MONEY MANIPULATION AND SOCIAL ORDER

OTHER WORKS BY THE REV. DENIS FAHEY, C.S.Sp.

The Mystical Body of Christ in the Modern World.
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The Mystical Body of Christ and the Reorganization of Society.
The Workingmen's Guilds of the Middle Ages.
The Kingship of Christ and Organized Naturalism.
The Forum Press, Cork.

The Rulers of Russia.
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MONEY MANIPULATION
AND
SOCIAL ORDER

BY

REV. DENIS FAHEY, C.S.SP., D.D., D.PH., B.A.

Professor of Philosophy and Church History,
Holy Ghost Missionary College, Kimmage, Dublin.

"No servant can serve two masters . . . . You cannot serve God and mammon. Now the Pharisees, who were covetous, heard all these things: and they derided Him" (ST. LUKE, XVI, 13, 14).

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DEDICATION

To the Immaculate Queen of Heaven and Earth, to St. Joseph, the Head of the Holy Family and the Protector of the Universal Church, to St. Thomas Aquinas, the Catholic Church's Official Teacher of order, and to St. Brigid of Ireland, who was so well versed in the arts of rural life, this book is lovingly and humbly dedicated by the author, in the hope that by their intercession it may contribute in some little way to the return of the world to the full acceptance of the rule of Christ the King, so that social environment may once more sustain men in their efforts to live as members of His Mystical Body.

" I have alluded to the appalling progress of desert-making on behalf of greed throughout the world. Erosion is a symptom of sickness in any civilization. To-day, as modern civilization is a world complex, it bids fair to engulf mankind. Already the spectre of world famine casts its shadow ahead. Even in forestry there is more need to plant trees to preserve life than there is to exploit forests for felling. The financial rulers have the greatest responsibility for all this, since the system they administer has faithfully implemented human greed and ignorance. Financial greed has not only led the van, but directed the attack ; and, having lent at interest sufficient money to exploit the soil, it has thereafter diverted the springs of credit that might have repaired the damage due to soil exploitation to the profitable business of transport, public utilities and luxury trades. The result is that it is as devastating to human material as it has been upon the soil. . . . Most of this degeneration can be laid finally at the door of finance, just as to the same door we can lay the twenty to thirty million unemployed who haunted the streets of Europe and America " (Alternative to Death, *by the Earl of Portsmouth, pp.* 40, 37).

FOREWORD

The author begs to thank the Editor of *The Standard* (Dublin) for kindly permitting him to reprint the large portion of Appendix II which appeared in that paper and also for the permission, generously accorded, to make use of the other passages quoted from that paper. He begs to thank the Editor of *The Weekly Review* (London) for kindly acceding to a similar request and also the many Publishers, whose works are quoted. He hopes to interest his readers in some of the valuable works that have appeared in recent years on this important subject.

To those who are beginning the study of money, the author recommends *Promise to Pay*, by R. McNair Wilson (George Routledge and Sons), *The Root of all Evil*, by Sir Reginald Rowe (Economic Reform Club), and *The Modern Idolatry*, by Jeffrey Mark (Chatto and Windus). These can be followed by Professor O'Rahilly's *Money* (Cork University Press) and *The Role of Money*, by Professor Soddy (George Routledge and Sons). To those who deplore the decay of the country-side he specially recommends *Alternative to Death*, by the Earl of Portsmouth (Faber and Faber), *Look to the Land*, by Lord Northbourne (J. M. Dent and Sons), and *An Agricultural Testament*, by Sir Albert Howard (Oxford University Press).

By an oversight it has not been mentioned in the text that *An Outline of Money*, by Geoffrey Crowther, is published by Thomas Nelson and Sons, Ltd., and that *Professor Skinner alias Montagu Norman*, by John Hargrave, is published by Wells Gardner, Darton and Co., Ltd.

CONTENTS

CHAPTER I

DEMAND FOR MONETARY REFORM IN ENGLAND

THE following letter was addressed in 1943 to His Excellency, Most Reverend William Godfrey, the Apostolic Delegate to Great Britain, to the Anglican Archbishops of Canterbury, York and Wales, and to other Ecclesiastical Dignitaries in Great Britain. It was accompanied by a proposal to form an association having for object an honest National Money System for England. The letter runs as follows:

Your Grace,

(1) We, all of British blood and descent, having studied the fundamental causes of the present world unrest, have long been forced to the conclusion that an essential first step towards the return of human happiness and brotherhood with economic security and liberty of life and conscience, such as will permit the Christian ethic to flourish again, is the immediate resumption by the community in each nation of its prerogative over the issue of money including its modern credit substitutes.

(2) This prerogative has been usurped by those still termed in general "bankers," both national and international, who have perfected a technique to enable themselves to create the money they lend by the granting of bookkeeping credits, and to destroy it by the withdrawal of the latter at their discretion, in accordance with entirely mistaken and obsolete ideas which they do not defend against impartial and informed scientific criticism and examination. In this way a form of national money debt has been invented, in which the lender surrenders nothing at all; and which it is physically an impossibility for the community ever to pay. Any attempt to do so produces the artificial "economic blizzard," as it did after the 1914-18 war.

(3) This has led to the gradual rise of a form of national, international and supra-national power, dominating through its monopolisation of the National social credit all the basic

creative activities of mankind. Thus, in this as in other countries, it has become impossible to obtain publication in the Press, or to broadcast on the radio, the truth concerning this economic enslavement which holds the peoples of the world in thrall.

(4) Under the world's present financial system the money, except for a now trifling proportion, is originally created by the issue of a loan at interest by the " bankers," who lend nothing themselves but in effect make a forced levy in kind on the Nation by conferring on the borrower the power to purchase a corresponding amount of wealth on the market, which wealth does not belong to them, or those who borrow from them, but to the community. The proceeds of the issue of new money—whether of paper or any other form of credit money—belong to the Nation in which it is, or is accepted as, legal tender, and not to the issuer. Herein lies the basic flaw of the existing monetary system.

(5) By this method, which has come to be regarded as legal by virtue of established practice, the banks in our country are responsible for the issue of new money of their own creation amounting to-day to between two and three thousand million pounds—this being the difference between loans extended, including those to themselves, and those repaid since they instituted the system a number of years ago—and are thereby extracting by means of interest an annual tribute from the Nation of over £100,000,000 for what has now become to them a relatively costless and riskless service. But the real danger, well understood in every preceding era of history, is the undermining of all lawfully constituted authority by the creation and destruction of money carried on in secret for private gain and the acquisition of power.

(6) All forms of government, whether conservative, liberal or labour, fascist, socialist or communist, fall alike under the control of a political Power Group, which is ultimately, and in large measure unwittingly, dominated by the Money Creators and Manipulators. In this way the national political power, which, if the individual is to enjoy the maximum of personal freedom consistent with his duty to his conscience and his fellows, should be distributed throughout the people, has been usurped without their knowledge or consent.

(7) It will be seen that the present monetary system, which by its disregard of primary physical and ethical laws is inevitably destroying the civilisation into which it has been introduced, requires rectification both in its material technique

and in the ethics which at present inspire and control this technique. It is particularly in view of its devastating effects in the moral sphere that we have ventured to refer to Ecclesiastical Authority, and to invoke the Churches to action.

(8) We therefore appeal to you in your position of great authority and influence to proclaim the truth to the Nation on this subject and in the hope that you may see fit to disseminate as widely as possible the text of this statement, whereby this vitally important question may be brought to the light of day and earnestly enquired into by the peoples of the British Commonwealth.

(9) We do so in all Christian fellow-feeling, knowing and honouring the efforts you are making against the abuses of our present economic system and the evils of usury, and believing that the world is now in the gravest crisis of its history. The issue of new money by the money-lender is an unforeseen result of the modern cheque as a substitute for national money—a valuable invention which in itself was undoubtedly social and benevolent in intention and effect. If the cheque system were corrected, as it can be simply corrected, to restore to the nations their rightful prerogative over the issue of money, there is every reason to retain it. We fully appreciate the services which banking organisations have rendered and can continue to render to the community. But the issue and destruction of money by the money-lender is not a service, but a weapon which can be and has been used to perpetuate poverty amidst abundance, which renders individuals and nations powerless to protect themselves, and which may even be perverted to serve vast designs for the complete subjugation of the human race to tyranny, exploitation and the powers of darkness and evil.

NORMAN A. THOMPSON
(A.M.I.E.E., Research Engineer, Inventor of the Norman Thompson Flying Boat, 1914, and other developments in aviation and in mechanical propulsion ; Originator of this Appeal)

FREDERICK SODDY
(M.A., LL.D., F.R.S., Nobel Laureate in Chemistry, 1921 ; pioneer in the Economics of Wealth, author of *Wealth, Virtual Wealth and Debt* (1926), *Money versus Man* (1931), *Rôle of Money* (1934), etc.)

THE REV. P. T. R. KIRK
(Vicar of Christ Church, Westminster)

MAURICE RECKITT
(M.A., Editor of *Christendom*, a Journal of Christian Sociology ; author of *Faith and Society,* 1932)

THE REV. P. McLAUGHLIN
(Warden of St. Anne's House, Soho, London, W. 1)

J. CREAGH SCOTT
(D.S.O., O.B.E., Lt. Colonel ; Chairman, The Farmers' Action Council ; Advisory Chairman, The Service for Economic Action)

REGINALD ROWE
(Kt., President, Economic Reform Club and Institute, and of Nat. Fed. of Housing Societies ; a Governor of the Old Vic. and Sadler's Wells ; author of *The Root of All Evil*)

JOHN HARGRAVE
(F.R.S.A. ; inventor of the Hargrave Automatic Navigator for Aircraft (1937) ; Econ. Adviser to the Planning Comm. H.M. Govt. of Alberta (1936-7) ; Founder and Leader of the Social Credit Party of G.B. ; author of *Summer Time Ends*, etc.)

ROBERT J. SCRUTTON
(Founder-President of the People's Common Law Parliament ; Monetary and Constitutional Reformer to establish a Christian Social Order. Books : *A People's Runnymede*, *Let the People Rule*, etc.)

WILFRID HILL
(Industrialist, Birmingham and London ; Pres., Comité International des Échanges, Paris ; Chairman, Econ. and Monetary Joint Council, London ; Anglo-American Committee World Trade Alliance)

GLYN THOMAS
(Manufacturer ; author of *The Hour Sterling*)

CHARLES TURNER
(Mech. and Mining Engineer ; Knowles Gold Medallist ; inventor of the Oil-from-Coal Process and Plant)

CHRISTOPHER A BECKETT WILLIAMS
(Political Journalist)

ALLIOTT VERDON-ROE
(Kt., O.B.E., F.R.Ae.S., M.I.Ae.E. ; pioneer of Aviation and Money Reform. Books : *Alberta is Fighting our War* (1937) ; *A World of Wings and Things* (1938) ; etc.)

L. B. POWELL
(Editor of *Cavalcade*)

R. R. STOKES
(Member of Parliament for Ipswich)

H. J. MASSINGHAM
(Author of *Wold Without End*, *The English Countryman*, *Remembrance*, etc.)

MRS. GLADYS BING
(Speaker and writer on *Social Credit*. Author of *The Fraud of Taxation*)

C. H. CLENDINING
(Founder and Chairman of The Ex-Service Party ; North Atlantic Air Route Development ; Chairman, Irish Trans-Atlantic Corp., Ltd., 1932-8)

I. V. ROBINSON
(M.Inst.C.E., M.I.Mech.E., Whitworth Scholar, M.Amer. S.M.E., F.S.S. ; Hon. Treas. London Social Credit Club, etc.)

