Review: Business Men on Money
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REVIEW-ARTICLES

Business Men on Money

A Fraudulent Standard. An Exposure of the Fraudulent Character of our Monetary Standard with Suggestions for the Establishment of an Invariable Unit of Value. By Arthur Kitson. (London : P. S. King. 1917. Pp. xiv + 233. 8vo.)

Money Problems. By Mr. Arthur Kitson. Criticised by Mr. Hartley Withers. (Stamford : Dolby Brothers, 1920. Pp. 141. 12mo.)

Freedom in Finance. By Oswald Stoll. (London : T. Fisher Unwin, 1918. Pp. 229. 8vo. Price 10*s.* 6*d.* net.)

Britain Victorious! A Plea for Sacrifice. By M. de P. Webb, C.I.E., C.B.E., late Chairman Karachi Chamber of Commerce, and Additional Member, Bombay Legislative Council. (London : P. S. King. Second Edition, 1920. Pp. 157. 8vo. Price 2*s.* 6*d.* net.)

State Credit and Banking during the War and After. By Robert Benson. (London : Macmillan & Co. Third impression, 1919. Pp. 57. 4to.)

It is a hard saying of Montaigne, and unjust to a humble quadruped, *Tout vice vient d'ânerie.* On this side of vice are many follies, stupid and obstinate, which may fairly be called asinine. Examples are common enough in the conduct of their money matters by individuals and by nations; and the historian who would complete the catalogue of the financial blunders of the Great Powers for the last seven years would find his industry taxed. Books and pamphlets critical of monetary theory and practice are at a time like the present only to be expected. It is more than can be expected that they should tell us much which is both new and true. But so much of one's life is spent in reading what turns out to be unprofitable that it is useful to receive a time-saving indication reinforced by a reasoned opinion. It is also perhaps something of a duty to combat by argument the

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acceptance of views which, if incentives to unsound action, may be pernicious in consequences.

We have nothing to fear here and now from such follies as the belief that unlimited issues of paper money will make everyone wealthy or will finally solve the embarrassments of Governments. We are in no danger of such vices as vast paper issues with Lenin's avowed object of impoverishing the capitalist. The brain of the Labour party in this country is fully alive to the social menace involved in monetary inflation. Measures of this character inevitably bring their own castigation, though the whips of fate may descend upon the backs of the children and the children's children. It is easy to demonstrate that our standard of value is imperfect, and fatally easy to propound fallacious remedies. The danger of such proposals to untrained minds is especially great when they emanate from successful men of business whose whole interests are opposed to the dislocation of our economic machinery. There is a presumption, which may or may not be rebutted, that such writers know what they are talking about. Their sincerity is beyond question. Their earnestness is attested not only by their turning aside to authorship, but by the fervour of their language. Their credentials entitle their views to serious consideration.

But when we look to their writings we find that the eminent men of business are by no means in agreement with each other in diagnosis of our monetary troubles or in the remedies which they prescribe. To borrow a phrase of Macaulay, they are like an acid and an alkali mixed which neutralise one another. When they do agree to denounce the bankers and financiers we cannot fail to observe that these also are eminent men of business, who may fairly claim to know as much about money, credit, and banking as their critics, and would hardly be human if they did not say something about the cobbler and his last. The authority of the business man in the field of monetary science is thus weakened at its source, and we are freed to pass from generalities to a detailed examination of the various points of view.

There is more heat than light in the title of Mr. Kitson's book *A Fraudulent Standard*. The lawyers have never yet succeeded in defining fraud, have indeed considered it inadvisable to attempt to do so, human ingenuity in fraud being so versatile as to find a way round the boundaries of any circumscribed definition. But it is agreed that fraud involves a guilty mind and an intent to trick or deceive. To say that Governments which have adopted a gold standard have done so with any guilty intention is to assert what is not proven and not provable. The purchasing power of

