Monetary Reform

and

Federal Insurance

By

ADOLF GANG

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THE WAY OUT

By

ADOLF GANG

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THE TEN COMMANDMENTS FOR NATIONAL CREDIT-MONEY

The objective of this plan is ten-fold:—

1. Thou shalt restore to the people through their government its sovereign power over credit-money issue.
2. Thou shalt create a Central Bank of Issue for the purpose of making loans to the public on all assets of free market value, excluding vacant land or common stocks, two dollars value to be assigned to the Central Bank for each credit dollar borrowed, with amortization clauses for future devaluation possibilities.
3. Thou shalt turn over the gold bullion and gold coins to the Central Bank, the coin to be melted and offered for sale to the highest bidders in the open market.
4. Thou shalt open government pawnshops in conjunction with the Central Bank.
5. Thou shalt have mergers of all insurance companies, building and loan associations, and savings institutions with the Central Bank.
6. Thou shalt create income insurance and disability tax on all individuals of serviceable age according to their earnings.
7. Thou shalt have the Central Bank regulate yearly the interest rate on loans new and old, and also regulate the premiums on all risks, according to the need for balancing the nation's budget, which will include sick benefits, hospitals, schools, teachers' salaries and school maintenance, parks, highways, disability (all ages included) and all other risk insurance payments. Power and light, telephone, railroads, water, etc., must be nationally owned.
8. If the people through their legislators vote new public works, thou shalt give the legislature the right to vote an increase in the rate of interest on all old and new loans to balance the new demand for expenditures, and future government debts will be a thing of the past.

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9. In contracts and leases made by individuals, thou shalt have clauses "subject to the rate of Central Bank interest," and not to be paid in gold or its equivalent, as in the past.

10. Thou shalt open the door for free trade with all nations, and thereby destroy all monopolies, and all people will have economic freedom, and peace will reign forever, and prosperity will be here and there and everywhere, and not "around the corner" only. If Mr. Hoover's phrase "prosperity around the corner" meant the corner bank, there can never be any prosperity corners until all the people are prosperous through free trading.

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EVERYONE SHOULD BE ABLE TO ANSWER THESE QUESTIONS

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1. Are the interest rates on our credit dollar controlled by the government or by private bankers?
2. Has the interest rate reduced the wealth of the debtors in favor of creditors?
3. Have the insurance companies by forced savings, increased or decreased poverty?
4. Can a Federal Bank of Issue control interest rates and solve the unemployment problem?
5. Has a defective credit structure based on metal (gold or silver money) stalled the wheels of industry?
6. Can a fixed price or value on one single commodity or on many commodities be enforced by law?
7. Is not the relation of trade, exchange, national or international, in principle, barter, "value versus value"?
8. Can a 100% commodity dollar backed by 200% security give the people a medium of exchange with normal fluctuation?
9. Can a people go on saving for future security without creating enormous funds of idle capital?
10. Could Central Bank insurance control excess savings through the control of a graduated interest rate on loans and a graduated premium rate on risk?
11. Should Congress pass a law imposing compulsory disability income insurance on every citizen, for all ages?
12. Should savings banks be separated from commercial banks?
13. Will Federal pawnshops do away with a mass of usury and help small borrowers?
14. Would not a graduated interest rate on credit money from the Central Bank and pawnshops make it easier to have a balanced budget?

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Bloomsbury, 12/6/34.
46, Gordon Square,

Mr. A. Gang.

Dear Sir:

I am indeed obliged to you for kindly sending me a copy of your article on "Government Control of Long Term Savings." With the ideas underlying your central theme I am in considerable sympathy.

(Signed)

JOHN MAYNARD KEYNES.

Dear Mr. Gang:

I agree almost 100% with most of what you say in the first fifty pages. As to your solution, I feel that there are many other factors besides monetary. Moreover, I wonder if the greatest need of all may be a change of *"hearts" of us all.*
August 3, 1934.

(Signed) ROGER W. BABSON.

September 6, 1934.
Mills College,

My dear Mr. Gang:

Thanks for letting me see your "Government Control of Long Term Savings." I enjoyed particularly your treatment of the gold standard and the folly of tariffs. The task of educating a nation of "economic illiterates" is indeed a tremendous one and I fear can never be accomplished. Perhaps those in power can be made to see the light. More power to you and your propaganda.

Sincerely,

DR. GLENN E. HOOVER, A.B., M.A., LL.B.
Professor of Economics and Sociology.

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INTRODUCTION

Lay your finger on the next insurance salesman who calls on you, and you lay your finger on one of the main causes of economic depression. Apart from acquiring a part of your earnings to support himself, his motives are pure and noble. He wants to help you and others to create savings and so provide "for the future." Nevertheless he is the agency of poverty and unemployment, both in the future and now.

So-called "thrift" is but one of the great illusions we need to dispel before we achieve normal economy and an assured future. We worship false economic gods. If you will read on with me patiently I will show you the shadows we now take for substance. Then you will observe with what ease those shadows may be dispelled.

Let me challenge your interest further with these additional statements:

That "high wages" are an illusion;

That tariffs, high or low, are stupidities;

That a metal base for currency is long outgrown and now an absurdity;

That so-called "planned economy," voluntary or imposed, is nothing but state slavery, and as futile as prohibition;

But:

That employment, provision for old age, balanced production-consumption and increased living standards can be secured by a simple, central control of individual thrift.

Life insurance and thrift-savings represent voluntary self-denial. Self-denial is under-consumption. Under-consumption means unemployment. Unemployment imposes compulsory denial, fear, poverty, bankruptcy, economic collapse. A balanced thrift, or the deferred consumption of a carefully controlled margin of the fruits of labor, when used for opening new fields of development and new enterprises insures constant progress, constant activity, and advancing standards. It means sanity and happiness as against the old regime of confusion and depression.

United States savings are a legitimate government function, and will incidentally enable us to separate government from individual enterprise, as I will show. United States savings, by the

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way, are not new, as evidenced by the popularity of postal savings, especially in times of depression. In 1929 the total United States postal savings on deposit were $153,644,520. The first year of depression increased this sum to $175,271,686. Fear of private banking multiplied this in 1931 to $347,416,870.

United States savings are not all, however. Along with it we must wipe out all tariffs, franchises, holding and trust companies, and in this way raise the standard of living and increase employment. And at the same time we must discard the metal currency base, thus giving formal acknowledgment to the 100% commodity credit dollar which, as a matter of fact, we already actually use.

A 40% gold or silver "backing" for currency is revealed as meaningless when you discover, as you will in the following pages, that in itself the dollar is nothing. That is: A dollar or a hundred cents is nothing but a group of ordinary numerals, which can be written down or erased without gain or loss in *things*. The dollar, like a numeral, is of value only when used as a *denominator*.

Do you "back" the multiplication table with a metal base?

As a matter of fact a dollar bill is simply a certificate of ownership of 100 points of free market value. Free market value is represented, naturally, by commodities and services, whose relationship with each other fluctuates with supply and demand. So far as it represents units of value, gold or silver values are represented by certificates of currency. But when that process is reversed we are bound to encounter the financial catastrophe that besets us and the world today.

As I have said, we must discard the metal currency base. Then we must gradually sell off all our treasury bullion at its free market value as a commodity and let it take its rightful place as a raw material for use in industry. Only then will we have destroyed the "golden calf," or false financial idol, and be headed out of our economic wilderness.

A casual reading of this brief introduction to my Plan may leave the impression that it is a frivolous theory. Be assured it is nothing of the sort. In the pages that follow I will show you that it is an exposition of overlooked natural economic law, or just plain common sense. It is as simple, and as inevitable, as the law of gravitation.

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Before finding a plan for a normal economy, it is essential to understand the circle of savings, credit, debts, and interest, because it is upon the inter-relation of these four factors that the working of the economic system depends. Fear of the future creates savings; savings generate credit; credit creates debts; debts entail interest, and unconsumed interest causes more savings; and the circle starts all over again.

Debts plus interest must be paid by government decree in lawful money which is legal tender. This legal tender is a metal commodity of so many units in weight for payment of revenue. Thus, these units of metal automatically become a medium of exchange — barter. As the volume of debts and interest created through long-term savings increases, the volume of interest which must be paid with this single tax commodity also increases, and this tax metal becomes increasingly scarce in the free market. The inevitable results of this scramble for the revenue metal are default, bankruptcy, and falling prices for all other commodities.

The solution of the problem lies in removing the 40% gold backing of the dollar, thus making it a complete, 100% commodity credit dollar, backed by 200% in securities representing all individual commodities. This change will not be a revolutionary one. It will merely mean putting gold back in its rightful place in the free market. Only under such conditions can we have an honest dollar.

We should have not only free gold and free silver, but free trade and, in addition, free enterprise, free competition; property free of taxation, and an entire freedom from licensing of factories, homes, and all private enterprises and property.

EMPTY PHRASES

The average wealth per capita in the United States today is six hundred dollars. When millions of people even in times of so-called prosperity are without a nickel for car-fare, how can "average" mean anything to them?

The average standard of living of Americans is fifteen hundred dollars yearly. When millions at all times are without jobs or food, some supported by charitable institutions, some on a dole system, and millions with an income of less than five hundred dollars yearly, "average" can be nothing but an empty phrase.

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People like gold because it is shiny — rare — and scarce. As soon as people find gold they deliver it to Uncle Sam to exchange for barter *value* certificates, called money; and the person who receives it then barters it for food, clothing, and shelter. He may also save some for life insurance, or deposit it in a savings bank. People do not hang gold on their noses, ears, or necks, as they did in primitive days, but spend it for other useful commodities. Since 6% interest could not be had in primitive days, its only use then was for personal adornment.

That tariffs against nations with cheap labor protect the American worker is also a false belief. An open door to commerce and free barter-trade with all the world would bring prosperity to the people of all the world. From each individual according to his ability in service to another, according to the latter's ability in exchange service. People do not barter if they do not need each other's services or commodities.

SLAVERY

Thousands of years ago, when human slavery was the rule of the day, slave owners used to brand their slaves for identification purposes in much the same manner as cattle are branded today. Later on, slaves had their ears bored and metal tags were attached, giving both the owner's and slave's identification. War lords and great slave holders made treaties between themselves for the bartering of these slaves, and also to take care that fugitive slaves were returned to their masters.

In a day when relatively few men were free, we can imagine that needled ears and identification metal ear-rings were common. Generation after generation these bondsmen became accustomed to wearing their metal tokens.

Gradually it became a custom, practiced even by those who were free, and so we see in backward countries numbers of men with ears bored and having metal jewelry attached. It is still the usual thing among the less progressive nations to needle the ears of female children. Among more civilized people, this painful practice has gone out of style, but many women still cling to metal ear-rings, as we do to a metal base for money. Instead of boring their ears, they attach these metal trinkets by clasps. Wealthy women adorn themselves with costly ear-rings, the attachment of which is quite devious.

If we turn to the Old Testament we come across an interesting finding. Moses, the great emancipator, delivered the children of Israel from the Egyptian yoke. Males discarded their slave metal ear-rings, as they were now free men. Women, still under the rule of their husbands, who were their masters, continued wearing their metal trinkets as they were still, according to the law of Moses and of Israel, chattel slaves of their husbands.

Moses saw the danger in individuals selling their labor to others for a term of years, so he decreed a law that the term of any such contract could not be longer than six years. After six years of labor, every servant was free from his master; however, if he wanted to continue serving his master, we read "then his master shall bring him unto God, and shall bring him to the door, or unto the door-post; and his master shall bore his ear through with an awl." That is, his master would then have the right to put a *metal* trinket on the ear of his slave for identification purposes. (Metal tokens for certification go back to the days of slavery and feudalism and are still with us.) "And he shall serve him as slave forever." This was no badge of honor. We can imagine but few men willing to undergo that humiliation. Moses knew that the shame connected with metal trinkets on their ears would deter people from renewing their contracts with one master, and the danger of a perpetual slavery would thus be avoided. This law gave every individual the opportunity to change his status, his job, at least once in every six years. The Mosaic ideal was one of freedom for every man. That was a step towards freedom of the human race and an advance in civilization.

Would that today we had a Moses who would remove the metal from our monetary standard, as that great leader removed the metal from the ears of the children of Israel four thousand years ago!

PROPAGANDA

To educate a nation of economic illiterates is no mild task. Great teachers, leaders and propagandists of the type of Confucius, Moses, Jesus, Luther, etc., are needed. But instead of teaching the Golden Rule and preaching charity, tolerance and sympathy, more drastic measures are called for. Not as in the

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days of Moses must the decree go forth to bore the lobes of the ears of those who choose life-long slavery. Instead of simply boring the lobe of the ear, we want neurosurgeons to bore straight through the canal of the ears of the gold standard defenders, such as the Spragues, Kents, Kahns, Warburgs, Hoovers, Rothschilds, and many others of their ilk. Not to bore lightly or timidly, but deep enough to reach the pathological lesion in the brains of those gentlemen.

Chapter One

EXCHANGE CREATES WEALTH

In order to lay the background for the argument that follows and which is the purpose of this little book, I am going to challenge the classic definition of wealth. Karl Marx expounded the theory that wealth consists of labor applied to land. For many years this definition was accepted by economists, until Mr. Sidney Webb brought Marx's theory up to date by the admission that labor might be performed by the brain as well as by hand, and so defined wealth as "land plus labor by hand or brain." John Stuart Mill, certainly among the best of our economists, defined wealth as "all things useful and agreeable *having exchange value.*" While this is the most concise definition of wealth so far enunciated, I should like to shorten it still further to the three words that head this chapter: "Wealth is Exchange." Ex-change: Ex-cess (surplus) change, (or barter.) In other words, the barter of surpluses, or surplus trade.

If as Mill holds wealth consists of all things useful and agreeable having exchange value, what about services? Is not the skill of a surgeon wealth? If health is necessary to the enjoyment of *things useful and agreeable,* and is to just about everyone, then the services of a physician are wealth since they promote the capacity and condition necessary to the enjoyment of things. The same could be said of the services of all the professions; that is, they are wealth if they enter into exchange.

For example, a preacher may write a great sermon. If he fails to deliver it, it has no value to anyone else; it is not *exchanged,* therefore it is not wealth. But if he delivers that sermon to a large audience, he gives out from himself something of value to other people who are willing to pay for it in the form of contributions which pay the salaries not only of the preacher but also of the other employees of the church. All of these in turn exchange their labor for a portion of the subscriptions, and in turn spend the money for goods and services of other people. The whole process is exchange and no *things* enter into it until the recipients spend their money. The point is that everyone along the line has received something of

value, the congregation from the minister and other employees, and they in turn from the church in return for their labors. Exchange has taken place and wealth has thereby been created.

Surplus goods by themselves are not wealth to the owner, and do not become so until they are exchanged. For example, in Utah there is a virtual mountain of low grade copper ore. Its existence was known for many years, but it had no value because the cost of getting out the copper was more than the metal would fetch in the market. So there it lay until someone discovered a process for mining that low grade ore by mass production. Since then millions of dollars worth of copper have been taken out of that worthless mountain. Formerly that ore had no more value than ordinary rocks. Now it has value. It is wealth because it enters into exchange. Again, we are told that vast deposits of coal exist under the Antarctic ice beds. Is that coal wealth? Not at all. Raw materials by themselves are not wealth and never become so until they enter into exchange. But the coal that is mined and sold and put to use is wealth.