A G. SEAMAN
(M.I.E.E. ; inventor of Automatic Sorting of Heavy Goods)

B. D. KNOWLES
(Author of *Britain's Problem*)

A. ROMNEY GREEN
(F.R.Econ.S. ; Geometrician and Writer ; Promoter for a Scheme for Minimum Incomes without State Regimentation ; author of *Rehabilitation of the Small Man*, *Christendom*, 1943)

C. MARSHALL HATTERSLEY
(M.A., LL.B. ; Solicitor ; author of *The Community's Credit* (1922) ; *This Age of Plenty* (1929) ; *Wealth, Want and War* (1937), and other works on Social Economics)

HENRY S. LAWRENCE
(K.C.S.I. ; formerly Finance Minister of Council, Bombay Presidency, India ; Member of Roy. Comm. on Agriculture (1926-8) ; author of *Freedom from Fear and Want*, Empire Review, 1942)

W. D. CLARKE
(Farmer ; author of *Why Prices of Agricultural Products Fluctuate*, 1936)

LADY CLARE ANNESLEY
(Speaker on Social Reform and Monetary Reform)

THE REV. J. CLIFFORD GILL
(Morecambe, Lanc.; author of *The Mastery of Money*)

W. J. BROWN
(Member of Parliament for Rugby; Parliamentary General Secretary of the Civil Service Clerical Assn.)

THE REV. C. H. LAMBERT
(Canon of Blackburn; Warden of Whalley Abbey and Diocesan Director of Religious Education)

ARTHUR COE
(Gas Engineer; author of a Plan for a Scientifically and Morally Sound Currency)

ANDREW MACLAREN
(Member of Parliament for Burslem)

In a covering letter, signed by Mr. Norman A. Thompson and Professor Frederick Soddy, it was stated that " if the way is not already paved before the cessation of hostilities towards a saner economic system under which all members of the nation will receive a more equitable and humane treatment, the return of our countrymen serving in the forces, who are becoming increasingly aware of the injustices of the existing monetary system, is likely to be the prelude to uncompromising disturbances."

As we in Ireland have been and are living under the same monetary system, some friends have done me the honour of inviting me to examine the reasons which have elicited this protest from so many distinguished English men and women.

Now, in the Encyclical Letter, *Studiorum Ducem*, on St. Thomas Aquinas as Guide of Studies, Pope Pius XI points out that St. Thomas's philosophy and theology are so perfect that " he is our source for economic and political science." Accordingly, I shall begin by a brief exposition of the political, economic and financial principles of St. Thomas Aquinas.

CHAPTER II

POLITICAL, ECONOMIC AND FINANCIAL PRINCIPLES OF ST. THOMAS AQUINAS

St. Thomas and Politics

Politics is the science which has for object the organization of the State in view of the complete Common Good of the citizens in the natural order and the means that conduce to it. As the final end of man is, however, not merely natural, the State, charged with the temporal social order, must ever act in such wise as not only not to hinder but to favour the attaining of man's supreme end, the vision of God in Three Divine Persons. Political thought and political action, therefore, in an ordered State, will respect the jurisdiction and guidance of the Catholic Church, the divinely-instituted Guardian of the moral order, remembering that what is morally wrong cannot be politically good. Thus the natural or temporal Common Good will be always aimed at by those in authority in the way best calculated to favour family life, in view of the development of true personality, in and through the Mystical Body of Christ. Political action and legislation, especially in economic matters, must ever seek to strengthen family life and, accordingly, must not only not admit divorce, but must always aim, as far as possible, at benefiting citizens through their families.

St. Thomas and Economics

Etymologically, economy is the government of the home and the family. Economics is the science which studies the component cells of the State, namely, families, in the constituent relations of their members and in their conditions of existence. It aims at elucidating, *primarily*, the personal relations which constitute the family, the relations of husband and wife, parents and children, masters and servants, and then, *secondarily*, the relations that follow from the conditions of existence of the family, namely, the mutual relations of human persons arising from their need of external goods or real wealth.

On the one hand, our nature brings us into relation with earthly resources which, by taking account of their nature and laws, we have to transform into real wealth capable of satisfying our corporal needs. Such are the relations of men with minerals, stone, lime, copper, iron, petrol ; with the flora and fauna that people the earth, air and water ; with the nerves and muscles of our own bodies. On the other hand, from this necessary utilization of things follow personal social relations between us : relations between cultivators of the soil and artisans, between employers and employed, between industrialists and merchants, between buyers and sellers. All these relations, however, are between human persons whose well-being is bound up with strong family life. Needless to say, the organization of family life, in view of providing its members with sufficient material resources, is, though secondary, a very important element of economics. As St. Thomas points out, a sufficiency of material goods is necessary for the virtuous life of the average human being.[1]

Economics, then, will study : firstly, the constituent relations of the members of Christ, who compose the family ; secondly, the science of the production, distribution and exchange of natural wealth, in view of securing that sufficiency of material goods which is normally indispensable for the virtuous life of members of families ; thirdly, the auxiliary art of the manipulation of money or artificial wealth, which is meant to facilitate families in procuring by exchange the above-mentioned sufficiency.

THE RÔLE OF MONEY

According to right order, then, money or exchange-medium is for the production of material goods, and the production of material goods is for the virtuous life of members of Christ of which the foundation is laid in the Christian family. Money, according to St. Thomas, was invented by the art of man for the convenience of exchange by serving as a common measure of things saleable. " Natural wealth," he writes (Ia IIae, Q.2, a.1, c.), " is that by which natural wants are supplied, for example, food, drink, clothing, vehicles, dwellings and such like. Artificial wealth is that which is not a direct help

[1] " That a man may lead a virtuous life two things are required. The chief requisite is virtuous action, for virtue is that by which one leads a good life. The other requisite, which is secondary and quasi-instrumental in character, is a sufficiency of material goods, the use of which is necessary for virtuous action " (*De Regimine Principum*, Lib. I, Cap. XV).

to nature, as for instance, money. This was invented by the art of man, for the convenience of exchange by serving as a common measure of things saleable." As a *common* measure it ought to be *stable*. "As a measure used for estimating the value of things," writes St. Thomas (*Comment. in Ethic., Lib. V, Lect. IX*), "money must keep the same value, since the value of all things must be expressed in terms of money. Thus exchanges can readily take place and, as a consequence, communications between men are facilitated." Money is, therefore, essentially an exchange-medium. Stability in value is a property or necessary attribute of an exchange-medium. Money is meant to facilitate families in procuring by exchange the sufficiency of material goods required for the virtuous life of the human personalities composing them. The virtuous life of human persons is simply their ordered development in Supernatural Life as members of Christ.

Accordingly, as practical sciences or arts are arranged in hierarchical order according to the hierarchical order of their ends, the art of the manipulation of money must be at the service of Politics and Economics. Those who are skilled in the manipulation of money must be the servants of the State, not the dictators of governmental policy; they must aim at aiding and strengthening family-life, not at disrupting it for the sake of the figures in their ledgers. It is completely against order if the production and the distribution of the goods needed by families must conform to the exigencies of money-making instead of the other way round. If, by a perversion of the right order, money or exchange-medium becomes the master, production and distribution will decay, the potentialities of the State's resources will not be realized, and family-life will suffer. If the manipulators of money get control of the Government of the State, then the Government will not be able to compel the bankers and the money-changers to practise the virtue of social justice, namely, that justice which has for object the Common Good, and the welfare of the whole nation will suffer grievously. Usury and alteration of the price-level will then be permitted to go unchecked, and the real Sovereignty in the State will inevitably pass into the hands of the manipulators of money. The next stage will be a move to bring national Sovereignty under the domination of some international organization subject to finance. That will make permanent and world-wide the present-day anti-Christian and anti-natural perversion of order involved in the subordination of human persons to the production of material goods and in the subordination of the production and distribution of material goods to finance.

For St. Thomas, it is the duty of the State to see that money or exchange-medium is a stable measure of value. In other words, just as the State must maintain stable measures of weight and length, in view of commutative justice in buying and selling, so it must aim at stability of the price-level, the price of a thing being the expression of its exchange-value in terms of money. " It is true," writes St. Thomas (*Comment. in Ethic.*, *Lib. V*, *Lect. IX*), " that it is the same with money as with other things, namely that one does not always get what one wants for it, because it is not always endowed with the same purchasing-power, that is, it is not always of the same value. But, nevertheless, matters should be so arranged that it should be steadier in value than other things. . . As a measure used for estimating the value of other things, *money must keep the same value*, since the value of all things must be expressed in terms of money. Thus exchanges can readily take place and, as a consequence, communications between men are facilitated."[1]

[1] For a fuller treatment of the principles of St. Thomas Aquinas concerning money, the reader is recommended to read *The Mystical Body of Christ and the Reorganization of Society*, Chapter III.

CHAPTER III

THE FUNCTIONING OF THE GOLD STANDARD MONETARY SYSTEM

MONEY-MANIPULATORS AND GOVERNMENTS

We have seen that for St. Thomas money is meant to be the servant of Politics and Economics. The art of manipulating money or exchange-medium must not be allowed to fall uncontrolled into the hands of private individuals, as they will be tempted to work for instability of price-levels in view of their own gain. *A fortiori*, the Rulers of the State must see to it that the manipulators of money do not get control of the Government. Now these two evils—instability of national price levels and control of Governments by financiers—seem to have been allowed to grow apace under the Gold Standard monetary system. We shall begin by some testimonies about the second point—the control of Governments by financiers.

Let us take, first of all, a clear statement of principle by a well-known financier recently deceased, the Rt. Hon. Reginald McKenna, Chairman of the Midland Bank and former English Chancellor of the Exchequer. At the Midland Bank meeting of January, 1924, he said : " I am afraid that the ordinary citizen will not like to be told that the banks can, and do, create money. The amount of money in existence varies only with the action of the banks in increasing and decreasing deposits and bank purchases. Every loan, overdraft or bank purchase creates a deposit, and every repayment of a loan, overdraft or bank sale destroys a deposit. And they who control the credit of a nation, direct the policy of Governments and hold in the hollow of their hands the destiny of the people." In his 1927 speech, the same distinguished banker said that the total of available bank cash on which the quantity of loans or deposits of private banks depended was determined by the Bank of England. Thus we can conclude that, according to this former Chancellor of the Exchequer, the Governor of the Bank of England directs the policy of the English Government and practically holds in his hands the destiny of the English people.

Let us now take the testimonies of the Rulers of States. When the Federal Reserve Bank of the United States, created in 1913 by Mr. Paul Warburg, a German Jew belonging to the Banking Firm of Kuhn, Loeb and Company, had been a few years in existence, in 1916 to be precise, President Woodrow Wilson thus summed up the situation in U.S.A.: "A great industrial nation is controlled by its system of credit. Our system of credit is concentrated. The growth of the nation, therefore, and all our activities are in the hands of a few men. . . We have come to be one of the worst ruled, one of the most completely controlled and dominated Governments in the civilized world—no longer a Government by conviction and the free vote of the majority, but a Government by the opinion and duress of small groups of dominant men." From the similar testimonies quoted by Christopher Hollis in *The Two Nations*, let us take one. "Behind the ostensible government," ran Roosevelt's policy, "sits enthroned an invisible government owning no allegiance and acknowledging no responsibility to the people." [1]

If we pass to England, we shall find abundant evidence in proof of what Professor Soddy wrote about the Bank of England some years ago: "From being what is known as a bankers' bank, it has become now almost the Government's government." Mr. Gladstone said: "From the time I took office as Chancellor of the Exchequer (1852) I began to learn that the State held, in the face of the Bank and the City, an essentially false position as to finance. . . The hinge of the whole situation was this: the Government itself was not to be a substantive power in matters of finance, but was to leave the Money Power supreme and unquestioned. In the conditions of that situation I was reluctant to acquiesce, and I began to fight against it by financial self-assertion from the first . . . I was tenaciously opposed by the Governor and the Deputy-Governor of the Bank, who had seats in Parliament, and I had the City for an antagonist on almost every occasion." Mr. John Hargrave significantly adds in his book, *Professor Skinner alias Montagu Norman*: "It would astound the Grand Old Man to see the strides that the Money Power has made in building and entrenching its position since his day."

