# A Successful Experiment.

By Arthur Kitson.

If political historians and economic writers had been as eager to record the experiments and efforts of mankind to achieve economic independence and to discover that form of government most conducive to individual freedom and public welfare, as they have been to exalt the doings of rulers and to find excuses for those legal privileges which form the basis of our selfish class interests, our political and economic knowledge would doubtless be far more extensive and reliable than it is. Our present day economic problems are certainly not new. From time to time our ancestors undoubtedly attempted to discover a way out of the economic labyrinths. And yet how meagre our knowledge is!

One of these problems—which we know has occupied the attention of thinkers in all ages—has been how to provide a safe and satisfactory method of employing national and municipal credit for currency purposes, instead of borrowing the credit of professional bankers and moneylenders.

Very early in human history it was known that an industrial community, properly organised, having a stable form of government, and voluntarily submissive to a reasonable amount of taxation necessary for the expenses of the Government for constructive undertakings, such as roads, public buildings and for maintaining an Army for national defence, etc., etc., was possessed of an amount of credit superior to that of any individual member or to any single body of its citizens.

It was seen that the credit of such a community naturally comprised that of all the members collectively. For ages this credit was employed as the highest form of economic power. Its use, however, required care, discretion and, above all, honesty on the part of the governing officials.

But such credit, although vast and often incalculable, had its limits.

Among modern financial writers the employment of public credit as a medium of exchange has been either ignored—as of little importance—or condemned as a system fraught with the gravest danger.

Historians have greatly exaggerated the evils resulting from such issues which were often created to meet the exigencies of wars and political crises—experiments which were often bound by the nature of things to end in failure.

For it is a melancholy fact that, universally, national credit has been employed far oftener for destructive than for creative purposes. Meanwhile the business of supplying private bank credit has long been regarded as an immensely profitable one to individuals, and therefore bankers and financiers have naturally resented any and all attempts on the part of the States and communities to coin their own credit for commercial purposes. So far has this determination to prevent governmental competition proceeded, that writers have been specially employed and paid to write books warning the public against the use of national credit—except for the creation of debt—and to exalt the advantages of that of private banks and individuals.

There exists to-day in the U.S.A. an organisation supported by the moneyed interests, the sole object of which is to falsify the history of paper money and public credit currencies and teach what has been demonstrated again and again to be economically fallacious. Interesting information regarding this conspiracy against the public welfare has been gleaned by the Congressional Committee appointed at Washington to investigate the Money Trust, with which—in addition to a multitude of others—the U.S. is just now afflicted.

The effect of this may be best understood by a simple illustration. Suppose at the time that Marconi announced the perfection of his system of wireless telegraphy, and after having demonstrated its practicability, the various telegraph and cable companies (realising the seriousness of the threatened rivalry) had inaugurated a "campaign of education" to teach the public the dangers of wireless telegraphy! (One newspaper correspondent has already given it as his opinion that Marconi's system is responsible for the loosening of the ice in the Polar regions which wrecked the "Titanic," and for the cold, wet summer we have experienced, and predicts that further serious disasters may be expected in the near future as the results of these Herzian waves!!).

And suppose that the people believed these teachings and legislators and statesmen were wrought to such a frenzy of fear as to pass Parliamentary laws forbidding the use of wireless telegraphy! Naturally such Acts would greatly enrich the cable and telegraph companies, but the public—through ignorance and superstition—would suffer the pecuniary loss and inconvenience of one of the most valuable discoveries vouchsafed to mankind!

Now this is analogous to what has been and is still happening in this country and in almost all civilised countries. Professional economists and others have been hired to write books and deliver lectures cautioning the people against displacing gold with paper. These hirelings and their masters—the financiers—have no objection to governments issuing the national credit in the form of bonds at a percentage. For this they will readily exchange their own credit (without any percentage) and even gold. But the idea that such credit should be issued in a convenient form of £1 notes to facilitate the exchange of wealth, or to meet governmental expenses, strikes them with fear and horror! And no wonder! For the circulation of such notes would be costless, whilst the circulation of bank credit is only affected by means of the loan—which means a huge revenue for the banks.

