ECONOMIC REFORM CLUB AND INSTITUTE

Temporary Address:
32, QUEEN'S AVENUE, LONDON, N.10
Telephone: Tudor 5242

Some Replies to

A Question the Brains Trust Did Not Answer

—by—

Members of the Economic Reform Club and Institute

The objects of the Club are to provide a centre for the consideration of economic and monetary problems and the *furtherance of their solution*; and for the study of questions relating to the benefit of the community

Price 4d. each

Printed by the Argus Press, Ltd.,
Temple Avenue and Tudor Street,
London, E.C.4

Published by the Economic Reform Club
and Institute
32, Queen's Avenue, London, N.10

FOREWORD

On Tuesday, February 17, 1942, the following question was posed to the B.B.C. Brains Trust:—

> "How is it that we can lend millions of pounds to Abyssinia and China when we are spending far in excess of our income? In peace-time we have the greatest difficulty to balance our Budget, yet in war-time we seem to be able to lend millions. How can I learn more about this subject?"

The replies to this question given by members of the Brains Trust were very unsatisfactory, and correspondents of the Economic Reform Club wrote us to this effect, asking for a more specific explanation. We therefore decided to submit this question to some of our own experts, members of the Research Committee and others, and to publish their replies in pamphlet form. We realise that some of these answers overstep the limitations imposed on the Brains Trust, but we believe that they supply useful information and have decided to publish them as they stand.

The necessity for a proper understanding of our monetary and economic system is becoming increasingly apparent, and particular attention is drawn to the specially selected list of literature at the end of this pamphlet, all of which can be obtained from the Economic Reform Club.

Readers who feel that the importance of this subject deserves recognition by the B.B.C. are urged to write to the Director of Talks, asking him to arrange a series of talks on economic and monetary reform. They will thus reinforce the requests which we make from time to time, and which have so far met with no success.

EDWARD HOLLOWAY,
Honorary Secretary,
Economic Reform Club and Institute.

April 27, 1942.

B.B.C. Brains Trust Question

Reply by Sir Reginald Rowe, *President, Economic Reform Club.*

We could equally well, if we wished to, lend millions to Abyssinia and China in peace-time, provided that they wanted goods which we could supply to the amount of the loan.

The money of this country, sterling, is merely a claim to British goods which a seller of these goods willingly accepts because he can buy other British goods with it or exchange it for money of another country with which to buy that country's goods. The *loans to Abyssinia and China can only* be repaid when these countries supply us in repayment with goods which they can provide and we want. *A loan to another country is in reality a loan of goods "on tick."*

In war we make the loans to Abyssinia and China, etc., on behalf of the nation, because we so much want them to win that we send them what they require, while readily accepting the risk that they may never be able to repay the debt by the only possible means, viz., by returning goods which we want. In peace-time our Governments have not been inclined to take a similar risk, and as a rule only encourage a foreign loan if commercial houses underwrite it, i.e., if commercial houses feel confident that they can pass the risk on to members of the public by inducing them to buy the scrip representing the loan, which in this case is not a liability of the Government.

In war we wish to win, in peace the basic impulse is the desire of traders in money to profit.

A loan to another country made or guaranteed by Government is not a charge on the Budget, though the interest on it, if unpaid by that country, may become so. A free grant to another country, on the other hand, must ultimately be provided out of taxation.

What everybody should realise is that much of the money required for such large operations is, as things stand, created by the banks out of nothing by credit entries in their books. This money is lent by the banks at *interest to the nation. What new economists* contend is that it should be created by the nation and lent to the banks.

REGINALD ROWE.

April 18, 1942.

Sir Reginald Rowe is the author of "The Root of All Evil." (Price 1s. 8d., post free.)

Reply by CAPTAIN H. GORING, *Member of the Research Committee.*

Because:

(1) The control—i.e., the power to create and issue the nation's currency and credit, which should obviously reside in the Crown—has been usurped and allowed to become the monopoly of private interests trading for their own profit.

(2) With this object in view they in time of peace restrict the amount in issue so as to regulate both internal and international trade in accordance with their requirements for the payment of interest on the credit they have loaned out, thereby establishing control for themselves over the activities and standard of living of their fellow beings.

(3) In time of war vast expansion of non-productive goods becomes essential and inevitable, *affording opportunity for the issue of immense loans,* i.e., the creation of still heavier debt, which under the present system constitutes a perpetual charge upon the nation's industry after a return to peace conditions and production, and thereby in the form of direct and indirect taxation is a direct deterrent to the people enjoying to the full the fruits of their own labour.

Hence arises unemployment and destitution alongside of destruction of commodities, land untilled, and factories working half time—in other words, poverty and starvation in a world of potential abundance.

HERBERT GORING.

March 28, 1942.