Mr. Hargrave also quotes Mr. Vincent Vickers, Bank of England director 1910-1919, as follows: "It was not Mr. Winston Churchill, as Chancellor of the Exchequer, who

[1] Op. cit., p. 219. *The Two Nations* is published by George Routledge and Sons, Ltd.

initiated or was to blame for our return to the gold standard in 1925; it was not Mr. Baldwin who decided the terms of the Bank Notes and Currency Act . . . 1928; nor later was it Lord Snowden who personally pigeonholed that request for a Royal Commission on monetary policy and who substituted so soon afterwards the McMillan Committee which seemed to some so redolent of Threadneedle Street. Since 1919 the monetary policy of the Government has been the monetary policy of Mr. Montagu Norman." If we link with this the declaration already quoted from Mr. Reginald McKenna, distinguished banker and former Chancellor of the Exchequer, to the effect that "they who control the credit of a nation direct the policy of the Government," we have reliable testimony as to the real Ruler of England. In conclusion we may add to this that the Bank of England was empowered by the Income Tax Act of 1918, Section 68, to assess and tax itself with nobody in control. The Bank of Ireland was accorded the same privilege by the same (British) Act of 1918.

In point of fact, with the growing influence of American financial interests, power over the British Government seems later to have passed to the other side of the Atlantic. Mr. Thomas Johnston, M.P., who in 1931 was Lord Privy Seal in the Labour Government, wrote: "The City, the financiers and the money-lenders in New York and Paris, refused to put up credits in support of a balanced budget. They demanded a cut in unemployment benefit. They wanted humanity crucified on a cross of gold. We declined absolutely and resigned. . . Twenty men and one woman—a British Cabinet—waited one black Sunday afternoon in a Downing Street garden for a final decision from the Federal Reserve Bank of New York."[1]

The above will suffice to bring home to my readers the existence of a fundamental disorder in modern States, namely, the control of Governments by those skilled in the manipulation of money or exchange-medium. Finance is meant to be the servant of Politics and Economics. Instead it has come to be the master of both, so that human beings are sacrificed to the

[1] *Tax-bonds or Bondage*, by John Mitchell, p. 12.

Christopher Hollis in *The Two Nations* (p. 241), says that the American financiers "made the reduction of the English dole a condition of their granting a loan of gold to the Bank of England. . . . It is true that Mr. Ramsay MacDonald, as a general rule, pretended that it was not American dictation which was responsible for the reduction of the dole, but in a moment of forgetfulness he admitted that it was so in the House of Commons in answer to a question from Mr. Frank Owen." He quotes the text of *Hansard*, vol. 256, col. 1272 (21st Sept., 1931).

production of material goods and the production and distribution of material goods are sacrificed to finance. In the realm of production, as we shall see later, this disorder has led to the subordination of farming, by which the primary necessities of life are produced, to industry and the manufacture of secondary things. This reversal of order in regard to production is having disastrous consequences in soil-erosion, loss of fertility, and ill-health of human beings, animals and living things in general.

Let us now turn to the evil of instability of price-levels. This will need longer elaboration.

DEFECTIVE PRINCIPLES ADOPTED BY THE BANK OF ENGLAND WITH REGARD TO THE ISSUE OF MONEY

Money, as we have seen, has been invented to serve as a stable measure of exchange in view of facilitating families in procuring the material goods necessary for the virtuous life of the persons composing them. Material goods are produced by the application of the available labour to the resources of the country. Money or exchange-medium is the indispensable means to enable this to be easily done in a complex society and thus permit the productivity of a country to be readily actualized. But the principle governing the injection of money into the country's industrial system must be the determination to actualize the country's potential resources in view of the Common Good. The endeavour must be to reach the point in which all the available labour and resources are being utilized in a manner respectful of the Catholic Church's programme of the widest possible diffusion of property. There has to be a planned gradual development, but the increasing capacity of a nation to make and supply goods ought never to be hampered by the lack of *the means* to carry on the indispensable exchanges. As money is, broadly speaking, a claim on the goods capable of being produced by the persons owning property in a community, its rate of issue must be regulated by the rate of actualization of these goods. The regulation of the issue of money on other principles will lead inevitably to a defective and lopsided development of a country's resources.

In the history of the Bank of England, we find the issue of money regulated by two very defective principles. The first of these is more or less clearly embodied in the Tonnage Act or Bill of 1694, by which the Bank of England came into being almost by the back door. (The expression "almost by the back door" is that employed in the *Encyclopaedia Britannica*, 14th Ed., Vol. III, Art. *Bank of England, p.* 53). The preamble reads: "A Bill for granting to their Majesties several Rates and Duties upon tonnages of Ships, Vessels, and upon Beer, Ale and other Liquors: for securing certain Recompenses and Advantages, in the said Bill mentioned, to such persons as shall voluntarily advance the sum of Fifteen hundred thousand pounds towards carrying on the War against France." The chief of the "Recompenses and Advantages," which were granted to subscribers to the loan, who were to constitute a Corporation to be known as "The Governor and Company of the Bank of England," was that the Corporation was to have *the right to issue notes up to the volume of its total capital.* "The Bank's Capital was £1,200,000," writes G. B. Knowles in *Britain's Problem*, "the whole of which sum was to be advanced to the Government at a rate of 8 per cent., plus £4,000 per annum for expenses, or £100,000 per annum in all. The privileges of a bank were granted for twelve years to the Corporation, which was allowed to deal in bills of exchange or bullion, but not in merchandise, and. . . to manufacture and issue notes up to a volume equal to that of its capital. To use William Paterson's own words: 'The Bank hath benefit of interest on all moneys which it creates out of nothing.'" When the Bank's Charter was renewed in 1709, the right was granted to double its capital and so its note issue.

Thus the issue of new money depended, not upon the rate of actualization of the country's resources, but upon the amounts borrowed from time to time by the Government, and those borrowings were largely for foreign wars. This was the beginning of that phenomenon which has given rise to so much criticism since the Great War (1914–18). Money is forthcoming in abundance for war but not for the peaceful development of the country. "The first advance," writes Mr. Belloc in his *Shorter History of England*, "had been just over a million. In four years the National debt was twenty millions, and in twenty years it was already over fifty millions. It became a permanent institution. In this fashion Governments were enabled, for their purposes, to saddle posterity with the duty of financing their wars, whilst what was worse, wealthy men found the opportunity for levying a permanent tax on the community. If you had £10,000 to invest all you had to do was to buy Government stock, and you were certain of getting your interest for ever out of the taxpayers."

Another defective principle with regard to the issue of money was adopted by the Bank of England about 1783. In the *Rise of the London Money Market*, by W. R. Bisschop, on pages 168 and 169, we read : " Whilst in 1780 the value of the notes in circulation was about £6,500,000, this amount had risen to £9,500,000 in 1783. About this time the Bank adopted the unfortunate theory that the note circulation should be contracted simultaneously with an efflux of gold from the Bank, in order to bring about a reflux of the specie withdrawn... The author of this idea was Mr. Bosanquet." In a note the same author adds : " According to Mr. Bosanquet the single fact sufficed that gold was withdrawn from the Bank irrespective of the question whether it was required for internal circulation or for abroad."

It is quite clear that making the volume of money dependent on the volume of gold not only divorced the supply of money available in the country from any relation to the actualization of the country's productivity, but by causing the amount of money to fluctuate was bound to prove disastrous for the stability of the price-level. It is not necessary to elaborate the first point, as it is quite clear. The second is excellently treated by Mr. Geoffrey Crowther in *An Outline of Money*. " The two functions of the gold standard," he writes, " are quite distinct. The first, aiming at control of the volume of note issue, is obviously concerned with the internal value of the currency ; we may, therefore, call it the Domestic Gold Standard. The second, aiming at the stability of the external value of the currency, we call the International Gold Standard. . . The cardinal point in the Domestic Gold Standard is clearly the proportion of volume enforced by the law between the gold reserve and the currency. The essence of the International Gold Standard is the convertibility of the currency into gold—that is, the fixed proportion of value between a unit of gold and a unit of currency. . . Not only is a minimum gold reserve a wasteful way of regulating the volume of the currency, it is also a most capricious one. For it does not stabilize the volume of the currency, it merely stabilizes the relations between the volume of gold and the volume of the currency, and if the volume of gold is itself fluctuating, the Domestic Gold Standard does not stabilize the volume of the currency but forces it to fluctuate. . . An expanding, progressive world needs an expanding supply of currency, and if the annual percentage increment to the gold stock does not equal the annual increase in the demand for currency there will tend to be either an excess or a deficiency of currency, and hence a tendency to rising or falling prices. This can be clearly seen from the monetary history of the nineteenth century." Since " pursuit of price stability is not compatible with maintenance of the gold standard," the principle adopted by the Bank of England about 1783 was in reality the abandonment by those manipulating the primary currency of the world of the essential property of an exchange-medium.

Another evil arising out of the adoption of the Domestic Gold Standard is that gold can be cornered and thus the power to see-saw prices in different countries will fall into the hands of a few men. It is bad enough to have to endure instability of prices owing to the action of what we may call natural causes on the supply of gold : it is the very reversal of order to have the well-being of the community, the Common Good, at the mercy of a few schemers, while the National Government looks on helplessly. " Always remember," writes Miss G. M. Coogan in *Money Creators*, " that the price of an ounce of gold, in terms of the currency of any nation, is *purely arbitrary* : it is fixed either by law, as in so-called fixed-conversion countries (U.S.A., Holland, France), or by open market bidding by the gold brokers (England, the Colonies, Argentine, etc.). . . Gold brokers, it is reported, meet daily in London at the office of the Rothschilds. The Rothschilds are very conveniently the agents for the Royal Mint. The following firms (in addition to N. M. Rothschild and Sons) appear to constitute the assembly of gold brokers : Samuel Montague and Co., 114 Old Broad Street, London, E.C.2 ; Mocatta and Goldsmid, 7 Throgmorton Ave., London, E.C.2 ; Pixley and Abell, Palmerston House, Old Broad Street, London, E.C.2 ; Sharpe and Wilkins, 19 Great Winchester Street, London, E.C.2. After England suspended gold payments in 1931 the gold brokers began to change the purely arbitrary price of an ounce of gold in London and in the British Colonies."

" Gold has been cornered, scrambled for, and hoarded," said the Rt. Hon. Winston Churchill in 1932. " It has risen enormously in price and the value of everything we have or earn has been diminished accordingly. This monstrous process has only to be continued long enough to shatter the civilisation, as it has already broken the prosperity, of the world as we have known it."[1]

[1] Quoted in the Introduction to *Tyranny of Gold*, by Hiskett.

THE BANKERS' DISCOVERY

Given the defective principles of money-manipulation outlined in the last section, it is easy to see how the financiers came to occupy their present dominant position in modern States. The bankers observed that about 90 per cent. of their total stock of gold remained in their vaults entirely undisturbed, and that only about 10 per cent. of the precious metal was required for the normal transaction of business. The Banks then began to circulate far more promises to pay gold than they had gold to meet, and to collect interest on the fictitious money. The bankers "discovered that they could lend far more money than they possessed," writes Sir Reginald Rowe in *The Root of All Evil*, "that is to say, that they could issue far more promises to pay in gold than they could meet with all the gold of their coffers. This was because it was found in practice that the promised payments were never simultaneously demanded; in fact, except in crises, never more than one-tenth of these at any time."

