Gold and State Banking.

By Arthur Kitson.

THE Oracle has spoken! The Mountain has laboured and brought forth—a Mouse!—and a miserable little specimen at that! Its name is "Gold and State Banking," "A Study in the Economics of Monopoly," by Edward R. Pease, published and sold by the Fabian Society. In response, no doubt, to the earnest solicitations of many of its members to say something upon a subject which, just now, happens to be a vital political issue in the United States, and has been honoured with discussion at most, if not all, of the annual meetings of our Associated Chambers of Commerce for some years past, the leading Pundits of the Fabian Society found it necessary—for the sake of their reputation—to issue some sort of a pronunciamento on the banking and currency question.

Their position was an embarrassing one. For years they had let it be known that there was no "question" involved, and that those who ascribed industrial and social troubles wholly, or in a measure, to our currency and banking system were merely "currency cranks."

The currency panic of 1907 which played such havoc with trade and production universally, showed, however, that "they didn't know everything down in Judee." Hence the simple believers began to lose faith in the infallibility of the Fabian Junta. "Could it be possible," they asked themselves, "that this silence is due to ignorance?"

There was some risk in allowing the Oracle to remain dumb any longer, hence the present pamphlet!

It has often been asserted by certain unkind critics that the air of superiority worn by your Fabian is merely a cloak to mask what, in reality, is but a *pretence* to knowledge.

And certainly this so-called "Study in the Economics of Monopoly" gives some grounds for such criticism.

The author commences with a preparatory note on "Currency Cranks."

"Currency cranks," says our Fabian Oracle, "are the most foolish of theorists, and their schemes the most futile of Utopias." We are then informed that the author's speculations about "the place of gold in the machinery of commerce are put forward with diffidence precisely because of his distrust of the company he is keeping."

We are next informed that these "speculations lead up to a remarkable conclusion." "And the reader is particularly requested to note that what is here outlined is not a scheme, but a forecast." "Neither the Government nor any individual is asked to adopt any proposals or to follow any advice. The writer invites them only to accept Mr. Asquith's well-known policy—'Wait and See.'" "In his view, the almost inevitable effect of economic causes will be that our banks will continue to amalgamate: when there is only one bank, or virtually one, its power will be too enormous for private persons to wield; hence it must be controlled by the State."

There is your true Fabian Pharisee in his favourite colours! He first wishes the public to understand that he is not one of those foolish currency reform advocates—thank God, not he!—but he deigns to utter a few words of cautious wisdom on the subject merely as a guide to the unwary!

He imagines that the Government—nay, the world—is sitting at his feet waiting breathlessly for the inspired words that flow from his lips! Fearful lest his pronouncement may lead to immediate action, and Mr. Asquith, after reading these momentous utterances, might rush a Bill through Parliament to empower the Government to buy up all the banks and form one Central State Institution, he cautions one and all to "Wait and See"!

Now, after these necessary explanations, anticipations, and cautions, the reader's expectations are naturally raised to the highest pitch. Alas! only to be rudely dashed to the ground! For, out of the matter comprised within its eighteen pages, it may be honestly asserted that every intelligent idea expressed in this monumental "Study," every truthful assertion, every fact the author supposes to be novel, will be found in the writings of those much despised "Currency Cranks," whilst every original "speculation" of the author himself is absolute rubbish!

Take, for example, what he calls "a remarkable conclusion," which seems to consist in his "discovery" that within a few years all our banks will have amalgamated—a result which would tend to destroy interest on deposits, as well as the necessity for cash, and render banking simply a matter of book-keeping.

I am not going to accuse the Fabian Secretary of wilful dishonesty or plagiarism, nor would I dare accuse him of ever having read that organ of "Currency Cranks," the "Open Review." Yet I can assure those Fabians who have any intelligence that practically all these "remarkable conclusions" will be found in articles published in old numbers of that (now defunct) magazine, under the titles of "The English Octopus," "How to Solve the Problem of the Gold Reserves," etc., etc. Perhaps I may be allowed to quote the following extract from a lecture delivered before the members of the Banking and Currency Reform League, November 1, 1908:—

Of late years the tendency of banks has been to amalgamate, and it is quite within the bounds of possibility that during the next twenty or twenty-five years all the joint stock banks of this country may be controlled by one board of directors. Whilst such an amalgamation would greatly reduce the need for gold and currency and lead to many economies, it would give such a board practically full control of the whole of the trade and commerce of this country. The profits which are now made, and which are exceedingly high, would be more than doubled. It is easy to see why there is such eagerness on the part of bankers to amalgamate. The mere economy in the use of currency is a sufficient reason. For instance, supposing that a merchant arranges an overdraft at his bank for £10,000—which he probably requires for checking out to various people in different parts of the country. He sends cheques of various sums to his creditors, which cheques are deposited in their banks. If all these creditors happen to have their accounts with branches of the same bank, not a single sovereign need be paid out on account of this overdraft. The merchant pays all his debts by cheques—which are deposited in branches of the same bank—and, although it does not cost the bank a single sovereign, the overdraft is charged for at the rate of 5 per cent. or 4 per cent., just as though he had drawn £10,000 in gold!