Reply by Mr. A. T. Edmonds, *Member of the Research Committee.*

In peace-time "Sound Finance" required Government income to equal or exceed Government expenditure, thus securing a "Balanced Budget." The criterion applied when considering proposed expenditure was not "Have we the physical means (labour, materials, etc.) of achieving our object?" but "Can we afford it financially?" Hence the slow progress of such urgent reforms as slum-clearance, extended education, road improvements, etc.

But in war-time, urged by the struggle for survival, labour and materials are fully mobilised, irrespective of financial considerations, such funds as are needed beyond those raised by taxation being secured by "borrowing." Loans to Abyssinia and China are in reality only credits from which are paid the sums due for munitions, goods, and services supplied from this country.

Government "borrowings" are made from two sources: (1) From the genuine savings of the people, and (2) From "created" credit. As it is the community's credit which is behind the second of these sources, objection is made to these borrowings being regarded as on the same footing as borrowings from genuine savings It is held by new economists that this monetisation of the nation's credit should not be in the hands of the Bank of England (a private institution operating for profit), but entrusted to a Government department (probably the Treasury), for it seems wrong that a private institution should monetise the community's credit and charge interest upon it as if it were its own!

April 18, 1942 A. T. EDMONDS.

Reply by MR. H. C. BELL, *Member of the Research Committee.*

Loans to foreign countries are not made directly out of current income and, therefore, as such, do not affect the Budget. The loans are agreements to supply goods to the countries in question, up to the specified amounts, " on tick." But, in order to supply the goods, money has to be found to pay for raw materials, wages, and other costs incurred in production; and this money may, according to circumstances, be regarded as a current expense to be charged in to the Budget accounts. In any case, the money cost of the supplies has to be raised in this country before the goods can be produced and sent abroad. How is it done?

Unless additional money can be recruited from taxation or genuine savings—a very dubious contingency—it must, under present arrangements, be requisitioned by the Treasury from the banking system in the form of loans which emerge as newly created bank credits. These credits are entirely new money, having no previous existence, and are immaterial in the sense that the only evidence of their creation appears in the entries in the banks' ledgers. " A bank loan creates a deposit," says Mr. McKenna, of the Midland Bank, " and therefore it creates money." An addition to the money supply is reflected in bank deposits, which have risen from £2,245 millions at the end of August, 1939, to £3,329 millions at the end of December, 1941, an increase of more than £1,000 millions.

The answer to the question " How is it that we can lend these millions? " is thus simply that they are created out of nothing by the banking system, lent to the Government on public security at interest, and then used to finance the production of war and other supplies to this and other countries.

The difficulty of balancing the Budget in peacetime arises from the fact that, in a progressive society, there should be an annual increase in the output of goods and services and a corresponding increase in the supply of money to support the increased production and to maintain prices. But the banking system is so incompetent that it cannot normally increase the money supply without also creating a speculative inflationary boom followed by a disastrous and long-drawn-out slump. Everyone has to suffer by reason of this incompetence either through loss of trade, high taxation, or unemployment. In consequence, there are many who believe that the control of the issue and supply of credit should be taken over by the State and administered in a scientific manner in the interests of the community.

April 18, 1942. H. C. B.

Reply by Professor F. Soddy, F.R.S., *Vice-President of the Economic Reform Club.*

The millions lent to Abyssinia and China come from the same sources as the rest of our war expenditure, primarily from increased taxation and to a similar extent from genuine savings; secondly, from the realisation of investments abroad; and, lastly, from the creation of new money. Taxation has much more than doubled, the receipts being over two thousand millions this year and below one thousand millions in 1939. Genuine savings have been steadily increasing and for the current week, a record, the total savings are at the rate of over thirteen hundred millions a year. Foreign and Empire investments owned previously in this country have been and are being sold, and a total of some thousands of millions are available from this source. A net amount of between one and two thousand millions of new money has already been created by the banks and lent to the Government, and the currency has been thereby proportionately debased. The price-level has risen from 155 in August, 1939 (the pre-1914-18-war level being taken as 100), to around 200 now, and this in spite of bread and other essential food-stuffs, which enter predominatingly into the price-index, being sold at less than cost by the aid of large subsidies from the taxpayer.

We did not " balance " pre-war Budgets, but we overbalanced them to an average of at least a hundred millions a year, the new money always now being issued having been appropriated by the banks to *lend instead of paying for national expenditure in* the same way as money-taxes, and so giving it to the taxpayer to spend. New money is now merely a forced levy-in-kind. The banks' method of issuing new money as a loan to producers, on the average six months or a year before the product reaches the market for sale, results in the periodic inflation and deflation known as the trade-cycle, frustrates the purpose of the issue of the new money, which should be to enable the increased production (*after* it has been made) to be sold, and defeats the achievement of Science in liberating the world from Nature's iron law of scarcity. For what can now be so abundantly produced results in nothing but internal and external cut-throat competition to sell and periodic orgies of international destruction in world-wars. This is the latest and worst phase of the one lesson the long history of nations enforces, that the creation of new money *as a source of profit to the issuer* is the most dangerous, socially destructive agency known to man, and that when not created, to keep pace with economic progress, *for communal use and benefit,* the omission is just as socially dangerous and destructive.