What bankers had discovered was simply the working of the law of averages. Modern organization of money and banking depends almost entirely on the law of large numbers. If tokens were issued, say, to about a dozen people, one could never predict what would happen. The whole dozen might walk in and claim gold. But when one is dealing with millions of people the lodgements and withdrawals will tend to cancel out. Similarly a company could not insure only twelve people, for it could not predict their mortality; but it can make a good statistical prophecy about twelve thousand. In the days of the gold standard, "redeemability of notes could normally be kept up," writes Professor O'Rahilly in *Money*, "because though a number of people presented notes and obtained gold, a practically equal number presented gold and obtained notes. Thus it was not necessary to keep a gold backing for every note issued. It was sufficient . . . to keep a marginal amount, that is, sufficient to cover fluctuations about the average. . . If the redeemable tokens are issued on a sufficiently large statistical scale, the excess of withdrawals over lodgements in any period—and the excess of lodgements over withdrawals in some other period—will be reduced to a small fraction of the total concerned. Moreover, these fluctuations will become regular and predictable. . . Thus it becomes quite safe . . . to issue redeemable tokens to which no gold corresponds." In other words, the goldsmiths or bankers found that they could not only lend nine-tenths of the gold originally entrusted to them but also that they could put into circulation, through " credit-worthy " borrowers, their own notes or receipts up to ten times the amount of these nine-tenths and yet be certain in practice of being able to pay out gold on demand for the proportion of notes presented at the cashier's desk. By the covering of 10 per cent. the bankers were always able to maintain the illusion that the whole of their notes and receipts were convertible into gold or were " backed " by gold. " The successful maintenance of this illusion," writes Jeffrey Mark, whose explanation in *The Modern Idolatry* I have just summarized, " which depends essentially on the proportion of people in the community who, in practice, are likely to and do present their notes for gold redemption at the same time, is the ' convertible paper ' and the ' sound ' money of the modern banking system."

" If we add to this fact," the same writer continues, " that these ' fictitious loans ' (to borrow a convenient phrase from Prof. Soddy) were only granted against evidence of tangible security deposited with the goldsmith in an amount always in excess of the loan, and that this security was confiscated by the goldsmith if these ' loans ' were not ' repaid ' when called, we have an accurate picture in miniature of the modern financial system, under whose dictates we all necessarily live and suffer. Modern finance, even in the complicated medley of bugaboo which is carried on under the sounding titles of High Finance and International Finance, is simply a vast elaboration and mystification based absolutely on these simple but mysterious principles."[1]

The toleration by the State of this practice of lending promises to pay to ten times the amount of money which the bankers had in their possession was the second and more important step in the bankers' advance to control in modern States. From the point of view of the ordinary man, and especially of the poor, it was the second and more fatal error. In point of fact, Governments later on failed to realize that the so-called promises-to-pay, i.e. cheques, had become money, in fact a far more important category of money than that issued by the State.

[1] *The Modern Idolatry* is published by Chatto and Windus, London.

CHAPTER IV

NATIONAL FINANCE AND THE GOLD STANDARD

Having seen the fundamental principles underlying the orthodox functioning of the Gold Standard, let us now examine the system at work in national finance. In the next chapter we shall see its effects on international trade.

Let us first examine the approximate figures of the various elements composing the medium of exchange in Great Britain, the country of origin of the Gold Standard system of finance. The figures are taken from page 55 of the excellent work already quoted, namely, *The Modern Idolatry*, by Jeffrey Mark. They are not meant by the author of this book, published in 1934, to set forth the exact amount in use, but to give a fairly accurate idea of the proportion which each kind of exchange-medium bears to the others and to the whole amount. The actual figures may vary considerably, but the ratios between the categories remain substantially the same.

In Great Britain, out of £2,500 millions of exchange-medium, approximately 10 millions are in copper or bronze, 40 millions are in silver, 450 millions in Bank of England notes, and 2,000 millions are what are called Bank deposits. Bank deposits are really loans made by the banks and finally controlled by the Central Bank, in this case, the Bank of England. "Of the 450 millions in bank notes some 250 millions represent the British 1 pound and 10 shilling Treasury notes issued during the World War, which in 1928, under the terms of the Banknotes and Currency Act, came under the control and are now the virtual property of the Bank of England. . . State-issued money now consists entirely of the bronze (or copper) and silver coins, that is, about £50 millions. The Banks now own and claim as their property some £2,450 millions out of £2,500 millions. It is, therefore, clear that the British Banks have created, except for about 2 per cent., and now own, all the money in circulation in England, as a debt against the community. . . The situation in the U.S.A., and indeed in all civilized countries to-day, is substantially the same." Before we pass on, a remark must be made about the use of the word "own" in the above quotation from Mr. Jeffrey Mark. "Controls or administers" would be more accurate. Professor O'Rahilly treats of the point on pp. 70–148 and again on p. 358 of his invaluable work, *Money*.

In 1934, therefore, about 98 per cent. of the money of Great Britain was controlled by the Banks. We need not make any distinction from this point of view between notes and bank deposits, for whether on the presentation of security £1,000 is credited to a man's account in a bank ledger and he writes cheques against it, or he obtains that bank's own notes for £1,000 and spends them, a "deposit" has been created or an "advance" made—and money or exchange-medium has been brought into being. Notes give a clearer impression of new exchange-medium being put into circulation; that is all. "What is created in the first instance," writes D. W. Maxwell in *The Principal Cause of Unemployment*, "is a bank deposit or what is called a 'deposit.' For instance, if Mr. X obtains an 'advance' of £50 against security on Dec. 30 and does not spend it, the bank balance sheet of Dec. 31 will include the following items among many similar items :—

Liabilities		Assets
Deposit of Mr. X	.. £50	Advance to Mr. X. £50

A bank 'deposit' has been created."[1]

"There is no economic difference," writes Professor O'Rahilly in *Money*, "between those two methods (notes and cheques) of creating new purchasing money. There would be no difference at all if, instead of giving the customer a book of blanks to be filled up as required, the banks were to issue a block of coupons of denominations such as 10s., £1, etc. As things are there is merely a slight juridical distinction between a bank note and a cheque; a note is an absolute obligation to pay; a cheque is a contingent obligation, it may be dishonoured if the customer has overdrawn beyond his agreement. . . Hence there is no real social or economic difference between (1) a bank of issue which creates new purchasing power by the emission of notes and, (2) a bank-of-deposit which creates new purchasing power by the issue of credit transferable by cheque. The confusion of thought is chiefly due to the persistence of the word 'deposit' which no longer means *depositum* but a debt."

These points must be insisted upon because of the mistaken

[1] *The Principal Cause of Unemployment* is published by Williams & Norgate, Ltd., London.

idea that people have that "the function of the banker is, firstly, to take care of 'their' money, and, secondly, to make profits by lending 'their' money to other people at a higher rate of interest than they themselves allow on deposits or on checking accounts. In the true sense of the word, the public do not own any money at all, and the phrase 'bank-deposit' is a legal euphemism. Seeing that all money comes into existence as a debt created in favour of the banking system of the world, the plain truth is that bankers must always lend their own (created) money however much it may be criss-crossed between private 'debtors' and 'creditors' subsequently. No one has really any money to lend to the banks on 'deposit' because all money 'owned' by depositors derives from a loan made by the banks to somebody else. . . Yet the line taken by bankers, when publicly explaining any new move in policy, is that they have done so to protect their depositors' money. . . The situation is simply this: Seeing that all credit is created by bank loans, for every 'deposit' in a bank, there is an equivalent loan somewhere else in the banking system, so that the total of 'deposits' is equal to the totality of the bank loans. . . The amount of money in existence is increased if the aggregate of loans granted is greater than the aggregate of loans repaid or called in (credit expansion). It is decreased if the aggregate of loans granted is less than the aggregate of loans called in or repaid (credit contraction). . . Now the extent to which a bank can make loans is determined by its 'cash' holdings, which, in England, varies with the amount of its balance at the Bank of England, as the Rt. Hon. Reginald McKenna, the able Chairman of the Midland Bank, laid down at a meeting of the Midland Bank Shareholders (in 1927): 'Variations in the quantity of money are due to variations in the total of bank cash. . . The total of bank cash is determined solely by the action of the Bank of England.' The authority of the Bank of England in fixing the amount of money in England is therefore absolute. The genesis of all inflations and deflations of the currency comes from a private corporation whose policy is not controlled by Parliament."[1]

Before passing on to speak of the evils of inflation and deflation, it will be well to explain the meaning of the phrase used above, namely, that "variations in the quantity of money are due to variations in the total of bank cash." Briefly it means that, as bankers are accustomed to lend promises-to-pay up

[1] *The Modern Idolatry*, by Jeffrey Mark.

to ten times the amount of legal-tender money which they either possess or can count upon securing in case of a 'run' upon them, bankers' loans vary with the amount of their available legal-tender money. A banker's balance sheet shows how much legal-tender money he can count upon under the heading 'Cash and Deposits at the Central Bank.' *Cash* is the amount of legal-tender money he has actually in his possession. *Deposits at the Central Bank* are the credit balance of the private bank at the Central Bank. Deposits at the Central Bank are reckoned as cash because they can be immediately converted into legal-tender money. The Central Bank will see to that.

There is one very important difference between Cash and Deposits at the Central Bank. Cash is legal-tender money. Deposits at the Central Bank are a credit balance at the Central Bank, for which legal-tender money can be obtained. The Central Bank by what are called 'open-market operations,' can increase or decrease the private bank's available supply of legal-tender money, on which it has lent ten times the amount. When the Central Bank buys securities in the open market, it pays for them by cheques drawn on itself. "The sellers of these securities lodge these cheques to their credit in their own banks . . . thus increasing their own deposits. The banks pass these cheques into the Central Bank, thus increasing their balance at the Central Bank. . . Hence the Central Bank by its 'open-market operation' has increased the cash-ratio of the banking system. And it is easy to see that if the Central Bank sells securities (instead of buying them) it decreases the cash-ratio of the banks as a whole." Hence the Central Bank can control the lending powers of the private banks and increase or decrease the amount of exchange-medium in the country. The Central Bank is controlled by the movements of gold, when the gold standard is functioning. An export of gold forces the Central Bank to reduce the credit balances of the private banks. Those who wish to study these questions further will find these brief explanations developed in *Promise to Pay* by R. McNair Wilson and *Money* by Professor O'Rahilly.[1]

THE MEANING OF INFLATION AND DEFLATION

We have seen that by far the greater part, in fact all except (less than) 2 per cent., of the exchange-medium in use in Great Britain comes into existence as a loan from the banks, in the

[1] *Promise to Pay* is published by George Routledge & Sons, Ltd. *Money* is published by the Cork University Press.

form of promises-to-pay. We may say, then, that the exchange-medium of that country is practically created by the banks and that the rate of its creation is regulated by the private corporation called the Bank of England. " Instead of lending notes," writes Professor Soddy in *The Rôle of Money*, " the banks, in effect, now lend cheque-books and the right to draw cheques up to limited sums beyond what the borrower possesses. For nearly a century, until the revelations of the war made it impossible to conceal the truth from the general public, the bankers stoutly denied that they were creating any money at all, and claimed that they were merely lending the deposits their clients were not using. The President of the Bank of Montreal not a year ago continued to repeat this, but, nearer the centre of things, all this was known and admitted by the orthodox apologists for this monstrous system even before the War, usually by some such lying phrase as, ' Every loan makes a deposit.' A loan, if it is a genuine loan, does *not* make a deposit, because what the borrower gets, the lender gives up, and there is no increase in the quantity of money, but only an alteration in the identity of the individual owners of it. But if the lender gives up nothing at all, what the borrower receives is a new issue of money and the quantity is proportionately increased. So elaborately has the real nature of this ridiculous proceeding been surrounded with confusion by some of the cleverest and most skilful advocates the world has ever known, that it still is something of a mystery to ordinary people, who hold their heads and confess they are ' unable to understand finance.' It is not intended that they should."

