organ or cell, ceases to play its part, sickens, dies, and involves in it's ruin, it's neighbors. So with the state. Any community, industry or family to which the flow of money is restricted very soon deteriorates into a burden.

As soon, therefore, as a country has learned to obtain adequate money, it must look after money distribution. Rarely, if ever, in Anglo-Saxon history has the government found it necessary to plan distribution of purchasing power. But from this time forward it will have to do so. In the near future such dis-

(1) Hearings of U. S. Senate Committee 1937.
(2) Hearings of U. S. Senate Committee 1937.

tribution will be, and appear to be, one of the government's greatest responsibilities. Perhaps even now it is so.

(B) — WHY DISTRIBUTION NOW TENDS TO BE POOR

1.—*All money now comes out* a) *only as debt.*

How does money at present come to circulate? Through production only. For example a man desires to produce eggs, and other poultry products. He goes to a bank or to someone having money, and borrows five thousand dollars, let us say. He then owes the money — it is a debt. He has obligated himself to pay it back with interest, that is, he has undertaken to return more than he obtained.

Meanwhile he has the sum to spend. Part of it he pays out for lumber, part for wire, part for hens, part for feed. A portion of it he pays carpenters and other laborers for service, a portion he pays for his own food and other personal needs. The merchant who supplies him the lumber, distributes some of the price for services and other requirements, and turns over much of it to the lumber manufacturer. That producer pays wages and other costs, and then turns all he possibly can toward clearing off what he borrowed to manufacture the lumber. Thus in scores of ways the poultry-man's five thousand dollar loan trickles out into people's hands, enabling them to buy. Most who receive a dollar of it, never dream that that dollar came out from a bank through a *debt, to raise poultry with.*

(*b*)—*Only to produce goods or services.*

Yet in similar ways must come forth practically every dollar that anyone in our whole civilization makes. This means that we use debts for money.

"What about the cases where a man has saved up money and then uses it?" some will ask. The rule applies to him just as well. If you had saved five thousand dollars of your earnings and then you spent it on a poultry plant, you would expect to get your money back, would you not? That is, you would look upon the invested capital as a debt to your savings. You would require it returned with interest. Thus, strictly speaking, even *savings* expended for production really constitute a debt.[1]

(1) Moreover, even the money a man has saved was borrowed by someone before he got it. That someone perhaps has not yet paid it back.

2.—*Debts for production are always varying in quantity.*

As long as we use debt for money then, manifestly several evils will exist. In the first place, using debts for money no government as governments go today, can possibly have any adequate control over the amount of money moving in people's hands. This is serious. Circulation of money in a community is as important to that community as is the coursing of blood in the veins. As matters now stand, we have to wait for money until, *first,* someone has the urge to seek a loan; *second,* the lender feels disposed to grant him the loan. Will enough prospective borrowers come forward to supply the country's needs? And will the bankers accept enough of them? If so, then the people will have a chance of getting money. If not, they will not. In this all important matter of money supply, Alberta, Canada, supposedly self-governing, are at present at the mercy of a few hundred thousand borrowers, and the various managers of our few thousand branch banks.

How safe would you feel if you knew your baby's blood supply depended upon factors so uncertain? Your child loses a pound of blood. Certain cells of his long bones automatically build him more. How would you feel if his recovery had to wait upon sundry whimsical lenders and other sundry borrowers, neither set of whom you had any chance of influencing to act? Your days and nights would be full of anxious moments. So they should be for your country's money needs. No government you elect has any effective machinery whatsoever for controlling either borrowers or lenders. We depend upon manipulation of the bank rate and upon open market operations. These indirect combersome divices were designed mainly, not to increase the flow of money but to restrict it. They certainly were never planned to keep the amount of money steady. If they were, they are now failing to attain their goal.

(*a*) *Governments cannot prevent withdrawals.*

Not only can the Government not cause desired money to go into circulation, no government today can keep money from *being taken out of* circulation. Just as no government could possibly in justice force any person or organization to lend against it's will, so no government can prevent a bank from calling any loan on a demand note, or from refusing to renew or extend the loan already granted.

Lenders should be free to collect what they have let out; otherwise how can they safely lend in the future ? Yet if in this respect, we allow full freedom, lenders, during the early stages of a depression draw out of circulation so much money as to stagnate business. Irving Fisher, Professor of Economics of Yale University, in his fine book "One Hundred Percent Money" published in 1935, tells us at page six of the summary in advance, that in the United States in 1929 there were in circulation 23 billion dollars of cheque book money; that of this, 8 billion dollars were withdrawn by 1934; that this withdrawal caused the depression. In Canada during about the same period 932 millions were withdrawn, according to a speech delivered by Hon. C. H. Cahan, in Toronto during the Fall of 1933. In both countries the results were disastrous and still are. Prices of commodities and services sank to ruinous levels. A shortage of money in circulation caused the fall. This deficiency of money was deflation, depression. The use of debts for money was responsible.

(*b*) *Loans for production tend to decrease now.*

This is not the worst. Responsible people borrow money only when they feel certain they can make enough money to pay back, and also to make a profit. Shrewd lenders lend only when they have assurance they can recover their advances with interest. Today men borrow or lend mainly to produce goods and services. Either goods or services, it is growing more and more difficult to sell. Why ? Because, mainly, of machines, and of public debt with resulting taxes, all fearfully growing. The consequence is, that fewer are borrowing, fewer are lending, for production. Fewer dollars, therefore, are coming and will come, into circulation by what has for centuries been the normal means of distributing money; namely, through production loans.

To satisfy himself that facts support these assertions, let the reader turn to such evidence as the October 1937 letter of the

Royal Bank of Canada. There he will read on page one that in 1928, in the United States, five and a half billion dollars were spent in new corporate financing (supplying money to companies to produce or deliver new plants, goods, services, etc.) In 1929 were spent in this manner eight billions. In 1933, however, as a result of the depression havoc, only 180 millions were spent. This last amount increased to 400 million in 1935, 1200 million in 1936. The writer of the letter expected the sum to reach 1500 million in 1937.

Now, many considered 1936 the most prosperous year of United States history. Why were only one and one-half billion risked in new production, whereas 8 billion had been risked in 1929 ? Several causes contributed, doubtless. But one, certainly, was lack of confidence in markets, in ability to sell. More and more loans are going to *governments,* not to industry. Industry has for some reason become unsafe. Therefore debt money shuns it. With debt money, circulation falls short.

(*c*) *Unproductive debt is always increasing.*

Another evil accruing from debt-money is increasing unproductive debt among the people. The producer borrows to produce the goods, the wholesaler and the retailer, and often the railroads borrow to distribute or to hold them. The greater the production the greater tends to be the debt. This means a heavier and heavier drain to pay interest. In the course of time, civilization will, it appears, be able to pay nothing else but interest.

3. *Varying productive debts make money unstable.*

This naturally leads us to another evil of debt money. This evil is unstable money. Much money in circulation causes prices to rise, little money in circulation causes prices to fall. This fact holds whether within a given country or within a group of countries, — even a world. Grievous hardships result for a majority of people, because, on this account the buying power of the dollar varies from one year to another.

If a farmer, when wheat is a dollar and fifty cents a bushel, buys an acre of land for sixty dollars, he assumes a debt of sixty dollars. To repay it he must deliver \$60 divided by 1½ or 40 bushels of wheat. A shortage of money brings the price of wheat down to 75c. The acre of land now costs 80 bushels of wheat. The farmer's debt has doubled, because the buying power of the dollar has increased, making a dollar much harder for him to get.

At the same time the value of the land has fallen to \$25 per acre. This again has greatly increased the farmer's relative debt, because he canot now re-sell his land for enough to clear himself. Thus, entirely through no fault of his own, he is tortured, as it were, between the jaws of a pair of monetary pincers. As a result, he is impoverished and the circulation of money suffers.

What happens to the individual with obligations, happens also to the community in debt. Let a municipality, province or state contract at high prices, an apparently safe debt; then let a depression come on with low prices, and the community automatically is thrust into what easily may prove to be an impossible position. Will man ever be able to make a purely debt-money system a stable money system ? It looks highly doubtful. Fluctuations in the value of the dollar resemble in effect stagnating of the blood. They impede circulation.

(C) THE GENERAL REMEDY MUST BE MORE MONEY AT LOWER RATES.

Money, especially short-term money, should be cheap and abundant. So recommended the Monetary and Financial Committee of the Ottawa Conference, 1932.[1] A moment's reflection, coupled with any degree of fundamental knowledge, convinces one that there must be an abundance of money available. No farmer or other producer can produce without money; no merchant or other distributor can distribute without money. Unless producers and distributors are functioning freely there are fewer jobs and lower wages, fewer goods and fewer services, consequently less real wealth, less buying and consuming.

Now if there can be obtainable only borrowed money, numbers who would produce and distribute must remain more or less inactive, while vast amounts of ressources lie idle, vast a-

(1) Ten Years of Currency Revolution, 1935 ,Sir Charles Morgan Webb, Chapter 1 especially p. 163.

mounts of goods that would have been brought into existence will never be seen. Meanwhile, because so few can find profitable employment, there will be too little money spent, too little effective demand for goods, therefore, too few markets. And so prices will fall to ruinous levels. All these evils, only plenty of money can remedy. But plenty of money under the present debt-creating system, no government can see any direct way to obtain.

1. *Money must be more widely diffused.*

And that money which we do obtain tends more and more to be available to just a few wealthier and stronger individuals and companies. Thus our country's life stream instead of being widely and evenly diffused, becomes more concentrated. This ill adjustment, too, is a natural result of debt-money. Our dispensers of money seek not our country's welfare but their own private profit. Under our present setup they can do no other: the setup, however, must be changed.

(D) THE PARTICULAR REMEDY FOR DEAR MONEY: NOT SAVINGS BUT NEW CREDIT.

1. *Cause of costly money: savings.*

In working out a remedy for faulty distribution we must look after several details. The first one of these is the cost of money. About this matter our old ideas are due for revision. If I have, by painful toil and stern selfdenial, saved $100, clearly that $100, embodying and standing as it does for so much human life, is, in a way, sacred. If I refuse to lend it I am quite within my rights. Or if choosing to part with it, I demand 7% to 14% for it, no one should quarrel with me. It is my savings, part of my very life. This, most people will readily concede. This is the conception that has been built up and handed down to us. In terms of it, we do most of our thinking.

2. *Cure for costly money: Created credit.*

But if, as a banker, I create $100 by the stroke of a pen, the situation manifestly becomes altogether different. If I am able to create that $100 because of my neighbor's production, from my country's resources, the case is obviously more different still. Into my *created* \$100 has entered no human life of mine to make it sacred. Any human life in it, is largely my neighbor's. If I refuse to lend this \$100 I am justly accused of surliness. If I exact for such money 7% or over, I am doubtlessly exploiting my fellow men. I am practically getting something for nothing.

3. *Change of attitude on lending.*

Anyone desiring to borrow this kind of money might have a right to do so. In fact it may be my duty, and someday soon may most likely be generally recognized as being my duty, to lend it to him. I will ask him what he wants the money for, as I would do now—but for a widely different reason. Now, I wish to know whether or not he will be able to make money with the loan—whether he will be able to pay me back. Then, I will want to know whether he intends to produce some sort of goods of which the country has need. Having approved of his character and of his project I will ask myself one more question: Will this money, if I issue it, be likely to cause inflation? I will consult my most recent guide circular to see if the amount of money circulating among Canadians is approaching the point at which there is instant danger of getting out more of it than Canada has reserve goods and services to be bought with it. Satisfied on these two points, I will lend.

The price people should pay for money, then, depends upon whether the money is *savings* or *newly-created* money. If it is all savings, the price (interest) may pardonably be substantial, four, five, six, seven or more percent. But if it is credit-money, created, such rates at once appear unjustifiably high. We think of ½ up to 1½ as being reasonable. Well, our money is largely newly created. It is credit-money. We must and will have plenty of it — cheap. Money, now, is far too costly.

To him who has, through a life-time of effort, amassed a supply of savings, such low rates must bring consternation. But when plenty of purchasing power goes into people's hands there will be great demand for goods. Men with money will have ample scope for investment in industry with assurance of profitable returns. Holders of money have this comfort too that changed conditions will render them more secure, while nothing will be taken away from them except their power. We must expect bitter opposition to plentiful[1] money, but we must persevere. Created credit-money is the means of procuring low rates. And we must come to get it, not through debt. Debt-money largely must pass away.

Having surveyed hastily the circulation situation, we now are able to state that, under the present set-up:

1. No government has adequate machinery to get enough money into circulation. The government and the country must wait for borrowers to seek loans and for lenders to loan to them. A people is therefore at the mercy of borrowers and lenders.

2. No government can prevent a great deal of the money it has in circulation from being withdrawn. Lenders can, and often do, call in their loans, and refuse to re-lend. Borrowers at the same time exert themselves to clear off their debts, thereby further decreasing the money in consumers' hands. Thus depressions come on.

3. As matters are presently developing, the government has no means of being sure that enough investors will go into industry to ensure enough goods and services for our needs. The tendency towards this condition, the experience of United States since 1929 illustrates well.

4. If, for some reason or reasons, banks chose to lend suddenly and people to borrow, any government would, as affairs now exist, find it hard to prevent them from lending too much and causing inflation.

5. Because of numbers 3 and 4, no government could prevent banks from withholding loans from producers, thus depleting the country's supply of goods and services. If the banks chose they could then lend money to speculators and thereby create a ruinous inflation — rise in prices.

6. No government can therefore prevent rising and falling of the buying power of dollars, because no government can pre-

(1) Really money should be looked upon not as "cheap" or "dear". It should not be regarded as a commodity. Money should be a "recording system". Bankers should receive not interest but a service charge.

vent falling and rising of prices within its country and the amount of spendable money in relation to the price level. That is, no government can keep its money stable.

7. No government has power to control the growth of debt, though that growth might easily destroy its people.

8. No government can control effectively the rate of interest to be charged among the people it governs.

We are therefore forced to conclude that, when the people use debts for money, then in the most vital particular, of money circulation, governments are, and will be, singularly helpless affairs. Yet their money is exactly the matter which a people, and especially a machine-age people, must have it's government control. We are constrained to believe, therefore, that a different system must be devised and applied, one that will give the government more immediate and thoroughgoing control of the circulation of money. Where shall we turn ?

Is there any means by which we can enable producers to get money more easily and safely? If there were such means, would farmers, manufacturers, etc. produce more goods than they do under the existing arrangements? Who knows?

But if we could make borrowing easier, rates lower, terms longer, if needed, and selling easier and surer and prices more stable, rendering repayment of debts more certain, these things would greatly help us. We could then have more adequate circulation.

CHAPTER IX

CIRCULATION OF MONEY — HOW TO OBTAIN IT: FINANCING PRODUCTION

A state debt-free money

Let us assume that the government of Canada resumes its constitutional right and duty of creating the nation's money. Much as it created the 26 million dollars of bills, let it go forward to create hundreds of millions of money up to the safe limit of it's people's needs. It will owe nobody for those dollars, just as it owed nobody for the 26 million. In other words, as far as the Canadian government is concerned, they are not debt-money but debt-free money. The government now has at command a substantial and adequate supply of dollars to use as it sees fit.

"But," many will urge, "you must not assume that the $26,000,000 experiment can be repeated as often as money is needed. Government printing of money is a very questionable practice. It has almost always meant disaster."

Safe in the past

Government created money has not always failed. We have shown, in previous pages, that beyond successful controversy, money can be created by anyone having authority. It has been done safely scores of times, from the days of Sparta's iron discs, about the 9th century B.C., apparently successful, [1] to Guernsey Island's tens of thousands of One Pound notes issued between 1815 and 1829, a success; [2] to United States Greenbacks, of which $346,641,000 are still in use and are good money. [3]

Many times communities have issued state paper money and have seen it fail. Some have done so and seen it succeed. Why did some meet with happy outcomes while others did not? Evidently, the fault lies not in state money or in paper money as such, but in the conditions or circumstances surrounding the issue. What is the main secret? Those who failed, issued more money than there were goods and services to buy with it, either on the market or coming upon their markets immediately.

Guernsey Island's good fortune, apparently arose from their great discretion in restricting the number of their notes to revenue-producing property, or to goods coming into consumption, as they did in the case of the building of their Market-House.[4] Evidence available, as well as logic, combine to show that where money experiments failed (became inflated), the failure came from issuing too much — more than was needed to effect the exchanges of goods and services to be made. Sir Norman Angell, as we have previously pointed out, definitely asserts

(1) The Story of Money, 1929, Sir Norman Angell—p. 100, quoting Del Mar.
(2) The Story of Money, Sir Norman Angell—p. 271
(3) The Story of Money, 1929, Sir Norman Angell—p. 298.
(4) See Note 1 bottom of page 89.

that John Law's money and the Assignats were wrecked by their excessive quantity. [2] As we have already elaborated, excessive quantity as here used can mean only having more bills than there were goods and services to exchange by means of those bills. We may safely conclude that, where money ventures went well it was because there were on the markets of the people concerned, more goods and services than the purchasing power units created could exchange without change of price.

Provided then, let us reaffirm, that a community has on its shelves and in its storehouses abundance of goods, that community can safely have money, can safely create money. And provided that community has factories, farms, mines, etc., and manpower and resources capable of maintaining that abundant supply steadily, the money will continue safe. Provided further, that it can gradually increase its abundance of production, it can in proportion gradually increase its money supply.

Safe through increasing production.

According to Karl Snyder, eminent statistician, production over a long period of time, in any modern civilized community, does increase at about 3%[4] a year compounded annually[3]. This obviously means that there must be some way of regularly adding to the dollar supply of any country like Canada; otherwise that country will automatically develop a dollar shortage. If the addition is being made, then someone must be making the dollars — and profiting by the operation. Why should not that someone be the Government of the country?

Then if the new dollars can be so managed that they will bring into existence yet more wealth, then the new goods so brought into being should logically form justification for a further corresponding origination of new dollars. Unquestionably the dollars could be managed to provoke new wealth. Then, for any government, unchallengably, a way of getting more and more sound money is open, revealed.

(1) The Story of Money, 1929, Sir Norman Angell—p. 271.
(2) Your Money, 1936, Sir Norman Angell—pp. 13-14.
(3) Cited by Paul H. Douglas in "Controlling Depressions" 1935, p. 181.
(4) Of course the 3% increase is under present conditions of restrictel production and consumption. With a reformed economic system the increase would likely be nearer 5%.

That government next proceeds to put that money into circulation. We will grant, to begin with, that there are factors and influences that can at present legally come into action in Canada to disturb, to pervert, whatever direct measures the government might take. But those factors might be removed or controlled — must be, in fact. Meanwhile, to get a conception of the possibilities of government measures, let us imagine that these complicating elements are for a time suspended.

The Government's first steps would closely resemble the devices by which, up to the present moment, money has been brought into circulation. Always during the past, dollars have had to be loaned. Men have borrowed them to produce goods or services with, as our man borrowed to raise poultry. Why does the same method no longer work satisfactorily? For three main reasons: In the first place, as we pointed out above, markets, due to vast production, are so uncertain, and prices so precarious, that the risks deter investors. In the second place, because so much of our property is already mortgaged, loans cannot be sufficiently secured, made safe. Finally, because machines have already so largely displaced men, jobs are so scarce and wages generally so low that the people, through wages, cannot get possession of what little money *is* loaned. We have reached, therefore, a stage in our civilization when borrowing under conditions of the past, and paying wages in production, no longer can be relied upon to distribute money among the people.

Can matters be so ordered that borrowing will be less risky and burdensome to would-be producers? If interest rates can be cut down to a minimum, if plenty of time can be allowed for repayment, if prospective investors can be given to know beforehand what particular kind of goods or services are most likely to be in demand, then many more borrowers will come forward, investment and industry can be increased.

1.—*Interest Rate Very Low or Abolished.*

If the money to be loaned is *not savings* but *newly created money,* then there is no reason why it should bear interest at all. If deemed advisable, the cost of the work of the clerks who enter the figures in the banker's books can be covered. This would bring interest rates to between ½ of 1% and 1½% perhaps, according to the size, length, etc. of the loan. We begin to see in fact at last, the practical possibility of eliminating usury utterly as the Scriptures command.

2.—*Length of Loan Greatly Extended.*

The length of time of the loan also can conceivably be managed now-a-days. The bank regulations have forbidden banks to loan for more than 90 days. They have placed upon them other restrictions. Most of such requirements have been made so as to safeguard our banks against "runs" and failures. For if a banker has loaned ten figures-in-a-book or credit-dollars against one paper dollar, truly his position is unsafe. Somewhere, each one of those credit-dollars is in someone's hands. If two men, each having one of them, should come at once for the dollar bill behind them, then the banker would be unable to honor the two claims. He would be out of cash. Thus the banker would destroy confidence in himself, and set the stage for a "run" period. If, in his crisis, he could readily obtain another dollar bill he could ward off the "run", maintain confidence, and go on once more with his lending. What he needs is dollar bills. The Dominion Government can at discretion create as many of these dollar bills as it needs. Can it not perfect an arrangement such that it can have, near the banker, a supply of bills, upon which, in an emergency, he can temporarily draw?

The answer must be, "Yes, it can." The post-office already being operated convenient to practically every neighborhood, ought to be a satisfactory store-house for Dominion dollar bill supplies. The Receiver General's Office also, with it's branches could perhaps be rendered sufficiently accessible to every community banker.