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gold may rise or fall, and the changes may benefit or damnify some members of society to the injury or advantage of others. But Governments have not yet been inspired with sufficient foresight to know which way the cat will jump, and when they have chosen a gold standard have done so because they believed it to be the least jumpy commodity suitable for use as money. A lends B £100 in gold money for a prescribed period, and on the due date B repays £100 in gold. Is honesty satisfied? Not necessarily, Mr. Kitson would say. If there has been a general fall in prices of 20 per cent. during the currency of the loan, £80 would now supply A with the same purchasing power as he lent to B, who has thus to provide 25 per cent. more in value than the principal sum he borrowed. He received cheap pounds and pays back dear pounds. The gold standard defrauds him by 25 per cent. But the contract was not made in "general purchasing power" or in "pounds of invariable value." So far as the change in value goes A is no better off than if he had kept the money in his own hands. He has had to take his chance of a general rise in prices, in which case perhaps Mr. Kitson would say A is defrauded. There is in reality no fraud in the matter. The rise or fall is at owner's risk, and is so understood by both parties throughout the transaction. We may feel strongly that a tabular standard—working for example through such a change in the official "price" of gold as is proposed by Professor Irving Fisher—would be more scientific, less likely to upset expectations than a gold standard, and in every way a reform of the highest value. If we subscribe, as we do, to the statement that a gold standard is gravely imperfect and ought to be reformed, we may be inclined to shake our heads over the word "fraudulent" and pass on with a charitable murmur against unfortunate epithets.

But this we are not allowed to do. It is insufficient to acquit A and B and Governments in general of the vice of fraud. They are, it seems, guilty of what Montaigne deems to be the parent of vice. They have been so foolish and ignorant as to allow themselves to be duped by the banker, financier, and moneylender into adopting a standard of value which the true villain of the piece manipulates to his own advantage. He it is who defrauds the community. We are told that the gold standard "has placed the fortunes of all engaged in trade and industry wholly at the mercy of the world's moneylenders. They have the power to stimulate industrial prosperity and to destroy it by increasing or diminishing the available gold supplies as well as by the mere manipulation of credit. Just now a few of their number are contemplating the

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most gigantic deal that has probably ever been conceived," to wit, "the doubling of national and incidentally all other debts by doubling the present value of our monetary units," under the cloak of deflation, and "restoring what they term our good, sound, honest gold currency." If this plot is successful "it will mean either the complete enslavement of the people of this country to a soulless money despotism for ages or compulsory repudiation of the debt." "The world's financiers have the power to acquire unlimited wealth by merely juggling with prices," and this power exists "mainly by reason of the legal establishment of the gold standard."

A case can be made out against the stability of the gold standard, and a stronger case against the standard diluted with great quantities of uncovered paper money. This adulteration, which has worsened the standard in point of stability, is admired by our advocate of an invariable unit of value. "The first man, whether statesman, banker, moneylender or labour leader, who attempts to destroy the people's money—the one pound Treasury notes—should be publicly hanged as a salutary lesson *pour encourager les autres.*" We should regret to see this treatment meted out to anyone who destroyed our promissory notes, and the indictment would be less fearsome if we substituted "the people's IOU's" for "the people's money." In 1794 the poor economist Linguet, who had kept quiet during the Terror, was dragged before the Revolutionary Tribunal on a report that some years before, in his writings on taxation and the corn trade, he had deprecated a bread diet, regarding it as a slow poison. He was guillotined forthwith *pour avoir injurié le pain, la nourriture du peuple!* "The people" must be dragged in to justify these public executions. Under the Defence of the Realm Act it was an offence to decry the Treasury notes by speech or writing; but anyone is surely more deserving of being inscribed on a roll of honour than of public execution if he makes a holocaust of such notes as he owns. Here again we may admit that sudden and violent deflation would be a rough jolt to society, though its dangers can be easily overstated. If deflation occurs it will be slow enough for most of us, in any case.