One might ask then, "'But are not all goods that are made wealth?" And again the answer is: No, not unless and until they enter into exchange. To illustrate, red bandana handkerchiefs are wealth according to the three economists mentioned above. They are the product of labor applied to land (land of course being all things such as ground, buildings, machinery, etc.). This satisfied Karl Marx. Labor of brain as well as brawn goes into their manufacture. This satisfies Sidney Webb. And they are "things useful and agreeable," which fulfils John Stuart Mill's definition. But actually they are not wealth until they enter into exchange. If they are offered for sale in a community where people use bandana handkerchiefs, they are wealth because they can be sold, but if they are offered for sale on Fifth Avenue, what will happen? They will not move. No one will buy them. Therefore, they are no more wealth than so many clods of dirt would be wealth, for the shopkeeper could not sell dirt either. By the same token, diamonds are wealth on Fifth Avenue but may have no value to a clan of Eskimos who never saw one and place no more value on diamonds than they would on a handful of snow. No, things and

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services must be more than useful and agreeable to be wealth; they must actually enter into exchange.

Here then is the basis of my thesis. Wealth is exchange. It can be increased indefinitely because there is no conceivable limit to the degree of exchange and man's productive power. Nor is there any limit to human wants. They are insatiable. Therefore, there must be some serious impediments in the way of increasing wealth, and these are the great *constants* which prevent an even, free flow of exchange, and every few years tend to throw things out of gear, upsetting the equilibrium, which if let alone would flow along on a fairly even course always tending upward. These *constants* are the gold standard, tariffs, long term debts and fixed interest rates, through excess savings for future consumption, all of which constitute fixed charges against future business. Remove these, and the peaks and valleys will tend to flatten out. Trade will flow more evenly and wealth will be increased indefinitely.

ALL TRADE IS BARTER—
SURPLUS VALUE VERSUS SURPLUS VALUE

It is very curious how words sometimes connote a meaning which is far from their true and original meaning. Thus the word *barter* has come to convey the idea of primitive trade, of swapping one thing for another, as distinguished from our up to date methods of buying and selling. Now, barter is defined by Webster as meaning "to traffic, or trade, or traffic or trade in, by exchange of commodities." In this sense, its real meaning, all trade is barter because it is the exchange of goods for goods. We may like to call trade by other names, but call it whatever we will, it is still barter and ever will remain so. Those economists and others who charge that it is impossible for Europe to pay our war debts because it can only pay in goods which we will not accept, are stoutly defending the true definition of trade—the exchange of surplus goods for surplus goods, or barter.

We did not lend Europe gold, we lent our credit in the form of surplus goods. How ridiculous then to demand payment in gold, a relatively useless commodity. This great debt

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about which so much has been said and written in the last fifteen years clearly illustrates the idea of barter and the exchange of goods for goods. Not only are all international balances finally settled in goods, but also all private obligations.

That trade can be carried on successfully by means of barter and credit is strikingly illustrated by the vast amount of trade carried on by means of bank checks, which are nothing more or less than commodity credit units of value. This will be further explained in the chapter on "The Illusion of Gold."

It is necessary to get firmly in mind that all trade is barter, the exchange of goods for goods and not goods for gold, in order to follow the reasoning in the chapter to follow.

THE PROBLEM

To sum up, our economic and most of our social problems originate in a faulty monetary credit and debt system—a currency tied to the bankers' arbitrarily fixed and fictitious value of a metal, which political government in its blindness and folly has legalized.

The alternative system would be a money credit system without any third commodity, be it gold, wheat or tin, as a "measure of value." In simple barter between possessors of surplus value, no intermediate is needed: in three way barter carried on for convenience through money, this credit money need be and should be nothing more than paper certificates of free market value issued by a Central Bank and secured by those borrowing these certificates by commodities. For safety's sake, the borrowers should pledge commodities which in the free market have accountancy figures of twice the figures represented in the credit certificates loaned by the Central Bank against these commodities, with amortization of course.

Secondly, our economic and social troubles are due to the direct results of insurance policies large and small, with their fixed premium rates. These policies (savings) create long term bonds and mortgages (debts to be paid in the future) with fixed rates of interest, which can only result in the accumulation of more funds to be again loaned at more interest simple and compounded. New bonds, new mortgages, more and more

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debt—the cycle goes on until the inevitable crash. Policy holders must deny themselves consumption while they pay in —they contract with insurance companies, banks and trust companies not to consume while they live, or for long periods. Bond and mortgage holders get their incomes from collections of interest which for the most part they must not spend, or are not willing to spend, but must again reinvest. This vicious cycle of saving, investment, interest and debt results in the sterilization of trading and economic activity. The savings banks, trust companies, insurance companies, the source of credit saving for the future, refrain from loaning for new production when they cannot collect their fixed rate of interest on the old debts. The depression arrives, credit stops, there are bankruptcies galore.

The sensible alternative would be for the people themselves, through their Central Bank, to provide social security on all forms of risk, compulsory disability insurance in which the premiums would be collected and paid out as needed. The Central Bank needs no actual reserves, nor to create new debts.

We come at last to the situation where the medium of exchange, whether it be legal gold tender or its paper representatives, disappears from circulation, accompanied by unemployment, falling prices and bankruptcies, struggle for markets abroad and war. It is in truth an overproduction of interest, premiums, and taxes for non-consuming policy holders, and an underconsumption of goods.

The mathematics of compound interest will defeat all civilizations in the end. A $100 railroad bond with a 5% coupon, running a hundred years, if put away today by an investor for his grandchildren would amount to $100,000. Can the railroad company and the people carry this load? There are tens of thousands of such attempts to work compound interest throughout this semi-civilized world. Usury destroyed civilizations in the past—it is destroying ours now.

The vital repressed energy of mankind, its instinctive desire for happiness, liberty and property, breaks out into riots, strikes, revolution and war. Human instinct at war with usury: science at war with the financial system. The struggle is to the death. Will our civilization survive? Must we destroy our-

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selves through the folly and ignorance of the money system? Only time can answer.

THE ILLUSION OF GOLD

A deep seated characteristic of the human mind is its remarkable ability to carry over ideas from one period to another. Customs and usages which have become well embedded in a people often appear in groups or in individuals long after they have ceased to be a part of every-day procedure. Thus we find traces of puritanism, Victorianism and many other kinds of past isms cropping up here and there long after they have outlived their usefulness, if indeed they ever were useful. But let's not judge past generations by present day conditions. Granted that they lived and thought and acted according to their times, there is no valid reason why we, living today under a new and different set of conditions, should continue to regulate our activities by what was once proper.

WHY A METAL CURRENCY?

In the field of economics there is probably no deeper seated fetish than the metal standards for money. It is a system which arose naturally long ago, which had its place in economics in feudal stages of the past, but which is now nothing but an illusion. Like many other ideas, it no longer has any usefulness, but we still cling to it as though it were something sacred and so basic as to be one of life's eternal values. But now again, as all down through the ages, man in his progressive march of civilization must shake off the burden of worn-out ideas. In this way, and this way alone, have we progressed and will we progress in the future. To attack the gold standard may be economic heresy. So it was heresy at one time to assert that the world was round. Indeed, to attack the gold standard will be heresy with most people who will read this book, but perhaps it may fall into the hands of at least a few who will see the reasonableness of the following argument.

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If we will but trace briefly the natural evolution of metal monies, we will soon find that the gold standard has been gradually dying a natural death and really never had any reason for existence. This is a tradition from feudal stages and slavery.

First of all, what men desire is goods and services. This alone has value. Money in itself has no value whatever. It can not satisfy any human want save only to give a certain satisfaction to the miser or the collector of coins. But to the average person money, either in metal or paper, is nothing more than a token with which he can trade things or services of other people. This is the important point. What we really want and what we really exchange is surplus goods and services.

Take for instance the case of men who worked in the gold mines of California or Alaska during the famous discoveries. They actually went down into the bowels of the earth and brought forth the precious metal. But how were they paid? In metal? In gold? In a few instances, perhaps, but for the most part they received scrip on pay day which they took to the company store and exchanged for food, clothing, etc. Very little money changed hands right at the mines where gold was being extracted from the earth. Did those miners want gold for their services? Not at all. What they worked for was goods that could sustain life and satisfy their wants. Gold itself could do none of this.

Take again the case of gold as a circulating medium. In California up until the war period, there were a great many gold coins in circulation, five, ten and twenty dollar pieces. Today, there are none in circulation. Indeed they are so rare that many people would not recognize one if it were tendered in payment.

PAPER MONEY DEFINED

Or again, take the case of paper money in America today. Our currency is technically fiat money since it is not convertible into gold. Does that mean anything to the man on the street? Does it ever mean anything to the economists and bankers? Do they not all accept a bill at its face value? And why?

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Because that piece of paper will be accepted by the next person in payment for what we want and what we sell—goods and services.

Our currency today is inconvertible but the government owns enough gold to redeem every dollar of paper money outstanding. In Germany, the gold backing of currency is only 2½%, yet in both countries paper money passes freely from hand to hand at face value. Does this not prove that what people want is not gold which cannot satisfy any human wants, save those of adornment and fillings for teeth, but rather goods and services that can satisfy human wants?

Now, it is also a notable fact that for many years the monetary habits of people have been gradually changing. Whereas gold itself used to circulate we long ago learned to substitute paper for metal, and found that after a period of education not only did the paper circulate freely but people actually preferred it to gold. Then came the next big step forward. Under our Federal Reserve System, the greater part of our currency, the Federal Reserve Notes were backed by only 40% gold and 60% commercial paper. At the same time there were in circulation National Bank Notes secured by government bonds payable in gold, silver certificates redeemable in silver which was also convertible into gold, and gold certificates which were actually warehouse receipts for gold. But here is the interesting thing about all this paper money: first, there was no preference among the people as to any kind of notes, they all passed freely at face value; second, it was almost unheard of until the banking trouble of 1932 and 1933 that a note was ever presented for payment in gold as long as people could get and give goods and services freely—that is what they wanted; third, the Federal Reserve Notes were secured by gold only to the extent of 40%, the rest being in the form of commercial paper, which is nothing but short term call on goods.

It is the import of this last point which we must clearly understand. In a fairly short space of time we went from a currency backed by one hundred per cent gold to one secured by only 40%, with no change in its free circulation. A few years ago our best monetary experts were telling us that we

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could just as well reduce that coverage to 25%. Now, why 25%? Why 40%, or any other figure? We have seen that regardless of any amount of gold backing, money passes from hand to hand in payment for goods and services when people want to trade. These are all people want, for they alone have value. What we actually do is to barter. We all exchange our labor in one form or another for the labor of others.

Take the case of our widespread checking system. It is estimated that more than 90% of the entire business of the country is done by checks; that is, credit. Now, a check is a commodity credit. When a man deposits his check in a bank on pay day, he is actually registering so many units of purchasing value which represents the amount of the value of what he has produced that week. By depositing his check, he gets a credit on the books of the bank for an equal amount of value of the labor of other people, which he may call upon at will. When he sees something he wants, he bargains for it, weighing his labor against his desire for the object under consideration. If it seems cheap, that is, if in his opinion he gives not too much of his labor for what he wants, it is cheap; and he will buy it. That is, he bargains for it. This does not mean that he will haggle with the seller over the price, for in most of our daily affairs we have come to accept the temporary fixed value, but he will bargain with his own desires, weighing one against the other until he arrives at a decision.

Now, when relatively all people are exchanging their labor for the labor of others on *any level,* business is said to be good. It makes no difference whether prices be high or low, so long as everybody is trading on the same level. A standard of living is measured in terms of goods and services consumed and not in money. We could multiply the amount of money in circulation by any figure or diminish it in any amount, and it still would have no effect whatever on our standard of living, so long as we were all trading on the same level.

Here then, is the great fault of the gold standard. Under it we measure the amount of obligations, thereby attempting to fix values of goods and services. We enter into contracts payable in gold, but we really want credit for goods and services.

However, when debts and interest accumulate, and production is increased to meet gold obligations, gold goes up in value in relation to commodities. Therefore, creditors demand payment in gold because it is to their advantage to collect in a commodity whose price is rising. They are, of course, demanding more than they are entitled to receive, but the laws now give them that right.

Values are always relative. This is elementary economics. They are determined by human desires and the supply of the things or services in question. Therefore, how can anyone say how much a thing is worth until that thing is bargained for in the market place? How much is a pound of cotton worth? What is 25 grains of gold worth? Or a bushel of wheat? Or a pair of shoes? Experience has taught us that no one can say, and when governments have attempted to peg the price of any commodity, the results have been disastrous.

By the same token, who is qualified to say what an ounce of gold is worth, i. e., how it shall be traded for a bushel of potatoes? Yet that is exactly what we try to do, with the result that every few years our economic sins catch up with us, and we have a depression.

A dollar is not a fixed value. It is a fixed weight only, a traditional tax fee. The government could change the weight of the dollar from 25 grains to 15 grains. Likewise it could change a bushel from 60 lbs. to 80 lbs. or 40 lbs. It could change the yard from 36 inches to 42 inches.

We do not say a bushel is *worth* (which means *value* or *price*) 60 lbs. We do not say a yard is *worth* 36 inches. We do not say a week is *worth* seven days. Why then should we say that a dollar is worth 25 grains (or any number of grains) of gold? A dollar should simply represent 100 units of exchange in relation to the supply and demand of a free market.

The evolution of the use of metal for money has been traditional under conditions prevailing in the past. It had its place in the feudal age, but it no longer has any usefulness. It is like the tonsils or appendix in the human body—a vestigial organ whose purpose long since passed away but which still remains to plague the economic body. In this connection, Mr.

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Walter Lippman tells the following story which well illustrates how fruitless is our clinging to this out-worn, out-moded system of metal money.

"*The Guard of the Golden Calf*: It is said that one of the Czars of Russia, walking in his park, came upon a sentry standing before a small patch of weeds. The Czar asked him what he was doing there. The sentry did not know; all he could say was that he had been ordered to his post by the captain of the guard. The Czar then sent his aide to ask the captain. But the captain could only say that the regulations had always called for a sentry at that particular spot. His curiosity having been aroused, the Czar ordered an investigation. But no living man at the Court could remember a time when there had not been a sentry at that post and none could say what he was guarding.

"Finally, the archives were opened and after a long search the mystery was solved. The records showed that the great Catherine had once planted a rosebush in that plot of ground and a sentry had been put there to see that no one trampled on it. The rosebush died, but no one had thought to cancel the order for the sentry. And so for a hundred years the spot where the rosebush had once been, was watched by men who did not know what they were watching."

Just as that sentry was standing before a small patch of weeds, so today we stand guard, figuratively speaking, over something which is essentially immaterial. That rosebush died and vanished, and so also the gold standard which we so religiously uphold—that too, has toppled, although as yet not given an official burial. Gold as a medium for security is dead, and we are continuing to stand guard over a corpse of no inherent interest or value to anyone except the international bankers.

We have no archives dating back to those primitive days when trade and paper and printing were unknown. We can only reason and speculate as to the affairs of people in those ancient times. One civilization has given place to another civilization. The modus operandi in the stone age was changed in the metal age. The metal security age gave place to the paper security age. Yet we have the remnants of a bygone

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civilization—metal backing for security—still hanging on in the form of a metal base for our present currency. This, without reason or logic.

Let us hold a post mortem on this dead body, the golden calf, and bury it for good. Once for all, let us remove an expensive guard over something which needs no watching. The sooner the order to guard the gold standard is countermanded the sooner will happiness and prosperity and universal peace return to this troubled world.

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Chapter Two

THE WAY OUT

Laissez-faire

Our economic system is based upon the philosophy of *laissez-faire*. This theory implies that economic forces generated by the desires and activities of mankind shall be allowed to operate freely without governmental interference. So-called economic laws are recognized with which it is considered folly to interfere. The government is to act as umpire only, and see that legitimate contracts are fulfilled between citizens.

Specifically, *laissez-faire* implies that there shall be no interference between traders of services or merchandise, whatever their status, either employer or employee; that there shall be unrestricted trade and free bargaining in all directions, both at home and abroad; that there shall be permitted the unrestricted accumulation of wealth and the loaning of the same by its accumulators at lawful interest rates; and that traditionally, at least, there shall be a currency based on gold value or on some other metal.

It should be noted that these last two principles pertain purely to the financial aspects of the economic system, while non-interference between employer and employee, and free trade, pertain to the process of converting raw material into wealth and the national or international exchange of the same between individuals.