(*a*)—*Rules of bankers modified.*

How would the bankers then get the bills? At present a bank can loan only upon certain types of security. But Canada could change her rules governing loans so as to "Loosen up" money *as far as may*, by careful experiment, be found expedient. Suppose, for instance, that rules are so modified that a banker could loan any good man, desiring to go into farming, from $2000 to

$5000 to buy land and equipment. Suppose that the bank takes the man's personal note for five years and that the man gives a mortgage on the property until the loan be repaid. Let the mortgage bear no interest so long as the property is kept to a stipulated standard. Let the note bear interest at 2%.[1]

(b)—Amount of loans determined scientifically.

Let experts beforehand, making a careful study of appropriate data, determine at the beginning of each year, how much money might be issued safely that year in Canada, in Alberta, in any given area of Alberta or any other province, for this particular type of project.

Now let us suppose banker B is permitted to loan $200,000 in 1939. He makes known through suitable advertising in February that this sum will be available from March first to June first. He advises all prospective borrowers to have in his hands by May 1st, their requests, with full required particulars as to character and reputation of the borrower, nature of proposed investment etc., so that the allotted sum might be most advantageously apportioned.

(c)—Dominion bills rendered adequately available to protect banks.

On June 10th, having let the full $200,000., he finds that his community "C" is calling for $1 cash for every $9.50 credit in circulation, and has been, for six days, calling for a larger and larger proportion of cash. He fears that the demand might rise to $1 for $8.50 circulating on June 11th. He therefore takes $10,000 of the personal notes in his possession yielding him 2% and submits them to the post-master. The post-master gives him $10,000 of bills and puts away, in the government vault, the $10,000 of promissory notes. By July 5th, the banker finds that the people are calling for only an average of $1 in cash for every $11.75 of loans out. He therefore returns the $10,000 of bills and recovers his interest-bearing notes.

Thus the banker has been saved embarrassment, the community has had the use of the extra cash it needed, and at the same

(1) In this paragraph new credit for capital development is proposed. Such should not be the rule.

time the $200,000 are in circulation, increasing the production and consumption of the whole nation, all safely. The banker himself, because of the increased business activity in his own district and in hundreds of other districts throughout Canada, finds his profits greatly augmented. The Dominion's income from it's various kinds of revenue-producing taxes also grows.

1.—*Much goods will give plenty of money work for all the dollars to do.—Inflation will not result.*

"Inflation!" will be retorted with explosive promptness. No, the process need not cause inflation. By the application of a policy that would harmonize with the principles set forth in the next preceding paragraphs, of cheap loans, long as is necessary, we can vastly increase the goods and services available in Canada (produced and delivered in Canada's pile). Granting loans is the procedure which now stimulates and enables production; it is the means by which men have always brought about production; this practice, therefore, for the immediate future, at least, has a good chance of accomplishing production of goods and services in the future. Thus ample goods and services will be available[1] for the newly created and newly loaned dollars to buy, — more goods in fact, than those dollars will be able to buy. There will therefore be no surplus of dollars, no rise in prices, no inflation.

2.—*Dollars have same quality as present dollars.*

Some may feel that there should be more gold behind our whole monetary structure. Such people may consequently be persuaded that so great an expansion of our credit structure as the above suggestions would entail, would in some manner weaken our money in the eyes of the world. Let such folks reflect that, if we wished, we could create upon $1.00 of gold $4.00 of bills, and use them to buy gold output[2] for a long enough series of years to satisfy even the anxious gold standard enthusiast.

People outside of Canada, could find no excuse for discounting these new Canadian dollars. We would have plenty of goods

(1) If much money were loaned for building railroads, factories and other forms of capital equipment from which goods would not be immediately produced, care would have to be exercised not to get too much money out and cause rise of prices.

(1) Canada produced in 1936, $131,293,421 in gold and in 1937, $143,314,561. (Canada Year Book, 1938, p. 361.

and services to redeem them with. We would have plenty of gold if gold were sought. There could therefore come about no inflation from psychology abroad.

4.—*Trade balance should be more favorable.*

True, an unfavourable balance of trade might affect us disadvantageously. All acquainted with the facts will grant, I fancy, that Canada will always have to guard against buying more than she sells abroad. Under existing conditions she simply must manage to gain a favourable trade balance. Increasing our money in circulation, if it did not raise our prices, could not make us sell less and buy more outside our borders. If it caused us to produce greater abundance and variety of our own, and use it (honey, sugar, etc., for example) we most likely would buy less than we now do. In any case, the more we produce, other things being equal, the better chance we ought to have of selling to advantage, one would think. As we showed above, we would not have a rise in prices.

Enough extra must be sold to make up any deficiency due to an adverse balance of payments; otherwise our dollar may depreciate. This danger threatens us constantly, because of the large amount of interest we must annually pay externally upon (a) our debts owed to outside capitalists. (b) the outside money invested in our industries. In all of these exports of goods we must be producing an abundance and a wide variety of goods. And we must have low prices to enable us to compete successfully with other nations. Plenty of money so distributed as to enable our producers to produce plentifully and cheaply would logically bring about abundant production and low enough prices.

Up to the present there would appear to have existed in the minds of our bankers the notion that to bring our prices down we must decrease our national money supply. True, that measure brought prices down, usually disastrously down. *Prices can also be brought down by increasing our goods supply in relation to our money supply.* This important price-and-money-truth appears to be too little known.

Loans such as I have suggested would be a direct means of so increasing our goods production. By that means it ought to be possible, if deemed desirable, to keep prices down low enough to permit competition in any market. If that expedient seemed distasteful or should prove inadequate we could supply several other known devices for rendering our prices attractive to outside consumers. All of which reasoning should justify us in believing that cheaper and more generous credit expansion for production, especially when applied to present day Canada, richly equipped as she is, need not be, or cause, inflation—rise in prices. The measure surely ought to increase most gratifyingly our money circulation.

We have now discovered in outline the first proposal for increasing circulation of purchasing power. It is a slight modification of our present means of financing production. Summing up, we might say: The National Credit is used to back bills created against it. These bills cost virtually nothing, cause no debt, cost no interest. Today such bills are the main backing of our bank credit structure. Let them continue to be so, only with much less expense and restriction. Should the banks not find the new system profitable, let them be equitably reimbursed for their services, paid with Dominion bills.

CHAPTER X

CIRCULATION OF MONEY — HOW TO ATTAIN IT. FINANCING CONSUMPTION

Is it ever good business to pay people to buy, to hire them to buy, to help them to buy? Has it ever been done? Is it now being done?

Is international lending good business? Is it done? Has it been done? We would not argue that it ever was good business. But it certainly has been done. It certainly has been urged by many of our good business men. [1] Very occasionally now, we read some solemn exposition on economics, closing with the sober assertion that the world will never recover until the nations resume international lending.

Why international lending? Why did United States lend, during the 1920's hundreds of millions of credit to South Amer-

(1) See Royal Bank of Canada Monthly Letter Sept. 1938, page 2, col. 2.

ican Republics? She did it purely to provide them funds with which to buy American goods. Which they graciously did, in the main. It was a great scheme of financing consumption, of buying markets.

When pay day arrived, the United States had to refuse repayment. Why? Because she could not accept the kinds of goods they offered. Wheat, beef, wool, hides, — of what value were such to her who was herself seeking to sell these very commodities? Most of the millions she did never recover. They have turned out to be just great gifts for buying markets.

Now if the United States had advanced that credit to her own consumers, sold her goods to them, would she not have been just as well off? Would she not, in fact, have been better off, having her goods and her credit too?

In the world's economic history there stand recorded plenty of cases just as informative. The more we learn, the more we think in terms of realities, the more we realize, then, that in a general way at least, there ought to be nothing violently repulsive about the principle of buying markets — financing consumption. It merits calm consideration. We may find it a vitally essential money truth.

Having dealt with a diversely more generous scheme of financing production, as a means of inducing more buoyant circulation, let us turn, then, to contemplate a device for systematically and scientifically enabling people to use the national credit to buy the products of our industries.

Our banking and financial organizations at present recognize that increased production warrants increased money supplies. As soon as a good crop is in sight, they grant credit to move and to market it.

They require, however, first that there be a *market* for the goods. Which fact indicates what we have developed and asserted! that under our present money economy production (real wealth) is practically valueless until money comes for it, until it can be sold.

Now if new dollars, created and issued because of new production, can be so distributed that, at the same time more goods are brought into existence, markets for those new goods are ensured, then every addition to goods and services can at once safely be represented by an approriate corresponding addition of new dollars — enough to effect the exchange of them.

For example: Twenty dollars a month to any certain consumer, makes of that consumer, a new market for $20 worth of goods and services per month, which would likely not have been sold. This immediately makes saleable, each year, $240 worth of produce.

We found above that production is justification for issuing money — if it can be sold. Thus the $240 in goods which one person's dividend finds a market for, at once becomes warrant for a number of new dollars, as many as are necessary to distribute those goods, whatever that number may be.

It therefore looks clear that when a country having more wealth than it can sell, gives one of its people a $20 monthly dividend, that country thereby makes it safe for its Government to create a quantity of new dollars. And this it effects by making marketable yearly $240 worth of goods and services otherwise unmarketable.

But there is another aspect of the dividend question worth considering. What effect will a $20 monthly dividend have upon new production?

Think of your own neighborhood. Think of your milkman. Now, let us say, he delivers you 2 qts. of milk daily. You order from him this morning an extra gallon. To supply you he probably has to borrow from one of his competitors.

Tomorrow you order an extra gallon again and so on for several consecutive days. Having satisfied himself that you will become a regular customer for 4 qts. more of milk daily, he procures another cow, or feeds, for greater production, those he already milks. *Thus there comes to be produced more milk per day in your neighborhood than was being produced before you began to spend more money for milk.*

And so it stands out that: *Spending more money for milk provokes the production of more milk.*

It would have been quite otherwise if your vicinity had poor resources. Had your country lacked cows, barns, grass, hay, grain, water, good climate, milkers, knowledge of feeding milch cows — any of these, *then the price would have gone up.* Your added demand for milk would have induced an inflation with respect to milk. But as we have already pointed out; In a land of plenty in an age of abundance: *"Demand creates its own supply."* This, for our era, is a money truth of momentous weight.

What has been shown of milk would be true of any one of most of our essential foods: all milk products, virtually all meats and meat products, all vegetables, including potatoes and tomatoes, most grain products, most of our essential fruits, sugar (potentially), honey and so on. It would be true of most of our clothing: woollens, rayons, leather goods, felt goods, and so on. It would again be true of our shelter; lumber, shingles, brick, paper, stone, glass, coal, electricity, oil, stoves, on through the list; and of our amusement, health and education. To call forth almost any desired amount of the vast majority of our needs, all that is required is demand with buying power — effective demand. There could be no harmful rise of prices of any of them. We have, or can have, ample supply.

A third attractive aspect of dividends is their power to equalize distribution of money. Already in these pages we have cited Sir Norman Angell, Ricardo and Sir Basil Blackett as authorities for the statement that the value of money depends upon the *use* the people can make of that money. Let us elaborate.

Now a dividend would take dollars right out to the people who wish to spend them. The existing dollars would be left in the hands of their present possessors, new dollars would be created enough to effect the exchanges in the district and would be portioned out evenly and equally to all. There would then be some encouragement for the possessors of money to invest it, — there would be buyers, there would be dollars to gain. Dividend dollars mainly would be *spent,* not *hoarded.* Such dollars would be likely to effect more exchanges than dollars distributed in any other manner, less likely to cause inflation.

If the value[1] of money really depends, as appears established, upon the *exchanges effected* by it, then one of the most potent means of giving our money value ought to be dividends.

(1) Value means acceptability or buying power.

Need and demand for such means of distributing purchasing power will become cumulatively insistent as machines grow upon us. Suppose, just for the sake of concreteness, that we imagine a society in which 98% of all goods needed were supplied by one big plant. A journey through one of our giant power plants brings to mind even such possibilities, especially if one has heard of the wonders of fruit, vegetable, and corn production with chemicals, and, of other equally intriguing prospects. Assume then, that only 2% of the people of the society can be employed in the plant.

Would we expect the other 98% to revert to the primitive ekeing out, without machinery, a living as savages had to do? Should the plant, then, run about two days a year to supply the needs of only those who worked in it? Should the 98% who, by the law of averages, failed to find jobs — should they be outcasts, "bums"? "hobos", "n'er-do-wells" and the like unpleasant things, which we are beginning to call their forerunners? Or would we in a sort of reactionary hysteria destroy the plant, and cry. "Back to the simple life!"?

If our reasoning thus far has not been utterly awry, the Government, we are secure in affirming, when it pays a $20 monthly dividend with created money (bills or credit) strengthens its economic position in at least three ways.

First: it renders marketable at least $240 worth of real wealth that could not in any other way have been marketed.

Second; it calls into being $240 worth more of goods and services that would not otherwise have been produced.

Third, it adds to the well-being of its people everywhere, enhancing everybody's income, augmenting every seller's sales, generally improving business conditions.

Finally, because it has built up production of marketable wealth, it has enabled itself to produce, safely, yet more dollars.

So long as a country's resources and industries can be so stimulated that goods and services can be produced faster than they are being consumed,[1] the process of creating and circulating new Government money can be safely continued.

Great care must be exercised. Such money issued for consuming the goods, that is for dividends and for compensated prices (explained later), must never be so great in amount that there will be more demand for goods than there is supply without rise of price. Managed thus, there can be no economic reason for rise of prices. Thus there need be no inflation.

We can now with assurance say that we know where the money can come from. Any Government of a richly endowed country can have all the money it needs. At least it can create enough money to buy all the goods and services its people can produce and consume, or trade off, as surplus, and consume the returns for. As far as money is concerned, then, in the Dominion of Canada a dividend can be paid; in any of the provinces of Canada a dividend can be paid.

"You can't get something for nothing!" will be confidently asserted. Let us discuss this proposition.

Is the statement at all true? Do not most of our really greatest possessions come to us free? Did you pay for your birth, your parentage, your family name? Did you pay for the Bible, for Christ, for Christianity, for His Redemption? for civilization?

Did you pay for the British Empire? the British Flag? Anglo-Saxon governmental institutions — laws, organizations and the like? Did you pay for the English language, for writing? for printing?

Did you pay for Milton, Shakespeare, Browning, Tennyson? for Beethoven, Mendelssohn, Verdi and Wagner, or for Sir Issac Newton, Pasteur, Edison or Watt?

Did you ever pay for the fine cathedrals, churches, town halls, post offices in the older communities? Even most parks, bridges, roads, museums, libraries, art galleries, have been paid for by others and bequeathed to you, for nothing. To say that one cannot get something for nothing is to make a statement that simply is not true.

Before going further, let me hasten to state that no one alive more sternly demands, than I do, that people should work for what they get. I love work, even exacting, strenuous, painful effort. It is the law of existence that men should earn their way. Only by struggle comes development. But that does not forbid us to have

(1) With the result that there is as at present a shortage of purchasing power in relation to the prices of goods for sale on the market.

blessings conferred upon us. What men call "the breaks", every honest observer has noticed, frequently deciding success or failure, victory or defeat, for the strongest, as well as the weakest. We must allow for such bestowals of fate.

Moreover, the whole history of civilization shows that the individual comes more and more to be helped by society. One hundred years ago, the would-be-scholar — what struggles he had! paying his own way on every hand! Today, note how solicitous of his welfare we are. Think of the free schools, splendid buildings, increasingly convenient teaching methods, more carefully trained teachers. Does the student pay for these? Not at all! Do we worry about the many "somethings for nothing" he gets? Rather we tax our brains to devise better and more pleasant conditions to give him, for nothing. This we shall continue to do.

Not so long ago, the sick had to look after themselves. Consider what we now do for them, and still far too little. Rapidly we are acquiring the belief that medical and dental care should be a state responsibility. Does anyone object, thinking that such assistance for the needy is a bad thing? It is something for nothing.

We see today widow's allowances, old age pensions, pensions for the blind — does anyone seriously hold that these are a bad thing? The only complaint I ever hear against them, is their cost. (Where is the money coming from?) If for all of them, we could pay with created money, costing nobody anything, would anyone demur?

There is another aspect of the 'something for nothing' question. It is how to give what is earned, to him that earns it. Not many years ago, pioneers were opening up our country, braving dangers, enduring measureless hardships. They gave to us, service inestimable. Were they ever paid? Such of them as yet survive, are mainly on the relief rolls, half scornfully tolerated, grudgingly permitted a meagre pittance to keep lacerated souls and emanciated bodies together. They gave a priceless something. Who got it — for nothing?

The greatest service rendered society is motherhood. Who has not meditated what a fearful price any given generation pays to pass on life to the next, paid in pain, inconvenience, anxiety, money? Have we in any systematic, respectable manner contrived to pay for that service? to lighten the burden? We would appear not even to have thought about it. We have levied exorbitant sales taxes to penalize parents for each child! Talk about something for nothing!

But we do worse. If war breaks, we remember those large families. The state will snatch away all grown boys from the arms of self-sacrificing parents, each a value incalculable. Does it pay for them? Yes! $1.10 a day while those they fight for stay home and get $4 a day!

Yes! the state will leave many in far off graves, send most of them home to find jobs gone, constitutions weakened, to struggle unrecompensed through a life of sterner competition; send too many of them back, broken, to spend a pain-filled life, vainly petitioning the powers that be for enough allowance to live upon. Something for nothing indeed!

It is a screaming disgrace to man ,that all of the best work, the most indispensable work, is only niggardly paid for. Our ministers, teachers, scientists, and inventors all receive but meagre pittances. Our primary producers, as a class, exist, not live. Think of our fishermen, who toil in the sea, of our miners delving in the earth, of our farmers, buying all they use at prices someone else fixes, selling their products at the mercy of open markets, struggling against hail and rust, against insect, drought and disease!

The profits from the efforts of all these people, go largely to financial institutions, insurance companies, machine companies and the like, people who mainly win rather than earn. From all primary producers, plenty is taken for nothing. Shall their wrongs never be atoned for? Shall their services never be paid for? For ages they have been receiving for the "somethings" they have given, next to nothing. Shall we not contrive to give them something for the, "somethings" they give us?

In the light of the above realities, even if the $20 a month were purely a gift from state to individual, it would not be abruptly a new idea. Not be repulsively unjust. Free schooling we say is given the child to make him a better citizen. Mothers' allowances are advanced mainly to enable mothers to raise and to prepare their children for better citizenship, for the benefit of the State. Why not a dividend to make the citizens better buyers for the benefit of the State? Without a dividend, many people, since we can no longer apparently find profitable work for them, seem of very little value to the State, practically speaking. Carrying a dividend, each of them would at once become economically very interesting to all sellers. Why not?

Before ceasing to discuss "something for nothing" we ought to give some attention to certain citizens who really do get something for nothing. Those chartered banks which can take a $5 bill of Canadian money and upon it build $100 of credit and buy a $100 bond of Canada, thereby putting the Dominion people under bondage for an undefined period—why are our super wise men so silent about them? There are many others somewhat like them. Something for nothing!

At the same time, as we have indicated, a vast percentage of our toilers, primary producers, especially, and labourers of all kinds, receive but a portion of what they unquestionably earn. The laborer is worthy of his hire. What should be his hire? Should it not be the value of his labor? Yet what worker's wage is as great as the worth of his service to society? Food, clothing, shelter, and health services — these are the items most necessary to us. Producers of these are most scantily paid.

If each of these people received a monthly dividend to supplement his income, he would still be getting only part of his just dues, but he would at least be getting a fairer part than he at present does. As matters now stand employers can pay their employees but very little if any more. Many of them have themselves but slender incomes. How can both employers and employees be given equity? A dividend, paid them with debt-free state-created purchasing power, would certainly help, and the recipients are already earning it.

But there is another consideration. Let us think of building a new city. The site of our future city is now plain open land, worth, perhaps, $20 per acre. Mr. K. buys 10 acres of that land for $200. An industry or a trading house springs up and immediately people become interested. Fifty new families come in.

Demand for building lots developes. In a month, land is worth $30 an acre. Mr. K's holdings, without his doing one thing to improve them, grow in value to $300. Who or what has added the $100 to his wealth? Has he? No! The people who have come into the town to build and to live have added it!

Other people come in, other buildings rise. In two months land is worth $40 per acre. The school house, a picture show and a big store go up, and inside six months, the land costs $50 per acre. In one year Mr. K. has had given to him (for nothing? Almost!) the value of $300. A proportional gain is made by every piece of close-in-property in the town. What has made this enhanced value? People, in association.

Increased value which results from the association together of people is called 'unearned increment of association'. Such wealth is virtually given for nothing, to owners of land by people who come to live in their vicinity. Even the street loafer contributes, by his bare presence, to this added value. Who can consistently say that he is not, in some degree, entitled to a share of it?

Has anyone yet been able to devise a method whereby the creators of unearned increment of association can receive credit for their contribution to the community's wealth? The debt to them has never been paid, throughout the centuries. If we commence now to pay it to them, and their children's children with debt-free money, created by the state, who can honestly say that we are giving them "something for nothing"?

Yet another matter must be remembered. We mentioned some of the many treasures created by the past which have been bequeathed to us, free of cost. We omitted to mention the inventors of machines. Into an automobile, a tractor, a binder, a papermill, a linotype machine — into each of these went the inventive genius of thousands who strove, toiled and died. Each precious discovery was passed on to posterity. Some of the fruit of those efforts, everyone enjoys; in convenience, lower prices, improved service. But most of the devices, and of the profits from their use, have been monopolized by a few — must be so — as matters now are.