For this explanation of social cataclysms I would like to direct the attention of enquirers to my *Role of Money* (G. Routledge and Sons, Ltd., *New World Series,* 1934. Price 2s. 6d.)

April 4, 1942. FREDERICK SODDY.

Reply by MR. W. B. HIGGS, *Member of the Research Committee.*

To answer this question it is essential to understand that money cannot be considered apart from the goods and services of which it is only a convenient token—*convenient because it facilitates the* free exchange of such goods and services between individuals on the one hand and between nations on the other hand.

1. When the Government loans "money" to China or Abyssinia it is, in fact, merely giving those countries a claim on so much of Britain's goods and services, and China and Abyssinia can only repay the loans by giving this country in turn, at some specified time or other, claims on their own goods and services. In a properly organised system of international trading, unhampered by the gold standard, these claims should, and would, be freely exchangeable between nations, i.e., multilateral exchange.

2. When the Government pays individuals or firms for goods and services used up for war purposes the money so paid represents, on the one hand, a form of *receipt* for such goods and services, and on the other hand, an *obligation* on the part of the community to redeem such receipt, on demand by the holder, with equivalent goods and services. But *since there are not in time of war sufficient goods and* services available for the purpose, the surplus "money" must be withdrawn, compulsorily by taxation; voluntarily by borrowings, although it must be understood that what is borrowed is a claim on future goods and services.

3. It can be readily seen that in peace-time the necessity for these withdrawals of money from circulation does not exist to anything like the same extent, and the quantity of money in circulation should be in an exact relationship with the quantity of consumable goods and desirable services which the nation as a whole is capable of producing and rendering.

"Balancing the Budget" is a meaningless phrase really, only justified by the orthodox conception of money as a commodity.

4. Whether in times of peace or in times of war, it is the community alone which should have the power to create, issue, and withdraw the tokens which represent the goods and services it creates, and it can delegate that authority to its Government. In

Britain this authority has been usurped by private institutions which derive profit from the creation, issue, and withdrawal of claims on the nation's goods and services, and who constitute the most powerful vested interest in the world. It is well to recall Abraham Lincoln's words: "The privilege of creating and issuing money is not only the supreme prerogative of Government, but it is the Government's greatest creative opportunity."

W. B. H.

March 15, 1942.

Reply by the Author of "A 20th-Century Economic System." *

External Loans.—It is quite evident that we cannot afford to lend millions of pounds to Abyssinia and China during the war. Pounds being legal tender only within this country, they are of use to Abyssinia and China only because they will enable them to buy goods here. Under existing conditions this is tantamount to providing China and Abyssinia with munitions of war and other supplies, of which we ourselves are sorely in need. We do this because, in our view, it is necessary, for the successful prosecution of the war, to keep China in it; and to prevent Abyssinia falling into a state of revolt, or suffering from severe epidemics through lack of medical and other supplies.

In peace-time the British Government does not make foreign loans, although it has sometimes, for political reasons, backed them by its guarantee. If money lent to foreign countries was used by them to buy our goods, real wealth left the country, but the money which had been distributed in the form of wages and of profits remained behind. In this way Effective Demand for what remained was increased without the supply of goods awaiting consumption in the market being similarly increased.

---

* "A 20th-Century Economic System" contains specific proposals dealing with the future of both the internal and international monetary systems. Price 7½d. post free.

Under the old Free-Trade-in-Money system there was, however, no guarantee that the country which had been lent money by us would use it to buy our goods. It might, on the contrary, offer it for dollars on the foreign exchange and if Americans did not want sterling with which to buy our goods or pay debts in this country, this had the effect of knocking down the exchange value of sterling, i.e., Americans would pay less in dollars than the par value for the use of a pound in England.

Internal Position.—If the amount of money expended by the Government was not collected from the public by means of direct and indirect taxation and for such services as those rendered by the Post Office, the Budget was said, during peace-time, to be unbalanced. It was then necessary for the gap to be filled by the Government borrowing. If the banks merely lent to the Government the money which had been repaid to them by previous borrowers, the total amount of purchasing power in circulation would not be increased. If, however, the amount lent to the Government by the banks were not offset by corresponding repayment of loans by previous borrowers, the total amount of money would be increased by the amount of the loan. In either event an increase would be made in the National Debt on which, in future, interest would have to be paid. An unbalanced Budget was therefore represented as a highly undesirable and even immoral thing.