These principles were never completely observed in capitalistic society, and are now observed increasingly less and less. From the beginning of the Industrial Revolution the state has interfered between employer and employee; it has interfered with trade until, at the present time, trade has almost dried up because of the tariff and the metal base for currency. The gold standard (metal base) is rapidly losing ground. However, there is not yet a complete credit commodity dollar (the logical substitute) in its place, although the demand for such a normal dollar is growing increasingly evident. The accumulation of so-called surplus goods through interest and compound interest on savings, morever, has brought about the stagnation of trade

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wherever production for interest on savings accumulates. And this is because the accumulators cannot find any new borrowers who would again pay the interest rates demanded by the accumulators—principally insurance companies, savings banks, and holding trust companies.

It is more than possible that excessive interference by the state in the more physical aspects of free (competitive) production and free (competitive) exchange, national and international, and its failure to interfere sufficiently or intelligently with the lending, credit, debt and interest structure of the economic process, is the chief cause for the breakdown of the economic system. It is not too much to assert that the simultaneous interference by the state between traders through tariffs and franchises, and its utter lack of adequate control over credit, debts, interest, and compound interest on individual savings, is responsible.

To the extent that these principles of *laissez-faire* have been modified and controlled, to that extent capitalism has been modified. Wherever there is interest and compound interest, there capitalism exists; and to this extent Russia is a capitalistic nation today.

U. S. S. R. FINANCE

In the issue of "TIME" of November 12, 1934, a United States correspondent brought home an interview with U.S.S.R.'s Assistant Commissar of Finance, R. J. Levin. Because of the great interest that Communism holds for people nowadays, it is interesting to read the Commissar's views and to compare the workings of the Soviet government with that of capitalistic nations.

In discussing gold, the Commissar said: "So long as the Soviet Union is surrounded by Capitalist countries, we are likely to maintain a gold basis in relation to our foreign obligations—as a sop to the nations with whom we are dealing." One nation maintains the gold standard because other nations maintain it. The gold standard is a fallacy and should be abolished. In that respect hearty agreement with the Russian view is held.

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About money he is quoted as saying: "We're striving, of course, toward the time when money will be only an incidental item in our economy.... (But now) we increase the money in circulation as industry grows and we have more goods. We are in the peculiar position of having more money than goods."

Money can never be incidental. Money means value and value arises from scarcity. As long as people desire things and exchange commodities for other commodities, the element of scarcity exists and hence value exists, especially under communism where people are supposed to consume the products of their labor and not pile up surpluses as under the capitalistic system. There always will be under communism a shortage—a shortage in values, represented by certificates of value, another name for money. How can they have more money than goods? What kind of money is it? The ruble cannot be a true certificate of value when there is no value back of it. It then must be fiat money or waste paper. In this country we have a surplus both in money and in goods, which proves that the dollar is a true certificate of value as there are valuable commodities behind it. Russian money represents much less and is the same as inflated money. Here we have a surplus of goods because of under-consumption as a result of savings for long term security, and we also have a surplus of money which represents the above goods. In Russia they have a shortage of commodities and an abundance of money, which represents little and hence is worth little.

Commissar Levin continues: "When we have more goods than people can buy we'll increase the money—raise wages." This is to stimulate consumption and avoid piling up surpluses. But there never can be an over-supply, because people can consume faster than they produce. Then again, in addition to replacement of staple articles as they are consumed, there is the production of new articles as a result of new inventions, changing desires, and progress in general, which must be taken into consideration.

Another quotation: "We pay 10% on our internal government bonds, because it doesn't matter how high the interest is because, after all, it goes right back to the workers."

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Saving to pay interest and compound interest is the denial of consumption. It is the equivalent of a Russian baker, for example, depositing ten loaves of bread with the government, denying himself and others their consumption, and getting in return from the government one loaf of bread each year as interest. Someone is taxed to produce the extra loaf. He who produces it is exploited. Another lives on his toil. And this is a capitalistic feature. In Russia there are perhaps millions of these exploiters—those who possess the 10% bonds. In this country there are comparatively few, although individually they are of greater magnitude. And there is another difference; in America the interest rate is less. But those who receive this interest in Russia are living on others' toil, and not all the dialectic of Marx or Lenin can wash Russia clean of capitalism. In the past four years 45,000,000 Soviet bondholders have saved and lent the government 10,500,000,000 rubles, according to a statement of the Moscow-Narodny Bank, June 1935, in London. And as long as the accumulation of interest and compound interest piles up, in Russia or elsewhere, debts, interest and compound interest pyramid and bankruptcy is inevitable.

For the production of wealth, no one has suggested anything better than the capitalistic system. Russia is making every effort to imitate the productive methods of the United States. The terms scarcity and abundance are purely relative, for what is scarcity to some may be abundance to others. Free trade, national and international, would adjust such differences and raise the standard of living of the world as a whole. The knowledge has drifted down to the masses that the present system is capable of producing more and more wealth for immediate consumption, which cannot be saved or hoarded for future use. Sufficient goods and services are possible to give every individual immediate security, and the basic necessities of life at a comparatively high standard. Excessive hoarding and saving for interest and compound interest have received the death blow.

It is of the mal-distribution of this wealth created by the capitalistic system of credit, debts, interest and compound interest, that complaint is made; and it is the failure of the system to distribute consumption goods in an age of mass production

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that has set up a popular clamor for dictatorships, planned economy, fascism and communism. Nothing is more certain than that these doctrines will not be able to fulfil the promises made for them, elements of nature being what they are; and they threaten not only to destroy the wealth created by the capitalistic system of debts and interest, but to bring about regimentation and the loss of liberty by a planned economy trailing in its wake disobedience to the law, bootlegging, crime and strikes. Poverty is the inevitable result.

This failure of the economic system to distribute properly the values it creates, and its periodical breakdowns and apparent collapse, have not been understood by most economists, let alone the general public. The fault has been laid to every door but the right one—to sinful human nature, sunspots, war; anarchists blame governments; socialists and communists blame profits; Democrats and Republicans blame one another; German nationalists blame the Jews.

Nor is this delusion confined alone to Germany. We find even in the more democratic countries, such as England and the United States, a tendency to blame the Jews for all economic and industrial evils. The masses, unable to understand financial matters, strike out blindly at the Jews because it seems to them that these largely control money and finance. The facts are that the Jewish people were denied the right in medieval Europe to buy land and freeze their liquid assets, or to practice many of the professions or follow many occupations. They were driven into trading (barter), and traders must be liquid all the time in order to buy and sell.

They were thus compelled to have on hand necessary amounts of currency for trading purposes, and to preserve their wealth in them. And when the rulers of Europe needed cash for their innumerable wars and riotous spendings, they were compelled by necessity to turn to the traders, who were forced to be liquid, for the requisite liquid funds. A debtor dislikes a creditor because of usury.

The wealth of the other classes, particularly the land owners, was tied up in long term savings of land, a frozen asset. These rulers, despite the fact that the state was the

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origin of money, failed to realize that they were actually borrowing the national credit they themselves had created.

As more and more restrictions were placed upon free trading through tariffs, special privilege customs, and chauvinistic nationalism, it was natural enough for the Jews to hoard the national currency because they could not buy land.

CAUSES OF DEPRESSION

The real cause is an utterly corrupt and broken down money system manifesting itself in a metallic credit currency, a lack of social control over credit, and interest on savings, which in turn brought into existence tariffs that have strangled the trade of the world. It is only now becoming recognized that our economic troubles are monetary ones. The world panic of today is a monetary one, due to the gold and silver standards, as have been the previous nineteen panics of the past century. In our economic system, production, distribution and consumption take place only through the medium of credit certified on metal or credit certified on paper (called money.) Economic activity lives, breathes and swims in the medium of barter, trade, exchange and credit (called business.)

Some are ready to blame stock and commodity exchanges for all world ills. They do not realize that these recording barter-exchanges are an indispensable institution of the modern world, an institution that informs farmers in Portland, Oregon what farmers everywhere else are doing every day, every minute; machinery that, as regularly as the sun, notifies London, Paris, New York, all the capitals of the globe, the trend of every desirable or undesirable commodity, and which saves millions of manufacturers from possible bankruptcy.

Black Friday was discovered a year in advance through the omens of the despised Wall Street gambler. Many economists claim to have discovered the cause of the business cycle, and equal numbers claim to have found the cure. But whatever merit to their claims, they are full of error in their diagnoses; unsurmountable difficulties are present in their solutions.

The search proceeds with vigor, nevertheless; for upon an assurance of the normal fluctuation and coordination of the

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economic machine rests the fate of progressive individualistic capitalism, which, in spite of its "cycles" of disturbances, has proved the most satisfactory producing system yet developed.

It is generally agreed that depressions, and the particular one which, in 1935, we have not yet escaped, are the result of the *failure of consumption to keep step with production.*

Consumption lags only when there are long term savings which cannot find new borrowers to use them in the further production of capital and consumable goods.

Capitalism has solved the problem of production. By setting a premium on initiative and ability it has offered a goal toward which all might strive, and the result has been beneficial to all society. The individual, with his own pecuniary gain in view, found that he must produce that which society would recognize as good and desirable before he received a reward for his services. He had to please society in order to please himself, and his ambition was thereby whetted to produce well and competitively.

New and improved methods of production are evolved constantly in proof of the efficacy of this competitive, individualistic system. The factor of production is dealt with entirely satisfactorily. But another factor has lagged sadly behind, and from this lack of coordination comes a further cause of the ever-recurrent business cycle. That factor is the lag in consumption.

Those who produce receive credits in units of value entitling them to all they have earned. They are entitled to consume these values immediately. If everyone took advantage of this right, however, nothing would be saved. Consequently there could be no progress, for there would be no capital (money, representing savings) available—short credits which create short debts—for advancing industrial development. Industry would stagnate and progress be paralyzed.

On the other hand, excess savings through the workings of interest and compound interest have generated poisons deadly to the production and distribution of wealth. It is to point out of what these poisons consist and how they may be eliminated that is the purpose of this book.

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Chapter Three

THE MONEY ILLUSION

There is no matter of equal importance upon which there is such incredible ignorance and so much muddled thinking as the subject of money. Money itself is not wealth. All the money in the world would be of no value where there is no production or consumption. Nor is money now a commodity, whatever it may have been in the past. But much of the present economic breakdown is due to the treating of money as a commodity by the money monopolists and manipulators.

Money signifies value and is exemplified in trading, which is barter or exchange power. Wealth denotes all sorts of values and may be traded for other values. Where there is no wealth there is no value; there cannot be any trading under such circumstances, and no money representing value circulates.

Destroy wealth and you destroy money itself, and trade is at a standstill. Produce more wealth and you have more trading value (money) and increased trade results.

Any certificate which represents a stated amount of definite units of real value, which is transferable at large and exchangeable in the free open market for other values, is real money. Those who produce commodities of value, on delivering their products to various distributing centers or stores, receive paper checks or certificates, crediting them with so many units of value. This crediting medium is money or currency.

If everyone in charge at these distributing centers or stores was perfectly honest and trustworthy, there would be no necessity for certification of this medium of exchange—the paper which is money. Every holder of a credit paper on which was an acknowledgment for values received, and containing the signature of the distributor or trader, could in any other place or store or trading center, exchange his units of value for other units of commodity value.

In order to make these units of paper value secure and allow them to function as true money, it becomes necessary to make the distributor or trader, or shall we call him "business man," post a bond or place a mortgage as a security and protec-

tion for or against his paper check credit system. The man who gets such a check gets a credit slip entitling him to so many units or points of value, and this is exchangeable and transferable.

A Central Bank operating a similar credit system could offer people the opportunity of depositing with it bonds or mortgages or other securities and receiving in exchange credit certificates or credit money to the extent of 50% of the value of the deposited securities. Each dollar thus put in circulation would represent two dollars in value backing.

As the wealth of the nation increased, so also there would be an increase in the credit structure. Unnatural booms and depressions would be avoided and there would be an end to our unfortunate business cycles.

Why waste time in digging up currency in the form of only gold or silver? Under the above plan, money and currency would take on an entirely different aspect, divorced from gold and silver. Mining for gold and silver would be subject to the law of supply and demand as is the case with every other commodity. These metals would then be traded in the open market and their value would correspond to their usefulness as a commodity. They would not be used for hoarding purposes as under the present chaotic system, under which they are maintained as money standards.

Money has been defined by Professor Walker in "Money, Trade and Industry" as "any medium, no matter of what it is made or why people want it, that no one will refuse in exchange for his goods." Hawtrey, a British Treasury official, says in his "Gold Standard in Theory and Practice" that "Money is what discharges a debt."

"Money is essentially a transfer order—that is to say, a given denomination of certified money which may at any time be exchanged for any article bearing a figure corresponding to this denomination of money," says C. H. Douglas in "Monopoly of Credit."

Money is just talk. While two persons are bartering or swapping, they are talking in terms of a certified money which is really an expression of exchange value or of desire to trade.

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If people wanted to talk "more" money, they could easily change their units of exchange and start "100 par" with a box of matches, which is usually valued at one cent, or one point, or one unit. If such a box contains 100 matches, then each match is worth one cent, or one unit of value.

If 25 boxes of matches are bartered for one bushel of corn, then a bushel of corn would be worth 2,500 units, or $25.00. If a bushel of corn were bartered for 4 bushels of wheat, then a bushel of wheat would be worth 625 units, or $6.25. We would soon become multi-millionaires with high prices and "prosperity."

Something like this happened in Germany at the time of the inflation, and in the state of Florida during its recent real estate boom. But on what would this prosperity be based? Figures only. Real prosperity lies in an abundance of goods and their cheapness, not in scarcity and dearness. No matter how "cheap" a commodity may be to one who has a surplus, it will still be dear to one who is short; it does not matter whether the article has only a one-cent (or a single unit) value, it is still expensive (scarce) to the man who has nothing to barter.

One who produces commodities does so because he wants to barter them for other desired commodities. The farmer who produces wheat for a free market does so because he wants to barter it for other necessities, not for gold or silver or their equal value.

At an earlier period in the world's history gold and silver were looked upon as surplus national wealth by the lords and kings. They were valuable as jewelry, as ornaments, as commodities. The merchant taking gold in exchange for goods or services weighed it and tested its fineness.

TAX MONEY DEFINED

The continued use of a single commodity such as a crude metal to provide a base for currency is a relic of a still more primitive day when the tribal chieftain demanded revenue in this one particular commodity. Such a decree naturally increased the demand for this metal because all the members of

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the tribe had to return this on tax day. They were forced to work for the lords, and given metal work checks, and they had to return these checks on tax day. Thus, these tax checks became money (a medium of trade).

Very early this custom of taxing metal among the peons was justified because the tax commodity had a real use, as war lords demanded revenue and tribute in hard metal from which they could make war implements. As other metals were discovered they, too, were demanded as revenue because they possessed utility-value. For example, shining armor was made from bright metals to frighten the enemy as well as to protect the fighters. In later years gold and silver became the chief forms of wealth to lords, barons and kings, since there were no market investments in paper securities possible, as in our modern industrial world. Gold and silver were articles of display. But in the modern world, gold and silver currency is an anachronism. It has outlived its utility-value. These metals lie buried in vaults because they have been made good by law for taxes, following the ancient tradition. This tradition is out of place in our modern market and ought to be discarded.

The world has an oversupply of gold and silver for any industrial use, yet there is a scarcity of gold to balance the trade debts which were contracted in the erroneous belief that gold and silver still possessed the same utility-value as did other metals in primitive days. Why, then, is there such a demand for gold and silver to cover our trade balances? Simply because our governments blindly follow the tradition of primitive leaders by making a metal payable for revenue.