Yet if I have the admitted right to enjoy Shakespeare, and Milton, I can scarcely be denied a share in Stephenson, Watt and Curtiss. Which amounts to this: that broadly speaking, every person inherits a share in what we might call the mechanical or machine estate of the nation. The nature of this share or ownership is difficult to define, but it is, and will come to be recognized as, very real.

"Doesn't everyone have the use of a railroad? I have been scornfully asked: "Isn't that giving him his share?"

"Well", I have pursued, "the owners of the railroad have the same privilege, generally free of cost. They expect, in addition, dividends upon their money invested and as much more as they can get."

Now if it were proposed to tax railroad shareholders for money to pay dividends, they would have cause for anxiety. But they are to lose nothing.

Meanwhile let us go on about the share in industries which we feel the common man holds. Somewhat like it, is the claim that we today feel each person has in a public road. Times have been when we allowed certain people to build highways and to charge toll of every person using them. In some ages, society has gone even as far as to allow a powerful baron to seize a ford or a pass, develop it and, of every one who used it, to charge a fee. Today we all feel that no person should be permitted to exercise such a privilege. We resent even a toll bridge. We sense that any traveller whatsoever has complete right to use any essential road with all its parts. We would not call the road his; we would scarcely say that he had a share in it. Yet we concede him a sort of possession, one that yields him rights and benefits.

Similarly, most dispassionate thinkers entertain conceptions and attitudes, that will develop into a definite conviction, that in our machines, plants and great corporations and companies, the common man has inherited a sort of possession which ought to give him rights and benefits from their activities. To such a view we find ourselves with a peculiar cogency impelled, when we reflect that to protect such interests, the whole citizenry was in the Great War called, and may at any moment again be called, to unutterable sacrifices.

Socialistic minds call for public possession and administration. So far as that, we need not go. All that is necessary is that the *output* of our means of production shall be monetized, or turned into dollars, into purchasing power. This the State can do through creating, or causing to be created, debt-free, largely interest-free mediums of exchange (tags, tickets, dollars). From the sum so built up, the State can pay out dollars, as a monthly dividend, thereby enabling every recipient to draw upon his shares inherited in his country's industrial equipment. Such clearly is not something for nothing.

Stronger still becomes out instinctive demand for some such compensation, when we see machines and companies taking away from men the privilege of working. When we see the combine displace a dozen men in the wheatfield, our very souls cry out in a vague impotent sort of way: "The machines ought to support the men they dispossess! The wheat is being produced in greater abundance than ever. Should not all this bread-stuff give a living to as many people as it once did? The machines have got to do something about it!"

But how? Clearly the farmer-owner of the tractor, the combine, cannot contribute. He is himself a victim of the machine. While it renders his work easier, more interesting, pleasant, productive of goods, it greatly adds to his worries, his overhead, his risks. There is but scant evidence that, on a whole, machines have enlarged the farmer's profits. Well, then can the manufacturer contribute? Judging from the astonishing advances he has made in his prices during the last 30 years; and from his voluble defences of his actions, one would conclude that he could not. Who can, then? No one can!

There is only one harmless way of turning the machines from monsters into ministrants, from bane into blessing. Let their production bless mankind. Monetize[1] the wheat, flour, bread. Then distribute the resultant dollars as dividends. Doing so, the State will at the same time, provide *livings* and *markets*. In the face of realities, actual and rapidly pressing upon us, the "something for nothing" propaganda appears contemptibly cheap.

"Well", persist opponents of reform, "you'll utterly ruin people, giving them money. How will you ever get them to work? Men have to be disciplined. Otherwise they won't produce enough goods to feed the population."

Such doleful possibilities as these we must examine. So a dividend would ruin people, would it?

(1) Monetize means turn into money. The state will monetize goods by creating money to represent those goods.

Suppose, now, that each citizen of Toronto were suddenly to fall heir to $10,000 a year for life. Would there be a day of mourning for the good city's moral destruction? How Canadian newspapers blaze, when several Canadians win in the Irish sweepstakes! Are we to believe that the rejoicing is because several of our fellows have been ruined? If you were among our hypothetical fortunate Torontonians, would you fear for your own safety? You would risk your own ruin, readily enough! Then why worry about our neighbor's future? He is at least nearly as well equipped with sense, as we are — likewise with moral stamina!

When we gave generous pensions to a few fortunate servicemen, did we do so to ruin them? Do we regret when an officer, having served well his time, is pensioned off? The children of the well-to-do, do we really ever feel anxiety over their careers? Rather do we not "cow-tow" to them, feel flattered when our children are noticed by them! Do we feel as much at ease, if youths of moderate financial prospects seek or daughters' hands?

The matter of ruination, look at from another angle. Imagine that every person in Montreal were to be offered a raise of $20 per month in his income. Would anyone within that city or without it, be exercised over its morals? Perish the thought! A dividend of $20 a month would but add that amount to the incomes of the employed. To the pittance of the unemployed it would most likely add somewhat less than that. Who can see any possible harm to anybody? Business would at once so pick up, that great numbers, now jobless, would soon find work.

"But", urge the opponents, "they wouldn't take the jobs". Well, would you? Picture yourself, unemployed, with a present stipend of, say $20 a month. You receive a dividend of $20 a month raising your income to $40 a month (provided the relief officers are complacent). Would you accept a job at $30 a month, which together with your dividend, would yield you $50 a month? If you would not, you are surely a queer creature!

Did you ever see a person, getting even $150 a month, who, all other things being equal, would not put forth real additional effort in order to obtain a $10 a month raise? If so, please send me the details, I am interested in human oddities.

One of the trying and ever-present vexations relief officers encounter, is the relief recipient who devises ingenious ways of gaining a few dollars on the side, often through very great personal effort. Government officials are often literally beset by men who, even receiving pensions, are seeking jobs through which they might derive more income. In fact, real injustice appears to arise this very moment because certain men with substantial war pensions have been given government positions, commanding additional substantial salaries. Virtually all practical experience indicates that, the more a person gets, the more he wants. This deep seated desire can be safely counted upon to urge most people to seek to obtain and retain jobs, regardless of dividends. The contention that a dividend would make men lazy, may be safely dismissed as the result of ignorance, prejudice, or even downright hypocrisy.

Doubtless there exist people, broken by bitter experience, who have given up the struggle. What do we do with them now? The present system cannot make them work. It has to keep them. A system characterized by dividends would hardly do worse.

Meanwhile how about our youth! You remember when in adolescence, you wished to leave school? Why was it? Was it not because you saw a job beckoning you? And your fellows who left — why did they discontinue? Invariably to go to work! Of the exceptions, most were unable to see what good school would do towards preparing them for the career they wished to follow. All of this goes to show that you, and they, were dreaming of *doing* things — great things in life.

It is so with the youth of today. I have taught hundreds of high-school students and questioned hundreds more. Yet have I to find one who planned a life of idleness. Ask 3rd and 4th year students, as I have done, and you will learn that (a) Many wish to be doctors, nurses, missionaries, aiming to *serve* (b) Others would be inventors, discoverers, writers, (c) Still others aspire to be musicians, dancers, artists and the like. Each, especially if allowed to follow his inclination, will work hard towards his goal. What they want is a real chance to achieve in the field nature fitted them for. Grant them that, and a dividend will but spur them on. Without a dividend, most of them cannot have that real chance.

"You'll never be able to make any reform work until you change human nature. Men are too selfish." This argument has been urged before me by many a good man. The same contention can be raised with equal force against any system, the present one included. Man's selfishness is perverting the economic system right now, bringing it to chaotic injustice with frightful speed. The same cause is not likely to hurt any scheme with moderate dividends, at least not more than it hurts us now.

If we wait for reform until human nature changes, we shall never improve matters. Such people as now either are unselfish, or are changed to be so, very soon, by contact with brutal realities, are forced back to callousness, merely to preserve themselves. Otherwise they are trodden down to the bottom of the heap, there to be despised. Their children observe, reflect and resolve, *not to be unselfish.* Meanwhile reform cannot wait long.

"But how would you get all the dollars back out of circulation? You would soon have so much out, that there would inevitably be inflation". So reflect many earnest minds.

First: Remember the dividend dollars were to be issued, only to the extent that they would be needed to move the surplus goods and service. Thus there was a definite limiting factor.

Then there are a number of means by which unused money — redundant dollars — could and would be cancelled out of circulation.

Vast quantities of purchasing power would go back into banks and into the hands of others who had loaned. Billions of dollars in Canada would be absorbed before our debts were cleared off. Most of that money today would be put away into idleness where so much unused money now reposes.

Each year of production, now, there are created many more debts than are cleared off. Else why does debt grow? Money is borrowed to produce, borrowed to be paid back, with interest. And goods are to be sold at a profit, a profit which comes from nobody knows where.

Let us recall, for a time, the $5000 which we supposed to be loaned for poultry raising. Remember how much of that $5000 went into the hands of various manufacturers who used it to pay back what they had borrowed to produce with? Well, that left only part of the $5000 to buy eggs going on the market. Interest on the loan took back some of it, as well as interest on all the manufacturers' loans. Much of the $5000 would be collected by governments as taxes. Some of it would be saved or hoarded, for it would come into the hands of men who already had more than they needed. Especially will this be the case where machines are displacing men. The result of these causes and others, is that there will not be enough money in the district to pay back the $5000 with interest and the poultryman's profit.

Now when the dividends are paid, they will be used to buy eggs and poultry, among other goods. A considerable portion of them will go, then, to pay back the loan to the bank, to pay interest upon it, to the bank, and to give the poultryman his profit. The same sort of thing will happen with respect to every production or distribution loan.

"Well, then", some will say, "the hoarders of dollars will get so much money that they will spend freely bringing about rise of prices".

What will they spend dollars for? Already most of well-to-do people are using all the goods they need, perhaps all they can. They will hardly purchase more food, clothing, shelter or amusement, or use more services than they now consume. Should they do so, we have a surplus of such goods.

Then what? Will they invest in more factories to fabricate more goods? Should they do so, no one should worry, as just now monied men in America are refusing to spend in new production. They are therefore likely to be so cautious that they will not embark upon any spending spree. If they should, they would very soon be pouring upon the markets (our pile), rich stores of goods. These would duly absorb the money they spent.

Might they spend otherwise? They might invest in securities, that is, in stocks or shares in companies already existing. This practice was largely responsible for the breakdown in 1929. That is a dangerous possibility. But right now, there are lying idle, in banks and elsewhere, enough funds to cause a threatening boom. Speculating is already being guarded against. Further measures can and must be taken to keep it within bounds. Such devices ought to be just as readily conceivable, available and applicable, with dividends going out, as they are at present. There is no convincing evidence to the contrary. The stock market, therefore, need not unduly worry us.

Will wealthy men not speculate in goods themselves, thus causing price disturbance? With dividends assuring markets, that would be a probability. Tendency to this practice will however decrease, as it becomes more vividly realized that we can quickly augment a wide variety of production. In case we had to do so, we could use some of the war measures already proved efficacious. Even now we employ some remedies. Means can be elaborated. Later we shall go into greater detail touching management of prices. Price must be looked after ultimately, even under the existing system.

We have shown where the money can come from for dividends. We have seen that it will not cost anybody anything. We have sketched the great value dividends should have, pouring into Canada's economy. We have stated and met, in some detail, the objections usually urged against dividends. As a means of inducing regular universal circulation of the money — blood stream of the State, there could perhaps be conceived hardly a better than dividends.

In the following chapter we shall outline a supplementary proposal designed to aid further in providing circulation and to assist in managing prices.

CHAPTER XI

CIRCULATION OF MONEY — HOW TO ATTAIN IT SUBSIDIZING SALES

One more definite measure to procure proper circulation, let us now look at:

When a government gives to a producer a certain amount of money to help him cover his expenses, such a sum of money is called a subsidy.

A number of governments in the world have paid subsidies to certain of their industries to enable them to continue producing.

The Canadian Government, in 1938, set the price of wheat at 80 cents. This means a subsidy to all wheat raisers whose grain goes upon the markets at a price below 80 cents.

An important principle is introduced. Why was the price so set? Was it because of political pressure or because of economic policy? To say that Ottawa saw that such managed price was in the best interests of Canada as a whole would be the only fair thing to do. We shall therefore say it.

Why was it best? For two main reasons. A price of 80 cents per bushel saved most farmers from losing heavily on the Year's wheat crop. Thus it encouraged them to raise wheat in greater abundance next year. At the same time it put into the hands of the agriculturists, purchasing power that will enable them to buy the goods of the industrialists. Both of these reasons, in the light of common sense as well as in the light of what we have in former pages said, are sound.

Should Canada proceed now to stabilize somewhat the price of oats, and other coarse grains, of wool, of meats, of potatoes? If not, why not? These questions are in most minds.

Meanwhile a start has been made in Canada. The principle will be widely applied, has been already in other countries widely applied. It should, on purely monetary grounds, rapidly grow in Canada.

The United States, we read, has undertaken, to help market its wheat and flour abroad. Neglecting the actual figures, let us, for simple illustration, assume that what is being sold in that country at 80 cents per bushel and that the price in Liverpool is only 75 cents. The American Government, say, buys all surplus wheat from her farmers at 80 cents. Then it offers that wheat at 70 cents underselling other countries on the world markets. The nation contributes, at this rate, 10 cents, towards the price of every bushel of wheat sold by her farmers. This she does in order to make sales. She is actually buying markets.

She would in so doing, not be the only nation resorting to that and similar practices. The ordinary citizen, when someone mentions government price control, says or thinks, it can't be done. But here is one way in which it manifestly can be done.

There are other ways. One is by duties or tariffs. Everyone knows that Canadians could buy most manufactured goods more cheaply from other countries. Heavy import duties prevent them from doing so, and force them to take Canadian-made articles at much higher prices.

Suppose that, on a machine the tariff adds $10 to the cost as it crosses the border. Then the Dominion Parliament has definitely raised the price of each Canada-made machine of that class, by $10. It has subsidized the Canadian manufacturer to that extent. Who pays the subsidy? All Canadians who buy the machine or the products made with it.

Hundreds of thousands of Canadians are thereby forced to contribute towards a fund from which other Canadians are paid a portion of the price of their product. The process is not so easily seen as that whereby the farmers receive 10 cents extra per bushel, but it is just as real and perhaps much more harmful to the people. It is a form of buying markets. It is a type of price fixing.

Another method of price management is sales-taxing. By this means the price of an article could be raised to any desired height.

An excise tax like the present one cent a pound upon sugar, is another device by which prices could be controlled.

Both excise taxes and sales taxes could be made to help to distribute. If certain articles are left untaxed while other articles are taxed, then the producers and consumers of the taxed articles are being obliged to contribute for the benefit of the producers and consumers of the untaxed articles. That is, some people are constrained to help buy markets for other people.

But to go on with our story, let us revert to the 10 cents a bushel to help wheat abroad. Of course we know that when a government exports wheat it not only sells the goods, but it also helps to make its trade balance favorable. This fact is one of the great incentives for seeking to sell abroad. In this respect foreign sales appear more valuable than domestic sales, as far as the national economy is concerned. Yet for the producers, *internal* selling is just as attractive.

What would be the effect upon the Government and upon the country, if the State contribute 10 cents a bushel to the price of wheat to be sold *inside* the nation? Would it not be *buying* a wheat market?

Then, what if the State went yet further, and paid 1 cent of the price of an eight cent loaf of bread? Would not many a loaf of bread be bought which otherwise would remain unsold? and if the nation going farther, paid 1/8 of the selling price of cakes, doughnuts, pies and other articles made from flour, would not the sale of wheat be much further stimulated?

Authorities might feel that such domestic disposal of goods would be of value greatly inferior to that of foreign marketing. But let them remember that every bit of home consumption is likely to increase, by that amount, the health and vigor of the people. This is one of the major concerns of our age. At any rate, our manufacturers value home markets,[1] it appears! And our Parliament takes pains to protect them. Internal sales are worth having!

Assuming that home consumption is important enough, let us see how best we might subsidize consumption. The State might allow the bread retailer to sell an 8-cent loaf for 7 cents, the Government agreeing to pay the other 1 cent, direct from national funds. The 1 cent could be looked upon as a discount or as a sales subsidy. The 1 cent would then be money put directly into circulation, new money, that did not come out through production or through debt. It would resemble a sales tax reversed.

Anyone will at once recognize that such issues would begin to equip the people to pay off their debts. Such purchasing power would mean a tremendous enhancement to the buying power of the needy. At the same time sellers would greatly benefit.

The effects upon wheat product sales within the country might not be great, since most people contrive to get bread now. But if the same device were adopted with regard to fruit, sugar, meat and other home produced foods, and with respect to various articles of clothing, fuel, furniture, building materials, in fact all ordinary consumable goods of domestic origin, then the quantities consumed would greatly increase. Many an industry at present on part time, would enlarge both its production and its employment.

"Where will the money come from?" Most of it will be state-created, debt free, interest free.

(1) After all, the only real reason why we should produce goods in Canada is (a) that Canadians might consume them or the goods we can trade them abroad for, or (b) that Canadians might pay their debts with goods.

Will it cause inflation? Not if managed as it can be managed. Every cent of either a buying or a selling subsidy will be let forth only in association with goods, *actually being exchanged*. That is, not a cent of it will come out, except where *there are goods and services.*

Again, every dollar expended to aid consumption of our own goods, be it remembered, makes one dollar's worth more of our production (wheat, fish, vegetable, fruit, flour) into suitable justification for issuance of state money as we have shown above.

Every dollar of it, even more certainly than a dollar of dividends, will call into existence more goods, thereby giving further potential justification or support for state money. This we also showed above.

To make sure that production will be increased, we might grant such discount only for consumable goods originated entirely within our territory. We might even go further to impose a special sales tax upon goods imported unnecessarily. Or we might set import quotas.

Those who glimpse the possibilities of a national price discount will wonder how large such a discount might be with safety, and by what mechanism the size of it can be determined. The size must depend upon several factors.

One of these will be: How much consumable goods is the country producing in a year? in 6 months? in 3 months? Another will be: How much of these goods is it consuming during the same period? Again: How much more if its own goods could it and would it consume if its people had the money with which to buy? Furthermore: If its people wish imported goods, does it, or will it create enough of its own goods and services and sell them at such prices and to such countries as will enable it to pay for enough of those desired imported goods, without risking an adverse balance of trade or an adverse balance of payments?

These and several other matters must be taken into consideration, measured and allowed for. In any modern state, highly complex as it is, no principle can be applied simply. Yet that principle in itself might be simple.

The general idea of the method of arriving at the discount might be illustrated by the following:

A careful survey would be taken at regular intervals of, say, every three months. From this survey a sort of national inventory would be made up to show (a) how much goods were produced in the period (b) how much of those were consumed in that period, (c) how much were on hand unsold.

Suppose it were found that $12,000,000 worth were produced and $10,000,000 worth were consumed. This would indicate that $2,000,000 worth had not been consumed, that is, that they were hanging over as a surplus. For this surplus, markets must be bought. The buying internally or domestically will be stimulated by the use of (a) an increased dividend (b) modification of sales subsidies or discounts. Since the goods are actually there, the support of new state money is there, provided they can be sold. The two devices will sell the goods.[1]

The officials would first determine what kinds of goods were a drug on the market. On these they would set a suitable price discount and announce it to be applied over a period of time, say the next three months.

To go into greater detail respecting the subsidies of prices to the producers and the subsidies to consumers to help them buy or to help the retailers to sell, might not be appropriate here. Our purpose is to show that they can both be used as a means of putting into circulation more money. In passing, we have hinted at the way in which they can be used to keep prices at that level which might appear to be in the best interests of the country as a whole; that is, how sales subsidies can ward off inflation.

We shall turn now to discuss, with some thoroughness, the only really serious objection raised by opponents of money expansion. That objection is: Will it not cause inflation?

Note 1. Two possible questions might arise:

I. Suppose the community has both the $2,000,000 worth of goods and the $2,000,000 worth of purchasing power, what then? We would assume that the community had supplied its needs. We would issue no more purchasing power for the time being.

II. Suppose the $2,000,000 worth of goods consists of capital goods (machines, factories, etc.,), would you issue more purchasing power? No. Such goods will be paid for by either investments or special production loans.

CHAPTER XII

Inflation — What is it?

The proposals, thus far set forth, comprise:

First: State creation and issue of debt-free, interest-free money, sufficient to enable the government to bring the national production and consumption up to whatever standard of prosperity and general living conditions the country's resources and the people's will can support.

Second: Loans planned and advanced scientifically under state supervision, such loans to be, long enough, cheap enough, large enough, and widely and wisely placed enough, to enable Canadian producers to originate all the commodities essential to the desired standard of living.

Third: Definite, systematically designed and executed, disbursements of purchasing power, sufficient to equip the consumers to use as many of the surplus goods and services as they need, to give themselves the above-mentioned standard of living; these disbursements to take the form of

(a) Dividends, monthly, to all consumers,

(b) Price compensations consisting of

(i) subsidies to producers to enable them to sell for cost plus a fair profit.

(ii) subsidies to buyers to reduce the costs of living and to encourage them to buy more.

Each of all these devices involves the bringing into existence of new money. Most people have been taught to think that any new money is inflation.

One member of the Canadian House of Commons seriously told me that our money was like vinegar: if we printed a new dollar we were in effect adding some water to the vinegar! No amount of reasoning, explanation, illustration or citation of authorities had power to cause him to think one realistic thought about money. Whenever I adduced any evidence too convincing for him, he merely waved his hands about his ears as one warding off hornets. He was utterly opaque.