Let us now examine the alternate periods of boom and depression known as the Trade Cycle or Credit Cycle. During the opening stage, money is increased by the fact that more bank loans are made than are repaid. This causes a rise in prices and a corresponding diminution in purchasing-power in the money already in the hands of people. This happens because the amount of exchange-medium is increased before goods are ready to be exchanged, in consequence of its being left to private individuals, frequently mere speculators, to decide how much money shall go into circulation. Their aim, of course, is not to keep the price-level stable, while enabling the potential productivity of the country to be developed, but to make profit for themselves. During the first stage, employment increases, producers and traders take loans. There is an increasing demand for goods. Prices continue to rise until purchasers at home, whose salaries and incomes have not risen in proportion, begin to buy abroad. This they can do by shipping gold instead of goods, for the price of gold is fixed and has not risen. But the moment gold begins to leave the country the bankers fear for their solvency, so they do not renew their loans when they are repaid. Money is thus withdrawn from circulation and the second stage of falling prices begins.

The loans contracted when prices were rising have now to be paid back when prices are falling—borrowers have to sell far more goods in order to obtain the same quantity of money to pay the banks—so a number of traders go bankrupt. Their securities are sold up by the banks or held until later, when another boom will enable them to be disposed of advantageously. The speculators sell when prices are still high, that is, if they are "in the know," and then wait before buying again till prices have fallen to the lowest level. A period of depression sets in and continues till the Central Bank, the Bank of England, gives the signal for a new series of loans by buying securities. That action gives the sellers' bank a credit balance at the Bank of England. Thus that bank, having more "cash" at the Central Bank, can create more ledger-money. A new Credit Cycle begins and follows the same disastrous course as the former. The rise of prices in the first stage swindles all creditors for the benefit of debtors. The fall of prices in the second swindles all debtors for the sake of creditors.

Ordinary people have a difficulty in following all this, because they always think of the bankers as lending money or exchange-medium that has an existence independent of the banker's fiat. "What is not generally realized about the 'Credit Cycle,'" writes R. McNair Wilson in *Promise to Pay*, "is that the bankers are making profits both ways, by compelling buyers to pay them tribute during the booms and by compelling sellers to pay them tribute during the slumps—and all this by means of loans of promises-to-pay what none of them possessed—money." Ordinary people seem to have accepted, as they are meant to do, the explanation that all these cycles are the working of the law of nature. They will do well to read the interesting speeches put into the mouths of bankers and others by Miss G. M. Coogan in *Money Creators* (p. 28) and R. McNair Wilson in *Promise to Pay*.

According to Miss Coogan, the strong-room keeper, speaking at a meeting summoned to inquire into the cause of depression, "in a sad voice told the committee that he regretted more than anyone in the community that the laws of economics were so rigid and did place such burdens on mankind, particularly on the weaker members of the community. It made him very sad to see under-nourished and poorly-clad children . . . but man did not make the laws of economics and he, as a guardian of the community's money, could do nothing else but recognise those bitter laws. There was simply no solution for the problem except economy. . . The community would have to face its problems courageously and they would simply have to economise more until the people either paid what they owed or surrendered their property. That was the only sound solution. They certainly had no desire to violate the laws of economics."

According to R. McNair Wilson, the banker waxes more lyrical about the laws of nature : " This movement of prices up and down," he declares, " is inherent in human nature. It belongs, too, to the nature of things as well as to the nature of men. Look at the seasons. Out of Winter darkness emerges the sunlight of Spring. . . But all too soon the days begin to draw in. . . Never forget that a banker's first duty is towards his clients, the honest and frugal folk who have entrusted to him the savings of their lifetime. . . Would you have him make use of your savings to attempt to change the laws of nature, to try to sow in the time of reaping ?. . . There is no financial conjuring trick, believe me, which can change by an iota that law of nature, that economic law, that inexorable economic law." [1]

SOME HISTORICAL EXAMPLES OF PLANNED DEFLATIONS

The first example will be taken from the monetary system of the U.S.A. as outlined by Miss Coogan in her splendid book, *Money Creators*. She writes as follows : " Just one week after President Cleveland was inaugurated, the ' Panic Circular ' was issued, March 12th, 1893. It appealed to the bond-holding classes to ' advocate an extra session of Congress for the repeal, unconditionally, of the Sherman Silver Law.' It was issued directly from the American Bankers' Association

[1] " The whole of that region (i.e., The East End of London)," wrote *The Times* at the time of the 1866 bank-crash, " is covered with huge docks, shipyards, manufactories and a wilderness of small houses, all full of life and happiness in brisk times but in dull times withered and lifeless, like the deserts we read of in the East. Now their spring is over. There is no one to blame for this ; it is the result of Nature's simplest laws." This is quoted by Christopher Hollis in *The Two Nations* (p. 102).

and addressed to all 'National Banks' throughout the U.S.A." Miss Coogan then continues:

"The following is a direct quotation from a resolution introduced to the 63rd Congress, First Section, April 29th, 1913, by Hon. Charles A. Lindberg, Sen., :—

"In eighteen hundred and ninety three a circular was sent out by the American Bankers' Association, an organization in which most bankers hold membership. It is known as the 'Panic Circular of eighteen hundred and ninety three'. . . and was *mailed* to the National Banks. It read as follows:

"Dear Sir:—The interests of national banks require immediate financial legislation by Congress. Silver, silver certificates, and Treasury notes must be retired, and National Bank notes on a gold basis (the phrase 'gold basis' always means a debt basis) made the only money. This will require the authorization of 500,000,000 dollars to 1,000,000,000 dollars of new bonds (debts) as the basis of circulation. *You will at once retire one-third of your circulation (your paper money) and call in one-half of your loans. Be careful to make a monetary stringency among your patrons, especially among influential businessmen.* Advocate an extra session of Congress to repeal the purchasing clause of the Sherman Law, and act with other banks of your city in securing a large petition to Congress for its unconditional repeal per accompanying form. Use personal influence with your Congressmen and *particularly let your wishes be known to your Senators.* The future life of national banks, as fixed and safe investments, depends upon immediate action as there is an increasing sentiment in favour of governmental legal-tender notes and silver coinage." [1]

The second example of the functioning of the "economic law" of alternate boom and depression will be taken from the recent monetary history of Great Britain. In regard to this example we are particularly favoured, for eight years before the "coup" took place, Mr. Arthur Kitson foretold that it was being prepared. In his book, *A Fraudulent Standard*, published by King and Son, in 1917, we read:

"Just now a few great financiers are contemplating the most gigantic 'deal' that has probably ever been conceived, and one which if perpetrated by any other class of the community even on a very much smaller scale would be denounced as barefaced robbery. . . This deal is nothing less than doubling the national, and incidentally, all other debts, by doubling the

[1] The additions in brackets are from the pen of the Hon. C. A. Lindberg.

present value of our monetary units. The object of this is to double the present value of their War Loan Investments, regardless of the terribly disastrous industrial and social results which must ensue. This robbery will be accomplished, if it is not checked in time by public sentiment, in a perfectly legal manner by a complacent Chancellor under the guise of a measure for the public welfare, for the sole purpose of removing 'inflation' and reducing prices that have risen mainly through the creation of the very currency and credit constituting the War Loans. The measure will aim at restoring what money-dealers term our 'good, sound, honest gold currency,' by destroying the Treasury notes and reducing bank credit to the pre-war proportions. The effect will naturally be to double the purchasing power of the pound at the expense of every wage-earner, producer, merchant, manufacturer, tradesman and taxpayer in the country. . . Nominally, of course, the amount of the War Debt will undergo no change. The figures will remain the same. . . By altering the value of the pound, which is easily accomplished, the trick is done and the debt, although nominally £6,000,000,000, becomes in reality £12,000,000,000 in terms of the present purchasing power of money, corresponding to the money actually on loan : similarly, although the normal rate of interest is 5 per cent., by this method of tampering with the value of the pound, these investors will actually receive 10 per cent. on their original investment. . . This will mean that every taxpayer will have to give at least twice the amount of his goods and labour to meet his taxes, than that which he has had to furnish under present conditions."

In *The Bankers' Conspiracy*, pages 25–27, Mr. Kitson touches briefly upon the results of the re-establishment of the Gold Standard, foretold by him in 1917. "This document (The Cunliffe Currency Committee's Report)," he writes, "advised the adoption of certain monetary policies which were accepted by the Coalition Government of Mr. Lloyd George in 1920, under the Chancellorship of Mr. (now Sir) Austen Chamberlain, and is directly responsible for the most disastrous period in the industrial history of this country. Notwithstanding the ruinous results of the deflationary policy recommended in this report during the years immediately following its adoption, Mr. Winston Churchill intensified these evils by establishing the gold standard in 1925, which precipitated the great strike of 1926. . . The gold standard, re-established in 1925, after inflicting untold losses upon our industrial classes and taxpayers, had to be abandoned six years later to save the country from ruin. The same policies as those recommended by the Committee, have also been tried in other countries since the War and with similarly ruinous results; hence the present World Crisis. By the universal adoption of the gold standard after its recommendation by the Cunliffe Committee, which was one of the main policies advocated by the League of Nations, an irresponsible super-Government was created, composed of a group of International Bankers. It required only a few years to prove the utter incapacity of these men to manage the world's financial affairs, and if the people of all civilized countries are not yet convinced of the terrible dangers attending the supremacy of the banking interests, there will be a repetition of the economic disasters of the last few years—but of a much more intensive character."

"We have to remember," writes Mr. Vincent C. Vickers, former director of the Bank of England, in *Finance in the Melting Pot* (p. 20), "that the value—that is to say, the purchasing power—of money, and consequently the price of goods, can be and has been varied intentionally and deliberately, not by the will or action of the State, but by those individuals who themselves manage and control the money—though they constantly aver that they act for, and on behalf of, the community. We returned to the Gold Standard in 1925 for the benefit of the City of London, and so ruined our basic industries. It does not follow that what is best for the City of London is best for the country.

"In consequence of past policy, a farmer who borrowed from his bank, say, in 1920, the money-equivalent of 100 sacks of wheat, might be obliged to sell 200 sacks of wheat a few years afterwards in order to repay that same loan, simply because a pound became twice as valuable.

"This is typical of the 'Gold Standard System,' which involves Inflation and Deflation. A Monetary system which begets such flagrant injustice, cannot be regarded as an equitable system. Yet no one in authority here dares to attempt to alter it, because the financiers don't want it altered."

According to Christopher Hollis in *The Two Nations* (p. 232), "Mr. Winston Churchill claimed that the return to gold was no more responsible for the troubles in the mining industry [in 1926] than was the Gulf Stream." "But," he adds, "all serious students agreed with Mr. Keynes in dismissing the argument as 'feather-brained.'" At any rate Mr. Churchill thought differently in 1932. According to *The*

Standard (Dublin), July 14, 1944, he said in the House of Commons on April 21, 1932:

"When I was moved by many arguments and forces in 1925 to return to the gold standard, I was assured by the highest experts, and our experts are men of great ability and of indisputable integrity and sincerity, that we were anchoring ourselves to reality and stability, and I accepted their advice. I take for myself and my colleagues of other days whatever degree of blame and burden for having accepted their advice.