At the peace treaty in France in 1918, the lords of high finance, following the ancient custom, demanded tribute from the defeated nations in the artificial rare metal—gold. What was not evident to the uninitiated was, that this tribute in gold was demanded not for display purposes, but for the control by high finance over business and industry, in order to extract as much interest and compound interest as possible through credits and debts based on this gold.

Where is there to be found enough gold to fill the impossible demand to cover trade balances? And if there were,

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what then? If all debtor nations could by some miracle find 28 billions in new gold and ship it all to the United States, we would be very much embarrassed. We could find no possible use for it in industry. Should we issue more commodity dollars, falsely representing value on useless idle gold, when billions of dollars of these fiat gold issues are already piled up in vaults because legitimate borrowers cannot meet the bankers' and insurance brokers' demand for 6%, 7% or 8% on commercial loans?

Professor Soddy points out that if by some scientific discovery gold could be produced easily and in great quantities the creditors demanding repayment in gold would feel cheated, and would refuse to accept it. He asks what it is the creditors really want from the debtors. Do they actually want gold, or do they really want to keep their debtors in debt, and foreclose their homes and farms?

In order to clarify the above statement about the lords of high finance extracting extra interest through credits in the name of gold only, let us assume that a few of our bankers could get control of 4 billions in gold. By virtue of that fact, the government empowers them through the Federal Reserve Bank to issue credit paper money currency to the amount of 10 billions, since the credit paper dollar need have only 40% gold backing. Loaning this money out at 6%, these international bankers get not only 6% on their gold (the value of which is on a highly inflationary basis, since it is not a free commodity in the open market where values fluctuate according to the law of supply and demand), but they also receive 6% on the 6 billions credit which the government has allowed them to extend to others. All in all, therefore, these bankers receive 15% on their original useless hoarded gold.

It is obvious that hoarded gold is not so desirable even in its commodity uses today as were iron and copper in primitive days. The discoveries of this age, its technical achievements, are the creators of commodities and services far more desirable than "rare" metals. These discoveries and achievements produce real wealth far more currently exchangeable than any hard metal ever was in the past. Credit money should be based

upon and issued against real wealth—that is, on durable goods with a watchful eye on depreciation.

But savings of this wealth cannot forever be hoarded in vaults. Goods deteriorate and lose their value and human desires change. Their values represented on paper in denominated points or units only can be hoarded. Such may be called bond or mortgage paper money, even if not certified as legal tender money. Yet, as a backing for long and short credit currency, is this form of money, this representation of real wealth, any less desirable than the gold or silver which now technically backs the government's partial commodity credit dollar (the Federal Reserve dollar which is backed by 40% gold and by 60% credit on all other commodities)?

Gold is not a storage of value any more than any other imperishable commodity, for as pointed out by Arthur Kitson in "The Bankers' Conspiracy," if gold is worth what it will exchange for, then no government could add an iota to its value by coinage or decree.

Gold is also thought by the old economists in its nature to be a "measure of value." But the fact is that if it were allowed to find its market value as a useful commodity it would be just as much and no more a measure of value than any other commodity.

HISTORY OF MONEY

The fact is that the system of numbers engraved on a hard metal was actually invented by the war lords in the feudal ages because of the menace of counterfeiting numbers of work units on certificates to their serfs for labor performed. But in an age of freedom and democracy where technical advancement and discoveries have made so many old feudal practices obsolete, the Gold Standard, whatever its value in the past, is now only an unburied corpse.

The modern theory of monetary science should be the equal value theory, which asserts that the value of a monetary unit should be determined by the number of units of trading values in circulation, multiplied by their barter-trade-exchange (velocity of circulation).

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It means that it is free market quality that real money should represent. It must therefore follow that it is absolutely immaterial whether a government uses a stamp on paper (credit money) or a stamp on a piece of gold or silver, so long as the number of units of real value in circulation is the same in both cases.

What is inflation? An excessive quantity of fiat gold money claims to market value in existence. More counterfeit tickets than there are seats to be filled in the theater; false claims to value.

Money is a credit to wealth, a license to consume, and it makes no difference whether the material of which these claims are made be certified units on paper, parchment or metal so long as the credits are equally valid in the eyes of the law for tax payments, and so long as they represent real wealth in existence. It is the quantity of these credit units that are in circulation in relationship to desired exchange of goods and services that counts.

Quoting Mr. Kitson, "If currency or gold was wealth itself, there is a contradiction in the terms gold currency inflation." More wealth is what all nations want. An inflation of gold is what all bankers are seeking.

"Exchange values expressed in money are purely quantitative, and can be expressed only numerically—the value of goods is always indicated by such questions as how much exchange surplus money, not what quality of money or what kind of dollars. The real denominator of value is the legal unit of exchange power in terms of which all our exchangeable wealth is estimated. It is not gold, or exchange value between any two gold standard countries would be par."

On the other hand, granted for the sake of argument that a yardstick of wood and a yardstick of gold have equal value for measuring purposes, the wooden stick is comparatively valueless to the manufacturer of other commodities, while valuable and desired articles could be made from the golden stick. Gold has a commodity value, and the locking up of tons of gold in the Treasury for tax measuring purposes is an economic crime. It is a ghastly waste of raw material and actually causes inflation.

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DISHONEST MONEY

Credit money issued against gold and silver is in truth dishonest money, because of the inflated value of the gold and silver as fixed in weight by traditional government mandate for payment of revenue rather than by its free market value. Our only honest dollars at present are those issued by the Federal Reserve, which are issued against 60% of credits which are backed by the security of commodity values of a free trading market.

Governments must get off the gold standard, and they can do it by selling the accumulated public gold to the highest bidders in a free trading market, who would of course desire it only for its value as a commodity, its only real value.

When one asks the average man, "What would happen to currency if gold were found in abundance?" the answer is something on this order: "Well, we would have to find some other "scarce" commodity, stone or metal, for the new currency as a medium of barter."

How ridiculous this is, and what a fallacy of thought! As if humanity would have to stop trading-bartering with each other, commodity for service or commodity for commodity, without a new scarce commodity to be used in a three-cornered deal of exchange-barter! Would we have to stop living, close up our shops and factories, and go to sleep?

It is a common but mistaken belief, that a rare and scarce metal is essential for credit currency backing. In reality, the scarcity of this metal is artificially induced by the governmental decree requiring that debts, taxes, and interest payments be made in this single metal or its equal value. Any increase in the volume of debts, taxes, and interest will make this metal increasingly scarce, and its value thereby goes up, because the lawful demand for it will be increased. If the government laws did not require debts, taxes and interest payments to be made in this weight of metal, it would be no longer as valuable and scarce, since the genuine demand for it would be so greatly reduced. The metal would then take its rightful place in the free market as a commodity; its value would fluctuate according to the natural law of supply and demand, and not according to government fiat.

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For a long time up to the establishment of the Bank of England a form of money was used for revenue purposes by the state known as tally sticks. The King issued half of a variously notched stick in payment for supplies furnished by his subjects, and these sticks were afterwards accepted by the Treasury in lieu of taxes, and destroyed. While in the hands of the public these sticks circulated as trade money for tax payment.

In the Germanic states during feudalistic days the lord of the manor issued brass tokens as receipts for supplies, which were called in, in payment of taxes. These tokens circulated from hand to hand as money, but because of the ease of counterfeiting, the adoption of a scarce metal as coins was a distinct advantage to the feudal lords. Any need for the use of a rare metal as a base for credit money, however, has long since passed.

Any industrial nation which decrees a fixed weight of one or two single commodities as lawful money (legal tender) for revenue, debts and interest payments, must eventually bankrupt its debtor citizens every decade or so, and drag other nations which are indebted to it into bankruptcy because of the artificially induced scarcity of the tax commodities, ignorantly called value, or money.

It is this traditional metal illusion which brought wars for markets among nations. It also brought tariffs, boycotts and revolutions, and will never stop until the money illusion is dispelled and replaced by the rational conception of a CREDIT COMMODITY DOLLAR. When this happens, then and then only will real progress and the long-desired Utopia be accomplished, and not through Socialism, Communism, Fascism or any other ism.

Money from the viewpoint of the taxpayer is any single commodity which a government arbitrarily decides to collect as revenue. This commodity which the government decrees legal for tax payment is called legal money. In some countries it is gold, in some silver, in still others another commodity. The denomination indicates the size and weight in units of measure for tax payment in that one single commodity. Again this is a measure of its weight and not its value, because values can

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only be measured in an open free trading market, fluctuating according to the law of supply and demand. The more taxes people have to pay with this single legal tax commodity, the scarcer this single legal tax commodity becomes in the market in relation to all other commodities. This results in falling prices and defaults. If governments would decree to accept all other 100% commodity credit notes representing all useful commodities, with a margin for safety, of course, in payment of revenue, the great demand for this one single commodity would disappear, and the world's money illusion and confusion would be over; this would mean the end of economic wars and tariffs.

Since all nations must save for tax day, so it is only natural that all tax credit certificates become a medium of exchange and all individual contracts are then made to be paid in this single legal tax commodity. A condition of confusion among debtors and creditors, both national and international, is the inevitable result. This is the condition of the world today.

What logic can there be in artificially raising the value of gold or silver (which creates the desire to produce more unneeded gold and silver) as against the commodity value residing in the dollar? Of course, it does mean that the American commodity dollar will trade for less in foreign goods, to the obvious disadvantage of the American people! We have to give foreign traders more of our goods in exchange for their fiat gold money, and then take fewer goods from them with our devaluated money. That is what our economists call a "favorable trade balance!"

Government dictation of a fixed weight for tax payment in gold or silver has created a gold and silver monopoly, and works as a detriment to all society because real value or wealth depends on free exchange of commodities for commodities. And to give international money changers or long-term savers the control of the gold monopoly as an international currency for international loans is the maddest kind of logic, when it is remembered that gold movements between countries have already interrupted trade, bringing on the epidemic of quotas and tariff wars, and the resultant chaos and revolution.

The fallacy of a metallic base for money is seen when it is recognized that all exchangeable values are money assets, and of course, there are two kinds of assets—liquid and frozen. In the pure sense of these terms, liquid assets are for immediate needs, and frozen assets (savings) are for future needs.

Machinery, railroads, factories, improved lands and buildings; all are money assets (savings) but are frozen into large blocks and therefore, no longer liquid. The excess savings of the people are liquid money assets as they are saved; but when turned over to the 400 life insurance companies and other institutions for a long term credit, they must of necessity, in this competitive bidding for long-term security (credit investment system) be frozen in buildings, railroads, factories, etc., and thereby create expansion in fields which are not an immediate necessity, and devaluate. Government bonds bought by life insurance companies, savings banks, and others, create merely new debts to be paid in the single legal tax commodity. Wars, either against the enemy or depressions which long term savers have created, consume all liquid assets and turn so-called surplus commodities into new debts, which means future depression.

FOREIGN SETTLEMENTS

Selling of our American commodity dollars to foreign nations with a discount of forty or fifty per cent of gold is nothing less than C.B.D. (Cash Before Delivery), as new long term credits to Europe and all defaulting nations are out of the question for at least a generation or more and not before the monetary system is corrected. But even so, what will it profit us? The total useless gold supply owned by all other idiotic nations other than the United States amounts to some six or seven billions of dollars. Suppose we trade them our commodities for all of it. What then?

By that time all nations will foolishly go on a silver standard. Shall we get all the silver for our favorable balance in trade? What should we do with it? Is it going to help us that, each time we get a million dollars in gold, the Treasury issues more 40% inflated paper certificates which are given to owners of the gold, through the increased fictitious value of gold?

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Where will the new credit commodity certificates (money) be invested, when billions of dollars in liquid credits are already piled up for want of new developments or new bonds and securities (new debts, for more interest) into which to divert them?

REAL VALUE

The old illusions about scarce metal value strongly persist. It is time we let go of them altogether. Currency, credits, bills of exchange, deeds on property and titles in possession, all may be called negotiable instruments of exchange value (or barter certificates). Each instrument of value is measured in terms of 100 par market value as against another of the same market value, and not against 100 par market value of gold, as people insist on believing. Gold value, I repeat, is not real value, because it is based on a traditional governmental mandated monopoly for tax payment rather than on a free market natural value, governed by supply and demand.

Paper money represents the possessor's title to ownership in free market values. It is a token of units of value received for units of value given, a barter certificate.

The original owner of the credit paper money we now possess may have mined a certain amount of gold, left it in pawn with Uncle Sam, the tax collector, and received a credit certificate for taxes for so many grains of gold, which thus became a barter credit certificate in an open free market of exchange. Therefore, it became a tax credit trade dollar, not a gold value dollar, as some economists like to believe.

When the gold miner received the dollar it was for digging gold under government tax monopoly for the benefit of gold standard international bankers, tax credit hoarders. To the gold miner it was a feudal tax credit for work dollar. Currency, money, value: the meaning of all these three can be reduced to: THE RELATIVE DESIRABILITY OF ONE COMMODITY AS AGAINST ANOTHER.

It is important to bear in mind the difference in the aspect of money when considered from a national and an international standpoint. Balances in trade and commerce are traditionally covered by payment of money (tax credit certificates), but such

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balances differ in monetary exchanges when made within a nation from their values when made between nations.

In one sense, the whole world may be considered to be on the gold tax standard. A country may be off the gold standard unofficially or officially, or it may maintain a silver tax standard, and yet in either case, especially in the settlement of international trade balances with gold tax nations, that country as every other country operates on a gold weight basis. Money, internationally considered, is 100% gold weight without any commodity credit backing.

Not so, when we look at it within the boundaries of a nation. No country's money is 100% gold. To a considerable extent it is commodity credit money, and only a fraction of the currency is backed by gold or silver as is the case in silver standard countries. The different countries differ in the metal backing of their currencies. Thus, one nation will back its currency with 40% gold, the balance being commodity credit backing; another nation's currency will represent 25% gold backing; the remainder being commodity credit only. Germany has 2½% gold; the rest is commodity backing. Moreover, this is not constant, and we have fluctuating unstable currencies throughout the world. A paper currency may represent a certain ratio of gold to credit one day and a different ratio another.

Now, when the American government foolishly raises the value of gold, when it goes out in the world's open market and increases its bid for the metal from $26.00 an ounce to $37.00 an ounce, the consequences are very great. Gold becoming more valuable results in the depreciation of the world's other commodities in relation to gold. But while America depreciates its paper commodity dollar, the other nations still maintain their currencies at a relatively high gold content. Thus, while gold can trade for more commodities here, in other parts of the world our paper dollar does not trade for as much, but 40% less. America's currency being debased and other nations' currencies not debased, or not debased to such a degree as ours, simply means that we have to trade so many more devaluated dollars for foreign-made goods. They, on the other hand, trade so much less for our goods.

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We have sold the American dollar to foreigners for 60 gold units. If, before the devaluation, foreigners had to pay 100 gold units for our dollar and a thousand dollar automobile made in Detroit brought $1,000, today in London the foreign trader gets it for $600. And, where before we could trade a case of champagne from France for $60.00, today we are obliged to pay $100.00.

It is an axiom that there is no limit to consumption. The greater the consumption of commodities the better may be considered to be the standard of living. When this country has to export more (and our exports have increased recently without a corresponding increase in imports) in order to trade for the world's commodities at the high level of the world's monetary exchange status, a relative scarcity results in this country in the goods which we exported. Were this balanced by imports all would be well, but our devaluated currency together with the high tariff we have erected brings us less in imports than our exports; hence our people are cheated both ways. American consumers have to trade in proportion more than foreign consumers, as far as exported and imported commodities are concerned, all because of this gold element.

A further devaluation of the dollar, say to five cents in gold, and our exports to other nations would increase as the German exports did in 1922 and 1923. American workers would be kept very busy working over-time, as German labor did in those years. Foreigners holding $50.00 worth of gold could trade one of the $1,000 automobiles made by our working men, now reduced to the status of coolie labor. One dollar would trade for only five cents gold worth abroad.