What, then, does Mr. Kitson propose? He desires to see the banks nationalised, the Bank Act of 1844 and the law of legal tender repealed, and a unit of invariable value set up as a monetary standard. This unit should be $\frac{1}{x}$th part of the wealth of the community. If W represent this wealth and P the new

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pound or unit of value, $\frac{W}{x}=P$. We are told that we may assign any value we please to x. If W be determined it follows that we may give any value we please to P. Why not, then, dispense with the trouble of evaluating W by making $P=mP'$ where P' is the present pound and m our arbitrary factor? P once arrived at is to be kept invariable by increasing or decreasing the issues of paper money according to the movements of the index number of general purchasing power. Paper money must not be destroyed (because this would call for public executions), but the Banks—now Government banks—would do what is needed "by the mere act of refusing banking accommodation." That this mere act might bring one business after another toppling down like a house of cards does not seem to trouble the author. He appears to regard banker's credit as a kind of fiat money, which the banker can expand or contract to any extent at will. He would have credit plentiful and cheap, "issued against wealth in a safe proportion, say from 50 per cent. to 75 per cent. of its legally appraised value," and without interest, usury being an invention of the devil. A charge of 1 per cent. per annum might be made for insurance. It is hardly necessary to explain to any student of Jevons or Walker or Nicholson or other writers upon bankers' money that the plan will not march. Bankers are strictly limited in their power of granting credits; the prices which they charge for credit are, like the prices charged by other eminent men of business, determined by factors of supply and demand over which they have little control; and when they overtrade in credits they follow the round with which Lord Overstone has made us familiar. Witness the Japanese banks of to-day.[1] It is a fanciful picture to represent the financier as forcing down prices to increase the real value of his capital. When we remember that these omnipotent autocrats have allowed prices to go up often by leaps and bounds for the last quarter of a century, we must rub out the horns, tails, and hoofs from their portraits. More careful examination of the possibility of equating a variable pound to commodity prices instead of equating prices to an invariable pound may yet convert Mr. Kitson into a good Fisherite. He sees the goal, and thinks he sees evil spirits in the path, but he will never reach his journey's end through the morass which he takes for a route. One cannot help feeling that perusal of such a work as Mr. George Rae's *Country Banker* might enlighten him upon the reasons why a banker is not always able to lend readily even upon such securities

[1] This was written in July, 1920.

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as land and houses, and why a custodian of other people's money repayable on demand must be cautious not to lock up so much of it in loans to be redeemed sometime and somehow as to imperil his capacity to meet the drafts upon him for legal currency. If his margin of available cash resources is dangerously low compared with his cash liabilities he can only protect himself and his creditors by restricting credit, raising the rate, reducing or refusing new credits, and calling in outstanding loans. It is irrational to regard such a policy as malevolent or short-sighted.

Sir Oswald Stoll receives the benediction of Mr. Kitson. But their alliance of ideas is very limited. *Freedom in Finance* claims that the British citizen should "participate as a right in the control of credit, *alias* funds, *alias* money, which is fundamental to successful industry, trade and commerce." The author shows that he is well aware of the distinction between money and credit, but he is obsessed by the fear of a Money Trust which will empower a few individuals to hamper trade and industry by the strangulation of credit. He sets a good example to social reformers by opening his book with a "First draft by an eminent Parliamentary draftsman of an Industrial Loans Bill." The underlying idea of his argument is that the funds deposited with bankers are not their own, that the credits which they grant or refuse are not their own, but are a social creation and ought to be socialised or nationalised. Under his scheme no person is to be allowed to carry on the business of banking if he refuses to make industrial loans upon approved securities. These securities of the value of at least £200 are to be valued by official valuers. The owner is to be entitled to a loan equal to one-half of the official valuation, is to pay 5 per cent. of the loan to the Treasury as a guarantee against loss, and to pay the Bank its bank charges for keeping his account but nothing in respect of interest, the Bank being guaranteed by Government against loss on the transaction. Elaborate machinery is set up for Treasury regulation, for appeals from the refusal of bankers to make advances, for an Advisory Council of business men, etc., etc. We presume that if a bank runs short of funds the Treasury will have to print off notes to enable it to meet the demands of its depositors. And yet, oddly enough, Sir Oswald Stoll is bitterly sarcastic about the defects of such notes. He favours the good, sound, honest gold currency which excites the wrath of Mr. Kitson. It appears to him that "the repeal of the Bank Act could but expand and perpetuate the evil" of a depreciated currency. What he is driving at is greater elasticity of credit; but he does not sufficiently appreciate the fact

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that expansion of credit in its effect upon prices is open to many of the objections which are urged against soft money, and that bubbles are liable to burst even though they be blown by Government.