All persons partaking of his type of mentality, stampede into a species of half hysterical frenzy at the very mention of new dollars. "Inflation!" and they scamper away in a palpitating panic.

What is inflation??

The word is used very loosely even by good writers. On some tongues, it means merely expansion. On others it means something like what caused the German monetary disaster of 1919-23. Some think of it as a rapid increase of currency; some as a great extension of credit. Many believe any kind of state-created dollars to be inflation. Thus, it is obvious, there exists about the matter, much confused thinking. This must be cleared away.

It is my conviction, forced upon me by many experiences, that all honest opponents of increased money facilities, take their stand because of muddled thinking about inflation. Is Government-created money inflation? If so, then Canada's $26,000,000.00 were inflation, as also were all the other dollars printed through the years of Canada's history. So was Sparta's iron money, Guernsey Island's £1 notes and Britain's Bradburys. But none of these was inflation. Many maintain that democratic governments cannot be trusted with issuing money; that, once started they go too far. Yet Canada stopped; so did Sparta, Guernsey Island and Britain.

Most orthodox money thinkers hold that Government-borrowing from banks is the safeguard against extremes. Yet the marks of the famous German inflation were created for and obtained from the Reichsbank.[1]

Many say that money should be issued only "according to the needs of business". What does "needs of business" mean? What kind of "needs"? Was not the pouring out of marks in Germany "according to the needs of businesss"? Was not the colossal inflation of the United States in 1929 a response to those needs? Again, what kind of business? Speculation on stock markets? Confusion? Yes! Plenty of it!

The Funk and Wagnalls Dictionary defines Inflation as: "Undue expansion or increase from overissue; — said of currency". (U. S.)

(1) See Sir Norman Angell's "Story of Money" p. 335 quoting the Times and the Daily Mail correspondents July 25, 26th, 1923.

The important word in this definition is *undue.* At what point does an issue become undue? It is *that point at which there are more dollars coming into the markets to buy, than there are goods and services for them to buy without rise in prices.**

As soon as there are too many dollars for the goods, there results *rise in prices.* Unless there is rise of prices, there is no inflation.

Plenty of people will challenge my definition. But let those people more accurately, consistently, and realistically define the expression.

All through these pages we have elaborated this definition. It can be supported by every recorded monetary experience of mankind, so far brought to my attention. Great numbers of most reputable authorities, especially those writing during the last six years, convey the same idea.

For instance: Paul Einzig in "World Finance Since 1914", published 1935, on page 17, tells us definitely that the more advanced definitions of inflation allow for changes in real wealth, and proceeds to state that if the volume of currency and credit is increased, and the volume of real wealth increases in the same proportion then there is no reason why the new purchasing power should cause an inflationary effect. His words are specific to the effect that only when the added currency and credit exceeds the added production of goods and services (real wealth) do the more advanced define it to be inflationary in character.[1]

Paul H. Douglas, professor of economics of Chicago University in his valuable book, "Controlling Depressions", discusses the possibility of inflation resulting from the creation of additional monetary purchasing power. He points out[2] that many "orthodox" critics assume that when the monetary units are issued they merely increase the money counters for a constant supply of goods, and that the purchasing power units raise the price level therefore, and so diminish the buying power of the units already in use.

He then goes on to show that those orthodox critics have quite gone astray. They have overlooked the great amount of unutilized capital and the many unemployed. The new monetary

(1) "World Finance since 1914," 1935, Paul Einzig p. 17.
(2) Controlling Depressions, 1935, Paul H. Douglas p. 126.
*See Note I at tme end of the chapter.

power would but bring these two together to produce more goods. Thus, added goods come into being at the same time as, and because of, the added dollars. Such increase of prices as results, need not be by anywhere near as great a ratio as the increase of the money supply. The Professor enlarges, later on, upon his statement [1]

Hon. Robert L. Owen, prominent money student of United States, testifying on June 9th, 1937, before a committee of the U. S. Senate said: "Inflation does not occur until maximum employment and production is achieved. If it should occur, the volume of money could be immediately reduced by selling bonds, by sales tax and other taxes, and retiring such excess money from circulation."[2]

Later, in the same evidence, he said: "It is a matter of supreme importance to keep in mind and at all times to remember, that when you double production, it has a tendency to decrease the market price of commodities and thereby to offset the rise in the price of commodities which would take place as a result of expanding the money supply. So long as the expansion of the money supply results in the expansion of employment and increased production of commodities, the one offsets the other. Increasing the money supply will absorb the unemployed until maximum production is achieved."[3]

Later still, appear these words: "And the minute you go beyond the point where you employ all the labor in this country at fair wages for the turnover of their products and services to the country — whenever you go beyond that requirement you are inflating, and when you are down below the normal of full employment, you cannot inflate."[4]

The more one contemplates the thoughts of such writers, the more does he become convinced that when there is a surplus of goods on the market not being readily called for, the creation and issue of money cautiously, will not cause, or be, inflation. And the greater the number of unemployed workers, unutilized means

(1) "Controlling Depressions", Paul H. Douglas, 1935, p. 137.
(2) Hearings of U. S. Senate Committee 1937.
(3) Hearings of U. S. Senate Committee 1937.
(4) Hearings of U. S. Senate Committee 1937.

of production and resources, the safer from inflation will be substantial issues, scientifically calculated.

Our ordinary experiences can help us to appreciate the cause of inflation or rise of prices. Suppose that, with the present money income of Canada, we had a complete failure of the potato crop. What would happen to the price of potatoes? It would rise? Surely. Then suppose we raised twice the normal crop. Then what? Potato prices would fall. Quite so. Suppose now that the failure included butter, milk, cheese, meats, fruits and hay. All those commodities would immediately rise in price. If in all of them our production, without warning, doubled, all their prices would fall. So is it with services. For example: as soon as there is more money seeking harvest hands than there are harvest hands the wages (the prices) of harvest help go up.

Now when there was a crop failure, there was virtually inflation (prices rose); when crops were bountiful there was deflation (prices fell). We have been made accustomed to the law of supply and demand as far as goods are concerned. But very few of us have thought of it as it affected money supply. Yet the value of money also depends upon the quantity of it available to meet the demand for it (the work for it to do in producing, distributing and consuming goods and services).

When we realize these concrete actualities about inflation it ceases to be so mysterious. We see that it can result from several unsuspected causes. Not only might crop failures cause it, but discouragement of producers by unprofitable low prices might also bring it on. (This in passing, is a real danger to America just now).

Let us now consider with some care how inflation may be caused, and indicate how the causes might be guarded against, modified or nullified.

Note I. One well informed monetary reform authority has written: "I would define true inflation as 'an expansion of money supply accompanied by a corresponding or greater rise in prices, thereby maintaining or decreasing purchasing power concurrently with the increased money supply".

CHAPTER XIII

Inflation — What Causes it? War

What causes inflation?

In the last chapter, while seeking to build up for ourselves a satisfactory conception of what inflation is, we touched upon a possible cause of it.

While considering the crop failure cause we conceived that *two few goods for our dollar supply will cause inflation just as readily and certainly as too much money for our gaads supply will.* Whatever, therefore, reduces the goods, while the amount of money continues the same, will produce inflation. *Any occurrence that decreases goods and at the same time increases the money supply will bring on a serious inflation.*

Thus, war may cause inflation.

Many with whom I have spoken seemed to have the notion that war *must* cause inflation, and then be followed by depression; that with these two phenomena war was inevitably associated by some mystical and fatalistic relationship. The three; war, inflation and depression usually go together, but there is nothing mystical, fatalistic or inevitable about their connection.

Imagine a nation with all its population at work producing and consuming, and with the right amount of money at work among its people to keep a good price level. Fancy it more ideally situated still, having resources, industries and general equipment adequate to provide practically all its own needs, at peace.

Now it goes to war.

First: A large number of its very best producers leave their vocations to stand in battle array. Farmers, miners, sugar-makers, shoe-makers, teachers, dentists, carpenters, barbers, away they go. At once developes a deficiency of goods and services. Thus far there are fewer goods and services than dollars. Prices begin to rise. Inflation is commencing.

Second: The soldiers receive more and better food and clothing than they did in civilian life, generally. There is a great drain upon the goods and services producing power of the country. The Government competes with ordinary consumers for the goods. Greater scarcity of goods ensues. Prices rise. Inflation is on.

Third: The Government hires great numbers of people from producing industries and sets them to make munitions. One worker, let us say, is a sugar maker. There is forthwith less sugar. The Government has him make bombs and pays him $5 a day. He has now probably $1 a day more than when he made sugar. He is likely then to wish to buy more candy than before. But there is less sugar being produced since he began making bombs. And so, with *fewer pounds of sugar,* and with *more dollars* to buy sugar, the price of the article rises. And so it is wtih scores of other commodities. Pressure for inflation gathers force.

Meanwhile the Government takes the bombs off and demolishes them against the enemy. To visualize what happens, recall the "Heap" of goods. Really to keep its economy sound, a country needs to see that for every ticket issued into circulation, perhaps three tickets' worth of goods go on the pile. [1] If a dollar goes into active use, and no $3. worth of goods go on the pile,[2] then that $1. might become a factor making for inflation. The Government, destroying the bombs, is putting out at work the $1. and taking away most of the corresponding goods and annihilating them. Every dollar disbursed for munitions, accordingly, is inflationary.

Fourth: A nation at war is usually put to extremities financially. Consequently it will issue paper money or its equivalent without backing,[3] whereas under normal conditions, it would shun such practice. The $26,000,000.00 of Canada, the greenbacks of the United States and the Bradburys of Britain were all created in stress of war. From what we have earlier said, it will be clear that, war time is exactly the time when new money is very likely to be unsound, because at such times, there is less unsold surplus of goods and services, while there are actually already too many dollars. New state money is safer any time, than it is during war. Yet during war, state money is created. Another impetus towards inflation is given.

(1) One who rejects the 'velocity of circulation' theory would say that for every $1 issued one dollar's worth of goods must go on the pile.

(2) See evidence that $1 in circulation increases national income by $3. This fact might justify the conclusion implied herewith. The table is given in chapter 8.

(3) Of course the backing would be the resources of the nation but there would be purchasing power issued without corresponding goods and services for the market. If the financial system reflected the facts in the economic sphere, taxation would rise steeply in war time—for surplus purchasing power issued should be withdrawn by charging the community for the consumption of goods used or destroyed in battle.

Fifth: Normally any nation trades. Much of the raw material which it uses in fabricating its manufactures, the country gets from abroad. Many of its needs it imports, paying for them with its own surplus. During war it is often prevented from carrying on its ordinary exchanges with neighbor nations. Thus its pile of goods is depleted. At the same time its quantity of tickets expands. In every way the stage is set for inflation. It is there; in progress. It requires no further cause. Practically every factor is at work.

Only one more major inflationary influence needs to be mentioned. In order to encourage greatest possible production the banking system lends generously. Hope of high prices reassures it. Much of loans so made, the borrowers are likely to be unable to turn into as much goods as they normally would obtain, this because of higher wages, less efficient workers and the like. And so, abnormal amounts of bank credit go into circulation without being converted into such quantities of goods and services as would, by increasing the possible number of exchanges to be effected, provide a safe support for that augmented dollar supply.

Meanwhile, the Government borrows much money (credit) from the banking system directly. This, according to orthodox gold-mentality ideas, tends to weaken the backing of the people's money. Concurrently the Government floats great loans throughout the country similar to our 'Victory Loan'. Generally the banks are led to offer to lend people the money to buy such bond issues. Thus the state borrows other sums of newly-created credit from the banks indirectly. Again the money is weakened both from a gold standpoint and from a goods and services or 'exchanges-effected' standpoint. Then the nation will probably be obliged to ship abroad a substantial portion of its gold, this to procure indispensable foreign commodities. This perturbs people with a gold mentality.

At such a time any extra issue of money could be inflation. This can be shown by reference to almost every money law or truth we have laid down. Extra money might during war cause inflation, even if that money were solid gold, or the soundest money ever used by man, let it come from domestic bank, private, national, or central; from foreign bank or government, or from any capitalist; let it be borrowed by government or by the strongest financial stalwart, on the best security on earth. It might be surplus money. Its issuance into circulation would then add to an aggregate of dollars already too great for the goods and services available to buy. Such would be inflation pure and simple.

At such a time, Lincoln orders an issue of greenbacks. Of course that, under the circumstances, is inflation. Solid gold would be. Inflation is going forward, impelled by the half-dozen factors already at work. The greenbacks add a slight impetus. Prices go on rising as they would have done, had the greenbacks been Bank of England notes, borrowed. Then ignorant, prejudiced or self-seeking men delude the people and even the Government into the belief that the inflation was all due to the greenbacks!

Having considered some of the various causes which, during war, are at work thrusting a country's economy into inflation, we can safely and emphatically affirm that *state Money* need not be the cause of, or even a seriously contributing cause of, any wartime, or immediately post-war inflation.

What can be done to guard against rise of prices in war? Obviously the chief expedient would be to speed up production of all kinds. Loans for the origination of every class of essential commodity ought to be adequately available at negligible or perhaps negative interest, and for long periods of time. Remunerative prices for all such products; e.g. wool, sugar, wheat, meat, ought to be instantly determined and guaranteed, by subsidy where necessary. Workers skilled in producing any necessity ought to be prevented from leaving their occupation to enlist or to do other kinds of work. Their wages, if need be, should be sufficiently subsidized. The money to be used would be created.

(1) Subtle manipulation by interested people both within the U. S. Government and without, brought about the discrediting of the Greenbacks, according to some authorities. This, together with the factors treated wihin these pages, depreciated those dollars.

CHAPTER XIV

Inflation — What Causes it? Speculation

We now come to a rather elusive cause of inflation—speculation. Of this type of activity there are two particularly pernicious types: security and commodity speculation.

Security Speculation

Dealing in securities or shares is believed by many to have been the main cause of the 1929 collapse in the United States. The process can be understood by considering some simple examples.

There are listed upon the stock market, the shares of a great many companies engaged in mining, manufacturing and other kinds of producing.

When the times begin to look prosperous, men of means, expecting prices to rise, become eager to invest their money in such shares. They bid for the securities on the market, and so cause prices to rise. Then more men become interested and bid. Soon great numbers buy, and a great boom is on. Many buy and sell, making profits. This causes dealers to go into certain kinds of banks and borrow, using shares as security for the loans.

If prospects look especially bright, banks advance freely, building up vast structures of credit with very little real value behind it.

All goes merrily until the most shrewd investors lose confidence and begin to sell. This throws shareholders into a panic. There is a rush to get rid of holdings. Fear increases until no one will buy. Losses assume disastrous proportions; prices fall; values almost disappear. A depression is on.

Such speculation can produce the same sort of calamity any time the circumstances become propitious. It must be controlled. It can be controlled. To that end the United States, in particular, has adopted a number of effective measures. These can be elaborated and added to, as it is found necessary. Some experiments have been made by other countries.

Governments forbade the price of even a commodity, wheat, to rise beyond a certain point during the war. Maximum prices on other commodities should be attainable. These facts suggests that it ought to be feasible to prevent inflation through speculation in securities.

Commodity Speculation

Somewhat similar to gambling in securities is speculation in commodities themselves. Wheat market operations furnish an example. Unquestionably transactions of this kind can be governed. A natural device and a not objectionable, to apply for this purpose would be to see that so many goods are produced that no one would risk putting his money into extensive holdings of goods. As we have previously pointed out, cheap, easy loans under intelligent, informed and purposeful supervision, should bring about almost any desired quantity of production. Only weather and other unmanageable factors such as disease, insects, invasion, etc., could prevent any country like Canada from originating far, far more than she could use, of hundreds of articles.

Remember, prices will rise through *too much money* or through *too few goods*: prices will fall through *too little* money or through *too many* goods. Thus far our governments have aimed to control price levels by manipulating money. From now on, it would appear, governments might be well advised to manipulate goods supply to help control price levels. In this age of speedy production, a potent expedient for regulating speculation might be abundant production, government-induced.

"But," many will object, "you get too many goods and you bring prices down ruinously. Look at Roosevelt's troubles with over-production!"

The answer is: "Roosevelt's troubles, mainly, are with under-consumption. Let him adopt a policy of dividends and prices controlled by subsidy and discount as we have suggested and many of his difficulties will evaporate."

"How if the United States raises more wheat than she can use?" you ask.

At least three remedies are at hand. The first is to set sufficient of his nation's resources to work producing other of his people's needs.

According to a United States inquiry worked out by dietetic experts and agronomists of the U. S. Department of Agriculture, if every person in the U. S. could have a thoroughly adequate diet, it would be necessary to bring under cultivation 40,889,000 acres more than were under cultivation in 1933, or 22,391,000 more than the average under cultivation for the five years 1928-32.

There would have to be an increase of 76% in dairy cattle, 43% in beef cattle, 68% in veal calves, 22% in hogs, 42% in sheep and lambs, 36% in poultry: in acreage raising vegetables

204%, citrus fruits 112%, small fruits 282%. Such an adequate diet would cost per week only $12.75 per family of five but only 21% of the American people can afford it.[1]

A main reason why the United States farmers are not producing as indicated, and the U. S. people are not sufficiently consuming, is that dividends are not being given, and that prices are not being modified as we have suggested. For overproduction of wheat in the United States, here is, for Roosevelt, remedy No. 1.

A second resource at Roosevelt's disposal, might be buying and storing the nation's surplus. This could be done at a certain fixed price, done with national state-created money. Egypt, in Joseph's day, stored wheat for seven years, preparing for a famine. Is it not strange that, with all our civilization and scientific skill, we have not learned how to do a similar thing? Who can know at what moment of time a succession of calamitous failures, widespread, might overtake us? We in Canada have seen in our Prairie Provinces mishaps indicative of what might very easily happen.

How pathetic could easily be our plight! Nations are now storing for war. Why not store for peace, for several years of leanness? Suppose our Government bought in wheat at 80 cts. per bushel and stored it in vast elevators in subterranean cement storehouses. Such wheat could be off the market, sterilized, so to speak in so far as markets are concerned. The idea would be that it would not be for sale unless wheat rose to 85 cts. per bushel, say, on the world market.

Such conserved wheat would remain as backing of the money created and used to buy it with. In a very real sense it would be goods on the nation's "pile". It could be used as an instantly available and effective means of checking price rise, inflation, from whatever cause. The money paid for the wheat would in richly endowed Canada be used to buy better homes, etc. .

A wide variety of commodities are non-perishable (peas, beans, corn, sugar, honey, hay, etc.); numbers more, such as meats, could be bottled, preserved, cured, dried and so on, rendered imperishable and in that condition stored. Clothes, leathers, and

(1) "Your Meals and Your Money", page 152. Hambidge.

many other articles of great intrinsic value offer other possibilities. To this resource against overproduction and wide price fluctuation, Roosevelt could turn.

"You forget," I hear some one ejaculate, "that there would then be great masses of dollars in circulation without the goods available for them to buy. You would cause inflation in prices of other commodities."

Yes, friends. Your point is well taken. But we do not hesitate, in time of war, to lay out vast sums upon armaments, even when we borrow such sums from abroad. These dollars we leave in circulation even after we have destroyed the munitions. Behind the proposed new dollars, there will be all the products we bought and stored. In addition there will be, also great quantities of other goods, called into existence by the expenditure of those dollars in consumption. If, however, there still should appear inflationary tendencies, we could easily tax back the money. Any danger of inflation from expenditures for goods for storage, we can safely dismiss.

A third expedient to which President Roosevelt could resort would be international distribution of his surplus. Suppose that, after buying and saving the nation's surplus for several years, he finds he has enough wheat on his hands to last his people, say, for five years. What shall he do? Will he not ultimately build up a situation that must force wheat prices down? Perhaps. But there always is some people suffering. (think of Spain, China, Czechoslovakia, at time of writing). According to the law of averages there will be plenty of unfortunates to whom the nation could give. There need be no undesirable consequences of abundance.

If America chose, it could merely lend the grain without interest. The understanding would be that the value would someday be repaid. This would be a form of international lending which would be far less harmful than the type we have hitherto known. [1]

If goods loans of this kind were dispensed through some such agency as the Red Cross, it would relieve any downward pressure upon U. S. domestic prices and would be unlikely to exert harmful depressing influence upon world prices. It would clearly relieve overproduction.

Meanwhile the stores of goods on hand would block any tendency to speculation in commodities. We have now discussed two kinds of rise in price, two kinds of speculation — security and commodity speculation. Let us turn now to a consideration of our fourth main cause of inflation: deliberate price manipulation.

(1) Conceivably the day will come and should come, when the surpluses which nations now produce and which could greatly increase ,will be listed by some international agency to form a sort of world "pile".

From such "pile" by means of world tags, issued, for example, by some League of Nations Monetary Committee, less fortunate nations will be permitted to draw their needs throught a kind of "Dividend of Nations".

How else shall we ever be able to overcome the manifest and dangerous injustice from which so-called "have-not" nations like Germany, Italy, Japan are suffering, because they have insufficient resources; while we English-speaking nations have more than we can use?

Why should Canada, blessed, beyond her possible need, with coal, while Italy has to import much coal annually — why should Canada keep that coal away from Italy? Have not children born in Italy a right to the good things of the earth? Until we perfect some means of adjusting such glaring inequities, what right have we to expect Italy to remian peaceful?

Let us try to assume Italian eyes for a moment, and look across the Atlantic. See the United States and Canada, limiting production or wasting goods, while we feel the pinch of deficiency. If Anglo-Saxons do not contrive a method by which they can allow other peoples to enjoy the fruit of our riches without possessing our resources, then we must look that our arms and our walls be strong, and shrink not from a periodical blood bath!