How long we could carry along with such a "New Deal" is problematical. Only time would tell. Nationally, the devaluation of the gold dollar has affected the gold industry primarily. It has enriched the holder of gold commodities in relation to holders of all other commodities. All commodities in relation to gold depreciated. But in relation to each other, that is, apart from gold, they have remained the same in value, except to the natural law of supply and demand, value versus value.

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How illusory is the hope of really stabilizing a currency! Currency, in the last analysis, as has been shown, is representative merely of commodity value, and the value of commodities fluctuates in the open market in accordance with the complexity of motives which lead people to desire this more than they desire that, with the dictates of changing tastes and fashions, and the thousand and one things that govern a people's consumption of goods and services. It would appear plainly that to attempt to stabilize a currency or value is utterly futile.

The currencies of all nations, of whatever sort, including instruments of exchange and basis for credit, point to and represent commodity values, and not gold values. This was amply proven in Germany after the destruction of her currency by inflation. A first lien mortgage of 30% on property provided the basis for the new currency. And what did this new currency point to or represent? It represented a commodity, of course, the property on which the lien was made—yet both her own people and foreigners falsely believed Germany to be on a gold standard.

The truth is that currency with the property of real uninflated value behind it, commodity value, offers more and better security of value than a gold-secured currency inflated through the bankers' gold standard, sanctioned by government monopoly. Germany without gold possesses a normal fluctuating currency, expressing commodity value, and commodity value only. Give Germany the right freedom of trade in the world market, and all the world will prosper with her.

ILLUSION EXEMPLIFIED

The illusion of linking our value of currency or money to the gold standard is well illustrated by a case in point which occurred during a visit I made to Germany in 1922. At that time, the mark had been inflated to gold at the scale of approximately 3,000 to the American dollar.

I chanced to drop a 2-mark note on a railway station platform. The incident immediately caused intense excitement among the bystanders; so much so, in fact, that a General, resplendent in buttons and gold braid, stalked up, saluted and called attention to the loss.

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What was the value of that small note to me. conscious as I was of the American dollar's value? Just two three-thousandths of one dollar, hardly the value of a burned match. Who would bother to stoop for a burned match? But to the General—and to 60,000,000 other Germans to whom two marks ONCE meant a chicken in the pot, or the price of a good dinner, or the value of some other desirable commodity—the illusion still persisted that the two marks were of old-time value.

When the officer was told that he might take the note, his gratitude was warm. There you have a perfect illustration of the world's illusion today: that gold, dug from one hole and placed in another, or in a vault, can mysteriously take on a fixed value apart from its only true value as a commodity.

ANCIENT AND MODERN BARTER

In primitive days, barter represented a small part of economic activity. Families were producing goods for home consumption only. Farming was diversified for family needs altogether. Clothing, mud houses for shelter, and household goods, were produced by the family for the use of itself.

Barter increased as specialization and handicraft developed. With the increase of specialization and the development of skill and efficiency, more barter ensued. Today, with modern machinery and mass production, barter on a grand scale is essential.

What is meant by STOCK EXCHANGE? Does it not mean *commodity barter*; values represented by paper, bartered for values represented by other paper? When, however, there is an unfavorable balance, the adjustment is credited by the broker or by check against bank credits of other paper securities, which makes hard metal money absolutely unnecessary.

These brokers or these bank credits might be backed by securities, as, for example, Swift & Company's bonds, which really mean that meat products are the commodities back of these securities; or United States Steel bonds, where steel is the security. These would be, in fact, honest dollars because they are based on commodity values in a free open market, unlike government "legal" money, which has gold for a backing,

This gold has no free market value because it is not traded in a free market according to supply and demand for use, rather than for hoarding (saving).

What would happen to a pawnbroker if he should still take in outmoded carriages as security against a loan of 50 bushels of wheat, or any other useful commodity? Would he not find himself loaded with a useless commodity not redeemable, not repurchaseable, and probably only of value in a museum?

The government in a sense is the nation's gold pawnbroker, and when it accumulates a useless, not redeemed, not repurchased commodity, GOLD, the public suffers from arbitrary high prices. The befuddled governments of the civilized nations have piled up 23,000 tons of useless gold with a fictitious value of 12 billions, for which their peoples have received from their governments legal (but really dishonest) dollars of currency, for barter purposes in a free market value. This gold is now just as useless as the carriages for the pawnbroker. It is only of benefit to the international money changers and lenders, and it is to the disadvantage of the mass of the people. It bleeds them white through interest rates.

WATERED STOCK

In a small community, the story is told that the inhabitants decided to have an outing on a certain day. It was agreed that each would contribute a gallon of wine periodically to a large container which was to hold all of the wine to be collected. Most of the inhabitants were cunning, and these, figuring that their gallon in relation to the 999 other gallons of wine was a small percentage and would not be detected in the sum total, accordingly donated a gallon of water as their contribution. On the day of the festivities, it was found that the wine contained 75% water.

So also, in the case of our currency, the people who mine gold are contributing water. Those who furnish commodities, and receive gold certificates in exchange, are giving wine. Thus the whole community is robbed.

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Chapter Four

"ABUNDANCE" AND "SCARCITY"

The terms "cheap" and "dear" are relative, and exist only as results of the measuring stick of supply and demand. Let us consider two small farmers, one producing one hundred units of wheat, the other, one hundred units of potatoes. The maximum family requirement of the wheat farmer of his own product, we will say, is only fifty units. The potato farmer's need for his own product is also fifty units.

Each farmer then refrains from consuming the whole of his product in order to retain a surplus for trading, to barter for the surplus product of the other farmer. The surplus of wheat to the wheat farmer is cheap to him because he has an abundance; he has fifty units more than he needs to consume; he is willing to exchange these fifty units of wheat for potatoes. But the surplus potatoes of the potato farmer are dear to the wheat farmer because he does not possess potatoes, and he desires them. Potatoes are thus "scarce" to the wheat farmer. "Scarce," then, means "dear," and "abundance" means "cheap."

The surplus wheat to the wheat farmer is cheap to him, as are the surplus potatoes to the potato farmer. However, the surplus of one is dear as measured by the demand of the other. A bargain value, a measure of their relative desires, is struck. The surplus products of each are exchanged, and both members of the barter transaction are benefited, since both obtain the products, wheat and potatoes.

International trade follows the same principle. Nations exchange surplus products. The surplus products of one nation become the trading power of that nation to exchange for the surplus products of other nations. Nations benefit just as the farmers did by the free exchange of surplus products, because this free exchange of surplus products means a higher standard of living for all concerned.

A nation is a large unit made up of individual units, its citizens or people. There is local or municipal government, state government, national or Federal government—each a unit within another unit. The power of authority or rule over the

nation is exercised by its people's government. In a democracy the government represents the majority of the people and is elected by ballot. If instead of majority rule the minority exercises the power, we often find that bullets instead of ballots choose the government.

When the people's representatives in Congress, exercising the powers delegated to them by their constituents, legislate to spend many billions of dollars and the money is expended, is the resulting indebtedness in reality of such a size as to threaten the nation's credit? The answer is "No." The nation as a unit through its legislative power to collect revenues can pay its indebtedness to itself. The wealth of a nation is the surplus for trading purposes of all its people. If the United States government owes thirty-four billions of dollars of "internal indebtedness," the people as a unit possess that debt and the nation as a whole has an asset to offset the indebtedness of its government. Only a faulty monetary savings system of national book-keeping makes this unapparent. The present lending system, in essence nothing but credit and debit of real value book-keeping, fails to correctly mirror the true situation.

When an individual owes a debt to another or other individuals he may or may not have assets to offset the debt. If he hasn't assets as great as or greater than his debts then he, as one unit, is bankrupt to another or other units. But when a nation's government owes money only to its own people, that nation can never be bankrupt as it always has assets equal to its indebtedness. The money the nation owes is owed to itself. One cannot mortgage his property to himself nor can he go bankrupt to himself. Neither can a nation which is one unit do so. Nation, government, money, value, and such words, are all abstract terms. They do not signify anything material, substantial, or palpable.

When a government enacts laws bringing about the destruction of wealth, or pays doles to its citizens as an inducement not to produce wealth, that government destroys value, the true basis of money. There is less wealth, and consequently less real money to collect as taxes. Feeding millions of people forced into idleness and permitting them to consume the savings of others will soon create additional millions of idlers. The

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taxation necessary may soon force almost everyone on the idle list. Forced slavery will be the final result, through regimentation and bureaucracy. This will be the result, either through the legislation of majorities of economic illiterates, or through the action of minority forces, dictators, and wild gangsters, all tending to terminate in revolution.

INTEREST AND SAVINGS

At the beginning of the Industrial Revolution in England about one hundred and seventy-five years ago, a group of English bankers bought up all the available gold—or most of it—in England. Thus it came about that commodity gold became monopolized. All loans made since by these bankers were made to be repaid in gold, or its equal value in all other commodities, when payments became due; thus the gold standard, sanctioned by the government.

Today, the United States, in control of one-third of the world's gold bullion, under the hypnotic spell of its bankers arbitrarily fixes a fictitious value to this gold of four billion dollars. These bankers have been allowed by law to issue ten billion credit certificates called dollars (money). Each credit certificate called a dollar represents one hundred units or points of exchange value, which is lawful tender for taxes, debts and interest, and is called the medium of trade—exchange or barter.

Year after year, thrifty people have denied themselves the immediate consumption of some of their earnings, entrusting their savings to life insurance or some other long term savings institution, in exchange for insurance policies, 6% or 8% building loan certificates, mortgage certificates, etc., all offering a false promise of long future security. Bonds and mortgages in these institutions pile up, interest and compound interest mount; and these again are converted into new bonds and new mortgages, to which again is added interest and compound interest; and so on and on. The convertible, or liquid portion of our wealth—stocks and bonds, life insurance policies, etc.,—was 16% of the total wealth of the United States in 1880, and 40% in 1930. (A. A. Berle in HARPER'S MAGAZINE, August, 1935). Urged on by popular psychology, every individual set as a goal

for himself the accumulation of sufficient certificates of debt—bonds, mortgages, stocks—to retire from industry. All were to live on the interest of debt.

While credit money circulates, comparative prosperity is made possible. Eventually, however, a time is reached when debt and interest through saving becomes top-heavy and a crisis ensues, just as cycles of depression have occurred periodically in the past. In the year 1929 there was an accumulation of credits and debts in bonds and mortgages to the staggering amount of 235 billion dollars, all supposed to represent future security to its possessors, of course. Interest on this colossal sum at the average of 6 per cent annually amounted to about fifteen billion dollars a year. It is an acknowledged fact that interest on bonds and mortgages and all debts must come from the increased production of goods and services usually in demand. These are exchanged—traded in a free competitive market for these credit certificates called money or currency in order to make payments of interest. But the nation's entire legal tender, credit certificates, or currency, is tied and chained by a despotic law to gold, and a 40 per cent gold reserve requirement permits the amount of such currency to stand at about 10 billion dollars, or *five billion less than the amount needed to make interest payments.* Competitive bidding down of the value of goods and services, which means competitive trading of commodities and services by debtors in all enterprises and industries for credit certificates (called money) resulted.

By taking into consideration the ratio of the demand for interest payments to the supply of credit certificates (money), if it had been possible to bring about a decrease of 33 per cent in all interest obligations, thus bringing down the amount of interest demanded from 15 billions to 10 billions, or from 6 per cent to 4 per cent, falling prices through forced selling would have been avoided. Bankruptcies and depressions would be unknown. Interest payments were out of all proportion to the amount of credit money in existence. Payment was mathematically impossible. But no attempt was made to reduce interest rates. A crash was inevitable.

A misconception of this economic truth has brought chaos to a whole nation of debtors and to the foreign debtor as well.

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Again through default of interest, the principal becomes also immediately due and payable. Thus following the crisis in 1929, principal and interest to the colossal sum of more than 50 billion dollars became due and payable in credit certificates or currency called money, and was so demanded by the sheriff in foreclosure sales. Home after home, farm after farm, business after business, factory after factory, went under the hammer. Only 10 billion dollars in credit certificates (lawful money) available, and fifty billion or more immediately due and payable in them. There is the cry for money, money, money. More gold, say bankers. More silver money, say owners of silver mines. More paper inflation, say politicians representing people who, though they have neither gold nor silver, have a plentiful stock of all sorts of real and valuable merchandise. The tragic fact is that most of the ten billion credit certificates which should be in actual circulation are lying idle, stored within the same institutions (savings banks and insurance companies) that do the foreclosing.

These idle funds are offered on the call money market daily at one per cent interest or less, though denied to the public from whom the savings were collected, even at four per cent. Contracts made by gold hoarders for 235 billion dollars, payable in credit certificates (called money), must be enforced, decide the courts interpreting the Constitution. The entire nation's debtors and foreign debtors also must be forced into bankruptcy; not only the common people, but the bankers and insurance companies as well.

The reader must bear in mind that though in the famous year 1929 interest was due on 235 billions in debts to the amount of about 15 billion dollars, true, some was offset in cases where one might have been simultaneously a creditor to some and a debtor to others. But there were short time notes to banks and private investors, and in business transactions where interest mounted up in billions, for which there is no way to establish the correct amount. This includes auto and house furniture financing, small business financed by shark loan shops, etc. It would be interesting to investigate to find out how many people are living not from labor or service but on usury, because of the gold and silver standard (called money).

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BUSINESS CRISES

The politicians become panic-stricken as the crisis develops. Professors of economics and sociology, industrialists, bankers, business men of great reputation, are called to the capitol. All agree that what we need is more useless gold—the bankers in particular. Some representing the silver mining interests demand silver money inflation. Business men with stocks of merchandise on hand or common shares in industry demand high prices of merchandise, though fifteen or twenty million people cannot trade even at low values. These business men have great influence with the political powers, who see no way out of the dilemma other than to curtail production, destroy cotton, plow up wheat, and stop producing real wealth, which is the basis for the only real money there is. To pay subsidies to idle workers can only bring more depression through shortages and consequent high values, followed by strikes, lockouts, and again less trading power is distributed. Round and round in a vicious circle.

These business men, bankers, and professors of economics all maintain that no one must starve in this country of mass production. All endorse bond issues for new debts for relief, all help to organize community chest drives. At the same time they demand that the government reduce taxes, balance the budget and stop spending. But spending is the only way to prosperity, not excess saving or hoarding. To increase debts is the wrong way to prosperity. Bankers warn the public and the government that the country is headed toward bankruptcy. Then, when the stock exchange opens, these same bankers and brokers bid high prices for government bonds, in spite of the fact that just the day before they had declared that the government was going bankrupt and that these same bonds would never be paid! Insurance companies send out shark salesmen to sell annuities promising three or four per cent interest and old age security, while they load the portfolios with government bonds, new debts, at three per cent or less, and offer millions on call at one per cent or less. Like conjurors they will take innumerable rabbits from a hat. But simple arithmetic will wreck them in the end.

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Exporters say we must import less of useful commodities and export more in order to obtain more useless gold; and having more useless gold we shall have more credit certificates. Chambers of Commerce endeavor to find markets in foreign countries to sell our goods. Our benevolent government from another angle has carried out this policy by trading for gold in foreign countries, which in reality means trading valuable goods for useless gold! How else can one trade for gold in a foreign country? Then later our leaders decided to trade for silver in order to bring that commodity up in value, and thus to be able to export to silver countries useful commodities, and bring back useless silver. Useful commodities are exchanged for another useless metal. But the brain trusters still believe this to be the way to prosperity.

THE RAISING OF PRICES

It is the declared policy of the Washington brain trusters, and also of the representatives of big business, to raise prices. How are we to do it? To judge from their actions, they have been attracted to the idea of raising the prices of useful needed commodities by restricting their supply. But a policy of restriction is worse than useless, it is suicide; it reduces supply which is income to others, and reduces the standard of living of the whole nation. So far from being a means of diminishing unemployment, it is rather a plan of distributing unemployment and poverty.