"But what happened? We have had no reality, no stability. The price of gold has risen since then by more than 70 per cent. That is as if a 12-inch foot rule had been stretched to 19 or 20 inches, as if the pound avoirdupois had suddenly become 23 or 24 ounces instead of 16.

"Look at what this has meant to everybody who has been compelled to execute their contracts upon this irrationally enhanced scale. Look at the gross unfairness of such distortion to all producers of new wealth, and to all that labour and science and enterprise can give us. Look at the enormously increased volume of commodities which have to be created in order to pay off the same mortgage debt or loan.

"Minor fluctuation might well be ignored, but I say quite seriously that this monetary convulsion has now reached a pitch where I am persuaded that the producers of new wealth will not tolerate indefinitely so hideous an oppression. . . .

"I therefore point to this evil, and to the search for the methods of remedying it as the first, second and third of all the problems which should command and rivet our thoughts."

CHAPTER V

INTERNATIONAL TRADE AND THE GOLD STANDARD

FROM what has just been said about the organization of national finance under the Gold Standard, it can be easily seen that the system will not work satisfactorily in the realm of international trade. It inevitably leads to a state of affairs where every country wants to export goods in order to have a favourable balance of trade and where no country wishes to import. As, however, the exports of one nation are the imports of another, this leads to a deadlock. Sir Reginald Rowe sets forth the reason for this absurd situation briefly and clearly: " If we consider the International Gold Standard system, we shall see that it did not ensure an exchange of goods and services between nations to their mutual advantage but, on the contrary, ensured that nations should export their real wealth that is, goods and services, and obtain in return an admission of unpayable debt ; the debt was supposed to be payable in gold and was called a ' favourable ' balance, but if gold was, in fact, paid, the loss caused internal disaster to the country which paid it. Herein lies the reason, on the international side, why nations are so anxious to export and not import, although there is another internal reason connected with employment and the distribution of internal purchasing power through wages ; the latter is also a monetary problem. . . This country [England] for nearly 80 years had an annual so-called active ' favourable ' balance of approximately £100,000,000. This meant that after it had paid all its bills to the world for all the imports and services it required, it still had £100,000,000's worth of foreign currencies owing to it.

" Let us suppose, for the sake of simplicity, that the Argentine owed England annually the whole of this amount. England was then in a position to say to the Argentine : ' We have bought and paid for all the meat and wheat we required from you during the last accounting period, and after doing so we still have £100,000,000's worth of pesos for which we have no use. We can, if you like, offer them for sale on the foreign exchange. If we do, some English exchange broker will give us pounds for them, but clearly as there is no immediate demand by Englishmen for them, no Englishman will give us their normal exchange value. He will expect to get more of them for his pound than the par value. In other words, if we offer these pesos for sale it will knock down your exchange rate. When it falls to the point where the loss in exchange would be greater than the loss represented by having to pay freight and insurance on the transport of physical gold, we shall cease selling pesos and go to the Central Bank of the Argentine and buy bars of gold ; we shall ship them physically to England and sell them to the Bank of England and so get our pounds that way. When, however, the Central Bank of the Argentine loses gold to us, it will be obliged to take out of circulation paper pesos to a corresponding value. This will mean that the commercial banks will find themselves with less cash and, in order to maintain the same relationship of their loans to their cash, will be obliged to call in loans. This will mean that Argentine producers, manufacturers and merchants, will be obliged to throw their stocks on an unwilling market in order to raise the money to repay their bank loans. The throwing of these stocks on the market will have the effect of knocking down prices. It will be necessary for you to try to reduce wages as with lower prices you will not be able to afford to pay the same rate of wages as before. This will lead to strikes, and in any case, will destroy the purchasing power of the Argentine market.'

"The Argentine would reply, 'But this is terrible,' to which England was in a position to answer, 'Yes, devastating, and there is only one way out of the difficulty and that is that you borrow £100,000,000's worth of pesos at interest so as to take them out of harm's way. There will then be only due from you the annual interest. Next year, however, there will probably be another £100,000,000 which you will similarly have to borrow plus the interest on this year's £100,000,000.' In 14 years at 5 per cent. compound interest each £100,000,000 would double itself. It will thus be seen that under the system, the Argentine was given the choice of getting hopelessly into debt to England or of losing gold with devastating effects."[1]

[1] *The Root of All Evil* is published by the Economic Reform Club, 32, Queen's Avenue, Muswell Hill, London, N.10.

There is another side to this question, namely, the side of the people induced to invest in foreign enterprises. Interest is paid on these loans only to the extent that the creditors make further advances to enable the borrowers to do so. Christopher Hollis treats the point excellently : "Every year with but few exceptions, if you count in our invisible exports such as

The kernel of the difficulty of international trade under the Gold Standard system is that when a country's imports exceed its exports, the banks are liable to be asked for gold to cover the deficit. The reason is that the exchange will go against the country whose exports are down. At a certain point it will come to be more advantageous for those who have to pay debts in another country to buy gold, the price of which is fixed, and ship it to the other country to buy the exchange-medium of that country. The export of gold will prevent the further fall of the exchange. For example, at one time, \$4·86 bought one pound in the foreign exchange market, for each was worth the same amount of gold. If English exports to the U.S.A. came to exceed greatly English imports from the same country, there would be a great demand for pounds sterling and the cost of the pound in terms of dollars would gradually rise. When it reached \$4·90, the difference between \$4·86 and \$4·90 would cover the cost of freight, insurance and loss of interest on gold. When gold could thus be bought and shipped, no one would pay more than \$4·90 for a pound and the exchange would remain stable. Gold would be shipped in the opposite direction if the pound fell to about \$4·84.

But the ' drain of gold ' as it is called, will have a disastrous effect on the gold-exporting country. " Since International Bankers, like Home Bankers, are lending promises-to-pay ten times the quantity of money they actually possess, it is obvious that strict limits are set to the export of gold . . . In fact the International Bankers protect themselves by refusing to lend and trying to call up as many as possible of their existing loans—just as, in similar circumstances, the Home Bankers do." The results are that prices fall and the country tries to sell goods at a loss, while taking steps to recapture export trade by cutting down wages and dismissing workmen. Low wages mean the possibility of big exports. This means a lowering of the standard of living, especially of the wage-

shipping and other services, we had a favourable balance of trade ; every year we gave away more than we received. Therefore it is evident that last year's foreign investor, who thought he was this year receiving his dividend from his foreign investment, was not really doing so at all. He was really living on the savings of this year's foreign investor, who in his turn was to live on the savings of next year's foreign investor, and so on and so on, until the system's final and inevitable collapse. . . . Our exports visible and invisible, every year considerably exceeded our imports and there was a surplus left over for foreign investment. What in truth regulated the quantity of goods which we sold abroad was the quantity of loans which our financiers saw fit to make to foreigners to enable them to buy those goods " (*The Two Nations*, pp. 95, 115).

earners. "The people whom International Finance is playing off against each other," writes R. McNair Wilson in *Promise to Pay*, "are not merely the merchants and industrialists of the world. The wage-earners in every country are being pitted against the wage-earners in every other country. The attack on wages is everlasting and it is conducted by means of the wage-earners themselves who have nothing to hope for unless they can produce cheaply, that is to say, unless they will accept lower wages than all their competitors. . . The men, naturally, blame their masters; the masters blame their men. Both are helpless in the hands of the International Bankers since it is they who control the quantity of money in their markets. . . If wages are not cut, half the businesses will be bankrupt. And when wages have been cut the whole hideous cycle will begin once more. Is it any wonder that, in such circumstances, Communism and Socialism, both will-o-the-wisps, flourish? Is it any wonder that class is set against class? Master against men? Nation against nation? Nobody suspects the true enemy."

The whole tendency of the system, then, is to lower the standard of living, since a country with a lower standard of living or low wages will be able to export. It is true that the Gold Standard keeps the value of money of any country stable in terms of foreign currencies, but this is only another way of saying that it tends to prevent wages in any country from remaining high when wages anywhere else fall. The net result is a dreadful struggle for the necessaries of life in the midst of potential sufficiency, the struggle being made far more tragic by gambling in the different currencies and speculation on the stock-exchanges of the world.

A striking example of gambling in currencies is given by Mr. Arthur Kitson in *The Bankers' Conspiracy*. He writes: "Some years ago *The Bankers' Magazine* gave a startling example of the depreciation in the prices of 325 of our representative investments, caused by the withdrawal of £11,000,000 in gold from the Bank of England by a group of American financiers. The transfer of this amount caused a fall of prices equivalent to £115,000,000. The absorption of the same gold caused a corresponding advance in the prices of certain American securities. By first selling English securities and then buying American, they had merely to transfer so much gold and afterwards reverse the transactions by buying and selling respectively and the game was won! As a well-known financial writer stated at the time: 'These speculators were playing upon two tables at the same time—one in London and the other in New York—with the certainty of winning on both.' "

Let us now examine a little more profoundly the reason for the urge to export goods, which every country experiences, in spite of the fact that many under-nourished and ill-clad people in almost every country lack the very goods that are being exported or the goods into which they could be converted. " Plenty of wool and no markets," announced a Dublin daily paper some time ago. " Plenty of poor and no blankets," was the very apposite comment of the humorous journal, *Dublin Opinion.*

The ultimate reason for the urge to export is to be found in the fact that 98 per cent. of all the money in existence comes into being with a demand for interest at 5 per cent. attached to it. We have already seen that in 1934 Bank-created money in Great Britain was over 98 per cent., while State-created money was less than 2 per cent. Now, " no more money can come out of the system than is put into it. If a certain proportion of businesses manage to pay back both principal and interest of their loans, the possibility or actuality of bankruptcy is automatically intensified for the whole of the remainder." The payment of the interest of money brought into existence as a debt involves the payment of more than is issued. This cannot be done without further borrowing, so the process means steady progression into debt for the society as a whole. It necessarily means also that, in every business cycle, a certain amount of the goods produced in that cycle remains unpurchased. This unpurchased surplus is increased by the fact that certain individuals in the society save up and re-invest their savings. Thus, as industry develops thanks to more and more loans, there is an ever increasing surplus remaining unpurchased within the area of the society, and there is an ever increasing demand for foreign markets. Debts, however, increase much faster than production, and production increases far more rapidly than distribution ; so the urge to send goods abroad is accompanied by a proportionately increasing inability on the part of the inhabitants of the home-country to profit by the developing production. " The inevitable result of a financial system based on usury," writes Mr. Jeffrey Mark, " is the progressive accumulation of debt and a complementary decrease in the ratio between consumption and production. Between 1922 and 1929, for instance, debt claims in the United States increased 76 per cent., against an increase in manufactured output of only 33 per cent., and the distribution of consumer goods only 4 per cent." The standard of living was raised but not at a rate commensurate with the increase in production.

Accordingly, the inevitable condition of foreign trade under the Gold Standard System is that every industrially developed nation must strive to export more than it imports. "If some nations have 'favourable' balances of payments," we read in *A Twentieth Century Economic System*, "other nations must have 'unfavourable' ones. International trade has therefore degenerated into financial war, instead of being an exchange of goods and services to the mutual advantage of both parties."