John Stuart Mill once showed that if everybody in London did business with one bank, all business which began and ended in London might be transacted without a single sovereign in currency. Transactions would be nothing more than a matter of book-keeping, entering sums to the credit and debit of depositors. If, therefore, the banks of England should combine—as they have been doing of recent years—the system may ultimately become similar to that which was practised in Venice for centuries, and where gold or silver was scarcely needed. And the ten or twelve million pounds now paid in the shape of dividends to bank shareholders will be doubled and trebled, for the gold reserves now held by the banks will not be required, as banking will then be a mere matter of book-keeping, and the gold can be loaned abroad.

Now there was nothing, so far as I know, particularly original in the above statement at that time. Similar ideas had undoubtedly been expressed long before. The point I wish to make is this. Since the Fabian author terms his speculations "remarkable conclusions," he was evidently ignorant of the writings of the "Currency Cranks" whom he professes to regard with such contempt—a circumstance which places him in a very contemptible position. To affect an air of superiority over those one neither knows nor understands, is simple assininity. On the other hand, if he had knowledge of such writings, his attitude is worse than dishonest!

If one is to gauge the intelligence of the members of the Fabian Society by this "Study," one must assume that—like the Coneys—they are a "feeble folk." Here are a few priceless samples selected at random from this Fabian mine of wealth:—

Trade is simply barter.

Labour, added to raw materials, creates wealth.

The mere addition of labour to raw material does not necessarily create wealth.

The amount of the labour is no measure of the amount of wealth.

It is impossible to measure wealth in terms of labour.

The labour note comes to be merely an attractive name for a paper currency.

If the average Fabian has advanced in his economics no further than this stage, he has certainly a long road before him to reach even the elementary stage of "Currency Crank" literature.

Then we have some remarkable speculations of the Guernsey Market Notes. Everyone knows of the Guernsey Market experiment, under which the Governor in 1820 proposed to issue non-interest bearing notes in place of interest-bearing bonds, to enable the community to erect its market house and to build roads, etc. The notes were circulated, the scheme was successful, the buildings were erected without the issue of bonds, and we are told that *these notes are still in circulation.* Most people would regard this experiment

—especially after knowing that the notes were still circulating—as a decided success. But what says the Fabian Oracle? It says, "Mr. Theodore Harris has rendered a great service by investigating the famous transaction in the archives of the island, and alas! the bright illusion vanishes!" What that "illusion" was he does not disclose. It was evidently one confined to Fabian minds. He goes on: "The scheme came to an end apparently precisely as the economists predicted. Guernsey found the facile descent into paper currency as attractive as all States find it. It set its printing press humming till its paper notes amounted to £55,000. Then the bankers kicked."

According to Fabian economy, for a nation to carry out an undertaking without borrowing, and without burdening its subjects for all time with interest charges, is a "descent." Most people would prefer that "descent" to the other road which leads to bond slavery. Is it any wonder that the bankers—who flourish in proportion as debts are created—"kicked"? "Sirs, ye know that by this craft we have our wealth, and our craft is in danger to be set at naught," said the Craftsmen of the Temple of Diana. And similarly the bankers (of Guernsey) first "kicked" and then "persuaded the States to retrace their steps." It would be interesting to know what was the amount of the "persuasion" in gold!

Forty years ago, after the Northern States had successfully carried through a gigantic war on paper currency—a currency which had also enabled the nation to maintain its trade and commerce unimpeded during those years of trial and crisis—the bankers saw that this paper took the place of bank credit to an alarming extent, depriving them of much gain, and they also "kicked" and finally "persuaded" the Government to destroy millions of paper dollars, and augment the National Debt, by means of special legislation, accomplished—so it is alleged—by enormous bribes given to legislators!

The Fabian writer regards the fact that £41,000 of the £55,000 of notes issued by the State of Guernsey still remain in circulation, as an evidence of failure! What on earth is currency for, but to circulate and *keep on* circulating? And if you redeem and destroy it, how is future trade to be carried on? If there is one fact that proves the success of the Guernsey Note experiment, it is that the same notes have continued to circulate and facilitate trade for nearly a century. If this is an objection, it applies with equal force to the Bank of England Notes issued against the Government Debt.