How then are we to raise prices? To think clearly, the following fundamental concepts must first be understood.

(a) For commodities as a whole there can be no possible means of raising prices except by increasing free trade, by destroying all tariffs, all franchises, all registered brands, and above all and as a first requisite, abolishing the gold and silver standard.

(b) Increased consumption only raises prices (or trading value). Therefore as rapidly as their supply comes to the market, so soon must free trading, national and international, be allowed to go on.

(c) Consumption can only be increased if the public as a whole spends its aggregate earnings and decides to work a

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little more for more production, thereby making possible still more consumption and a still higher standard of living.

(d) Aggregate saving for disability, which creates underconsumption and temporary overproduction, must immediately be credited to legitimate new developments for redistribution.

(e) But there are narrow limits to increasing loans of aggregate savings for long term security within any nation that is comparatively highly industrialized. The demand for free market expansion becomes the cry from business and industry.

(f) England being the first developed industrial nation, followed by France, Germany, Italy, and others, each bidding for favorable trade, made treaties to outbid each other in relation to gold values, which were adopted first by England and then by the others. Each was trying to sell more and more useful commodities for useless gold and silver (called money), a tradition from slavery and an optical illusion.

(g) A world revolution against the monetary system would have broken out long ago if it had not been possible for millions of surplus labor and surplus savings from the oppressed nations to migrate to newly discovered lands, the South and North Americas. So long as these doors for surplus savings and surplus labor were open, the illusionary monetary standard could still go on. But soon the Americas reached the stage of industrial development, the doors for surplus labor and surplus savings were closed, and the gold and silver hoarders are running wild, from France to England to America and back again.

High finance and usury are on the cross road of two extremes, leading either to Fascism, which means war and revolution, or Communism, which means war and revolution and the loss of liberty everywhere. Slavery is the inevitable result. World monetary reform and individual security through Federal savings institutions is the urgent need of the day. Stabilization, fixing values of wheat, cotton, oil, gold, silver, copper, or brass, is one of the greatest illusions because values are invisible and changeable according to the natural law of supply and demand. They cannot be regulated by man-made law, bureaucrats or dictators, Democrats, Republicans, Socialist or Social Credit demagogues.

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LONG TERM SECURITY

There is no doubt but that the idea of interest developed from the risk entailed in business transactions. The greater the risk the higher the interest rate demanded. A loan or a bond backed with sufficient security draws a lower interest rate than one where the security is less and the principal is not so good.

So it is that in individual deals or investments the item of interest is broadly the gauge of the safety of the transaction. For there is a limit to the loan security that can be offered individuals, whether singly or in groups. A security good today may be worthless tomorrow. An individual or a company wealthy today may be bankrupt tomorrow.

This is not so for a government or a nation taken as a whole. There is no limit to the security a government can offer its citizens. This is because of the power of taxation which governments exercise. Not only taxation, but condemnation and confiscation of anything and everything is quite within the power and authority of a government; even life itself, as in time of war.

The question arises—with such unlimited resources, why should a government have to pay interest when it borrows long or short time credit money? Why, at the same time, does it make a considerable proportion of such bonds tax free and exempt from other charges?

The saver who trades for a government bond, or in other words, who loans his savings to the government in credit money, *takes no risk at all*. For there can be no question as to the government's ability to tax him and others on maturity or even on demand. Through commodity credit money derived from taxation it can meet all internal debts and obligations.

Why should a government have to borrow the savings of the public and pay interest upon them, when the government's power itself is the only security and is so good that in periods of depression its bonds are traded above par? It is a fact that whenever commercial bonds depreciate, government bonds appreciate, and trade above par value.

When the people's representatives in Congress authorize certain expenditures for the people's welfare the government

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theoretically raises the money by taxation in order to pay these expenditures. There is power and authority for the constitutional government, if Congress should care to exercise it, to raise taxes generally and immediately if necessary at any time, if it wants to return bondholders their savings in full. But it would be more logical to levy higher taxes on long term saving individuals—they who save to excess for the far distant future—they who are getting interest on government bonds not for consumption but for the creation of new debts. Instead of paying interest, the government should charge these long term bondholders *a fee for giving them long term security without risk*. The fee charged should be commensurate with the amount of the individual savings; that is, the saver should compensate the government in proportion to the amount of his savings and the duration of time for which he seeks protection—the greater the stretch of time of desired protection and security, the higher the compensation to the government. These fees would aid in balancing the budget.

It cannot be too strongly emphasized that there is no private or individual future security that the individual can assure by himself. The changing complex pattern of life brings the individual's efforts to naught. Only political government can assure, to any marked degree, security for the individual. All investments in private enterprise must be by the very nature of things insecure. Inventions, discoveries, changing habits and tastes make valueless today what was desirable yesterday. Hence there are only very limited opportunities for investment in the long term field.

The government when it steps in to supply this much desired service should charge for the service instead of paying for it. When the government follows the opposite course, and pays interest on its bonds, it causes the consuming public to suffer. They suffer through higher taxation—taxation to pay for service and protection offered the wealthy future security holder. Taxation means also underconsumption—an evil which begets many evils.

Why should a democratic government tax and confiscate a poor man's home or farm or small business to recompense with interest the owner of government tax free bonds? These

bonds accumulate interest and compound interest. Such action is bankrupting the masses, and decade after decade we have the depression cycles with us.

Or why should a life insurance company be allowed to foreclose a man's farm, his only means of livelihood, because of the latter's inability to pay 6% or 7% on his loan from the company? This interest collected from the poor man is for the benefit, say, of a seven million dollar policy holder whose annual premium savings may be three hundred thousand dollars or more a year—his yearly saving for long term security. The insurance company is the broker between these two people, the long term policy holder and the poor farmer. It adds the interest collected from the farmer to pay the long term policy holder his dividends and also accumulates his long term saving; new credits, new debts, and more interest.

The rich man may get his seven million dollar policy for five or six million dollars because of interest and compound interest accumulating over the years, piling up his savings to immense proportions. This accumulation through interest exploits the poor farmer. The cream of whatever he produces he cannot spend or consume since he has to pay it out in interest. Overproduction results, but because of interest charges to be met there is under-consumption. But the rich policy holder, like the poor farmer, will not and cannot consume his interest accumulation—he is interested only in putting away and piling up for future use his long term savings. Underconsumption, oversupply, piling up for the distant future—all because of forced interest which remains unconsumed.

SAVINGS BANKS

Let us stop to consider the savings banks and bankers. In number they are many and in appearance, both external and internal, these institutions are imposing. One comes across them, sometimes four at a time, on each and every corner in the business sections of our cities.

They are invariably well-built, beautifully and fancifully, of the very best stone or marble; gold lettering and the most expensive Neon signs beckon the passerby to come in for his

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own benefit, protection and security. Inside there is the same lavishness, with marble and stone and the most costly of furniture and appurtenances. Figures in the hundreds of millions or more are embellished on the windows, printed on notices and placed everywhere to be seen by and to impress the public. The banker tells you of his resources, of the many millions of dollars in savings deposits, the millions the bank has, cash on hand, the many millions in bonds, and loans on mortgages, and so on and so forth. All this impresses, and the individual is influenced to part with his last few pennies. For here is an institution so wealthy and so resourceful that if you but give it your credit money, your future security is apparently assured and no longer need you worry about that rainy day.

But in truth, these institutions are not safe; they cannot give the saver security and protection for the far future; they make false promises. Even with government assistance, and we have seen how the government comes to their aid with reviving credit injections, they are still unable to guarantee safety and security for the future.

Because there is no future security. Future security is an illusion. It is a mistake or a false pretense for anyone to guarantee another's future. The things all people actually save, perish. Only a few commodities are durable and become more valuable with time, such as art, paintings, etc.

The savings banks at present are on a competitive basis, each vying at great expense to catch the interest made possible by the people's savings. And don't forget the salaries of their presidents and vice-presidents, and other officers! And the policemen on guard inside and out! No wonder the borrower, when he wants a loan, must pay the same banker 7% and a bonus besides.

Much of the people's savings has been invested in these marble stones. The tombstones of past generations now look down upon these same people, just as has happened in previous cycles.

See with what effort our Administration in Washington has tried for the past five years, with all sorts of credit injections, to put life back in them. But they cannot budge, and never will as long as they demand 7% and bonuses as in the past.

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Nature takes its course, slowly but surely. You can't save such banks with new laws—man-made laws, that act contrary to the fundamental economic tendencies of mankind.

Only a Central Bank of issue with the power to control premiums on insurance and the rate of interest on lending will make it possible to reduce interest rates to borrowers, commerce, and industry, and give security to the individual. It will likewise reduce the overhead on production, and commerce and industry will not be shackled with usurious and unbearable interest and taxes.

The banks as they stand now, with loans on securities which are no good, should not and cannot be forced to make new loans —"cats and dogs." For how can they invest the people's new savings at high interest to cover their huge overhead? Competition among banks in the past was so keen that the bankers were forced by competitive bidding to loan savings credit money even on vacant lots with only a gambling prospect of future business frontage—the greater the savings of the public the greater the bidding for the loans. "Miracle miles" of business frontage cropped up as a result, but unfortunately today only gophers remain to inhabit them. To continue such a policy can only lead to a new crash of the banks, the government which backs them, and finally, all the people.

The opposition here expressed is against private competitive bidding for savings. Savings banks, building and loan associations, mortgage companies, and life insurance companies are those which take the long-term savings of the public under false pretenses by offering future security. This criticism does not apply to commercial banks. These are necessary for short-term loans and for the convenience of commerce and industry. Commercial banks could be rendered safe by having their deposits insured with central savings institutions.

We have criticized the fact that often a savings bank stands on each of four corners of a street. We sometimes see four gasoline stations similarly placed. Is that also to be condemned? Not necessarily. They may sometimes be an economic waste, but the competition between them is more often of benefit than detriment to the general public welfare. In their failure, people's life savings need not be lost. When they

go bankrupt, they do not endanger the people's long term savings or drag the general mass to financial catastrophe. Let us have business competition and profit, certainly, and government control of premiums and interest.

LIFE INSURANCE COMPANIES AND BUILDING AND LOAN ASSOCIATIONS

What has been said of savings banks and bankers applies equally well to life insurance companies and building and loan associations. Here also we see the menace of four hundred insurance companies with their presidents and vice-presidents and a host of other officers—salaries in the hundreds of thousands of dollars yearly, and extra bonuses and commissions. Agents and sub-agents, shark salesmen, each rewarded in many a way for obtaining new clients and selling more insurance. All this to extract the last few pennies from the poor sucker who puts by his few crumbs in fear of a rainy day. The rainy day will surely come, and it will be called "Depression Cycle No. 19," for we have had 18 cycles already in the past hundred years. But there is this important difference: The present cycle of depression is and must be the last one.

This is so because there is no longer possibility of any new land discovery. There are no more Americas with vast stores of gold to be explored and mined. No gold fields and no gold rushes, no covered wagons and new homesteads, as in the past. In vain the world may wait for miracles to happen. Our international bankers, the Warburgs, the Spragues, the Morgans, the Vanderlips, the Kents, hum the same tune—they preach "faith and confidence" for the future which will never come.

There is this important problem: feeding fifteen million unemployed by taxation of the rich and with the crumbs gathered from the tables of a dying middle-class will soon break the backs, not only of the middle class, but of the rich and the bankers and the insurance companies as well.

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Chapter Five

A CENTRAL BANK OF ISSUE

Only a realistic and daring people's government, and not the international bankers and insurance companies, can solve the problem. This Central Bank must take over all long term savings. There need be no raid on the Central Bank and no panic. If the Central Bank should need cash to pay out on Central Bank future savings certificates to the holders of these future savings certificates, it could easily raise the revenue (in real credit money without gold backing) to the amount required. It could pay these holders by raising the interest rate to old and new borrowers and increasing the premiums to large policy holders, guaranteeing the security to these savers that only the government is able to offer. Let me repeat, the government should not pay interest to certificate holders, but should charge them interest for the service it is rendering them. If, on the other hand, the Central Bank found itself with a saving of excess credit money, it could lower the interest rate on old and new loans and increase disability benefits.

So, also, the government should change the character or basis of its credit money. At present, 60% of the nation's credit currency dollar is backed by commodities, and the remaining 40% by metal. This metal backing should be discarded and the dollar be made entirely a credit commodity dollar, backed by 200% security. The Central Bank could then advance or loan 50% on improvements or commodity value certificates on a market appraised value. Thus, an individual could borrow $5,000 on his house, the free and open market value of which was $10,000 (excluding land value). With this credit money he could barter, trade, or produce new commodities. Both he and the Central Bank would find it safe, sound and profitable for all concerned. The fall of the interest rate to borrowers, and increased benefits to the disabled, old, and young, would follow immediately. Depression cycles would be things of the past.

All saving, whether of salaries, wages, or dividends—i.e., money that is not immediately expended—results in unconsumed

goods. Saving is a process which has a far-reaching effect on the whole economic system. As a matter of fact saving carried far enough, even were no other modifying factors in operation, would wreck the entire economic system. For every dollar saved a dollar of surplus trading power is unused. This means that a unit of value somewhere is not cancelled. Somewhere a dollar's worth of goods is left high and dry to devaluate.

In the orthodox theory total incomes equal total prices (total values) in relation to gold. But to the extent that income (values in relation to gold) is saved, prices are not liquidated (values are unconsumed). Total values must be greater at any moment than income by at least the amount of the income saved. Let us suppose that all consumers saved half their income received from industry. As a result there would be piled up, and slowly deteriorating in quality for the most part, a tremendous volume of goods, until such time as the consuming public reversed the process and bought accumulated goods and services with their savings. It is apparent that if industry has a so-called "surplus" of goods that consumers do not buy, industry will inevitably reduce its output, curtail orders for raw materials, and throw labor out of employment.

The time has come when the President of the United States can make a decisive move to promote national and international trade, and thereby stimulate domestic and world-wide recovery as well as international peace. That can be brought about through action for the definite and permanent abandonment of the Gold Standard and the return of gold coin and gold bullion now in the government's possession to those who will pay the government the highest price for the metal.

Gold is now treated as an interest creating commodity. Gold is hoarded because the hoarders can get interest for it. Letting go of its gold, the government would transform an immense volume of interest consuming power that would necessarily be redirected into more productive and worthwhile channels. Forsaking the gold standard would result in the value of this metal going lower in this country at once. As a commodity, it might be worth $4 an ounce or thereabout. Almost immediately the world market for this metal would topple from its present high pinnacle. Lower values for gold

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and silver would immediately result in correspondingly rising values through free trading for all world commodities for consumption purposes, and production of more goods would result. That is, I realize, a large claim. On what facts and what reasoning does it rest?

The value of the world's entire gold and silver supply measured in relation to the world's other commodities is now about double what it was at the beginning of the depression. This is due to the large demands for gold and silver as payment for taxes, debts and interest, both nationally and internationally.

A Central Bank of issue as proposed, operating on the basis of two to one security on its issuing loans, would soon release sufficient credit certificates at low interest rates to refinance outstanding high interest rate bonds and mortgages. It would put a stop to foreclosure. The status of gold and silver would be that of any other free commodity subject to supply and demand. Anyone desiring to hoard gold for future security could do so by trading for it in the open market to his heart's desire. The value of the metal being lower he could get more and hoard more. If he chose, he could bury it in the earth as was done in primitive days. Or he could put it in some bank's vaults and pay for its safekeeping. When in need of money, the hoarder could borrow on it in any Central Bank or in a Federal pawnshop by entrusting two dollars worth of gold metal for each dollar in currency credit certificates; at the same time paying Uncle Sam, the lender, a small interest charge for this service. This interest together with premiums on insurance should be the only tax to balance the budget, including disability payments.