THE URGE TO WAR AND DESTRUCTION

It is unnecessary to dwell at length on the way the system we have described impels towards war. As practically every nation is suffering from "over-production" and is trying to get rid of a "surplus," which its own impoverished thousands cannot purchase, the success of one nation in exporting means the intensification of the difficulties of another. Hitherto what was termed "industrial progress," along the lines indicated, could be maintained by the exploitation of "backward" nations. But now the once "backward" nations have themselves a "surplus" to export. A terrible struggle for control of the remaining partially developed countries and a state of tension, which the armament manufacturers view with a glowing gratification because of *their* particular "surplus stocks," are inevitable.[1]

War means wholesale *indiscriminate* destruction, but peace, too, under the present monetary system means wholesale *systematic* destruction. Why is this? Because thus the prices

[1] To Catholic students of history I would strongly recommend p. 217 in *The Two Nations*, by Christopher Hollis. "It was mainly into the countries of Spanish America," he there writes, "that American capital found its way. Some of it went there for those countries' economic development: other loans were political. For these latter there was almost a regular formula. It would be suggested to General X that he should raise a revolution against President A. Money would be lent to him to make the revolution and to President A to suppress it. For a time the loans would be so controlled as to keep the rival fighting forces roughly equal. Then, when it appeared that no more could be squeezed out of the country, one of the combatants would be offered far more liberal loans than his rival on the condition that, when successful, he made himself responsible for his rival's debt as well as his own. The Church would be either pillaged or reinstated according to whether it had been found the more convenient to make the liberals or the conservatives win. . . . It [this formula] was used by Woodrow Wilson to establish in power the anti-clerical régime of Madero in Mexico and to depose President Sam from the Presidency of Haiti."

of the remaining stocks will be raised, it is hoped, and the producers will be enabled to meet some of the interest-claims on their debts. We have seen that production and distribution of real wealth are tolerated in so far as they facilitate the payment of interest on debts. Production and distribution which threaten to interfere with such payments cannot be allowed. Tariffs and quotas and the formation of Boards for Planned Economy and Orderly Marketing are employed, as well as systematic destruction, to diminish and check production. Distribution, already terribly ineffectual, of course, suffers proportionately. The tariffs, quotas and Boards are very effective in reducing production and hampering distribution, but destruction is more spectacular, so it attracts more attention. " In July, 1933, in Liverpool," writes Mr. Jeffrey Mark in *The Modern Idolatry*, " thousands of cases of oranges were dumped into the sea, as it would have been a ' loss to land them.' Up to April 30th, 1932, 5,600,722 bags of coffee had been purchased for destruction by the National Coffee Council of Brazil. Some eight months later, the National Coffee Council announced plans . . . for the stabilization of coffee prices, including the destruction of 12,000,000 bags in the next twelve months and the placing of an additional tax of five shillings a bag on coffee exports from the country. The decision to destroy the 12,000,000 bags was reported as unanimous by the *New York Times* of December 7th, 1932. . . In the middle of July, 1933, Mr. Wallace, the Secretary for Agriculture in the United States, announced the success of the scheme (to take land out of cultivation) by the statement that 10,000,000 acres under cotton had been left to waste, the potential crop being thereby reduced by 3,500,000 bales. The bonuses to farmers for this strange attempt to relieve the lot of a half-starved world involved a sum of approximately 100,000,000 dollars.

" At the same time, a long drought, heat and the ravages of grasshoppers united in causing severe damage to the American wheat crop, so that, according to London *Daily Mail* for the 28th June, 1933, nature is helping President Roosevelt to restrict production, thereby ' paving the way to world recovery.' The news of this triple disaster from drought, blight and grasshoppers was received with acclamation by farmers, salesmen, press and public in the Chicago Wheat Pit, and it is clear that the universal obsession with regard to money and debt has driven the world mad, when there is more joy over one crop that fails than over ninety-nine bounteous harvests. "

Similar information about the same points was given in an article in the *Catholic Herald* (London), which stated that "a regular feature of our capitalist-ridden economy was the destruction of the fruits of the earth as a legitimate method of maintaining price-levels at a profitable height. Thus, for this reason, in August, 1933, between England and Spain, 1,500,000 oranges were thrown into the sea deliberately. Even more disgraceful has been the pouring into the river Clyde of gallons of rich milk obtained from Irish cows imported and landed at Glasgow. And, of course, the burning of coffee in Brazil is quite well known, although perhaps it is not generally realized on what a gigantic scale this has been done. Between 1931 and 1936 about 40,000,000 bags have been destroyed . . . enough to supply the whole world for nearly a year and a half."

This destruction is forced upon producers in the endeavour to raise the price of the remainder of their stocks, so that they may make an attempt to pay back a portion of their loans with interest. But the operation of destruction is itself costly. The Government must either procure the sum by taxation or borrow it from the banks and then pay it back—with interest—from taxation. In either case the burden upon the producers and consumers is increased. "So that, either way," writes Mr. Mark, "in order to exercise a compulsory privilege to destroy goods which it has itself produced, which it desperately needs, but which it cannot buy because of an existing intolerable debt burden, the community must add to the debt."

Since there seemed to be no immediate possibility of getting the financiers in control to consider the very foundations of the system which was driving the Government of the richest country in the world to pay people not to produce, whilst many were suffering from dire want, one man at least drew the logical conclusion. The *U.S.A. Financial Chronicle* for August 18th, 1934, published the following letter to the Editor :—

"Sir :—A friend of mine in New England has a neighbour who has received a cheque for 1,000 dollars this year for not raising hogs. So my friend wants to go into the business himself, he not being very prosperous just now. He says, in fact, that the idea of not raising hogs appealed to him very strongly. Of course, he will need a hired man, and that is where I come in. . .

". . . The friend who gets 1,000 dollars got it for not raising 500 hogs. Now we figure that we might easily not raise

1,500 or 2,000 hogs, so you see that the possible profits are only limited by the number of hogs we do not raise. The other fellow has been raising hogs for forty years and never made more than 400 dollars in any one year. Kind of pathetic, isn't it, to think how he wasted his life raising hogs when he could have made so much more by not raising them.

" I will thank you for any advice you may offer.

" Yours very truly,

HAROLD TRURMAN."[1]

The writer of the above letter had evidently grasped the absurdity of a financial system by which it is more advantageous to pay men a dole for doing nothing than to pay them wages to produce real wealth.

Though it is an obvious fact that it is the defective functioning of the financial system that hampers the production and mutual exchange of all the goods and services available, yet a number of financial experts, as well as many politicians and industrialists speak of *over-production*, while never mentioning *under-consumption* through lack of purchasing power. The paradoxes of *over-production*, such as, hunger in Great Britain while many thousands of tons of wheat lie unsold in the Dominions and Dominion farmers lack many things, machinery, etc., which could be supplied by the unemployed of Great Britain, ships lying idle meantime for lack of freights, are attributed by them to defective arrangements on the part of farmers and manufacturers, and other purely industrial causes. They certainly cannot attribute these paradoxes to lack of transport facilities, or to insufficient development of the arts of advertising and salesmanship. These are more than ample for the work of distribution. Yet ignoring the question of monetary reform, they accept the proposals of the moneyed interests—restriction of production and rationalization of industry.

A brief quotation from G. K. Chesterton's *Chaucer* will fittingly bring this section to a close. " These gallant men," he wrote, " who stormed the gates of the sunset to set up the golden banners of Spain, were fortunately unaware that they were fixing on a peak in Darien the enigmatic ensign that we call the Gold Standard."

[1] Quoted in *Professor Skinner alias Montague Norman*, p. 217.

CHAPTER VI

THE EFFECTS OF THE GOLD STANDARD SYSTEM ON HUMAN LIFE

THE purpose of money, according to St. Thomas, is to facilitate exchanges in view of the development of the Supernatural Life of members of Christ. We have seen that the functioning of the Gold Standard has led not only to something of a deadlock in international trade, but to the destruction of food and the lessening of production. The fundamental reason for this has been stated more than once. It lies in the perversion of order involved in the system. Instead of the right order, according to which the manipulation of money is intended to facilitate production, distribution and exchange, in view of strengthening family life, men are now sacrificed for production, while production and consumption, in their turn, are sacrificed for interest on debt. Instead of being an instrument of Economics and Politics, money is the end. This fundamental disorder, viz., the domination of money, shows itself in human life in a multitude of evil effects. Let us consider the disastrous consequences on Farming and Bread, omitting the trends in regard to Ownership, Medical Service and Patent Medicines.[1]

FARMING

The production of primary goods is sacrificed to the production of luxury articles and goods of secondary importance. We have seen that the creation of money with a demand for interest leads to goods being unsold in every trade-cycle and that the volume unsold increases with the expansion of debt. Now the rhythm of production of secondary and manufactured goods can be accelerated enormously in the endeavour to accomplish the impossible task of getting out of debt. *But agriculture is dependent on the seasons ; its rhythm cannot be accelerated in the same proportion, and the attempt to do something similar by the exploitation of virgin soils is disastrous in its effects on those soils.*

[1] For these points the reader is referred to *The Mystical Body of Christ and the Reorganization of Society*, Chapter XIX.

This last point can be disposed of first. For an adequate treatment of it the reader is referred to two outstanding books, *The Labouring Earth*, by C. Alma Baker, C.B.E., and *The Rape of the Earth*, by G. V. Jacks and R. O. White. In the introduction to the former by the Rt. Hon. Lord Addison, we read : " There is no doubt as to the justice of the author's first main contention—that, in the desire to make money out of it quickly mankind has wasted the precious earth wholesale, turned fertile lands into deserts and presented us with wide landscapes of rubbish in place of cultivated fields. We have systematically taken organic matter from the soil and not replaced it." The following passages from pages 25 and 28 of the second book are a striking confirmation of Mr. Baker's thesis : " In Europe. . .the countryside has been desecrated and scarred with ugliness in many places, but the one inviolable condition on which man holds the lease of land from Nature—that soil fertility be preserved—has in the main been respected. . . In the New World. . . with few exceptions, profit and wealth have been most easily won by exploiting and exhausting the virgin soils. In particular grassland soils required only a superficial cultivation to convert them immediately into almost ideal arable soils, rich in plant food, perfect in tilth, and apparently incapable of further improvement. Or they afforded rich and extensive pastures without having to be touched at all. . . The insatiable demands of the Old World and the progress of agricultural science and machinery offered immense profits and further opportunities for exploitation to the man who cashed his soil fertility for labour-saving and yield-increasing devices. . . Nineteenth century economy, especially within the British Empire, was based on the mutual exchange of agriculture and industrial produce. That the New World was being robbed of its soil and was being paid in coin that brought no recompense to the land never entered the heads of either partner to a bargain which seemed . . . natural, sensible, and highly satisfactory to all concerned."

It did seem quite natural to all concerned, for it was all part of the system of procuring cheap food, in order to keep the wages of English workers low and enable English industry to pay interest on loans contracted from the banks. The domination of finance caused the development of industry in England at the expense of agriculture with its slower rhythmic movement. Then came the importation of cheap food from the virgin soil of America, which resulted in the ruinous exploitation of the latter and brought English agriculture into stagnation and decay. In *The Two Nations* (p. 118), Christopher Hollis points out that the countries that had borrowed from England could only continue to pay even the interest on their debts on condition of exporting something to England. If they did not send something "it would not be possible to raise the new loans with which to pay the interest on the old loans." They could only export food and that food could only find a market in England "on one of two conditions. Only, if either the wages of the poor were raised so that they could buy more than the subsistence quantity of food, or if English domestic agriculture was sabotaged, so as to create a gap which the foreign food could fill. According to the canons of the system, the former alternative, that of raising wages, was inadmissible. Therefore it was necessary to adopt the second and to destroy English agriculture. Hence the necessity for repealing the Corn Laws." Later, on p. 147, he adds that "owing to the Crimean War and the American Civil War there had been artificial obstacles to prevent the development of a large foreign supply of corn. As late as 1874 there were still 3,821,655 acres under wheat in comparison with about 4,000,000 before Repeal."