Now among the many successful and unsuccessful experiments, that of Guernsey, one of the Channel Islands, has been the most frequently quoted. It all happened nearly a century ago, but the complete details of the scheme were never wholly published. A few years ago, Mr. and Mrs. Theodore Harris (members of the Fabian Society) visited the island and ransacked the Government bureaux and Library and brought to light some very valuable and interesting history, which they have published in a little book called "An Example of Communal Currency." The whole story may be told in a few words. About the close of the Napoleonic wars, Guernsey found itself in want, burdened with a heavy debt, with little trade and less money. It had few roads wide enough to allow two vehicles to pass abreast, the average width being 4ft. 6in., and footpaths 2ft. wide, and these miserably paved; little drainage, no vehicles for hire, a coast insufficiently protected, and being constantly washed away by the encroachment of the sea—so much so, that in 1813 there was imminent danger of a great part of the land becoming flooded! There was no public market house, and the public buildings, such as they were, were in a dilapidated condition; and although peace was proclaimed and established, poverty reigned supreme. The amount required for immediate use to build a proper sea wall was £10,000. The public debt was already £19,137, the interest on which, together with ordinary expenses, amounted to £2,390 per annum. The total revenue was but £3,000. Hence the difference between £3,000 and £2,390 was all that was left for further improvements. What was to be done? A duty was first enacted on spirituous liquors, which furnished another £1,000 per annum. But the thrifty members of the Council had no love for debt, nor for spending their revenue in interest charges, and determined to apply this £1,000 to the reduction of the municipal debt. The public need for good roads and for a market house finally became so urgent, that the council obtained permission to issue £1 notes. The scheme proposed was eminently simple, safe and economical. The citizens owed the council yearly the amount of their taxes. The council issued £1 notes in anticipation of these payments, and many of the notes came back to the Treasury as the taxes were paid, and were then cancelled. These notes enabled the council to build new roads, to complete the market house and finish other municipal undertakings, just as a similar number of gold coins would have done, but without bonding the community or incurring one penny of interest charges. For a period of twenty years the council had recourse to this simple and commonsense contrivance for providing a currency, which amounted in all to over £80,000. This money circulated freely throughup a successful and prosperous business community. Even the floating debt of the island to the extent of £4,000 was paid off by the issue of 4,000 of these £1 notes. "There is abundant evidence," says Mr. Harris, "throughout the records that the system was appreciated." "All these, with the one-pound Guernsey States Notes, are in much request, being very commodious for the internal affairs of the Island," says Jacob's Annual of 1830. Another writer says: "The States, by having notes to the amount of £55,000 in circulation, effected a saving of £1,600 per annum. Here, then, was a revenue of £1,600 raised without causing a farthing's expense to any individual of the public generally, for not one would urge that he suffered a farthing's loss by it."

The "Gazette" of July 22, 1826, said: "These notes have neither directly nor indirectly burdened commerce in any way, nor contributed to the rise in exchange that is experienced."

It was hardly likely that the bankers would remain quiet whilst the cream of their trade was being destroyed by the council. The Lieutenant-Governor, Sir J. Colborn, actually suggested, in a letter published in the "Gazette," April 25th, 1829, that "people in authority in Jersey, interested in banks, should oppose State notes, lest these should be preferred to theirs." The "Gazette" leader, however, points out that the inhabitants have confidence in the State notes.

Opposition, however, became more pronounced as the prosperity of the island increased. Not only were the banks being deprived of a lucrative business, but the example was a bad one; other places might take note of it, and try to imitate the experiment. Hence it had to be destroyed. Three members of the States, one recently appointed the vice-president of the Guernsey Banking Company, conspired to stop further State issues, and succeeded in having the matter brought to the attention of the King's advisers. The reply of the States is a document well worth reading, and contains some information on currency matters which members of the Fabian Society might study with advantage. No reply appears to have been made by the Privy Council to this able address.

Meanwhile the Commercial Bank had started as a rival to the Guernsey Banking Company, and both of these issued banknotes at their own discretion. "Consequently," says Mr. Harris, "the island seems to have been flooded with paper money and an awkward situation had arisen."

It may have been that the banks were determined to do what the French accused Pitt of doing, viz., ruining the State paper money system by introducing issues of spurious notes.

Finally the banks won. Exactly how and why, we are not told. Whether the banks adopted the time-honoured method of bribing legislators and Councilmen, we have no evidence. All we do know is that the communal currency was entirely successful, and enabled the inhabitants to pursue their trades and industries with profit, and brought the island from a state of abject poverty to that of comfort.

Mr. and Mrs. Harris have performed a most useful task, which ought to be of great value to municipalities and States in the future. Unfortunately, they have allowed their work to be "queered" and seriously impaired by a most remarkable preface written by Mr. Sidney Webb. After admitting that the Guernsey Market House was built without a loan and without the payment of interest, Mr. Webb proceeds to supply what he terms some "hypothetical elucidations," which serve but to darken counsel and are evidently intended to "damn" the entire scheme with faint praise.

Mr. Webb, after repeating what he asserts to have been the current talk at various working men's clubs thirty or forty years ago regarding this experiment, viz., that the Guernsey Market House was built "without cost," goes on to say that "it was no more built without the aid of capital than was St. Paul's Cathedral or the Manchester Ship Canal." I have myself attended a good many club meetings, and heard many discussions in which this scheme was mentioned, but I never heard it claimed that a building could be erected without building material and scaffolding and the necessary equipment of a builder, which constitutes his capital. Nor can I imagine anyone outside of a lunatic asylum making any such preposterous assertion.