The next step necessary is to open the door of this country to the whole world for free trade, barter, exchange of commodities. America's capacity for mass production of goods, together with low taxation, generally low interest rates, easy borrowing and other advantages, could soon attract and capture the world's markets for its valuable goods. Other nations would create surplus goods attractive to American consumers for trading purposes. Such trade, barter, exchange would soon bring prosperity to all trading nations, and a higher standard of living for everyone would result. Each nation's prosperity

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would depend upon the sum total of the industry, initiative, skill, ability and service of its individual citizens. Nations like individuals cannot trade, exchange or do business if they have nothing substantial or worthwhile to offer. The people would soon realize that our present conception of wages and tariffs, either high or low, is erroneous, and that hoarding gold and calling it money is the greatest stupidity known to history—a stupidity that has brought on wars among nations—this blind and superstitious worship of the Golden Calf.

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Chapter Six

TARIFF

FREE TRADE vs. PROTECTION

Like the poor, the tariff question is always with us. Should tariffs be high or low or non-existent? Is free trade better for a country or for the world than a policy of high protection?

Three-quarters of a century ago the doctrine of free trade seemed to have the best of the argument in the practices of leading nations and also in the judgment of economists. The speculations and theorizings of John Stuart Mill, Adam Smith, and Ricardo supported the free trade argument. Scarcely anyone then questioned that free exchange between nations, as between individuals, was the policy resulting in the greatest creation of wealth and human satisfactions. The United States prior to the Civil War, because of agricultural development and the fact that it was lacking in industrial goods, had shown more than a tendency toward free trade. Protectionist policy following the Civil War "might be accredited to the financial exigencies of that crisis," according to F. W. Taussig, a recognized authority.

In this phrase lies the key to the free trade-protectionist dispute. There is not the slightest use attempting to solve the free trade-protectionist enigma without an understanding of the so-called "lending exigencies"— in other words the gold money illusion.

PROTECTION LOWERS STANDARDS

The logic of the argument is indisputably with the free traders. The protectionist argument or "the mercantile view of international trade," to quote Taussig further, "exploded as it has been time and time again, has a singularly tenacious hold. Even among the most intelligent writers in financial journals, the familiar attitude is that of rejoicing in a gain of exports, regretting a gain of imports; rejoicing in an inflow of specie, bewailing its outflow. Now in a country where the gold monetary debt is topheavy, the relation of imports to exports

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may not adjust itself without causing trouble. But the difficulty in such case, if there be one, is in *the circulating medium, and it presents questions of monetary reform,* not any problem as to the gain or loss from international trade." (My italics).

Taussig wrote these words more than thirty years ago. They are truer today than ever. The problem of free trade and protection is really a monetary problem. Protection is a crutch to a gold debtor nation ailing from gold monetary disease. It is the daily dose of a drug to a drug addict. So acute has the gold monetary disease become today that the gold debtor nations of the world with scarcely an exception have turned to protection—economic nationalism—to Chinese walls opposing imports.

At the same time, so absurd is the situation and so far gone are the nations with this gold monetary disease that they are openly advocating a subsidy of exports, or actually applying one by various devices, such as currency depreciation, each against the other. And this despite the fact that in their sober moments they all know that in the long run exports must be balanced by imports; that all shipments abroad of commodities mean a parting with real wealth—often exchanged for worthless I.O.U.'s or comparatively valueless metal; and that imports are in actuality an appreciation of real wealth for the country receiving them, even if it is a creditor nation.

ILLUSION OF THE TARIFF

The familiar political argument of the protectionist is that it brings about and protects high wages. This is mere claptrap, says Taussig. The facts are that the general range of wages in the United States was not created by protection and is not dependent upon protection. The high wages in the United States are, or rather were, due to the open door for foreigners, bringing millions of able workers to a new undeveloped country; an abundance of raw materials; a virgin soil; and the comparative scarcity and efficiency of American labor. High wages are dependent upon labor saving devices and high productive power. All the protection in the world will not raise the wages of an Asiatic coolie. In the case of the United States, at a time when

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duties were the highest in our history the bottom fell out of the wage scale, until millions were compelled to live on a pittance providing a standard of living little better than that of the coolie.

If a tariff between, for instance, Canada and United States redounds to the good of the two nations, then it would naturally follow that a tariff between California and Maine, Iowa and Louisiana, would also be of great advantage to these states. Logic and common sense are all with the free trader.

But the free trader takes it for granted that if only tariffs were abolished, trading would then go on under a free economy. This would not be the case, for the money system of the nations and the international gold standard are a standing hindrance. They are the basic reasons that make tariffs necessary. The tariff is a life preserver thrown to a gold debtor nation. It will keep a drowning nation afloat for a time, until it becomes a creditor nation. But at this point tariffs become dangerous, waterlogged, and worthless. There is then no advantage to any one of the trading nations.

"But," argues the protectionist, "if we remove our tariffs we would be the dumping ground for the products of coolie labor." "See what Japan has done to the cotton industry of Lancashire." "Is the foreigner to capture all our home market? Without a tariff Denmark and Australia would ruin our dairy farmers." We are told that protected industries give the farmer a home market. Giving the farmer a home market is not creating any new and additional market. It is merely a substitute for a foreign market.

A realistic view of the situation would show that what is cheap in one country is dear in another country. By barter—trade exchange—a supply of cheap goods from a foreign country is a direct contribution of wealth to the country receiving them, and if the credit system at all realistically reflected the situation there would always be sufficient surplus (purchasing power) at home to trade these goods to the extent that they were wanted for consumption.

The belief in protection, where it is not fostered for the selfish interests of a protected industry, is part and parcel of what Taussig calls a "pseudo-judicial attitude" applied by many so-called economists to the "theory of value, of distribution, of

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prices and the value of money, as well as of international trade." Taussig sums up his argument as follows: "He who believes that international trade is but one form and no peculiar form of the division of labor, and that like all divisions of labor it is preponderantly beneficial in its effects, may admit that its application in a given country raises problems not to be disposed of by mere appeal to these principles alone." This is the essence of the matter. Free trade raises the gold standard question. The gold standard money question must be solved before the problems of free trade versus protection may be disposed of.

The establishment of the gold standard by law in England in 1819 restricted the bankers' power to increase the supply of gold credit to foreign nations except as discoveries of new gold fields made more metal available. It was not intended, of course, that no other credit money should be created without gold backing. It was left to the banks of England to create further money, which they did to their profit, chiefly in the form of guaranteeing certified credits.

TRADE BALANCES

But the paper money created by the Sovereign had to be tied to gold, and the act provided that whenever a pound of gold left England, a pound must be withdrawn from circulation. This is the basic principle of the gold standard. Thus gold, when shipped abroad by international bankers to settle international trade balances, is reflected according to this theory in a calling in of bank loans, deflation of commodities, and reduction of credit. This, as everyone is aware, is followed by falling values, unemployment, lower wages, bankruptcies and economic distress. Since wages in relation to gold weight are the principal costs in production, their fall and the concomitant inability of the home market to absorb production through saving creates a frantic scramble of all producers to find new markets and new borrowers abroad. In order to recover costs in gold, lower prices are often accepted abroad than at home. To find these markets and to force them open, even war is resorted to. This process, known as good business by the exporting country, is referred to as "dumping" by the recipients of these cheap goods in relation to gold weight.

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But the nations receiving this flow of goods from a country now in distress, and facing a loss of their own domestic markets by "dumping," resort to higher and higher tariffs. Since a lower cost of production in any other nation means that this nation can now sell more goods abroad in competition with others, this is called a favorable gold balance of trade.

Now let us look at the other side of the picture. The nation that received the gold in the first place from the nation now in distress can now have its own credit money supply extended by its bankers. New loans, issues of credits based on the increased gold supply, come into existence. A wave of economic activity results. This means higher wages and an increase in the cost of production. When the costs are high enough the nation possessing the surplus gold is no longer able to compete favorably in the world's markets, and finds the balance of trade against it. Consequently it must soon pay out its gold again to the nation which lost it in the first place. When it in turn has paid out sufficient gold, its domestic prices fall, followed again by unemployment, bankruptcies, and a decreasing demand for production at home.

Thus the cycle continues, maintaining when "working" smoothly a fairly even distribution of the world's gold, and an extremely profitable interest business for the owners of the gold, the international bankers and acceptance houses; but alternating periods of prosperity and depression for the nations clinging to the gold standard. In an effort to prevent the so-called "dumping," the harried governments erect tariff barriers ever higher and higher.

CAUSES OF WAR

In a communication on November 14, 1934 to the Special Committee of the United States Senate Investigating the Munitions Industry, President L. Du Pont states in the last paragraph:

"We think it fundamental to distinguish between the causes and effects of war. Armament does not originate war; warfare brings forth arms. War is caused by economics and political rivalries. It is fomented by fanaticism, bad temper, suspicion

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of other people, criticism of their actions, sensational press dispatches, fraudulent or covetous practices. It is minimized by good-will, forbearance, self-control, honest statement, fair dealing. Fire-fighting apparatus is necessary, but it does not cause the fire; care and vigilance are required to prevent an outbreak of fire. International trade in any kind of material or product, if unwisely directed and improperly prosecuted, creates friction, animosity, hostility. On the other hand international trade wisely and fairly conducted promotes closer association with other people, understanding and friendliness, a spirit of co-operation, good-will, peace."

Mr. Du Pont, apparently, is not properly informed about the workings of the gold or silver standard. For he does not mention that among the causes of war. Were he to understand how the gold or silver standard operates and its effect on trade, commerce and peace, both from a national and international standpoint, he surely would not term it honesty and fair-dealing.

Let us take an example. When international bankers finance American exports to China, they demand payment in gold or the equivalent of gold. When gold, monopolized by these bankers and made scarce by them, doubles in value, the Chinese are obliged to pay twice as much in goods to this country. They must export double the quantity of commodities in order to meet their gold value obligations. Is this honesty and fair-dealing? It is this demand for payment in accordance with the artificially increased value of gold which creates friction, animosity, boycotts, hostility and revolution. Strikes are fomented among working men, wages are lowered, in order that employers may meet the increased value of their gold payment obligations.

International trade cannot be promoted or good will fostered and made permanent unless all realize that money means value or credit, certified on paper in units of value. Payment must not be exacted in gold, silver or any other metal which can be hoarded and made scarce and dear. Such a policy can and does bankrupt both debtors and creditors alike. Payment of obligations in values represented by credit paper money certified by any National Central Bank, properly and wisely conducted and authorized to issue credit notes two to one on

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all free exchange commodities (no tariffs, franchises or patents) will do away with wars and promote peace.

Thus the gold standard is a device for enabling the international bankers to manipulate foreign trade. The tariff is a crude device to protect the public against this manipulation. But once let the world's supply of gold become unevenly distributed, and the game comes to an end. When the governments of England and all other countries adopted the gold standard they gave away, to some extent, their sovereignty. When this device is in operation, the merchant and laboring classes, suffering from the depression following the loss of gold and the consequent deflation of commodities, look upon the loss of gold as their chief trouble. Since gold is lost when foreign goods come in, the remedy, as far as they can see it, is to keep foreign goods out. Tariffs are instituted for this purpose. This is a modern form of fetish thinking, and so long as the loss or gain of gold regulates the amount of currency and credit that may be created or withdrawn in a country, so long will the superstition of the "favorable" balance of trade exist, and so long will tariffs be imposed to foster the protection of gold.

INTERNATIONAL BARTER

The remedy is a currency cut loose from gold, a free supply of commodity credit money in the home market, in order that the home consumer may trade and consume the bulk of the goods which he is willing and able to make. Under this condition, international trade would consist of the exchange of actual surpluses, as we saw in the case of the farmer raising one hundred bushels of wheat and willing to consume fifty, and exchanging the other fifty with the farmer who raised one hundred bushels of potatoes, with the desire to consume but fifty. This form of exchange needs no tariffs, and the interference of tariffs would be at once evident as an unnatural and wealth destroying device.

The war years of 1914-1918 created a great demand for America's surplus savings of commodities. The resulting export transformed the United States from a debtor nation to a creditor. The debtor nations were then obliged, in order to

meet their foreign obligations, to tax their peoples to the limit, which meant that they were forced to work and produce a surplus of commodities.

BARRIERS AND BOYCOTTS

Debtors not being allowed to consume all they produced, a large part of those commodities was denied the producers and consumers. These unconsumed goods had to be exchanged for gold currencies for payment to the creditor nations. And so, most European nations being debtors, they were forced by taxation into a condition of underconsumption and overproduction in the effort to pay their creditors in gold.

Since international payment erroneously had to be made in gold, a great struggle for export trade arose in an attempt to create favorable balances. Each nation, desiring more exports than imports in order to make such a balance, erected tariff walls and established quotas.

The inevitable result of this general blockade in Europe was the piling up of unconsumed commodities produced by the required taxation. Underconsumption and overproduction brought in their wake falling prices.

DUMPING MEANS PROSPERITY

The United States, as a creditor nation, should have opened its doors to all these debtor nations. They were struggling to pay with their commodities; and this, after all, is the only way any debtor can pay. American refusal to accept payment in kind has bankrupted not only the people of her debtor nations, but her own citizens as well.

There is a widespread fear in this country that if we open our doors for the free exchange of commodities we shall be menaced by the cheap labor of some foreign nations. It ought to be plain enough that the ultimate effect of our doing so would be an advanced standard of living for all.

Four hundred million coolies can produce a certain quantity of commodities in a given period. One hundred and twenty-five million Americans can produce, by superior skill, efficiency,

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and the use of labor saving machinery, a greater quantity in even less time. In a free trading market, the results of such production and inter-trading must be advanced living standards for both countries.

Protectionists err in stating that American living standards would be lowered by free trade. Tariff is a two-edged sword, and it cuts standards of living in all nations concerned, because it limits consumption. Nations, like individuals, desire to trade, barter, and exchange the surplus commodity value they can most easily spare for the ones they most urgently need. Such trading is of mutual benefit, never one-sided.

We have in the United States some 10,000,000 colored people with a comparatively low standard of living. They are trading, bartering and exchanging their labor with 115,000,000 white Americans. Who is benefited most by this trade, the colored man or the white man? Which group has the higher standard of living? The white man, of course. And with wide open doors to foreign trade, it would work out in the same way.

The efficient, skilled and ambitious will always have a higher living standard, regardless of the prevailing government, be it socialism, communism, or any other form. This is a natural, unchangeable law.

When Japanese steamers bring to America 5,000 tons of tuna fish to barter for cotton and other commodities, both countries profit by advanced standards of living. Americans then get their fish cheaply and have more currency left for other commodities, in which process more workers will be employed; while the Japanese on their part get from us the commodities Japan so dearly needs.

The more commodities Japan dumps here, the more prosperity we will have, if we first institute a rational money system. Each time she dumps here, Japan will take back surplus goods which we produce with less effort, and such trade will give both nations a higher standard of living.

If American fishing industries are unable to compete, they should go out of business, just as did the horse and wagon industries, without subsidy. Isn't it obvious how many more workers found places in the new automobile industries?

FUTILITY OF ISOLATION

Dumping all the world's gold and silver into China and putting a mile-high wall around it would not raise the standard of living for the Chinese. It would rather lower it by isolating the nation. China might have all the gold and silver and plenty of rice and silk, but she must trade with others to gain equally necessary commodities such as cotton, rubber, etc. The nations isolating China would also suffer by the loss of trade, for they can use Chinese goods.

A nation boycotting another injures itself. All tariffs necessarily act as boomerangs.

Commodity exchange transactions between nations, viewed realistically, reveal comparative values of the currencies of the involved countries to be based on the units of human service required in production of the goods exchanged. If we import silk from Japan, we do so, or should do so, only because we need that commodity in quantities greater than we ourselves can produce economically.

Japan can produce silk economically, in quantities greater than her competitors. We wisely buy silk from her, therefore, cheaply. On the other hand, Japan cannot produce, economically, enough of the commodities which we trade with her. It is profitable for her, then, to pay in silk for our cotton and machinery. The barter is considered profitable by both of the countries.