A further evidence of failure alleged by the author is that the Market Notes are driving out gold—an evidence to any person gifted with commonsense of the superiority of the notes over gold for *currency purposes*. If steel ships drive wooden ones out of use, if motor cars and 'buses put the old horse-drawn vehicles out of the running, is this not accepted universally as evidence of the superiority and survival of the fittest? And, if this applies in all commercial and industrial affairs, why is money an exception to this universal law? It is only Greshamites, Fabians, bankers and usurers who have the effrontery to deny the rule.

Then we are treated to a dissertation on the "stability of gold"—a statement disproved by every index table compiled for the past fifty years. (Why on earth did not the Fabians present their secretary with a financial primer before starting him on this task?)

The author tells us also we have in England "every ounce of gold we want to use." (Why then do not the Fabians, who, we are told, supply the Cabinet with brains and measures, have the importation of gold immediately stopped?) He adds: "Even if 10 or 20 millions in gold were brought into the Bank, no person would use another sovereign than he uses now." The assumption here is—and, to give any degree of sense to these assertions, he should have added—"provided the introduction of this extra amount does not affect the Bank Rate." But it always *does* affect the Bank Rate, and so these assertions are absolutely fallacious!

If a baker were to go through the dock strikers' district just now offering to sell bread at 6d. a loaf, he would return without effecting a single sale. If he were a Fabian, he would interpret this by asserting that the strikers and their families had every ounce of bread they can use!

If the Bank Rate could be put down to 1 per cent. and maintained at that level for, say, 12 months, the demand for currency would be augmented several hundred per cent! The demand for currency is largely determined by the Bank Rate, and the presence of much or little gold in the Bank helps to fix the rate. Hence the demand for gold is affected by its supply.

The classic illustration of the inverted pyramid representing commerce as resting on credit and credit on gold, which constitutes the apex, is "all a delusion," says the Fabian Oracle, "because the security of the credit system does not depend on gold, but on public good sense, and gold is to the system merely the small change, etc." Well, most people will admit that our leading bankers, such as Sir E. H. Holden, the president of the great London City and Midland Banking Co., Sir Felix Schuster, of the Union and Smith's, Lord Avebury, etc., know at least as much of the practice of banking in this and other countries as the Secretary of the London Fabian Society. Let us see what their opinion is. We find it voiced in an address by Sir E. H. Holden delivered before the Liverpool Bankers' Association a few years since (1908) in the following sentences:—"The business of the world is carried on by means of loans; loans create credits, the stand-by for the protection of credits is gold, and, therefore, gold controls the trade of the world." In giving advice to his fellow-bankers, he added:—"The loan is the danger spot. . . . The loans of every country should be limited by their gold bases." And yet our little Fabian tells his readers, "The odd thing is that gold, supposed to be desired by all men, is, in fact, the one thing bankers dislike and detest!" That statement is certainly "odd"! Perhaps that is the reason why the bankers have forced the gold standard upon nation after nation and are now forcing it upon China!

The other points dealt with in this precious "Study" are treated by the author in a similarly untrustworthy manner.

We are told that "gold is not a monopoly" (in spite of the United States Money Trust), that everyone can get gold who has property. "Our banks are too big to fail," and "their security is not dependent on a stock of gold, but on the political and commercial commonsense of our country." (It is fortunate we have not to depend upon the political commonsense of the Fabian Society!)

Here again the writer displays his total ignorance of financial affairs. Failure in the financial world means failure to fulfil obligations. Those obligations are to *pay gold* on sight to creditors to the extent of their credits. When the Bank Charter Act was suspended on three different occasions, each suspension was a confession of failure, even though the Bank kept its doors open. But what are we to say of a writer who sees evil in a State issuing paper money which drives gold out of circulation to avoid interest charges, but looks with equanimity on a State Bank refusing to pay gold and issues paper as an equivalent? In spite of the vivid recollections maintained by the commercial world of the great Currency Panic of 1907 and 1893, our Fabian authority coolly tells us "financial crises are matters of ancient history"! He thinks that a currency which cannot be exported is useless for domestic purposes, notwithstanding the fact that money never circulates outside the country issuing it.

I need hardly pursue the subject further. With the frequent alteration of the Bank Rate, and its injury to trade caused by our "free gold market," of which our Chambers of Commerce have complained for the past 50 years, the injurious effects on production which interest charges entail limiting the amount of wealth created and hence creating unemployment, our author is ominously silent. The Currency and Banking Question is evidently not his "forte." He and his colleagues are far more at home in writing tomes on "How to promote the survival of the unfit," in declaring war on "housemaid's knee," and urging legislation compelling employers to provide knee-pads for charwomen and scullery maids.