CHAPTER XV

INFLATION—WHAT CAUSES IT? PRICE MANIPULATION

We have studied three causes of inflation; war and two classes of speculation.

In the case of war, discussed in chapter thirteen, there developed a genuine scarcity of goods and services.

In the case of speculation, there is not necessarily a genuine scarcity.

Between the two kinds of phenomenon, there is clearly a distinct difference.

In war there comes to be *real* shortage, an *actual* surplus of money: in speculation there is brought about an *artificial* shortage with only an *apparent* surplus of money.

We can visualize this difference if we recall the irrigation illustration. Suppose a farmer has enough water to moisten adequately 100 acres of potatoes. His hired man, inexperienced, puts the whole supply upon 20 acres, or even half the allotment on the 20 acres.

The luckless potatoes upon the 20 acres will be drenched and seriously harmed; the other potatoes will suffer from lack of moisture. There is inflation of water on the twenty, deflation on the eighty. There is not too much water, there are not too few acres or potatoes. There is only an apparent surplus of water.

In the cases of speculation the money (water) is concentrated in too small an area. Prices in that area (securities of certain kinds, and commodities of particular sorts) rise unjustifiably, as in 1929, and may fall disastrously afterwards.

The solution of war-inflation problems lies mainly in appropriately increasing production. The remedy for speculation — induced inflations consists in controlling effectively the men who are causing the trouble, the speculators.

Speculation is often used as a species of price manipulation. Many a time a group of men have bought heavily in wheat, for example, and so run the price up on the market. Then they have sold, winning considerable profit. Danger of this kind of price control is ever present when commodities are bought and sold on the open markets. It is deliberate artificial price management.

Price manipulation of another sort is the subject of this chapter.

During the forty years just passed we have known many a time, certain groups of people to get together and agree to cooperate to demand a set price for their goods or their services. Barbers, generally, charge 35 cts. for a hair cut. No matter how many barbers there may be; no matter how few customers present themselves; that is, no matter how great the supply or how small the demand, the price remains the same. Into such a sheltered position, several classes of workers (sellers of services) had, before 1929, succeeded in placing themselves. Doctors, lawyers, dentists, railwaymen are a few examples. Such workers had in some measure overcome the so-called law of supply and demand. They were in a small way managing prices.

For them the arrangement was profitable. But vast numbers of workers were unable so to cooperate as to stabilize their wage rates. A common laborer digging ditches might receive $2. per day one year, $4. per day another year, $3. per day another year. Yet he had to pay 35 cts. for a hair-cut all through each of these three varying years, and two dollars for a tooth extraction whether, to pay for the few minutes of the dentist's time, it required a whole day of his labor or only half of it. The laborer's pay depended upon the supply and demand, the barber's and dentist's depended not so directly. For the unsheltered seller of service, the rate-fixing mechanism was hurtful.

What barbers did on a small scale, some organizers have done on a big scale.

Agricultural implement makers, for example, between 1929 and 1933 in America, cut down their production 80, thereby preventing the price of implements from falling more than 6*. They limited out-put deliberately, it appears. They estimated the number of dollars that would call for implements. There was no measure available to them by which they could increase the number of those dollars (the effective demand). They refused to manufacture machines and sell them at a loss or at negligible profit. They therefore cut production to fit effective demand.

What they did was conscious price manipulation. In the last chapter we suggested that a state could prevent price rise by inducing abundant production, buying it with State money, storing it and holding it for use when needed. The implement Companies prevented too great price fall by just the opposite device —restricting production.

Because they were few in number and financially powerful, they were able to get together for their own good. And limiting output was not, apparently, the only measure they took. They almost certainly decided to refuse to sell below an agreed-upon minimum figure. Recent years have seen Canadian implement makers advance their prices against the will of the whole agricultural population of Canada, against the determined opposition of a great body of Members of Parliament, perhaps against the opposition of the Government at Ottawa. Prices of agricultural machinery are presumably, therefore, controlled not by the Government, but *in spite* of the Government. The rise in price in

*Gardiner C. Means, Columbia University, "Industrial Prices and their Inflexibility" quoted in "Controlling Depressions" p. 63.

this instance is not because of any just grounds for inflation, yet it is inflationary. Price manipulation is to blame.

Such is one side of the picture; the other side of it also is worth noticing. While manufacturers of many articles were able to shelter their prices the farmers were utterly shelterless. While agricultural implement makers limited their output 80 and suffered a drop in price of only 6, the farmers during the same period (1929-1933) were able to reduce their output only six, and their prices fell 63* with devastating consequences. Machine Companies were able to induce inflationary effects in their prices; farmers were forced to endure deflationary effects upon theirs.

To grasp some notion of how terribly pernicious can be the power of groups in a country to manipulate prices in their own interests, all we need to do is to read the report of the Price Spreads Commission under Hon. H. H. Stevens. To see how threatening is the power, let us reflect how little any Canadian government has done about the outrages, in that report revealed.

During times of depression, these groups of sheltered manipulators can force up prices only so far. Going beyond a certain point, scarcity of sales halts them. But the moment any attempt is made to put into circulation additional purchasing power, they stand ready to lift the price level to absorb a lion's share of available dollars. Incidentally, they contribute potentially to the causes acting towards inflation. Even for war-time cost advances, they are greatly responsible. Until sufficient controls are brought to bear upon these gentlemen, no sound economy can exist.

What can be done about this cause of inflation? Governments have already begun to set minimum wage scales by law. Control of prices must come.

"Regimentation!", exploded one prominent Canadian, when I set forth in his presence what I am about to write.

"Well", I rejoined, "you have regimentation now. Big business is regimenting. The strong everywhere are regimenting the weak. You never seem to worry about that. Private interests tell the primary producer (farmer, fisherman, etc.) what he shall pay for what he buys. The same type of gentlemen manipulate

*"Industrial Prices and their Inflexibility" Gardiner C. Means. See "Controlling Depression" p. 63.

matters so that they also determine what he shall get for what he sells. That means they decide whether or not and how he shall live. Can there be more cast-iron regimentation? Who rules the bulk of Canadians? Does their Government? Hardly! Well it's about time the governments of this country took over the governing! You are straining at gnats and swallowing camels!"

How can governments control prices? They can so motivate those that now control prices that those gentlemen will remember someone besides themselves Any governing body applying the suggestions I have herein made, will have, at its command, two powerful agents of persuasion.

Imagine that the dividend principle and the policy of subsidizing selling and buying are both in operation.

Suppose that the Government has just announced a new low-cost housing scheme. A Lumber Company at once raises its prices. The news reaches the Minister in charge. He immediately investigates and satisfies himself that the raise is not justified. He at once informs the Company that its former price must be restored[1] by a certain date.

The Company procrastinates or demurs. The appropriate officer promptly rules that, until the objectionable price advance has been abolished, no employer or employee connected with that company shall receive any further dividend. The Government has been granting the individuals concerned a privilege. It is completely within its rights if it withholds that privilege. Yet such withdrawal of favors would, I surmise, exercise a modifying influence upon the Company's behavior.

An equally effective argument would be to threaten to suspend the sales subsidy upon the offending Company's products, and also the consumer's discount, as long as the Company should persist in disregarding the Minister's request. A combination of discontinuation of dividends and of withhholding of sales adjustments, would, I fancy, be quite irresistible. The Company, any company, would fall into line. There would be no trials, no punishments, no expense—just cogent pressure. Fear of inflation through price manipulation need not deter us.

(1) Such strong measures as indicated the writer does not propose. Less objectionable and less bureaucratic methods would likely suffice. These are mentioned merely to show the power at the disposal of a state weilding a money technique.

CHAPTER XVI

Inflation—What Causes It? Bankers

As we approach the fifth major cause of inflation we turn our attention to the great ever present cause — Bankers and their privilege of creating cheque-book money, their power to expand our currency ten to one.

On March 8th, 1938, in the Canadian House of Commons, the Hon. C. A. Dunning, speaking in reply to the motion of want of confidence in the Government, moved on that day, mentioned and emphasized this factor.

Mr. Walter Tucker, M. P. for Rosthern, had proposed in a previous session, that new Bank of Canada bills should be printed backed by the gold in the bank's possession, and that these bills should be used "to finance the construction of highways, irrigation projects and other public works." Mr. Dunning estimated that on Jan. 18th, the maximum amount of notes the Bank of Canada could have legally issued, if it had followed Mr. Tucker's suggestion, would have been about $351,000,000.[1]

Mr. Dunning then went on to say that, "Whatever medium be used for issuing the new currency or credit, such as the proposed one of financing the construction of public works, the central bank's notes would be immediately deposited with the chartered banks. An increase of, say, $350,000,000. in chartered bank holdings of Bank of Canada notes would increase their cash reserves from the present figure of about $250,000,000. to $600,000,000. and their cash ratio from about ten percent to roughly twenty-one percent".[2]

He then went on to say; "If the banks use their increased cash in the normal way, as a basis for the extension of roughly ten times as much in loans to the public, or for the acquisition of ten times as much in investments, bank deposits would expand by approximately an equal amount, until the cash ratio was brought down again to approximately ten percent. This would mean an increase in bank deposits from the present level of about $2,387,000,000. to something like $6,000,000,000. or more than 2.6

[1]Revised Hansard, March 8th, 1938, page 1151, Col. 1.
[2]Revised Hansard, March 8th, 1938, page 1151, Col. 1.

times the level of Dec. 31st, 1929. Am I merely old-fashioned or orthodox, when I say that this would mean a colossal measure of inflation?"[3]

This quotation proves beyond hope of refutation, in the words of the Finance Minister of Canada, that the chartered banks of Canada, granted sufficient customers seeking loans, can and do create ten dollars of bank credit against every Bank of Canada dollar in their possession.

It testifies, too, that the power in the chartered banks, to create this ten to one expansion is a cause of inflation, — a cause that he greatly fears.

In as much as we have touched upon this power several times already, and have hinted at the manner in which it can be abused, we shall consider our case against it as established.

Our attention during the remainder of this chapter, let us direct to how we might manage our banks and their power so as to derive benefit but avoid harm.

Mr. Dunning was afraid, apparently, to direct the Bank to create $351,000,000. Were his fears justified? Unless there are controlling factors, his fears are justified.

Are there suitable measures of restraint? Can those measures be applied?

First— let us point out that in these pages, we have not advocated that newly-created bills should be used as Mr. Tucker had suggested they be used, that is, to pay for public works.

Create the bills, yes. But by suitable technique, render them easily and cheaply available to the banks to be used as basis for ten to one expansion of credit first to be loaned for producing goods.

Let it never for one instant be forgotten, that if a country first induces the production within its borders, of enough goods and services to be exchanged, then that country has removed the greatest cause for worry about inflation. Then safely much money may be liberated into its business channels.

Suppose, now, that the Finance Minister dealt with the $351,000,000. in accordance with the suggestions we have made. That sum would be appropriately disposed, throughout Canada, wherever it seemed wise to put it to work.

[3]Revised Hansard, March 8th, 1938, p. 1151, col. 2.

Suppose one half of it were used to pay off government debt, to buy government bonds held within Canada. For illustration's sake, imagine that 180 millions be devoted to that purpose, 100 million being set aside to reduce Dominion outstanding debt and 80 millions being apportioned upon a per capita basis to the nine provinces to be used by them to retire part of their indebtedness.

This would leave us 171 millions. 71 millions of this it might be wise under present circumstances, to invest in Canadian gold to increase the gold holdings[1] of our central bank. The remaining 100 millions, let us dispose to increase Canada's production of goods and services. This we should do in cooperation with the provinces.

We might use one half of the sum, or 50 millions, as a Federal Government, and allot the other fifty to the provinces on the basis of population. Quebec having 3,135,000 of our 11,120,000 estimated[4] population would receive, for example, 3135/11120 of $50,000,000. or $14,000,000.; Alberta, with 778,000 would receive 778/11120 of 50 or roughly 3½ million.

Now let us take up the Federal Government's task. It has 50 million dollars in Bank of Canada bills. These on the basis of ten to one, will yield $500,000,000. of credit to loan to farmers, lumbermen, manufacturers and others only to increase production of goods and services. Let it be advanced at interest of 2½% or 3%, for example. This, according to figures cited by Hon. Robert L. Owen, might increase Canada's national income three times $500,000,000. or 1½ billion dollars.

The amount of improvement to our economy should be very great. Numbers of unemployed should be provided jobs; many of them would establish themselves independently. Great additions to our goods and services store should augment very much the people's use for money. Business should pick up gratifyingly. Federal and Provincial revenues ought to become more buoyant.

Meanwhile the other fifty millions in the hands of the provinces will have been used as $500,000,000. in very much the same

[4]Canada Year Book 1938, p. 155.

(1) Of course gold is not necessary. But during a transition stage, men of gold mentality would feel safer with a substantial supply of gold on hand.

manner and with much the same results as those outlined for the Dominion's fifty million.

Thus would $1,000,000,000. of credit created for production loans, be liberated into circulation under Dominion and Provincial supervision.

Now let us return to the problem which at first confronted us, that of using the $351,000,000. of new Bank of Canada bills without having them produce a dangerous inflation. One hundred million of the dollars have already been expanded ten to one and should have resulted in greatly enhancing expansion of goods and services. We must assume that the other $251,000,000, have gone into the banks, there to form the basis for $251,000,000. of credit structure. What will happen?

Will the chartered banks at once expand the $251,000,000. ten to one?

Can they do it? Can they find suitable borrowers willing to borrow? Can they find suitable securities that they could buy? Only to grant loans or to buy securities can banks make up the credit money with which to create deposits.[5] Even today, apparently, the banks are having plenty of trouble finding acceptable calls for their money. We hear constantly the statement, "There's plenty of money around! The banks are full of it!"

Why then do the banks not loan it? In another place we discussed this matter at some length. Briefly, borrowing is restricted because (a) there is not, in the hands of possible borrowers, sufficient security clear of mortgage, debt, etc., to guarantee repayment. (b) there are not enough markets at profitable prices to assure the potential borrower that he will be able to pay back the loan and still make money by the transaction. The result is that in both Canada and the United States, is manifest more and more the tendency to grant only government loans.

If the banks cannot satisfactorily put into action the $2,387,000,000 they now have on hand, how could they possibly employ $6,000,000,000.?

Would even the whole $351,000,000. of new money themselves, if spent for public works, cause an inflationary rise in

[5]Macmillan Committee on Finance and Industry Report, 1931, p. 34. "But the bulk of deposits etc."

prices? Well, suppose the Canadian wheat crop this year had been 351,000,000 bushels greater than it was, and that we could have sold every bushel of it directly to the United States for one dollar a bushel clear. Would the new dollars obtained cause an undesirable rise in Canadian prices? Would any Canadian from coast to coast be worrying about it or have cause to worry? Of course not!

"Oh but!" someone interjects, "Canada would then obtain the $351,000,000. in U.S. goods and services. The money would not be surplus!"

True. But, if it were possible for the United States to send us one-dollar-gold-pieces, would any Canadian worry? Not at all! Why? Because we know that in Canada there are far more goods and services (clothes, breakfast food, machinery, fruit, coal, meat, etc.) than enough to absorb every dollar of it without disturbance of our price structure.

Twice $351,000,000. could be utilized by the people of Western Canada, alone, I fancy. And no inflationary rise in prices need follow.

What would happen if the chartered banks were able to find borrowers and securities? What then could be done to prevent inflation?

Leadership by the Government and wise direction in the placing of loans — cooperation — between Department of Finance and the Banking system to achieve maximum well-being for Canadians as a whole — should be the first resort. Once embarked on such a policy, the financial institutions would most likely discover a means of profit for themselves, now beyond their happiest dreams.

Should compulsion be necessary, Parliament could pass laws restricting the bank's power to expand credit. It might be ruled that only eight dollars of credit could be created against one dollar, or only six or five. Parliament could even establish a one-hundred-percent system requiring that any bank have a dollar bill behind every dollar loaned. We should then have a scheme somewhat resembling the one that Professor Irving Fisher suggested in his fine book, "100% Money". Of course any change as drastic as this would of necessity be introduced gradually. But the feasure could be taken.

A less disruptive device might be: that the Government itself create and issue the credit, loaning it at rates so low that no bank could compete, unaided. Already in our post-office savings banks we have the frame-work for an elaborate credit-creating structure.[6] The Canadian people can be supreme.

In passing, we might, with advantage, suggest that by a bit of astute management the Minister of Finance could probably contrive to issue the $351,000,000. through our post offices, and cause a very large portion of the new dollars to come back into and remain in, Canadian postal savings banks. Where the will exists, the way can be found.

The anxiety about the tremendous potential credit expansion would then become unfounded.

How can banks cause inflation? They normally can do so; First: by expanding credit rapidly and lending it for;

(a) Speculation in securities or shares.

(b) Speculation in commodities; e.g. wheat.

Second: By expanding credit and lending it for the creation of goods, the loans issuing so rapidly that the supply of available goods and services cannot absorb the abundant new dollars without rise in prices. (For example; advancing very many dollars to men desiring to go into dairying would induce a great, sudden demand for milch cows, building material, hay, stanchions and the like, resulting in rise of price of all these articles. If expansion took place in scores of diverse industries all at once, then it could originate an inflation.)

In every case, however, such bank money must be *loaned* or it cannot be created — there must be acceptable borrowers.

It should be noted that it is ordinarily contended that *credit cannot be used for capital production. Capital construction, then, such as factories, railroads, mining equipment, would appear to have to be paid for with savings.* If this is so, and to the extent that it is true, banks cannot expand credit for loans for capital construction. This makes it harder for banks to create an inflation by financing production.[7]

[6]Canada Year Book, 1938, p. 735 and 930-31.

[7]We are not pronouncing either for or against the soundness of the contention that bank credit cannot be used for capital construction.

We have in this chapter outlined and summarized the possible ways in which banks, by means of their power to create ten to one and lend the ten, might cause inflation.

We have indicated the conditions which limit the banks in the exercise of this power.

We have suggested how the banks' activities could be further guided, restricted and controlled by the Government. The Finance Department can even displace or supplant the banks in the creation of credit, if need be. As a means of doing so, we named for it the Dominion Post-Office Savings Department.

Throughout much of the chapter we examined the safety or unsafety of issuing substantial sums of Bank of Canada bills and utilizing them for improving the economic conditions of Canada. We found that considerable amounts of such dollars could be with assurance created and with scientific discretion used.

We might with full moderation say that Canada, even printing hundreds of millions of dollars of new paper money, need not fear inflation from her banks. We created our banking system. We support it, not to *govern* us but to *serve*. Let our banks take their place as a public service, and keep it.

CHAPTER XVII

Inflation — What Causes It? Velocity of Circulation?

In the same March 8th speech referred to above, the Minister of Finance broached another possible cause of inflation — velocity of circulation.

Recall our pile of goods and our tickets. At one point we looked upon a ticket (a dollar) as a bird flitting from the pile, to the factory, to the workman, to the shelf of the pile again. If a dollar flew fast enough it might keep two or more spaces empty, you recollect? Well, the speed with which the tickets flitted would be their velocity of circulation, sometimes called their turn-over.

Dollars, some people believe, fly faster during booms than they do during depressions. In calculating the amount of work a given quantity of money might do, the exchanges it can effect, that is, its influence upon prices, we have to allow for this velocity factor. Otherwise inflation may result.

About velocity of circulation, men have learned as yet but little. Every one must grant, therefore, that it is an unpredictable element. The Finance Minister said: "I wish to stress the importance of this turnover factor."[1]

Just what that importance is, no one can accurately appraise, but we must not disregard it. In applying any monetary measure, the Authority must constantly be alert for any perverting influence arising or threatening to arise from turn-over. Careful experimenting will be needful. With all known precautions taken, the authorities must proceed by judicious trial and error. Else we shall stagnate.

At the same time, this turn-over factor could easily be overemphasized. The more men learn about it the less they seem to be perturbed by it. Many well informed appear to think that velocity of circulation is not of major importance.

H. B. Elliston, economics writer for the Christian Science Monitor, in an article in a 1937 issue of that paper, quoted from the Federal Reserve Bulletin of the United States, some important figures bearing upon the question.

Currency outside banks was in 1929, Dec. 31st $3,000,000,000. in that nation.

By June 30th, 1933, it had increased to $4,800,000,000.

By Dec. 31st, 1936, the amount of currency outside had grown to $5,500,000,000.

Demand cheques for the same dates respectively were $22,400,000,000., $14,100,000,000., and $25,100,000,000.

From these figures we see that the demand check deposits (the money in banks that people are writing cheques against, that

[1]Unrevised Hansard, March, 1938, p. 1255. "The amount of money work performed, or, to put it another way, the volume of business transactions effected in money terms, depends not only on the total volume of currency and credit but also on the velocity of circulation of notes and deposits—the number of times the dollar turns over in the course of a year. Too little stress is placed on this velocity factor in most monetary discussions.

Perhaps I can best illustrate its importance by referring to estimates recently published by the Dominion Bureau of Statistics. According to these estimates the velocity of circulation of money (coins; bank notes and Dominion or Bank of Canada Notes) declined from $26.85 in 1929 (this means that the Canadian dollar in the form of notes or coins turned over on the average 26.85 times during the year) to 17.42 in 1932 and then rose to 21.27 in 1936. Bank deposits on the other hand turned over 23.04 times in 1929 and only 14.95 times in 1932, but by 1936, the rate of turnover had increased to 18.26 times. It will be seen immediately how much more important this decline in velocity was in the deflation period 1929-32 than was the decline in volume of credit itself."