Mr. Webb says, "The part of the story we do not know is (a) what thereupon happened to the aggregate amount of 'currency' of all kinds then in circulation within the island in relation to the work which that currency had to do, (b) what happened to the prices of commodities." Then he proceeds to offer all sorts of hypothetical suggestions of what might have happened. Most of these suggestions are quite useless, as shown by the results. One thing we do know, viz., that the Island prospered during the period in which this paper money was issued as it had never done before, and the inhabitants were all satisfied—except the bankers and moneylenders. Evidently, therefore, the evils suggested by Mr. Webb—such as a great rise in prices—did not occur.

Then Mr. Webb makes the utterly irrelevant remark that "Guernsey could not have gone on equipping itself with endless municipal buildings as out of a bottomless purse." The obvious answer to which is that there was no demand for "endless buildings," municipal or otherwise, and that the members of the Guernsey Council were not only sane, but evidently men of intelligence. "The resource is a limited one," says Mr. Webb. "This is a trick which can only be played once. When the gold has once been withdrawn from the currency and diverted to another use, there is no more left with which to repeat the apparent miracle."

Now it is quite obvious that Mr. Webb has utterly failed to understand the true nature of the experiment. What the Council did is what any municipality could do if free to employ its credit, viz., *to appropriate from taxation an amount which, under the usual system of borrowing, would have been paid away in interest charges to private individuals or banking companies, and use this as capital to construct roads and buildings.*

And this "trick" might have been performed not once merely, but *continuously*. Suppose, for instance, the same common sense were applied to the re-housing problem. The Duke of Marlborough has recently pointed out that the great obstacle to re-housing is interest charges. The system of borrowing bank credit means increasing and often doubling the rent that would otherwise be charged, so that it becomes prohibitive.

Suppose, for example, the London County Council determined to tear down and re-build a portion of the slum district! Although the credit of the City of London is enormously greater than that of any single individual or group residing in London, under our present usury system a loan must be effected. Suppose, then, £1,000,000 is borrowed from the City banks at 3 per cent., payable at the end of $33\frac{1}{3}$ years. The scheme will eventually cost £2,000,000, and hence the rents must be raised proportionally. Under the Guernsey scheme the cost would not exceed £1,000,000, and hence the rents would be so much less. Would the introduction of this extra million raise prices, as Mr. Webb fears? There is no doubt that credit does affect prices to a large extent—as the import of large amounts of gold do. But why should the issue of municipal credit affect prices any more than the issue of bank credit? How is the difficulty avoided by changing the issuer? If prices were affected in Guernsey, were they not affected much more by the notes issued by the two private banks than by the State issues? Evidently

Mr. Webb has not given enough thought to this problem.

The main point in the experiment, however, is this, that it taught communities how to utilise as capital what they would otherwise have to pay away in interest charges, without any corresponding benefit.

I cannot refrain from again referring to the comments of Mr. Edward R. Pease on this experiment in his Fabian pamphlet, "Gold and State Banking." When I wrote my criticism of this tract (which appeared in THE NEW AGE of July 25 last), I had not then read Mr. Harris's book. After reading it and again perusing Mr. Pease's statements, I can only express my amazement at the audacity of a man daring to publish a series of assertions which have no foundation in fact whatever.

Mr. Webb—the most highly respected member of the Fabian Society—has, it is true, in order to throw cold water on this successful attempt of a poor community to escape the perpetual burden of the loan, found it necessary to draw on his imagination by suggesting all kinds of hypothetical conditions. But the secretary—as a fanatical disciple—goes much much further than his chief, and makes statements which are absolutely untrue. "The labour notes," says Mr. Pease, "were not, so far as evidence goes, given in exchange for labour." There is no mention whatsoever of labour notes in Mr. Harris's book. Moreover *the Guernsey State Notes were given in exchange for labour—or rather the product of labour,* viz., various buildings, etc.

Mr. Pease further asserts that "the market notes were driving gold out, because gold alone was valuable for sending abroad." Not a syllable of evidence will be found for any such statement.

Again he says, "It seems clear that foreign commerce and finance could not go on with a currency incapable of export." To which Daniel De Lisle (the bailiff and chief author of the experiment) would have added, "And it is still clearer that, if you export your currency, your domestic trade cannot go on, and since, with almost all nations, domestic trade is much greater than their foreign trade, it is better to have a currency that won't go abroad, and employ gold merely as a commodity for settling foreign balances." But the trade of the island, domestic and foreign, *did* prosper for twenty years under this experiment.

The statement made by Mr. Webb, and repeated by his follower, that a nation can only save the amount of a gold currency *once* by substituting paper, is entirely untrue.

As trade and population increase, the need for more currency grows apace, and it is not merely the continual saving of the cost of gold, but the destruction of interest, and consequent saving of such charges, which is the important thing. It is interest charges which eat out the heart of nations and necessitate perpetual wage slavery for the masses! It would be interesting to know why Mr. Webb, a world-famous Socialist, is so bitterly opposed to the overthrow of Labour's greatest adversary.