Here again it may be conceded that the Act of 1844 is inconveniently rigid; and there are many sober advocates of allowing the Bank of England to issue notes against a limited amount of approved gilt-edged commercial paper of short currency, which the Americans call self-liquidating. But the plan proposed by Sir Oswald Stoll savours of burning down the house to roast the pig. To say nothing of the dangers of admitting a *right* to have credit (or in plain English a right to borrow), without regard to the circumstances or convenience of the banks or their duty to their other clients who lend without borrowing, we should pity the citizen who had to face the cumbrous and unsympathetic ordeal of an appeal to government officials to overrule a reluctant bank. The public safeguard lies not in the good will of the banker but in his self-interest, which makes him welcome safe and profitable business, and not drive it into the hands of others. If the day should ever come when the bankers combine to be dictatorial and unreasonable, and if the public are unable to protect themselves by their own organisation and resource, some statutory control will become necessary. But we believe this danger to be imaginary. The Colwyn Committee to which Sir Oswald Stoll expounded his proposals have not published the evidence tendered to them. If the report in the *Freedom in Finance* is a full account of their cross-examination of our author we must admit that they did not take his proposals very seriously. The few questions asked are of a perfunctory character and are in some cases evidently based upon imperfect appreciation of the point of view of the witness and the real nature of his scheme.

In an *Open Letter to Lord Milner*, Sir Oswald Stoll urges that "what water for his crops is to the Egyptian cultivator, credit now is to the whole field of British industry." Credit is not always used for productive purposes, and some would-be productive enterprises come to grief. But even if we leave all these out of account the metaphor may be worth pursuing. Egypt has not an unlimited supply of water. The amount granted to each cultivator has to be carefully rationed and controlled. If the fellahin were left to themselves they would undoubtedly injure their crops by excessive watering, so long as they can get water when it is scarce. But the danger of a very high Nile requires careful precautions and vigorous counteraction, or crops and villages alike will be swept

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away. The comparatively small drawback of a few cases in which production might be increased in this country, if more credit were forthcoming on easy terms, bulks very large in the author's mind. But the evils of excessive credit have not received much of his attention. The question of prices is left in the background throughout.

Mr. Webb's *Britain Victorious!* is an appeal to us after a victorious war to win to victory in peace, which is said to be impossible so long as we are weighed down by a crushing national debt and are being driven by a flood of rising prices on to "the rocks of (*a*) still higher prices; (*b*) increasing difficulties in developing our export trade; (*c*) the partial starvation of the people and consequently (*d*) grave social eruptions in all directions." To conjure these evils he would have a great levy on wealth—a levy on capital he denounces as "unthinkable"—voluntary to start with, and if inadequate results are obtained compulsion must be resorted to. The State should control credit and open a State bank, should also control the supplies and prices of food, clothing, fuel, and shelter from the elements, as well as all sea, land and air transport, ports and terminals. How we are to become richer as a nation by transferring our money from one pocket to another and tightening the yoke of bureaucracy upon our necks is not very clear. It does not need much perspicacity to see that we have a long row to hoe before we can clear up the aftermath of the financial consequences of a destructive war, but hard work in industry and commerce and sanity in spending are our only hope. Short cuts of government intervention and devastating taxation may well prove to be the longest way round, and Mr. Webb's desire by hook or crook to make a rapid return to pre-war prices must send a cold shudder through some of the other men of business whose writings we are considering.