(1) Note 1. end of chapter.

is the money that is actually being used in doing the nation's business) fell between 1929 and 1933 over $8,000,000,000.[2] We should have to expect a marked decline in velocity of circulation. And it did fall from 30 in 1929 to 15 in 1933.

Between 1933 and 1936 the demand cheque deposits increased, we notice, from $14,000,000,000. to $25,100,000,000., a total of $11,000,000,000. Thus the fall of eight billions had been fully recovered and three billions more had been added.

If the fall between 1929 and 1933 caused velocity of circulation to shrink from 30 to 15, then should not the rise from 1933 to 1936 cause that factor to expand at least to 30 again? Yet the velocity did not expand — it remained at 15, just where it was at the depth of the Depression.

Here are Mr. Elliston's figures:

Currency outside of banks
- December 31st, 1929 — $3,000,000,000.
- June 30th, 1933 — $4,800,000,000.
- December 31st, 1936 — $5,500,000,000.

Demand cheque deposits.
- December 31st, 1929 — $22,400,000,000.
- June 30th, 1933 — $14,100,000,000.
- Time of writing — $25,100,000,000.
  12% over 1929.

Velocity of circulation of cheque money.
- 1922-1926 was 20.
- 1929 was 30.
- 1933 on, was 15.[3]

Why was there no change in velocity since 1933? This is a perplexing question. For those who greatly stress the importance of velocity it might prove an embarrassing question.

Optimists, at least, would have said that economic conditions in 1936 were farther away from a depression than they were in 1933. Money in circulation had much increased. Besides the growth of demand cheque deposits, the currency outside banks had mounted from 3 billions in 1929 to $5,500,000,000. in 1936, an expansion of $2,500,000,000. Production had unquestionably been augmented. Why had not velocity likewise enlarged?

[2]This loss of $8,000,000,000. caused the depression, the ruinous fall in prices, wages, employment, property values. Over a third of the nation's blood was lost.

Some economists have ventured the suggestion that the United States regulations against speculation in securities halted any tendency to growth of turn-over in money. If that is the case then the hitherto baffling element of velocity can come to be understood and predicted.

One of the main causes of variation of velocity of circulation might be *speculation in securities* and in commodities. Think of the tremendous amounts of cheque money that would likely change hands on any stock market during a day. Stand a few hours in the Winnipeg Exchange watching the excitement and then reflect what must be going on in all the markets of the country taken together. Think of the oil shares, mining shares and numerous others changing hands.

How much wheat will be bought and sold in one year, say, as men buy and sell options, will astonish anyone, the same wheat being sold and resold over and over again, the final result often being that the price of the wheat remains substantially unchanged through weeks. Much of the wheat is virtually paper wheat, we read. Now a large percentage of those exchanges will be counted in when computing the velocity of circulation. Then when one reads in how great a number of commodities there is a futures market, he begin to see a probable major contributing factor governing turn-over.

When one bears in mind that a wheat board can stop speculation in wheat and that a similar body could be selected to control the marketing of each of the other commodities in which futures are now bought and sold, he glimpses how the elusive velocity mischief-maker can perhaps be isolated, experimented with, accounted for and subdued.

Meanwhile need we allow the velocity of circulation threat to scare us? At least one great money authority appears calm in its presence. He is Irving Fisher, for many years Professor of Economics of Yale University. From the works of that world-respected writer on money there is quoted upon page 10 of a pamphlet in my possession the following passage: "The latest and best studies in velocity show that in normal times it varies little; and even in booms and depressions its variations are much smaller

(3) Christian Science Monitor.

than usually supposed, except for speculative transactions."

Desirous of being safe, I wrote to Prof. Fisher before using the quotation, asking him if it were genuine and if he would tell me where to find it. Under date of March 19th, 1938, he wrote to me a letter in which in part he said: "I do not recall where the quotation from me on page 10 came from, and I cannot now at this time make a search, but it correctly states my views."

Already in these pages we have suggested that we believed speculation can be effectively controlled. If the Government neglects to perfect and to apply adequate measures to regulate, and, if found necessary, to eliminate this practice, then that Government is failing in its duty. With speculation in both securities and commodities reduced to order, then, with those two causes of inflation, disturbing fluctuations due to velocity of circulation might also disappear.

We saw that, in the United States, figures indicated velocity had apparently remained constant at 15 since 1933. This fact suggests that, before long, it will cease to vary, just as Prof. Fisher's remarks encourage us to hope it will. Monetary authorities will be able definitely to predict its effect and allow for it

Meanwhile anxieties concerning velocity need not deter us from progressive monetary measures. It is by no means an insurmountable obstacle.[4]

[4]More than a few modern thinkers upon money incline to the view that velocity of circulation is not worthy of serious concern. Cromwell and Czerwonky in their, "In Defense of Capitalism" published 1937, discuss this factor in Chapter II Part I. On page 41 they suggest they will undertake "to prove that the velocity theory is both impracticable and unrealistic."

Note I. Readers are reminded that, as previously pointed out, many monetary reformers dispute that the "velocity of circulation" has any effect on purchasing power. I am, however, taking the orthodox view of money "circulation" and "velocity of circulation" for purposes of inquiry.

CHAPTER XVIII

Inflation — What Causes It? Government Issue?

"Regardless of all other considerations, "contend many practical men, "it simply will not do to trust any democratic government with the power and function of creating and using money. The temptation to abuse the power is too great."

Much can be said for the self-control of democratic governments. Guernsey Island was a democracy when it built its Market

House and issued tens of thousands of £1 notes for other purposes. No body could exercise more solicitous care than apparently did the committee acting for the Island, June 28th, 1826 and March 26th, 1828.[1] Under the Finance Acts of 1914 and 1923 the Canadian Government had very considerable power to issue Canadian bills. Only the $26,000,000, to which we have several times referred, appear to have been printed in a manner to any degree unorthodox. The ritish Treasury Notes (the Bradburys) during the war were managed with the utmost wisdom and self-control right up until they were no longer used. The only grossly unwise thing the Government did with those excellently successful paper money units was to discontinue their use. In creating and using paper money, British democracies, at least, have, whenever they have tried it, succeeded admirably.

The proposals in these pages leave most of the government-created money to be issued through the banking system. Production loans were all to be made according to a carefully and scientifically prepared plan[1] and by the banking system, supported by government-created currency rendered available at need. Those planning, would have to know or at least carefully estimate, the maximum safe amount that could and should be advanced for production at the particular stage in the country's economic development. The best possible obtainable advice would be used. The determination of this amount should certainly be as easy a task as is the fixing of all the tariff rates involved in negotiating a trade treaty as important as the one recently signed between Canada and the United States.[2] And settling the distribution, size and nature of the nation's production loans* for a given year or a given several-year period will before long come to be looked upon as of far greater and more vital moment than the drafting of the average trade treaty. Loans for bringing into existence goods, will affect intimately and essentially every Canadian.

In charge of all matters affecting our money would be a Monetary Committee or Commission. It should be as much above politics as we could contrive to make it. At the same time, it

[1]"The Story of Money", 1929, Sir Norman Angell, p. 267. [2]March 1939.

(1) Of course Government experts will make and determine the plan and will supervise the loaning by the banks. *Note I at end of the chapter.

should be answerable to Parliament and to the provincial legislatures as well. It should have upon it, representatives of the provinces. It should be in touch with an effectively large and ramifying organization of committees and sub-committees to permit sensitive contact with every municipality in Canada. This contact should be at least as active as is that of our judicial and court system. It must be fitted for efficacious advice and supervision.

Some will question the need of such a far-spreading network as I have hinted. The banking system reaches or should reach every hamlet. Wherever banks reach, supervision should also reach. Money is the very blood-stream of the people. Its circulation and quantity are the people's most vital concern. Left to the absolute judgement of the banker, how can these matters be managed in the interests of all? There must be economic democracy.

Some will doubt the practicability of such a scheme. What we have already done with our courts and our schools and our local municipal affairs, why should we not equally well do with our financial and economic system, which, if faulty, will vitiate them all, even as it has done and is now doing, only too appallingly? Financial self-government we must have: financial self-government we can have. Only let us try!

The necessary personnel need not prove imponderably difficult to select or burdensome to pay. In every community there is a head of the town council's finance committee or a similar official. In these times his duties are onerous enough. In the present state of affairs, all he can do is wring by levies and stern collection, every available dollar from the tax-payers under him. He has no way of increasing assessable values or incomes. But if his appointment by his fellow officers, automatically made him chairman of his municipality's advisory committee to its bankers, then, by wise counsel, he might considerably augment his neighborhood's production and consequent income. And his remuneration need not be forbidding! Obstacles can be surmounted.

Let us suppose that a Dominion-provincial joint Monetary Committee has been set-up.

The Central Monetary Authority, having prepared its recommendation, submits them to Parliament. That body debates them and votes upon them just as it now does the estimates annually.

Money is to be issued and used as we have previously repeated, only for two main purposes: production and consumption.

The quantity that may be issued and employed for each of these is limited by certain physical realities.

Take production. There is a certain definitely ascertainable number of commodities which each province can successfully produce (grains, including corn, fruits small or large, meats, vegetables, potatoes, wool, honey, sugar, etc. right through the whole list). No one would think of seeking or granting a loan to raise oranges in Canada, let us say! Now of most of these products, perhaps, we already are producing more than we can buy, or, possibly, than we could and would buy. For our own use, therefore, there is no wisdom in lending to originate any more of any commodity of which we already have enough.

Of some we do not now raise all we need. Sugar beets to manufacture sugar might be mentioned. Honey also could be listed. Advances to increase our output of such as these, would be worth consideration.

Certain of these items we might be able to trade away if we could produce more of them. Very well! Would-be borrowers to turn out such commodities we could entertain.

Other goods, such as select hogs, we might be able to market in greater quantities if we could raise our standard of quality or if we could provide a more sustained supply. Loans to improve quality or steadiness of output would be eligible.

And so we could go through all possible Canadian products both primary and secondary.[1]

Clearly the amount of loans possible for production can be approximately estimated. It is governed by tangible and measurable physical actualities. The Monetary Committee has or can obtain, facts to guide it. The amount of money to be issued would be definitely limited. Physical realities would limit that amount.

(1) The amount of each possible commodity we would produce, would depend upon the amount of it the consumers, given purchasing power, would demand.

Now take consumption. Dividends and price subsidies or discounts are designed only to move the goods in the markets or coming upon the markets. Referring to our "pile" illustration once more, we would say that purchasing power can be issued only to consume what is available to buy.

Here again the amount of advances that can be made is limited fairly definitely by realities that can be appraised and computed. Of the price subsidies and discounts this is particularly true.

Can we safely trust a democratic government with the function of creating and issuing and employing the people's new money? This question we set out, in this chapter to discuss.

We have thus far pointed out that; first: Governments when they have tried, have managed money rather well; second: the proposals in these pages have safeguarded the money by placing its loans directly in the hands of a supervised banking system; third: the decisions as to the amount and general disposition of the issues would be made by a non political, widely representative Monetary Committee, responsible directly to parliaments; fourth: Parliament must pass all proposed issues just as it does with estimates at present; fifth: the Monetary Committee itself is governed by (a) the amount of production possible and advisable in Canada. (b) the unsold surplus waiting on the markets at the time consumer purchasing power is to be disbursed.

"But," someone says, "I thought you mentioned having the Government apply some of the new money to reduce the national debt or to replace taxation. You haven't shown how that portion is to be safeguarded."

Let us consider that matter now.

As we have previously shown, a dollar is merely a tag, a ticket. It should not be created unless there is a dollar's worth of cow, grain, shawl, butter, eggs or of some other goods for it to represent, for it to transfer, for it to cause to be consumed. Tags (dollars) can be issued only to the extent that there are dollars' worth of goods to be consumed. The number possible is mathematically ascertainable.

Once the dollars are issued they can be,

(a) distributed as dividends to consume with,

(b) used in price adjustments to aid consumption,

(c) used in paying for public works and for other government projects, thereby eliminating taxation,

(d) used in gradually paying off public debt. Once the Monetary Committee has ascertained the amount of production and of consumption in the country, it knows the limits within which money can be issued.

Some new economists argue that all created state money should be utilized only to finance either production or consumption directly.

They contend that if there were $200,000,000, of bills possible, for example, it would be most just to use, say $100,000,000, to finance the output of new goods and services, and the other $100,000,000, as dividends and price adjustments, directly financing consumption and so raising the standard of living.

They point out that if $50,000,000, say, be retained by the Government for paying debts and financing public works, that is the same as taking away $50,000,000 from the people who would otherwise receive that sum as dividends. Thus if the dividend could be $10. per month but, because the Government spent the money, the dividend became only $5. per month, then it is as though there had been levied upon each consumer a direct tax of $5. a month. This amount would constitute an unjust levy if the consumer were receiving only $60. of wages and $10. of dividend. To be fair, perhaps, the whole dividend should be given.

If the State applying our proposals decided to pay out all new money in either production or consumption, then that State's government will have no temptation to misappropriate any of the new money. Worry then need not exist.

If however, the Nation chooses to utilize some of the money, then the sums used will appear in the report of the Monetary Committee. They will likewise be listed in the estimates and be voted upon by Parliament. There then could be adequate check.

Considering all the aspects of the administration of State money as we have in this chapter examined them, it certainly appears that there need be no serious cause of alarm. National creation and management of money can and will be accurately regulated. It need not cause inflation.

That portion of the national dollars which goes to any province will be administered under the provincial Treasurer and his staff, and such other officials as the particular porvince may select. It will be applied as we have already outlined for the Dominion, and will be supervised by the provincial legislatures concerned.

Conceivably all price adjustments might be made by the province. Dividends will almost certainly be advanced through the provinces. Production might be financed by either province or Dominion or both. Enough has been said to suggest the possibilities, also to indicate the safety from inflation. We will now quit the subject of inflation. Let us turn to the needs of business.

Note I. To appreciate the need for direction, think of Canadian wheat. Canada produces far more wheat than Canadians can use, or could be rendered able to use. Now it begins to look as though even the world might not be able to use all it can produce of this commodity. What is to be done about the situation? Would it be wisdom for the Canadian farmer to raise more than he can any way dispose of? He could be producing honey, eggs, cabbage or some other commodity which Canadians might need. How is he to know what to do unless he can be guided by some agency acquainted with the facts? Such an agency would ascertain not only what were the people's needs at a given period but what would most likely be those needs next year.

CHAPTER XIX

THE NEEDS OF BUSINESS — WHAT ARE THEY ?

In his March 8th speech in the House of Commons, the Hon. C. A. Dunnning used the following words: "Obviously the amount of currency to be issued must be determined by the actual needs of business, rather than by any arbitrary ratio to the amount ofgold which is accumulated for diverse purposes".

This was a most genuinely progressive pronouncement. We accept it as accurate and satisfying.

We shall, however, I fancy, place upon the expression an interpretation, slightly wider than that which the speaker intended.

What are the "actual needs of business"? Is currency in Canada to-day being issued in accordance with those needs?

We have noticed the expression, "needs of business" used by various writers who in rather superior tone scoff at the "more money cranks". Especially since the Minister used the words, have they become "good form" in Canada for all 'sane' economic writers. We are, therefore, the more curious to hunt down the real meaning of that expression.

What is business? Webster's Unabridged Dictionary defines the word as "Any particular occupation or employment, engaged in for livelihood, or gain, as agriculture, trade, art, or a profession; e. g. the business of instruction". Again it is defined, "Financial dealings; buying and selling; trade in general; mercantile transactions."

For our purpose, these two definitions are sufficiently complete.

(1) Revised Hansard, 1938, page 1151.

Now what are "needs"? The dictionary just quoted, defines the word thus: "A state that requires supply or relief; pressing occasion for something; necessity; urgent want."

What does the experssion "needs of business" mean? Judging from the use of the words by various writers on economics and money, one might say they mean by it *the amount of money the community as a whole will under a given set of conditions borrow for use in making a livelihood or gain.*

If our definition is accurate, and it is hard to see how it can be inaccurate, then that fact is vastly important.

For what purpose will a community as a whole *borrow* money? There come to one's mind rather readily, five main purposes:

First: Great numbers will borrow money to *produce goods and services.*

Second: Men will borrow *to consume,* as, for instance, to build a house or to use a house.

Third: Many, such as wholesalers, and retailers, seek loans *to distribute* goods.

Fourth: Many will borrow *to protect* goods; e. g., to store them; to insure them.

Finally: They will borrow *to hold* goods as the future markets clearly show.

Such are five business needs.

How much, and when, will business men borrow? Four of the main factors which decide are; interest rates, length of loans, security required, and prices available — demand for goods and services, markets.

Consider, for a moment, the interest rates factor. Suppose it were to be announced generally that loans for investment in agriculture could be had all over Canada at 3% for periods of 1 to 5 years. Would there be demand for those loans? Unquestionably. Probably tremendous sums would be borrowed into circulation from coast to coast. Would this be good for business? a 'need' of business? It would create immediately greatly enhanced demand for goods throughout Canada. To supply these goods much money would be borrowed by manufacturers and distributors even at present rates, but especially if they, too, could obtain it at 3%

Would all this activity be "in accordance with the needs of business"? From whatever viewpoint one looks at it, he must affirm, "It certainly would be in the interest of business". It would stimulate every business in the Dominion.

Now could the Federal Parliament cause such loans at 3% to be granted to agriculture? Could it legislate the interest rate down to 3%? Certainly it could. Could it guarantee against loss, all banks making such loans? Beyond question it could! And could it make good its guarantee by printing and advancing to the lending banks, Canadian one dollar bills? Surely! And could the bills be sound money? No one can prove they would not. They would be the same sort of money as the $26,000,000. Clearly, then, the Canadian Parliament can itself decide what shall be the "needs of business".

Now, turn to the question of the length of time of the loan. Let us suppose you wish to go into fur farming to raise mink for example. Let us assume you need $1,500 to establish yourself economically in the business, and that you are sure that you are an efficient mink manager. Will you borrow the money? Well, if you could get it for only three months, what good would it do you? You need it for at least two years. Now, if the Canadian Government so mismanages that you can borow the $1,500 for only three months, then you will not borrow the money. In other words, our financial manager will say that you do not need the money; your's is not a *need* of business. What nonsense!

Turn a moment now to the matter of security. You are the above-mentioned master of mink raising. Through some vagary of our clumsy economic system, such as, for example, an unforeseen change of tariff, you have been made to lose everything.

The banker whom you approach for your $1,500 demands as security a good life insurance policy, or some other asset. Your only asset lies in your character and in your ability. Can you borrow money on these? Perhaps, but it is doubtful, even although the banker might believe that you could make good. Your inability to furnish security, bars you from borrowing. If matters could be so arranged that you could borrow that $1,500 on your personal note backed by your character and experience; in other words, if the Canadian economy were genuinely concerned about having mink, (real wealth or goods) produced, then your willingness to borrow would immediately become a "need of business". Inasmuch, however, as Canada's main concern just now seems to be, not to develop wealth, but to develop bankers, your "need", Canada's need, is not a "need of business."

Consider now, the question of prices. This time you are a lamb feeder, thoroughly experienced, dependable, with a long record of success. Shall you borrow money to buy and feed lambs? You know that if you could buy lambs, say at 5c a pound, and feed them through a certain period, and sell them at a certain price, you could clear yourself and profit. But you worry about the prices. Markets go up and down. Perhaps just when you are ready to sell, the prices will be down. If you could only be rendered sure that a good quality lamb on a given date would bring a certain definite price, would be guaranteed that price by the Government, what a difference it would make both to you and to the Government. You would borrow. Your business would have "needs" but that price factor bothers you. Also, in our admirable Canadian economy, the Government at any moment might desire to take away your tariff protection in return for a market for automobiles for example! The uncertainty concerning price deters you; you do not borrow. In other words, your business does not have "needs", Canadian bankers would say. And we consider ourselves intelligent!

Each of the above mentioned four factors governing the needs of Canadian business can themselves be immediately and effectively controlled by the Canadian Government. Thus, the Canadian Government can itself determine the needs of business, yet our Finance Minister appeared to consider himself in the matter of money, bound by "the needs of business".

Even with interest rates, length of loans, security and prices available all as they are, is Canada seeing to it that her banks are supplying the *needs* of Canadian business?

Are Canadian *producers* able to get the money (either currency or credit) that they need? Ask any bank manager in Canada if he is loaning the money *needed* by the farming population surrounding his bank. He will, he must, answer "No". [1] He is beset by would-be borrowers ,the very subsistence of many of whom depends upon their being able to get a loan. Hundreds more, having lost hope of being accommodated, approach him no more. Needs of business indeed!

Let him who experienced it, recall the excruciating torture of tens of thousands of producers who pleaded, begged and sometimes wept for advances, for help to save their farms, herds, homes; help to keep them off relief. The tragic story is too painful. "Needs of business"!

Have *consumers* the money they need? To ask is to be foolish! And consumers deficient mean sellers without markets. The wretched housing conditions in our country, an incalculable disgrace to us all, indicate how well our Finance Department is attending to the "needs of business" as regards consumers and sellers.

Can *distributors* get their needs? Their torture was, if anything, greater than that of farmers, and still is. Are Canadians able to store the goods they need to store? Emphatically no!

As a matter of cold fact, the Department is not issuing currency or credit in accordance with the needs of business in Canada. The wretched approximation which we have seen ever since 1929, has been disintegrating the whole structure of Canada, economic, social, and political.