However, if the Budget were balanced this did not prevent the Joint Stock Banks from expanding the total amount of money by giving new loans to industry and commerce to a greater value than were being repaid: alternatively, they might buy securities on the Stock Exchange with newly created credit. If this new issue of money were justified by an increase in the total amount of real wealth to be distributed, there would be no inflation, i.e., no rise in the general price level. If it were not so justified, there would be inflation, i.e., a rise in the general price level, in spite of the fact that the Budget had been balanced.

Alternatively, the banks could refrain from increasing the total amount of money, or might even contract it by calling in loans and not issuing new ones to a corresponding amount. They might do this even when the total amount of goods available for distribution had increased. In that case prices fell. The great depression during the 1920's was caused in this way. It was desired to lower the general price level preparatory to returning to the Gold Standard in 1925, and so as to stay on it after we had returned to it in that year.

Monetary reformers maintain that brand new money, at the moment of creation, cannot possibly be the property of any private institution or individual, as no service has been rendered for it, whereas when once created, every citizen will readily part with his real wealth in exchange for it. They claim, therefore, that should the nation need an increase in the total amount of money in circulation, this should be spent into existence in the first place by the Government, without any capital debt to the banks or interest charge. They believe that only in this way will it be possible to ensure that the nation shall have the correct amount of money in circulation to enable the people to buy all the goods they are capable of producing, or alternatively, the foreign goods which they may exchange for their own, at a steady general price level.

During the war the Budget is, of course, not balanced. Not only is revenue from taxation quite inadequate to meet the Government expenditure, but it is impossible to fill the gap by borrowing existing money. In addition, then, to these two sources, the banks have to create new money to lend to the Government, so that the total amount of money in circulation is being steadily increased at a time when the goods available for distribution are being systematically and deliberately reduced in number through the diversion of labour, raw material, and capital equipment to the production of non-consumers' goods, i.e., munitions of war. Taking the population as a whole, there is more money in its pockets, whilst there is less in the shops for people to buy with that money. This would normally result in shopkeepers putting up their prices, i.e., true inflation. The Government is, however, countering this threat (1) by limiting the amount each person can ask for (regardless of how much money they may have) through rationing; (2) by trying to persuade people to hand back the money in their pockets to the Government as a loan instead of trying to spend it in the shops.

Although the output of the nation is far greater than in peace-time, the bulk of it now consists of things which are not for sale to the public, i.e., munitions of war. Whereas, therefore, in peace-time the old financial system was incapable of distributing money in such a way as to ensure the consumption of all the goods available, vastly more money is distributed in war-time than is justified by the supply of goods awaiting consumption.

We should think clearly about these matters if we accustomed ourselves to thinking of the availability of labour, raw material, and equipment, as the determining factors in producing the things wanted: and if we then thought of money as a thing to be provided, in the correct quantities, to facilitate the production and subsequent distribution (sale) of those goods.

April 16, 1942.

List of Books and Pamphlets Recommended for Study.

BOOKS

Price post free

THE ROOT OF ALL EVIL.
By Sir Reginald Rowe 1/8

THE ORIGIN OF THE WORLD CRISIS, AND BRITAIN'S TASK.
By Sir Tracy Gavin-Jones 2/6

ECONOMIC TRIBULATION.
By Vincent Vickers 5/2

THE ROLE OF MONEY.
By Professor Soddy 2/8

BRITAIN'S PROBLEM.
By B. D. Knowles 2/8

PAMPHLETS

A 20th CENTURY ECONOMIC SYSTEM.
Anon... ... ... 7½d.

DEMOCRACY'S OTHER WAR. A Series of Articles by Prominent Club Members, reprinted from "Cavalcade" ... 1/2

MONEY AND NATIONAL RECONSTRUCTION
By P. C. Loftus, M.P. ... ... 5d.

AGRICULTURE AND FINANCE. By P. C. Loftus, M.P. 5d.

THE BANKS AND THE WAR. By E. R. C. ... 3d.

Full List of Publications on Application.

The Club issues a Monthly Bulletin containing records of activities, contributions from Members, and news of overseas developments. Sent to Members free, to non-members for 2/6 per annum. Parliamentary Debates Report: issued fortnightly, giving excerpts from "Hansard" on financial and economic questions. Subscription rates, 3/- for six months, 6/- per annum. Specimen copies on application.

For Membership fees and further information apply to:

EDWARD HOLLOWAY, Hon. Sec., Economic Reform Club and Institute, (Temporary address) 32, Queen's Avenue, London, N.10. Tudor 5242.

Leaflets issued by the Club are the contributions of individual Members and are not to be taken as necessarily expressing the views of the Club, the objects of which are to provide a centre for the consideration of economic and monetary problems and the furtherance of their solution; and for the study of questions relating to the benefit of the community.