Mr. Benson's *State Credit and Banking* is written with remarkable ability. It is a plea for a new Central Institution to "do for the market in Government Securities what the Bank of England does for the Bill market." The author has a more highly developed "City" sense than any of the other writers we are considering and many of his observations are acute and important. The chapters on German Banking, the Experience of America, and the Experience of France are useful contributions to the subject, and together with the diagrams and statistics prepared with the assistance of Mr. J. A. Todd, Mr. Joseph Kitchin, and others, supply material which the reader will desire to preserve for reference even if he is not convinced by the argument. The

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essence of Mr. Benson's proposal is that the owner of Government securities should have the right to borrow upon them "with (say) 10 per cent. margin." His reply to critics who are afraid of unrestricted credit of this kind is that they "have not made allowance for the safeguard which is offered by the power to raise the rate of interest; for loans are not permanent at the same rate, but are made for periods of (say) seven days to ninety days, and renewable. The safeguard is the rate on renewal." There must, we imagine, be very few bankers who are unprepared to do business on some such terms as things are, and we do not expect that any striking changes for the better would result from putting compulsion upon them. The Stock Exchange is open for the sale of securities without any 10 per cent. margin, and if we press home upon the grumbler the question: "Why don't you sell your securities if you wish to liquefy them?" we shall probably get at the reason why the pawning of them is not so easy as he would wish. A high Bank rate and rapid deflation are the evils most feared by Mr. Benson. We agree with him that a dear money policy is at present open to grave objections and that "a ten per cent. Bank rate no longer brings gold from the moon"; but surely an expansion of effective demand for credit is not the way to keep the rate low. He does not go so far as Sir Oswald Stoll, seeing good reason why land and buildings and going concerns should not be regarded as a satisfactory backing for compulsory credit. But his statement that he proposes that Government "should guarantee its own signature" does not appear to us to be a fair description of his plan. So long as Government pays the agreed interest and redeems the security (if it be redeemable) on the due date, there is no question of a violation of its guarantee or its signature. We have borrowed dearly enough. To give the holders of Government securities additional money's worth for the stock they hold, in the shape of special gratuitous privileges or facilities, does not, on the face of it, seem very good business for the taxpayers, and if it sent up the price of such securities would tend to bring down the price of others. The fear of a rapid return to low prices of commodities does not alarm the plain man much more than a fear of snow in harvest, and would not be unbearable even if it came. The working classes have had enough object lessons in the difference between real and money wages, and are not likely to plunge us into civil commotion provided their standard of comfort is not lowered, or, in other words, if their wages keep pace with the index number of personal experience. A fall in prices, if rela-

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tively more rapid here than in other countries, might stimulate our export trade and afford enough aid to public finance through the channels of industry and commerce to offset the difficulties which would be encountered in other respects. The *pros* and *cons* of high prices and low prices and the movements of prices in general involve the balancing of many factors beyond these. It would go beyond the scope of this notice to enlarge further upon this proposal than to add that, admirable as much of the essay is, the author has not made out a convincing case for the experiment he recommends.

It is natural enough that business men to whom credit is a necessary of life should desire to see it cheap and abundant. But they ought to know, better than most people, that control of prices and denunciation of vendors are ineffective instruments to cheapen either credit or goods. "Things are in the saddle and ride mankind." Even bankers, financiers, and money-lenders are part of mankind.

HENRY HIGGS

SOUTH AFRICAN CURRENCY

Union of South Africa. Report of the Select Committee on Embargo on Export of Specie. Printed by order of the House of Assembly, June, 1920. (Cape Town : *Cape Times*, Ltd., Government printers. Pp. xlvi + 574 + xxvi.)

IF we had been asked in 1913 "What are the chances of South Africa deserting the gold standard in case of a European war?" we should probably have unhesitatingly rejected the idea as beyond the bounds of possibility, and, if we knew a little history, we should have backed our opinion by quoting the classic case of California, the gold-producing State of the American Union, holding firm to gold during the American Civil War. But now, at the end of September, 1920, the South African pound sterling is not only depreciated far below the value of the 113 grains of fine gold required to make a sovereign (or its equivalent, $4·87 in Canadian or American gold coin), but well below the 91 grains which will buy 4·87 Canadian paper dollars, and even a little below the 82 grains which will buy an English, Australian, or New Zealand paper pound. To any Rip van Winkle who went to sleep in 1913 and awoke in 1920 this would be an astonishing phenomenon. The great gold-producing Dominion with a paper standard more below its par with gold than any other in the British Empire!

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