The real needs have been for *more production, more pur-*

(1) Bankers just now are reported to be much more willing to loan than they have been for several years, but tens of thousands who could and would have borrowed in 1929 have been ruined during 1929-35. By whom? Mainly by bankers who refused when men pleaded for loans.

chasing power to buy that production, for *equitable prices.* What we have had is far enough from these.

"Well," someone remonstrates, "what you are talking about is credit—determined by the actual needs of business", rather than currency which the Minister was discussing. The Department of Finance can issue currency only as the Banking System calls for it".

What we are pointing out is this: The Banking System is *not* advancing credit as "determined by the *actual needs* of business." What concerns bankers is what they conceive to be the *needs* of *bankers* — not of *business.*

The banks are bound by certain restrictions, rules of conduct, principles of sound banking practice, laws, which they must observe or fail. They must not fail, for bank failures are bad for everyone. Since bankers are advancing money to business as determined by the needs of the Banking System, evidently they are calling for currency as determined by the needs of bankers. Indisputably, then, the Department of Finance is issuing currency as determined by what it deems to be the needs of bankers.

A quotation from Sir Earnest Harvey [1] would seem to convey to us that the Bank of England assumes that there is plenty of money out among the people as long as businessmen are borrowing all the banks have available. As soon as the banks begin to offer money on the short term market, that fact indicates that they have more money to lend than people will borrow. That means, presumably, that industry has all it *needs!* Business will or can *borrow* no more, therefore, it *needs* no more!

Usage such as this gives to the words "needs of business" a meaning which no ordinary English-speaking person would ever suspect them to have. The expression, therefore, becomes a delusion and a snare, a pretty phrase to make the hearer think the speaker means what he does not mean at all.

It is time to give to "needs" its real meaning.

The Dominion Parliament can change the rules governing banking, change the interest rate to 2% or 3%. The same body

(1) Committee on Finance and Industry (Macmillan) Report 1931, pages 39 and 40.

can modify as many other of the rules of banking as are necessary to enable bankers to supply the real "needs of business" in Canada.

After the modifications suggested are made, soon enough the real needs of business will assert themselves. Demand for credit will grow, demand for currency will greatly grow.

"Impossible"! will burst from reactionary lips. Impossible it once might have been. But impossible it now no longer is. As we have previously pointed out, banks lend not *savings* but newly created *credit*. The backing of that credit is no longer gold but dollar bills. The real backing of dollar bills is no longer gold but Canada's ability to deliver goods and services, as, when, and where, required. Three percent interest or less, longer terms, more generous loans, less security — all are feasible then. Banking can now be carried on definitely for *production*, for *use* as well as for profit. And everybody will be better off — including the banks.

Furthermore, banking can from this time forward be so conducted that it can, as far as may be found needful, finance consumption — advance newly-created credit money to pay dividends, and, beyond that, pay subsidies on prices to producers and discounts on prices to consumers. Beyond peradventure of a doubt, it can be done.

As the Right Hon. Reginald McKenna, chairman of the Midland Bank, England, in an article in the London Times, Jan. 30th, 1936, at page 23; "Additional currency, however, can now be furnished by the authorities, if they choose to exercise their powers, without refernce to the Central Bank's holdings of gold. Thus the nineteenth century, which brought into general use a means of payment hitherto scarcely known outside of London, brought also the machinery whereby it could be subjected to intelligent control."

The money can be had by the authorities. The words just quoted unchallengably establish this. The money, so obtained, can be intelligently controlled.

As far as a country's resources will allow, to procure production as, when, and where, required, adequate to its people's desires; to provide consumers with purchasing power sufficient to distribute those goods, as, and when, and where required — what control can be more intelligent than that? Only such control can be in accord with "the actual needs of business". Let us have it!

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? Any-one, 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.

In early 1815, apparently, it decided to enlarge its Market. On April 12th, 1815, it appointed a committee to consider the question.

The Committee recommended that state £1 notes be issued —£3000 of them.[1]

The design evidently was to have these notes repaid to the government through a sort of tax or levy. This we gather from the following words in the report to the Committee: "Thus, at the end of ten years all the notes would be cancelled and the States would be in possession of an income of £150 per annum, which would be a return to the £3000 spent by them. Looked at from all sides the scheme shows nothing but the greatest advantage for the public and for the States".[2]

The Committee appeared to have the idea that the £3000 could not safely remain out in the hands of the people without causing harm. Hence they resolved to withdraw the notes.

If we only knew what effect those pounds had upon prices it would help us. If there was no rise anywhere then the £3000 could all have been left out and the Market House would have cost the Islanders nothing.

"Hold on there!" remonstrates someone. "Surely you are mistaken. The Guernsey folk had to pay the materials, the food, etc., which were used by the men building that Market House".

Let us reason on the matter. Follow one of the £1 notes. This one, let us say, pays for building stone produced by the Islanders. (These figures of course are purely supposed one.) The Superintendent of the quarry rejoices because he has a market for £1 worth of stone which he might not otherwise have been able to sell. Can anyone seriously argue that the quarry *gave* the stone?—that the Market House *cost* the quarry people the stone? Of course not!

The Superintendent can now hire men to dig out and prepare £1 more of stone. The men have work which they otherwise would not have had. They receive part of the note as pay. Are they *giving* their work? Hardly!

One worker takes his share of the one pound paid for the stone and with it buys some salt for his Guernsey cows; another

(1) For all notes, see end of the chapter.

buys some sugar, another buys a hoe. All of these articles are imported from England let us say. What happens? Guernsey Island, because she has bought from England a few shillings' worth of goods, can now sell England as many more shillings' worth of butter. The buying of £1 worth of stone for the Market House has caused more hoes, sugar, salt and butter to be produced and has found a market for those already on the shelves.

Every penny in the pound unless it is paid for taxes, hoarded or turned into a bank for debt, will go on causing goods to be produced and provinding markets for offered goods. This it will do until it is redeemed or is used as part of the rent on the Market House. Then presumably it will be destroyed.

If a wealthy Lord from England had come to Guernsey directly and had built the Market House with English gold coins imported in his trunk, the gold coins would have acted no differently. If it can be said that the people *gave* milk, butter, vegetables, eggs and building stone to build the Market House with the Guernsey printed £1 notes, then the same must be true of the goods they would have sold for the Lord's gold coins.

No. It is simply not true that the 3000 £1 notes, except as they were redeemed, cost the Guernsey Islanders anything except the paper, the ink and the work of printing. As they were taken back as a yearly due upon the Market House, the due could be looked upon as a levy if one chooses so to look upon it. It could be regarded as interest at 10%. It could be considered a repayment of a debt in ten equal annual instalments.

But the due, levy, interest, repayment, instalment—call it what you will, is unique, it is remarkable in that as soon as you have paid it ten years, the State has, in effect £3000 of money saved up plus the Market House, government-owned and free from debt. Let us examine this phenomenon further.

Suppose you in Canada could go to a building loan association and obtain $3000 with which to build a house. You get it on such terms that you agree to repay the loan at 10% a year for 10 years—$300 a year, $25 a month: good rent for a $3000 dwelling. Your $25 a month includes interest and principal; it is therefore very moderate. You keep up your payments the full ten years. Then your house is your own, fully paid for, and the $3000 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 amount. At any rate there appears to have arisen in the minds of the Finance Committee no alarm.

What precautions must we take in our thinking about the Guernsey Island experiment? Had the Finance Committee actually, as it were, discovered a sort of perpetual and annually growing hoard?

Some argue: "Guernsey Island merely created paper money as most other States have done at certain periods of their history". "Very likely," they continue, "the paper pounds merely displaced the gold pounds or other money which had been previously circulating."

This may be true. There seems to be on record no convincing evidence one way or the other. Let us assume that the former pounds *were* displaced. Was there still an advantage to Guernsey? Surely there was. All of the money that disappeared was borrowed either by the Government or by the people. Interest upon it was going to the lenders, increasing their wealth and decreasing that of the people as a whole. The national pounds were not debt. If interest was paid to the Government for them, that interest, as we have already shown, became virtually savings to build up a fund.

Suppose that the total active amount of money in the Island in 1815 was £60,000. According to the theory of displacement now under discussion, when the £3,000 were issued, they caused an equal amount of that £60,000 to retire, leaving £57,000 of borrowed and £3,000 of State debt-free money. The pounds in service continue to total £60,000. There will then obviously be no inflation, as some orthodox economists employ the word. The Guernsey people, even then, were saving themselves wasteful interest—that upon £3,000.

Next suppose that the need for money was great enough in 1815 to enable the people to use (in effecting exchanges) £70,000, but that there were out only £60,000, then one of two things might have happened: (a) The £3,000 might have added to the total circulating media bringing it up to £63,000. (b) The £3,000 might have replaced £3,000 of the former money leaving only £60,000 as discussed in the next preceding paragraph.

In the case of (a) there still could be no inflation as the community yet lacked £7,000 of having enough. In the case of (b) the people were short £10,000. The States, if they knew about it, could have gone on safely to issue £7,000 more in (a), or £10,000 more in (b). In both situations there would be no rise in prices unless there was a sudden demand for some commodity of which there was insufficient supply. As the Notes were used, this was unlikely.

Now if the £3,000 added to the Island's money supply, making it £63,000, that enhanced amount would tend to provoke new production. This might so enlarge the Island's "pile" that it could then use for exchanges £71,000. Clearly the Finance Committee by that time would be secure in printing £8,000 of Notes and using them for any purpose.

It is noteworthy that most issues were made to increase the capacity of the community to render services. Thus a Market House, Elizabeth's College, Parochial Schools, improvements in the Rue de la Fontaine, figure prominently among the facilities produced or improved. These all added to the Island's "pile"of goods and services and so widened its potentialities for effecting exchanges, thus expanding its actual use for pounds.

Most of the projects employed considerable labor and very likely utilized materials which the Island produced in sufficiency or could trade for, with commodities such as tomatoes butter or choice cattle of which it had or could produce a surplus. Thus while human energy and raw materials were brought together to originate real wealth, purchasing power was deeply and widely distributed providing markets, inducing yet more production.

"Well" contend many, "there was nothing mysterious about the Finance Committee's achievement. There was no perpetual and increasing hoard. Once the Island fully replaced its £60,000 of gold, silver, banknotes, foreign currency or bank credit, the game was up. It could not be repeated. The horn of plenty was run dry".

This contention requires careful examination. Through just such crevices errors creep in.

Let us imagine that the new Guernsey pounds displaced a good many of the former pounds, say £30,000 of them. Then there would be presumably £30,000 of earlier money, plus £30,000 of States Notes or £60,000 altogether. Then assume that issues continued, ten thousand further bringing the total up to £70,000.

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 un-utilized, 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.

CHAPTER XXI

SOME PAPER MONEY EXPERIENCES—THE GERMAN INFLATION

The Story of Germany's post-war money experience is being used in season and out of season as a "bogey-man" to scare everybody who attempts to talk progressively about money. Most bogey-men, closely examined, prove to be quite harmless, or at least, quite manageable. Things that terrify us, usually, when understood, lose their terror.

What of Germany's inflation? Can it also be shorn of its terror? Let us see.

We have laid down often enough the truth that inflation is a rise of prices, brought on by having more dollars, marks, pounds, francs, in the markets than there are in those markets goods and services to buy, at a given price level. We shall look for that cause in our German case.

We have used a pile of goods to help us to conceive concretely. Let us use the pile again. Was Germany's heap large enough to use the marks at work in her markets?

During the long exhaustive war, prices had risen greatly in all Western countries, victors, vanquished and neutral. There had been a substantial decrease in the size of the pile of goods in the whole Western World. At the same time the number of tickets had greatly grown. Hence came the rise of prices.

In war a surplus of tickets is prone to develop, as we have already shown. The workmen go off to war. Many factories turn into munition plants. All the while, great quantities of the necessities of life are demanded..

Much money goes into circulation without a corresponding value of goods to exchange with it. Ordinarily if a million dollars are spent among farmers and laborers to produce sugar, for instance, at least a million dollars' worth of sugar goes up on the comunity's goods pile. In war, however, while the dollars are spent, much of the sugar goes into high explosives *never appearing on the shelf* for the dollars to buy.

Let us turn now to Germany.

First: What happened to Germany's supply of tickets? Germany, preparing for the war, collected gold persistently. It is estimated that in July 1914, she had gathered about $1,000,000,000 in gold. Of this $687,000,000 was circulating as coins while $313,000,000 was in bars in the Reichsbank and four smaller banks where it acted as "cover" or backing for the notes these banks might issue.

At the outbreak of war the Reichsbank held in gold bars and coins $344,000,000. This was 66 per cent as much as the notes it had issued.. Circulating in the country were gold coins in excess of $550,000,000 and silver coins to at least the amount of $150,000,000. Germany had also $500,000,000 of bank notes and $48,000,000 of Treasury Notes. These tags therefore, amounted to $700,000,000 of coins and $548,000,000 of notes and Treasury Notes.[1]

Anyone wishing to obtain gold for a note might do so by presenting it at the head offices of the bank. The bank notes were thus convertible.

Such were Germany's pre-war tags. During the struggle changes took place. .

When fighting broke out, convertibility of bank notes and Treasury Notes was suspended. Thus no one could get gold for a Note.

The people, when asked to turn in their gold for paper notes, trustingly did so. Then they used and accepted the notes as if they were gold. No private citizen was allowed to send gold out of Germany.

The paper money which the people accepted, consisted of notes of the Reichsbank and of the Loan Bank. Banks were premitted to take Government Treasury Notes and use them as backing for credit to customers. .

Thus the "paper" circulation of Germany expanded to about five times as great a volume in 1918 as it had in 1914.[2]

All during the war the German Government had held prices down so that they rose to only double what they were in 1914.* Meanwhile, what was happening to their goods supply?

Germany's pile of goods had unquestionably been very greatly diminished, meanwhile. Even if the Nation had been completely self-supporting this would have happened. But Germany, under normal conditions even, required and used great masses of raw materials from abroad. These, the blockade largely stopped. She had gained much profit from turning raw products into manufactured goods and selling these to other countries or trading them for more raw materials. Her exports, the war conditions mainly prevented. She had derived income from carrying goods in her ships; these the war bottled up. She had enjoyed

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[1] All figures here used are drawn from "The Story of Money", p. 348.
[2] See bottom of 173 for Note 1 and *.

$75,000,000 a year as income from foreign investments. This had of course been paid practically in goods. These the war cut off. Bad things were all of these for Germany's "Pile"! They seriously depleted it.

Now let us suppose that, in 1914, the number of tags or marks Germany had was the right number for her Pile of goods. Then clearly the marks she had in 1918 were far too numerous. She was in gravest danger of a ruinous inflation, even if she had not printed another mark, and even if her foes had restored her to her pre-war economic position, with her ships, her colonies, her trade, here resources, her gold and her freedom from debt and reparations obligations.

But there came the treaty of peace. How did it affect her "Pile" of goods? The peace took away Germany's colonies, and her merchant marine; much of her trade and of her territory containing rich resources; it disrupted the Ruhr-Lorraine-Luxembourg industrial unit, her chief asset, economically speaking; cutting down her productive capacity from 11 to 15 per cent.[2] Then it forced her to deliver immense amounts of railway cars, locomotives, chemicals, dyes, coke, coal and agricultural products,° leaving her to support a population relatively very large in a country relatively unproductive and small. Both her store of goods and her means of replenishing that store were therefore greatly reduced. Under the circumstances, to avoid disaster financially she should have begun at once to reduce drastically her circulating supply of marks. It was not to be.

Had she been left alone, perhaps she could not even then have saved her mark. At the close of the war she owed 147,000,000,000, *gold* marks. Of these 58,000,000,000 were "floating;" that is, great sums of it were coming due every few weeks. Such debts, of course, were a steady vexation; they had to be met or dishonored. The other 89,000,000,000 gold marks were "funded" debt, that is, they consisted of war loans somewhat like our own Victory Loan bonds, drawn up to come due, say, 15, 20, 25 years later but bearing heavy interest meanwhile.

How were all these obligations to be met? At the war's end, German taxation could possibly provide for only about one tenth of the floating debt alone. If the present Canadian Government with its "sound financial" views and its boasted orthodox ways (strictly in accord with current banking opinion, apparently) were faced with such a situation, what would it do? What would our Bank of Canada, what would our chartered banks urge it to do?

Would they say "Default!"? "Heaven forbid! Alberta did that!" Even yet the welkin is ringing with the horrified groans of reproach!

Would they say, "Float a domestic loan! Borrow it from your own people!"? Well, the German people had no money to lend.

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1 See "The Story of Money" p. 343. ° See note 3 at end of the chapter.
* See "The Story of Money" p. 343.
2 "Story of Money" page 351.
° "Story of Money" page 352.

Would they say, then, "Float a foreign loan! Borrow abroad!" Unfortunately, to the Germany of those days, hearts and doors abroad were closed.

Would Canadian banks, then advise; "Let the Dominion print new Dominion Notes"? "Inflation!" bursts from a million panic-stricken throats.

Then whatever is the poor Government to do? "Let the Central Bank print the new bills and lend them to the Govrenment, of course!" admonish our sound money men, hard money men, practical, sensible men. Good! That is exactly what Germany did.

The German Government *borrowed*, "*from the Reichsbank*, freshly printed paper notes".* These "were presented for payment".[1] Thus the German inflation was *not* induced with government issued money.

But the Fatherland's conquerors did their bit. The London Conference caused the defeated people to pay 1,000,000,000 gold marks, August 1921; Germans had to pay another 362,000,000 marks in March, 1922, and to Belgium in August 1922 another 254,000,000 marks, making 1,622,000,000 gold marks[2]. Sir Norman Angell expresses the view that this "relaxed" the Government's "grasp on the declining mark". If so, the Allies caused the inflation.

A series of events quite independent of money one would think, drove the mark down like furious body blows.

The mark in July 1921 was worth 1/81 of an American dollar. It stood 81 to the dollar. Blow number one, the assassination of Dr. Walter Rathenau, leading German industrialist and prominent statesman, in June, 1922, staggered the mark down to 1/600 of a dollar; Blow Two, the payment of 362,000,000 marks to the Allies under authority of the Cannes Conference drove the mark, in July, down to 1/670 of a dollar; Blow Three, the payment to Belgium, tumbled the mark in October to 1/4500 of a dollar and it sank, thirty days later to 1/8000; Blow Four, the Reparation Commission's formal decision on January 9th, 1923, to occupy the Ruhr and sever it from Germany until she fulfil the Allies' requirements of her, crushed the mark down to 1/10200 of the dollar, and in July it quivered to 1/1000000[1] of that Unit. It was then, so to speak, "down and out". From that time forward its deterioration was fantastically rapid. Yet our "authorities" say state money caused the inflation!

One more factor making for the degeneration of the mark merits at least passing attention. Into the German mind crept uncertainty touching the mark. At first they thought the rise of prices had nothing to do with their money. But the exchanges began to trouble them. When the blockade was lifted they needed many foreign products of every kind. They therefore imported very much more than they exported. This of course caused the mark to fall in value on the foreign exchange market. Thus there came to be one buying power for the mark in Germany where the price level was more or less controlled; another buying power on the foreign market where there could be no such control. This difference was puzzling and perturbing.[2]

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1 "The Story of Money" page 345.
2 "The Story of Money" page 345 for figures and 344.

Another cause of uneasiness was the distressing loss of the nation's gold. When war broke, as we stated above, the Reichsbank's gold was 66% of its notes in circulation. After the people had surrendered their coins for paper, the grand total of precious metal must have greatly impressed the German mind. But much of that treasure the Government had to send abroad for indispensable imports. This left the paper with uncomfortably scanty "cover", long before the Armistice came. Then when the victors began exacting gold marks by the hundred million, grave concern must have troubled many a patriotic heart. Contemplation of the Fatherland's appalling funded and floating debt must have changed that concern to apprehension. Finally, when, in 1921, was announced the overwhelming reparations total demanded—$33,000,000,000[1]— a species of despairing panic must have obsessed every informed and thoughtful German soul.

What caused the German Inflation? Having more marks coming into the Fatherland's markets than there were goods and services there for them to buy without rise in prices — that was the fundamental cause. Many more tickets were active even before the Armistice than there were goods and services in the Nation's pile, more in fact, than, with Germany's resources, there could possibly be put into her pile. This condition we have set forth together with the main factors contributing to produce it.

Furthermore, we outlined how the peace treaty greatly depleted Germany's resources, and appallingly added to her financial burdens. .

The demands of her own war debt had forced her to begin to borrow *from the Reichsbank* dangerously large bulks of newly printed paper notes.

Then a series of weakening events beat against the already shaky mark.

All the while, misgivings about its gold backing had been vitiating the Germans' faith in their money.

Paul Einzig, world prominent writer on Economics, summarizes the circumstances in which extreme inflation developed in Germany by pointing out how (a) inflation while the war was on had weakened the currency already; (b) the country was in a state of exhaust; (c) defeat and revolution had impaired the executive's capacity to control in monetary affairs; (d) need of renewing supplies of food and raw materials necessitated "weakening the technical defences of the currency;" (e) need to make huge payments of reparations, affected the budget and the exchange; (f) capital fled from Germany wholesale; (g) the occupation of the Ruhr had effects upon politics and finance[2].

Such are the causes of the German inflation. Accurate History blames not one cause but many. Here are several factors so powerful that they were resistless.

Not one of them, not even the least of them, was Government created money[2]. Yet the moment one mentions in Canada, State printed dollars there

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1 "The Story of Money" p. 351.