"English Farming," writes Commander Herbert Shove, D.S.O., in *The Fairy Ring of Commerce*, "held its own, in a rapidly growing market, for a generation after the repeal of the Corn Laws, but fell again in the eighties, when the exploitation of virgin soil brought it up against a system of living on capital in its own domain, whose products were brought into competition with the home-grown ones through the usurious aid of coal, both in transporting them and cheapening the goods exported to pay for them. The building of the American transcontinental trunk railways marked the final conquest of the English plough by the steam engine."

The same writer points out another revolution which had been going on before that in English farming, under the rule of finance. It was the process of increasing rent by the conversion of tillage land to sheep-walks and cattle ranches. The same process was going on in Ireland under the same influences from 1830 to 1880, with an added source of bitterness in the fact that the landlords were aliens in religion and nationality, and the tenants were the dispossessed owners of the soil. Grazing paid better, so human beings gave place to cattle.[1]

[1] Goldsmith's *Deserted Village* depicts in beautiful language some of the consequences of this transformation.

In his *Life of Goldsmith* Macaulay says that *The Deserted Village* is composed of incongruous elements. "The village in its happy days," With the relentless grinding of the money machine, there came a time when it did not " pay " to keep up the big houses. It was inevitable.

Let us now take some quotations from unquestioned authorities dealing explicitly with the effect of the domination of finance on agriculture with its seasonal rhythm. " The fundamental processes of farming," writes Sir John Russell in *English Farming*, " are governed by Nature's laws and not by our own: seed times and harvest, the period needed to produce an animal, the age at which a cow can begin to give milk—these and many other things which set the pace of farming operations are out of our control. The unit of time is not the day or the week, but the year ; sometimes indeed it is longer, and covers the whole period of the rotation. Farming, therefore, cannot be changed rapidly, and a system once adopted can be altered only slowly ; this has often caused farmers to be wrongly regarded as very conservative and unwilling to change their so-called old-fashioned ways. . . During three-quarters of the nineteenth century this (famous four-course or Norfolk) rotation proved admirably suited to British conditions, and it was developed to a high standard of technical efficiency. . .

he writes, " is a true English village. The village in its decay is an Irish village." While not wishing to deny the activity of Goldsmith's imagination, I think that Macaulay, being a Whig, has not taken full account of the English Enclosure Acts, of which, according to the note in the Clarendon Press edition of *The Deserted Village*, there were 700 between 1760 and 1774. " Over three million acres," the note adds, " were thus appropriated (by the landlords) in the eighteenth century in England ; and in Goldsmith's boyhood a General Napier had enclosed a large tract of land near Lissoy (Ireland) ejecting the cottagers in order to improve his estate." In *The Fairy Ring of Commerce* (p. 114), Commander H. Shove gives the accounts of an English parish about 1746, before enclosure, and about 1786, after enclosure. " The landlord," we read, " obtained £663 more rent. . . Four farmers at least doubled if not trebled their incomes, and if seventy-eight households were driven off into penury out of this one parish, it was nobody's business and nobody cared."

Other writers, too, may be quoted about the Enclosures in England. In *A Shorter History of England* (p. 508), H. Belloc writes : " In the fifty years before the accession of George III (1760) 300,000 acres had been enclosed ; in the next lifetime *seven millions*—one-third of the useful land—were taken from the people and went to swell the new capitalist power." " Under Queen Anne," writes Dr. M. Hasbach in *A History of the English Agricultural Labourer* (p. 57), " only two Enclosure Acts were passed ; under George I, sixteen ; under George II, as many as 226, making altogether 244 in fifty years. But under George III there were 3,554 : and by the end of his reign 5,686,400 acres had been enclosed. . ."

Though the Clarendon Press edition of *The Deserted Village* says that Goldsmith had Lissoy in his mind, the above testimonies prove that there is no lack of justification for Goldsmith's lines :

" A time there was, ere England's griefs began,
When every rood of ground maintain'd its man "

But from about 1880 onwards the opening up of the North American prairies led to the production of quantities of wheat which was sold here at prices far below those at which our farmers could produce it. Public opinion was entirely against the imposition of any tariff on food, and farmers both on the prairies and at home were left to solve the problem as best they could. The prairie farmers suffered and had to accept a very low standard of living and to adopt methods which led ultimately to terrible destruction of the soil. The home farmers suffered equally ; many went under, and there was great distress in the countryside."

" Erosion," writes Lord Northbourne in *Look to the Land*, " is nearly all man's work. Some of it can be attributed to mere foolishness. But most of it is due to greed combined with the existence of the possibility of getting rich quickly by exhausting the land and under-selling competitors. But the actual tillers of the soil who have got rich are few. What then has been the inducement to so many to despoil the land on which they depend for a living, and to despoil it within the last century or so to a hitherto unheard-of extent ? What has been the stimulus to the rapid extension of exhaustive farming all over the world ?

" The stimulus has been a great development of the said possibilities of getting rich quickly, a development partly dependent on the evolution of new and powerful machines, and partly on a roughly simultaneous world-wide extension of a peculiar economic system, which has led to a vast accumulation of financial debt. Such debt, both internal and international, has grown to a point at which repayment is generally out of the question, and the payment of interest alone has become severely oppressive. The only way by which one can pay this interest is by producing or manufacturing and selling something with a view to making a money profit out of which to pay it. So purely financial considerations have everywhere acquired dominance over all others. . . International debt and soil erosion are twin brother and sister, inseparables. . .Rationalization implies in the end merely an increase of speed. Its object is that the same number of men should produce more in a given time. In applying it we forget that life is a rhythmical process. ' The music of the spheres ' is no mere poetic phrase. It is reflected in the life-processes of all creatures and of their associations, and not only so in such obvious physical phenomena as the seasons, the tides, the alternations of night and day, the beating of the heart, or the finer vibrations studied by physicists. The harmonious rhythms of life are thrown into discord by the inexorable urge to speed and ever more speed which is the inevitable accompaniment of a way of life dominated by the mathematical fiction which we know as money. . . There is another complication. It is the fact that our economic and financial system has an inherent instability. For hundreds of years farm prices have fluctuated wildly. Short booms have been followed by long slumps. . . Instability of prices, when it goes beyond a certain point, takes away whatever chance the farmer might have of coping with the competition with which he is faced. For the farmer's main job is the steady building up of the fertility of the soil; a job quite incompatible with constant changes of policy, forced upon him by changes in the price situation.

" Under present conditions the only thing that pays is quick profit-making while the going is good. By ignorant or unscrupulous exploitation and exhaustion of fertility vast profits have been made (by financiers rather than farmers) in the name of cheap food. The pace is forced for the sound farmer wherever he lives. The time factor becomes ever more and more important, as everyone has to snatch at the chances of the moment to catch up with the accumulation of debt, and achieve a quick turn-over to minimize overhead costs per unit of production. If what has been said about the state of farming in the world is true, there is no need to dwell at length on the importance to mankind of a relaxation of the inexorable urge to speed under which both man and the land on which he lives are exhausted. As is usual nowadays, it will be left for future generations to pay for our mistakes, but they may not have the wherewithal. Money alone is notoriously useless in a desert."[1]

" In country after country," writes the Earl of Portsmouth in his fine book, *Alternative to Death*, " the farmer's indebtedness is greater than his capital assets. . . Thus in Australia, for instance, the average debt of each farmer is more than the capital value of his entire assets in land and stock. The farmer must therefore go bankrupt or continue to pay interest with the produce of his land on a capital sum greater than the value of his holding. To do that he is forced either to over-graze his land in order to sell more sheep and wool, or to grow wheat, which exhausts his land, when he should be growing fertility crops such as clover.

[1] *Look to the Land* is published by Dent and Sons. It is a very remarkable study of the disastrous effects of the monetary system on farming, food, &c.

" 'The result of this is threefold. First, his own land becomes exhausted and each further step he takes towards repayment of his debt or interest makes the exhaustion greater. Second, by exhausting his own land he is altering the climate, creating drought and erosion, so that if his neighbours are in a like condition as himself, the desert steps in. Third, as if to make quite sure that there is no hope of averting the victory of the desert, he is forced to overcrowd the export market by selling the produce, which is really the capital of his soil, in competition with his neighbours who are likewise impoverished. Thus prices fall and the farmer cannot purchase the produce of industry which then works at half time and half employment. The same type of example could be written of any part of the world except places like the Hunza Valley, where men live with and by the soil, returning everything to it, and know no debt. In other words, it applies practically to the whole of the so-called civilized world where the present machinery for finance and distribution exists. . .

" Although civilization rests on the soil, civilization as we know it is complicated. For the lubrication of its machinery it requires a steady and constant flow of money as the medium of exchange. Therefore, unless there is proper functioning of money, it will be impossible for modern civilization to continue without the parts seizing. This has in fact happened. The first and greatest victim is the soil."[1]

The exhaustion of the soil has deleterious effects on the crops grown thereon, which in their turn lead to ill-health and inability to resist disease in the animals and human beings that feed on them. " The flooding of the English market with cheap food, grown anywhere and anyhow," writes Sir Albert Howard in *An Agricultural Testament*, " forced farmers of this country (England) to throw to the winds the old and well-tried principles of mixed farming, and to save themselves from bankruptcy by reducing the cost of production. But this temporary salvation was paid for by loss of fertility. Mother earth has recorded her disapproval by the steady growth of disease in crops, animals and mankind. The spraying machine was called in to protect the plant ; vaccines and serums the animals ; in the last resort the afflicted live stock are slaughtered and burnt. This policy is failing before our eyes. The population, fed on improperly grown food, has to be bolstered up by an expensive system of patent medicines,

[1] *Alternative to Death* is published by Faber and Faber, Ltd.

panel doctors, dispensaries, hospitals, and convalescent homes. A C3 population is being created. . . The prophet is always at the mercy of events ; nevertheless, I venture to conclude this book with the forecast that at least half the illnesses of mankind will disappear once our food supplies are raised from fertile soil and consumed in a fresh condition." [1]

One more quotation concerning the disastrous effects of soil-exhaustion will be given, because of the great authority of the writer. Brig. Gen. Sir Robert McCarrison, Director of Nutrition Research in India, writes : " If they (foodstuffs) be produced on impoverished soils, their quality will be poor and the health of those who eat them, man and his domestic animals, will suffer accordingly." [2]

The situation in the world in general may be well summed up in the words of Edmund Blunden in *Return to Husbandry* : " In all continents," we read, " the desert is advancing, smothering the fertile plains and valleys with drifting sands. . . . Civilization has brought us to a pass of mechanized savagery which nothing will cure perhaps except famine and disease. And it is famine and disease which threaten the future which our young people will call their time." [3]

Perhaps what has been written in this section may help people to understand in some degree why farmers, the producers of primary necessities, are everywhere complaining, and why reafforestation in Ireland is not popular financially. *The slower rhythm of agriculture and forestry, so favourable to normal human life, is not beloved of those whose chief preoccupation is interest on debt.* It is to be hoped that, having discovered why, people will strive to do all they can to remedy the state of affairs, instead of treating the complaints of the farming community as a matter for jesting.

BREAD

We shall begin by quoting a few extracts from *Bread in Peace and in War*, a splendid pamphlet published in October, 1940, by the Food Education Society of England. In this excellent work, the facts of the case are outlined as follows : " It has been well known for years that civilized diet is deficient

[1] *An Agricultural Testament* is published by the Oxford University Press.

[2] Quoted by K. E. Barlow in *The Discipline of Peace* (Faber and Faber), p. 127.

[3] *Return to Husbandry* is published by J. M. Dent and Sons, Ltd.