2 World Finance since 1914, 1935. Paul Einzig, p. 67.

° Sir Norman points out that the 132,000,000,000 gold marks demanded of Germany were 30,000,000,000 gold marks more than the total inter-allied indebtedness; that if she had raised enough to pay on her funded and floating debt and the Allied demands also, she would have had to acquire each year $4,250,000,000, almost four times the annual debt burden of wealthy United States. See the "Story of Money page 351 and 352.

shrills in his ears from the elite of the elite Canadian wise men; "Inflation! Germany!"

What is to blame — ignorance, delusion or downright dishonesty?

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[2] There exist several accusations that Germany deliberately inflated in order to free herself from financial obligations. I have chosen to disregard these and to assume that the German Government were victims of circumstances. Readers, however, ought to know that there are charges such as the following:—

"On the other hand, the break which Germany produced in her exchanges in the years 1920-23 was entirely produced by currency manipulation. It was simply a case of deliberate, cunning, and very impudent fraudulent bankruptcy worked entirely by currency manipulation. The German State made its currency and its exchange just what it chose and so long as it chose. And when the episode had achieved its end it was rounded off and wound up with just as complete a disregard of decency". "Currency, Credit and the Exchanges", page 148, by Wm. A. Shaw.

NOTE: If this is true then still more base is it for anyone in a responsible position to connect the German inflation with state money created and issued scientifically!

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[3] Authorities seem to disagree as to just how great was the German paper note expansion by 1918. Wm. F. Spalding in "A Key to Money and Banking," 1938, p. 84, tells us that the note issues in 1914 were estimated at 2 billion marks and that by the end of 1918 the bank notes in circulation had reached a total of 22,188 millions "while a separate issue by the German Government stood at 10,566 million marks". This would mean that the German notes in 1918 were 16 times the amount of 1914. Small wonder prices rose!

THE EXCHANGES

Those who exert themselves to resist the contentions of monetary reformers commonly say, when they can think of no other argument, "Well if Canada were to begin to apply your policies our trade would suffer; our money would not be acceptable in foreign countries; in other words, our exchange would be disturbed".

This chapter, let us open with these words from Dr. Shaw: "The currency note is not managed and cannot be managed. It does not, and cannot affect prices, and therefore, it does not and cannot affect the exchanges".[1]

From these words we might warrantably assume that we need not worry about the effect of new monetary measures so long as we can keep those measures from affecting our prices.

Why did Dr. Shaw say that only that which affects prices can affect exchanges?

Because price determines the amount of goods we sell to, and buy from, other countries. Two Canadian exports are wood-pulp and cattle. Two Canadian imports are oranges and rice. Now, if the price of wood-pulp in Canada can be kept lower than the price of that product in any other country, then at least two things result. First, United States, for example, will be more likely to buy wood-pulp from Canada than from any other country. Second, Canadians will be more likely to buy wood-pulp from Canada than from any other country. Every dollar's worth of Canadian goods exported tends to give Canada a favourable trade balance. Every dollar's worth of goods Canada imports tends to give Canada an unfavourable trade balance. It is easily to be seen, therefore, that if we wish to keep a favourable trade balance we must keep our prices down and our quality, quantity, and variety of goods up.

We are talking about exchanges. How does our trade balance affect our exchanges? We might illustrate it in this way: Let us, for the time being, think only of our trade arrangements with the United States. We could barter cattle and wood-pulp directly with the United States for rice and oranges*, or we might sell wood-pulp and cattle for dollars and then with the dollars buy oranges and rice. Exchange difficulties are likely to trouble us only when we sell and buy for dollars.

1 "Currency Credit and the Exchanges" 1927, Wm. A. Shaw, p. 77.

* Just now we hear much of direct barter between nation and nation.

Suppose, now, that I live in Saskatoon and I wish to buy $100 worth of oranges from San Francisco. If I am inexperienced I am prone to think that I will send 100 Canadian dollars to San Francisco for the oranges, but actually I do not send 100 Canadian Dollars to that American city. I turn the 100 Canadian Dollars over to my banker or to my post office, but the San Francisco dealer receives 100 American Dollars from his banker or from his post office.

How does this happen? To help ourselves to understand, let us imagine that I wish to send a Five Dollar Bill down to my brother in San Francisco. Would I send by Canadian Five Dollar Bill? Not at all! I must take my Canadian Five Dollar Bill to my banker and trade it for a United States Five Dollar Bill; then I can put the United States Five Dollar Bill in my letter and register it to my brother.

Every time a Canadian wishes to send money into the United States he has to go seeking through his bank, or his post office, or his friends, for United States money. If, on a certain day, there should be in Canada a million people each desiring to send a Five Dollar Bill into the United States, there would be demand in Canada for Five Million Dollars of United States' Bills. Such demand would naturally tend to make American Bills scarce. This would naturally tend to cause their price to rise slightly. We might as a result for instance, be required to pay One Hundred and One-quarter Cents of Canadian money for One Dollar of United States money. This would mean that the exchange was against us to the extent of ¼ of 1%. If the process were to go on unchecked, Canadians would soon be at a great disadvantage in dealing with United States people.

What happens to correct such lack of balance?

If at the same time that I wished to send a Five Dollar Bill to my brother, a man in New York wished to send a Five Dollar Bill to his mother in Montreal, then on the very day that I sought for a United States Five Dollar Bill he would seek for a Canadian Five Dollar Bill. Thus there would be just as great a tendency to make Canadian Five Dollar Bills scarce as there was to make American Five Dollars Bills scarce. If at the same time that a million Canadians sought American Five Dollar Bills a corresponding million Americans sought Canadian Five Dollar Bills, then the tendencies would exactly balance each other, and there would be no ill effects on either currency.

Similarly if Canadians buy Five Million Dollars worth of American goods on a given day, and Americans in the same day Five Million Dollars' worth of Canadan goods, then the effects of the purchases will exactly balance each other.

Basically this is the whole simple truth about exchanges. The reader will readily see why Dr. Shaw said that monetary policy cannot affect the exchanges unless it affects prices.

There are some complications which can arise. With several of the simpler of these let us now deal. Suppose that Canadians went on buying Five Million Dollars' worth a day for 20 days, while Americans bought only Two Million dollars' worth of Canadian goods a day. At the end of twenty days there would be in the hands of Americans, 20 times three million dollars or sixty millions of Canadian dollars.*

What might happen? American holders of Canadian Bills might offer to sell them in great quantities. This would tend to cause Canadian Bills to fall in value as compared with American Bills. If, for example, it cost in the morning of a given day One Hundred and One-Quarter Cents to buy an American Dollar, and then during that day American holders threw on the market Tens of Millions of Canadian Dollars, then perhaps by 3 o'clock in the afternoon it would take One Hundred and One-Half Canadian Cents to buy an American Dollar. Thus the Canadian exchange position would be made worse by One-Quarter of a Cent on the Dollar during that day.

Now if the above-mentioned supply of Sixty Million Canadian Dollars were in the hands of speculators who were buying and selling Canadian Dollars to make money, then those speculators might buy and sell very much as wheat speculators buy and sell wheat. They might sell a great many Canadian Dollars forcing the price far down, and then suddenly change their behaviour and buy rapidly on the market forcing the price of Canadian Dollars far up so that they could sell and make a profit. If such manipulation as this went forward, Canada's money would so fluctuate on the exchange market that United States businessmen would hesitate to deal with Canadians because they would not be able to tell, when bargaining for Canadian goods, how much they might have to give for Canadian Dollars when payday came. A similar anxiety would disturb Canadian businessmen when dealing with United States people. The result would be that trade between Canada and the United States would be difficult.[1]

The Bank of Canada must be constantly on guard to prevent injurious fluctuations in the value of our money.

What do we do today to remedy adverse tendencies?

In the first place, if United States people were to have 60 Million Dollars more of Canadian money at the end of a year than Canadians held of American money for that year, then one of two main things might occur. The Canadian Government might borrow in the United States 60 Million Dollars with which to buy the 60 Million Dollars of Canadian Bills. This procedure would be serious as it would tend to force Canada into debt to the United States, making her position still worse the following year when she would have to arrange to

* In actual practice the Americans would not have Canadian Bills, but would have Canadian promises to deliver Bills, but these promises would have the same effect. Americans would call them foreign exchange on Canada.

1 Actually Canada has had little or no trouble from speculators in her money.

pay interest on the debt and to pay back the debt at the same time that she endeavoured to keep her balance in next year's trade.

Instead of borrowing United States money Canada might take from her gold reserves 60 Million Dollars' worth of Canadian gold and send it across to buy the Canadian Dollars.

But what can the Canadian Government do to offset day to day rising and falling such as we mentioned above?

The Finance Minister must acquire a large quantity of gold — Millions of Dollars of it — with which he can buy Canadian Dollars from speculators who offer to sell them. If he can buy as fast as they offer to sell, then he can prevent Canadian Dollars from falling.

Again, if it cost One Hundred and One-Quarter Cents for a United States Dollar the Finance Minister can buy Canadian Dollars enough to raise the value to equality with United States Dollars. That is to bring about what is called parity between United States and Canadian currency.

The great sum of money which a Finance Minister holds for the purpose of buying and selling money is called an "Exchange Equalization Fund"[2] Great trade nations such as the United States, Great Britain, and France, keep on hand constantly large "Exchange Equalization Funds". Such a fund is expensive but under the present circumstances it is a necessity. The fact that nations have to maintain and use such funds from day to day is strong evidence that exchanges do not depend entirely upon monetary policy within any given country.

What we are here interested in is this; that fundamentally the exchange position of a country depends upon the ability of that country to sell more goods or services than it buys.[1] This means that that country must produce in sufficient abundance a wide variety of goods of desirable quality and must be able to offer those goods at a low price.

The proposals suggested throughout these pages are all designed to enable Canadians, first, to produce abundantly a great variety of goods at low cost; second, to buy Canadian goods at low prices; third, to offer those goods to foreign consumers at low prices.

It might be argued that distributing a great deal of money will cause prices to rise. As we have shown, no matter how much money is distributed among people there will not result a rise in prices so long as there are plenty of goods. Our first great concern is to be sure that there are plenty of goods — more goods than the purchasing power in the peoples' hands will enable them to buy. With plenty of goods of wide variety, and of suitable quality, there will be no rise

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[1] This applies to all debtor nations like Canada and most other nations.

[2] Canada's fund was set up to take care of short term movement of capital.

in prices. In fact with price discounts, and with low interest rates, prices are more likely to fall than to rise.

We can, therefore, safely assert that in applying the principles herein discussed there need be no fear of adverse exchanges.

CHAPTER XXII

CANADIANS AND THEIR MONEY

"Men and Brethen what shall we do"?

And now that we have spent these pages and these hours together, what about it all? Have we become satisfied in our minds that Canada has sufficient resources to support at a high standard of living, almost by herself, if need be, a population much larger than what she now contains? Suppose that, equipped as she now is, Canada were suddenly to be isolated from all the rest of the world; to become a great island as it were, would Canadians be able to live from their own resources, and enjoy a reasonably high standard of living?

So far as the resources are concerned, I believe all of us would agree after a few moments of reflection that a high standard of living for Canadians would be definitely possible.

Can we with our present equipment, and with that which we could readily obtain, produce plenty to supply all our ordinary needs? Can we produce all the *food*, of practically every kind that we require: — Cereals of all sorts and cereal products? Meats of all sorts and meat proucts? Vegetables of all sorts, and vegetable products? fruits of most kinds and fruit products? dairy products, eggs and the like? The answer must be, "Yes!"

Can we produce all the *shelter* needful to keep a large population comfortable? Can we manufacture lumber and forest products? Brick and building stone? Glass products and hardware products? Cement and plaster products? Wall paper and paints, etc.? Can we have in sufficient abundance all *fuels* necessary; coal, gas, fire-wood, gasoline, alcohol, electric energy? To each of these questions there can be only one answer, an unqualified, "Yes!"

Can we produce all the *clothing* we need? Have we facilities for supplying ourselves with hides, skins, furs, and articles of clothing derived therefrom? Wool and silk and all articles from them fabricated? The answer must be, "Yes!" When we remember the rapid strides that modern science is making enabling men to produce artificial wool from skimmed milk as Italy is doing, and rock wool, and glass wool, who can with any show of reason fail to answer again, emphatically, "Yes!"

Can we produce all the *health and cultural requirements* such as medical and dental skill? every kind of essential education? every kind of training in music, art, etc.? adequate amusement? Once more men are forced to declare with finality, "Yes!"

There grows in the mind the settled conviction that Canadians have solved the problem of production.

Our next problem is that of distribution. Can we distribute the good things that we can produce?

Confronted with this question, our first thought is of *physical* means of distribution. We remember our railways, far flung and widely branching; our trains fast and strong. We recall our ships increasing in speed and safety; our aeroplanes already effective and capable of devoloping to a higher degree of adequacy; our highways rendering us daily more secure in the use of trucks; our trucks themselves becoming larger, safer, more speedy, almost monthly. We recall our swift means of communication through telegraph and air mail. We remember our great distributing organizations; our wholesale houses, our retail stores and chain stores. We recognize how readily we could develop powerful and efficient cooperatives, similar to those in Britain. We feel safe in the conclusion then, that we can, as far as physical equipment is concerned, distribute to everybody as much as is needful of every kind of Canadian product.

But for some reason our physical machinery of distribution does not perform as it could. We have vast coal areas; great mines equipped for rapid production, awaiting orders. Somehow the orders are too few, and infrequent. Almost within the shadows of the mining shafts dwell widows suffering from the cold. Why is this? The coal is not coming out of the mine, and into the widow's fuel box as it should do. This is to the disadvantage of both the coal operators and the widow, as well as to the counrty as a whole. How can we get the coal to move? Put a Five Dollar Bill into the widow's hands and the whole machinery commences to function almost as if by magic. The telephone orders the coal, the machinery brings it up, the truck carries it to her door, the truckman deposits it in her fuel bin. As we have developed already, in these pages, the means of distribution is *MONEY*. Ample and adequate physical equipment for distribution is idle unless there is, cooperating with it, equally ample and adequate financial machinery. Our financial technique is deficient. How can we get the money? How can we so reconstruct our financial machinery as to make it function as well as our productive and distributive machinery, standing ready to function?

How can we distribute? This little work is entitled "Money — The Master Key". The Master Key to *distribution* is MONEY just as money is the Master Key to *production*. As long as the State obtains money *only by taxation or by borrowing*, just so long shall we continue to be deficient in finances, as we have shown. The State can create money, debt-free, interest-free, as was done in the case of Canada's 26 Millions Dollars, as was done in the case of Britain's Bradburys, as was done in the case of Guernsey Island's One Pound Notes. Money, whether currency or credit, can be created by the State.

Once having created the money, the State can use that money for the blessing of the country, as we have endeavoured in these pages to show. To do this, it will, first, loan for production if necessary at very low interest, or no interest at all, and for any desirable length of time. Having adequate production it will make advances of money to modify prices; first, to give to producers fair remuneration for their goods; second, to give to consumers lower cost of living; third, to render its prices so attractive as to encourage foreign consumers. Finally; the State learning that there still remain within its borders, in its storerooms, and upon its shelves, great quantities of unused, unconsumed goods which the people are not using because they are *unable to buy* — learning this, the State will distribute part of its created money in the form of pensions of various kinds; hospitalization, State medicine allowances, and so on; and finally it will grant to all the citizens a dividend [1] as large as it can with safety grant. Thus the people, more and more, will be rendered able to *buy*. Thus producers are enabled to *sell;* that is the goods are *distributed.* In the process nothing is *taken away* from anybody whatsoever. It is not necessary for the Government *to possess* anyone's property, or to tax *away from* anyone his income. The State is not *dividing the wealth;* it is *distributing* the *production resulting from* the wealth.

"But," some will contend, "if the State creates an amount of money and uses it as you suggest, it will cause prices to rise; the rise in the prices will cause people to pay more; the additional amount they pay on the prices of goods will be equivalent to a tax; thus the people themselves will have to contribute the money to pay dividends, etc."

Those who think this, have overlooked one important fact. If the State money created and used is limited so that the total amount of *money in distribution* does not *exceed* the *amount of goods and services available* to be distributed, then there will be *no rise in prices* and there will be *no inflation.* Thus, no one will have any costs because of the dividends, or of the price adjustments.

We firmly maintain that the State by using the money can bring into production an abundance of goods and services and can distribute that abundance to its people. To think that such is possible is the barest common sense in any age of abundance. To appreciate this fact let us imagine ourselves in a little community in any region of good climate, adequate rainfall, and rich resources, such as, in many hundreds of cases, communities in the past have occupied. The waters yield plenty of fish; the forests plenty of game; the hillsides an abundance of fruit; the people raise generous gardens brightened with various flowers; their pastures abound with divers flocks, and in their orchards are bees.

Among the neighbors are some, skilled in nursing and in

(1) See notes 1 and 2 at bottom of next page.

rendering other kinds of needful services. The community is selfsufficient; plentifully so.

Now in all common sense, and in plain unvarnished reason, should anyone in such a community have to go without the needs of life, especially if that person is willing and able to work?

Our reader will recall times when he has gone fishing and caught an oversupply, or gone hunting and had unusual luck, or raised a garden which produced more carrots, or cabbage, or lettuce, or green peas than he needed; or flowers in such numbers that he could not use them. What is the first human impulse under such circumstances? Is it to see the fish or the game spoil, or the garden stuff deteriorate, or the flowers wither and die? Or is the natural common sense impulse to find someone who lacks and to give the goods to him, rather than see them go to waste?

When such conditions have moved you to give, has it ever entered your mind that you were doing your neighbor a *moral injustice* by giving him a beautiful bouquet of sweet-peas, nasturtiums, or gladiolas; by giving him a pailful of lettuce? You had plenty and to spare— why not give? If you went to the hillside to pick berries, and gathered a few quarts more than you needed, did you not think of your neighbor confined to her bed and send her over a few berries, thereby gladdening your heart and hers?

If you were driving along in your car with no passenger and you knew your neighbor would like to go to your destination what was your natural impulse? To leave your neighbor, or to give him a ride? You remember, do you not, how as you used to drive to school you used to pick up the children living along the way bringing them to school and taking them home again at night? Why not? And did you expect pay for the service? Dit it seriously impress you that you were giving a service?

Again, through your experience with children, you have learned let us say, much about how to manage a sick child. Your neighbor comes to you and asks your advice. You tell her how to make a poultice to cure pneumonia; or how to clear away a

(1) See "Controlling Depressions" by Paul H. Douglas, Professor of Economics, Chicago University, p. 279, published 1935.
(2) See also "Principles of Economic Planning," G .D. H. Cole of Oxford, pages 234, 252, 264, 315, published 1935.

can provide for production, distribution, and consumption of plenty of goods and services internationally.

This does not mean that the power to create money should be taken away from the State, or from perhaps even an area within the State. The more nearly autonomy is preserved in the matter of money management, the better perhaps. If the money creation and distribution are too much centralized, there will develop bitterness and disunity in the world similar to that which is appearing in the Dominion of Canada among the Provinces. Nevertheless, we do contend that over and above the money systems of the various nations, it ought to be possible to create a world *monetary system* based upon the surplus productive and consumptive power of the *world as a whole*. It ought, further, to be possible to use that world monetary technique to remove the causes of inequality and bitterness so painfully in evidence everywhere among nations today. Why not consider as a possibility a world monetary technique? This would remove the chief cause of war.

Now, careful precautions are necessary. First, we must not over-issue either nationally or internationally. The Governments must create only the money which is justified by the surplus fish, game, coal, hospitalization, etc., available. Second, we must not maldistribute. If too much money is spent upon public works, or upon what might be non-essntial services, the people will fail to get their share and the whole scheme will be thrown out of balance and impaired. Third, we must insure justice in a country. Fourth, we must be moderate.

We are perhaps entering upon an age of almost unbelievable potential abundance — one in which there might be temptation to use too freely of the resources of the earth; of our coal deposits; iron deposits; oil deposits; and the like. Administrators must not forget future generations. In originating commodities in the production of which we might be depriving our descendants of their rights, we should exercise wholesome restraint. I cannot forbear to point out that our present generation foolishly manufacturing warships, aeroplanes, munitions, tanks; using thereby our reserves of coal, oil, and many other substances, purely for the sake of destruction — our generation is certainly exercising no form of wholesome restraint.

We must be careful not to *abuse*, but we must also be careful to *use*. Canada, among all the nations of the world, is one state singularly fitted to lead the way into an Age of Abundance. She has the resources; she has the people; *both* admirably adapted for leadership. She has the financial wealth, the financial strength, the trade position that might be necessary. She is situated in the New World with a naturally progressive and aggressive outlook. She can expect; first, the protection of her motherland, and of her sisters of the British Commonwealth; and second, that of her elder sister and neighbor across her southern boundary.

Canadians, while brave and superbly capable of fighting, are greatly indisposed toward war. They will do almost anything in reason to avoid participation in a mass slaughter. Show them a way in which they might lead the world into a kind of civilization where war need not be, and they will exert themselves to the limit to lead. I suggest that the way is to be found through a monetary technique. Situated as we are, it is not only our privilege but our duty to lead the way. There is at stake the welfare, not only of Canada, but of the British Empire, of Anglo-Saxondom, of democracy, and beyond that perhaps the welfare of the whole civilized world.

To open the lock which shuts the gate that bars the way into the Promised Land flowing with milk and honey, MONEY IS THE MASTER KEY.