In foreign or domestic trade there is merely the barter of commodity *values* as represented by the human services comprised in the commodities in question. In the case of Japan, it is but elementary economic sense to observe that the free barter of goods is based on the relative value of the yen to the dollar, and vice versa; that is, on comparative commodity value. If a pound of silk is worth ten yen in Japan, and in America one dollar, the relation of the two currencies, as far as silk is concerned, is as 10 to 1. If supply and demand remain balanced, that ratio stays the same. And so it is clear that the question is not that of the relative cheapness or dearness of the yen against the dollar as paid out in wages or otherwise, but of the relative commodity exchange value of the goods bartered. The

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units of the currencies' values fluctuate according to the unrepealable law of supply and demand.

National economic isolation amounts to national starvation, just as the isolation of any American state or city would result in starvation for both. Modern industrialized civilization has so greatly altered our mode of living that isolation, even comparative isolation, is criminal. We need, rather than restricting tariffs, a wide-open-door policy. Such a policy is required in my plan for normal economy.

The United States, as a creditor nation, need have nothing to fear from international trade with gold standard countries once it adopts the 100% commodity dollar. United States importers will buy gold in the open market and pay for their purchases with that gold. The Stock Exchange will indicate the value of gold and the price of foreign currencies, just as it does with any commodity.

As soon as the United States, which holds one-third of the world's gold, offers it for sale in the open market, other nations who wish to trade it will have to do so by exporting their goods to us. Then they will have the useless gold (on which they will have to pay interest to their own gold bondholders) and we will have more commodities and a higher standard of living. But they will soon discover the havoc that a gold currency wreaks, because they will be unable to balance their budgets.

The whole world will then come to realize the illusion of a hard metal currency and they will follow United States leadership. Mussolini, Stalin, and Hitler will turn to the individualistic system of capitalism. We, as a creditor nation, are in a position to lead the world out of the wilderness.

Chapter Seven

PLANNED ECONOMY AND THE ILLUSION OF EXCESS THRIFT

The elements of nature are destroying man's savings in real wealth before his very eyes. Yet man goes on, cycle after cycle, with new denials and new savings, as he still ignorantly believes in future security; notwithstanding that the future brings only disappointment, misery and deprivation as long as his long term savings are uncontrolled. If interest and compound interest on long term savings pile up without reinvestment in the production of non-consumable capital goods, which in turn are of no use to the individual except as they can be used to produce more consumption goods, it is readily seen that the consumption goods created for interest payment which the borrowers denied themselves must also pile up and spoil. In such case it would have been better had those borrowers been relieved of interest, and consumed their entire production.

The world will have to realize that it cannot eat its cake and have it too; it cannot save values from one generation to the next; each generation must perform its own work and create and consume its own values. Each generation must feed its old, young, sick and disabled not by charity as in the past, but through social compulsory insurance from all individuals able to produce or to perform any service.

Savings may function with results favorable to both individual and society when invested in the production of new capital goods, leading to social progress and to individual security. These savings promote new production, and raise the standard of living of all concerned. The savings are circulated, and converted into new consumption goods. In this way a surplus of consumption goods cannot occur.

Long term savings cannot be used in immediate production of consumption goods, for the very existence of these savings is evidence that there has been only a partial absorption of consumption goods at the time the savings were made. That is, producers refused to buy back all they had produced, and increased production of consumption goods at this stage would

be an obvious calamity. The investment markets require new developments and the production of new capital goods; and the workers in these new projects—new railroads, factories, etc.— act as consumers of the existing surplus of consumption goods on the market caused by savings.

Let us assume that the annual long term denial of goods consumption—in other words, the savings in the United States —amount to five billion dollars. Suppose now that the market produces new and desirable securities issued against the production of new capital goods amounting only to two billion credit dollars. There will be a scramble among investment companies seeking these securities, and their value will rise in accordance with the law of supply and demand. In order to absorb the three billion surplus savings, speculative and unstable securities will appear. But there will soon be a tremendous sum of savings that can find no outlet, and this idle surplus must increase with time. When savings pile up in this way, consumption goods also pile up awaiting consumption. The market is flooded, prices are cut, production breaks down, and unemployment grows.

Even short term savings are then no longer spent entirely for consumption goods, for uncertainty brings with it increased conservatism in spending. Thus both short term and long term savings pile up indefinitely, and it is only when these savings and surpluses of consumption goods become exhausted that we are ready to embark upon another "business cycle."

The increase of mass production during the World War brought on an era of mass saving in government bonds. In the hands of the masses of the people these bonds after the war became spending power and created prosperity, until part of these bonds were retired by the government and the rest were grabbed up by insurance companies, bankers, and long term savings institutions. Wholesale security magnates in the past fifteen years have had on their hands a surplus of $28,000, 000,000 in long term savings which they have disposed of in foreign markets for long term bonds, there being no outlet for it in the United States. Had the foreign market been closed to us ten years ago, we should have reached our crisis long before 1929.

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SECURITY COLLAPSE

We now, as a security holding nation, have seen our foreign savings depleted, our income from the $28,000,000,000 in foreign investments wiped out. We have seen a default in twice that sum in domestic securities. This is the aftermath of a cessation of production for domestic and foreign future long term credits, with the resultant accumulation of surpluses here and abroad.

Factories built to accomodate a foreign as well as a domestic demand were forced to close up when credit, the life of trade, ceased. Investors overcome by fear tried to dump securities considered weak for securities considered strong. But there were not enough strong long term securities, and never will be; all the good ones, State and Federal bonds and some special privilege utilities, having already found a market. Then followed the run on the banks for cash, then a hoarding of gold certificates. But there was not enough gold or cash in the entire world, and never will be, to cash the valueless inflated securities in gold value or currency; and if there were, what good would that gold do? Banks and other investment companies were compelled to close; the government had to come to the rescue of these institutions with a moratorium.

During the period of depression, economic forces, the law of supply and demand, automatically attempted to correct the situation. Sound long term bonds and mortgages are scarce and always will be; long term savers are thus forced to stop paying premiums from savings, and the falling prices help to increase consumption and clean up the market surplus. Unless the government interferes as it has done, bankruptcy takes its course, liquidation and deflation run their periods, there is a tremendous destruction of values in relation to fiat gold and shifting of wealth from debtors to creditors; then at last so-called normalcy returns and the cycle begins all over again.

The chief factors in this savings investment problem in the United States are its 400 life insurance companies, thousands of security and real estate investment companies, savings and loan companies, and savings banks. These private insurance companies in more respects than one are an economic menace.

Millions of savers in this country, having contracted with them, are obliged to continue their payments to safeguard payments made in the past. To do this they must deny themselves needed commodities, and reduce their standard of living. Their savings pile up in the hands of insurance companies, and surplus commodities pile up on the shelves of the merchants. But despite the efforts of the policy holders, their loss in lapsed insurance and policies surrendered is tremendous. In the industrial field alone the policy holders in the years 1928 to 1932 inclusive lost $200,000,000, based on an estimate of the total amount of premiums paid on lapsed policies.

This situation is not confined to the United States. In Australia the official figures of the Australian life insurance companies—ordinary and industrial—for the three years of 1930, 1931 and 1932, show that 712,312 policies involving the amount £73,489,546 were forfeited as against 222,965 claims paid amounting to £16,730,290. In the six years from 1927 to 1932 inclusive, a total of 1,534,736 policies with an insured value of £174,982,955 were abandoned. It is a notorious fact that according to life insurance statistics only one policy in ten ever reaches maturity.

It is only a matter of time until life insurance companies will face a major crisis. It is inevitable that these companies, in order to pay their overhead, high commissions and salaries etc., and an attractive bonus to their agents, can invest the savings of the people in securities that are only temporarily safe. Their main problem is to find an outlet at a satisfactory interest yield for new funds and for amounts falling due for reinvestment. They can offer no real long time security, and they are one of the main factors in the economic depression.

The size of this insurance factor is suggested by recalling that twenty of the largest insurance companies of the United States sold three billion dollars worth of insurance policies in 1913, six billion in 1922, and twelve billion yearly from 1922 to 1929.

With the return of normalcy, we may expect insurance salemen to renew their campaigns. Indeed, they are not idle during depression periods. They like to demonstrate the strength of their companies to prospective savers by showing

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their liquidity, the number of loans they have made to policy holders, and how much they have saved the latter by granting them loans so that they could still pay their premiums and retain their contracts with the companies. They will quote statistics showing how one large insurance company, ordinarily carrying a cash reserve of $9,000,000, carried in 1932, the worst period of the depression, $27,000,000 in reserve in order to maintain a liquid condition.

But what these salesmen will not tell their prospective buyers is that in this way their companies greatly intensified the depression. The piling up of reserves in cash signifies the piling up of commodities on shelves, increasing an already burdensome surplus and making it harder to reach that absorption point which would permit renewed production and a return to normalcy. They do not explain that insurance companies in order to remain "liquid" refused to refinance loans at a lower rate to farmers and other debtors, which would have helped to stop bankruptcies and get rid of the huge excess of commodities, by selling at lower prices. And they do not show how their own interests came first, rather than the interests of society.

Several conclusions can now be drawn:

FIRST: Interest on long term savings is profitable and aids progress only when it is reinvested in sound new developments, whose production of capital goods will answer the needs of the individual when he will demand his interest on savings in consumption goods.

SECOND: Interest on long term savings, under the present system, is uncontrolled, often greatly exceeding the amount actually needed for new developments. This excess production of goods for interest is accompanied by the accumulation of great surpluses of commodities, causing a depression that lasts until they have been consumed or destroyed by strikes, violence, wars or revolution.

FINALLY: The investment groups—life insurance companies, building and loan associations, banks, etc.—acting as the medium through which interest seeks profitable channels, cannot be trusted to act in an orderly, cooperative manner in the interests of all society when there is a critical need for such

functioning. In fact, we see that they usually plunge us deeper into trouble, either through poor investments in speculations that totter under economic stress, or through the piling up of surplus interest dollars, so that they can keep their "liquidity" and their large policy holders. But they refuse to lower their premium and interest rates to debtors and small policy holders.

PLANNED ECONOMY MEANS PLANNED POVERTY

In a time of great distress people eagerly seize upon any plan that is proposed to help them. It may be radical or insidiously reactionary; but economists and statesmen, with frenzied eyes upon the situation and with much show of being scientific, keep producing schemes whose myopic wanderings are not at once apparent. One of the mass illusions now taking hold of the common mind is that of planned economy. It is thought and stated by statesmen and economists who should know better that with a so-called planned economy, society will have the security and freedom for which it hungers.

Only a static society can be planned; and this sort of society would probably not need a plan. Economic forces are dynamic. No body of bureaucrats, no legislators, have the wisdom or can see far enough ahead to plan successfully the dynamic economic activities of society. All these schemes of planned economy, whether fascism, communism, or "new deals," go at the problem from the wrong end. They concern themselves with the direct regulating of production of goods and services and with the regimenting of the worker. Their adherents are obsessed with the idea of a master state. For some reason, although it is apparent that the wisdom of the individual units that make up society is sharply limited, the collective wisdom expressed in the state is expected to be omniscient. The facts of experience are that it is the minority that is usually right, whereas the majority is usually wrong in all matters pertaining to economics and government. It is the business of the majority to dictate the policy that should be pursued by any government, and the business of the small and intelligent minority at the head of the state to see that this policy is carried out. A planned economy, as we know it, is planned poverty.

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Because prices seem to be too low, and low prices accompany a so-called surplus of goods, it seems to the planners that the cure is to destroy goods, limit the production of wealth, plow under cotton, butcher millions of hogs, in order to raise the prices. Such a program means nothing more nor less than state slavery. Consider Russia, where present conditions are the result of a planned and government-plotted arbitrary economy. Russia's government controls the economic life of 160 million people. They are supposedly busy building and constructing. This may be true, but they are aiming for the future, attempting to imitate the capitalistic economy of the United States, which they profess to abhor. And even now, with millions in rags, barefoot and hungry, they plan to construct the tallest buildings in the world, the largest factories, and the biggest power plants. Under an individualistic system they could preserve the initiative of the people and still produce what they so direly need, immediate consumption goods, and gradually build up their capital structure. A five year plan is a delusion while millions are starving. They suffer from the delusion of the omnipotent state.

A fascistic dictatorship, however much it may ameliorate certain conditions in emergencies, which for the sake of argument we may grant did take place in Italy, is also an expression of the same delusion; the delusion of the omnipotent state. There is no fundamental conflict between communism and fascism at that particular point. They are both intent on bringing into being the regimented work state. Their instincts are those of the ant. They are both destined to failure. The dictators of Europe are now intent upon foreign adventures in order to keep their subjects' minds off the increasing economic difficulties and poverty at home.

The only way that free values can be established is in a free market. When an industrialist hires labor and pays wages, he is bartering commodity values. To offer commodities in exchange for the new commodities which are to be produced is justifiable. The factory owner is ready to speculate on his judgment of market desire and on the extent the public will be willing to barter with him for a commodity which will be more desirable to it than the ones it has. He will be compen-

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sated under the profit system, which is different from the wage system in that the latter is fixed income while the former is speculative. Profit is a speculative wage, and it is essential to progress. The desire for future gain and personal security will eventually prove stronger than any dictator, whether cast in the mould of a Stalin, Hitler, or Mussolini.

The only way that free values can be established in a free market is by the profit system. Any other way is slavery. Communism and fascism offer no free labor market, since work is dictated and prices are dictated. There is no bargaining; workers cannot strike against the government. They must take what they get for their labor services—the planned economy paradise.

Just at present in the United States the worker who is correct in his instinct is striking against the low wage provided by the government in its work program. His job may be secure, but what of his demoralized initiative? If he cannot bargain for compensation, why should he apply more skill or industry than the minimum? Without free play for initiative or bargaining power, progress must be retarded. Under these conditions the worker will have to be satisfied with three meals a day and a cot on which to sleep. Poverty among the masses, whether of the spirit or of goods, is the scourge of progress. At the same time unregulated interest and premiums are the scourge of poverty.

PARABLE OF THE FEEBLE-MINDED

It is reminiscent of a visit I once made to a state institution at Morris Plains, New Jersey. Here was an institution for the feeble-minded, with about 4,000 inmates. It might well represent a small city, operated by a managing personnel under a planned economy. There are managed bakeries, dairies, restaurants, laundries, tailor shops and farms—all collective, of course. There are no strikes; everything runs smoothly and in order. No one worries about the next day's three meals.

It all looks heavenly until one stops to consider that of all these people 5% normals constitute the managing personnel; the other 95% are inmates. Granted that people are suffering.

can they willingly seek this kind of relief? Depressed as we are, do we want to give up our freedom to become slaves or inmates for three meals a day and a camp cot to sleep on? Amazingly, there are apparently many who are willing to do just that.

Another of the current delusions is that the raising of wages will raise the general standard of living. But all costs of wages and additional service must be recovered, since the increased costs in the higher wages are taken back again from the worker in increased prices. In other words, this apparent increased trading power will last only until the accumulated stock of goods produced under the old scale of wages has been consumed. When the new goods under the new costs have reached the market, the price will advance, and the benefit of increased wages is lost. Society's living standards can only be raised by labor saving machinery, increased skill, mass production, mass consumption; by free mass trading among all nations and peoples, and by an intelligent money system under which excess interest and premiums may be controlled.

Planned economy can only be accomplished through individual planning. If the individual plans to render his best service so that he may get the best service from others, the result will be a higher standard of living for both parties to the barter. Such a result cannot come about through decrees, codes, or government planning. Civilization and living standards advance through individual enterprise. Some measure of progress of course can be achieved even under socialism or communism; but with hardship, slavery, and at a much slower pace. There are two ways of getting things done—either by the use of machine guns or by a system that offers the individual free man an incentive to do his best.

SOME NEW ILLUSIONS

Many of our younger professors and students have a pet phrase they often use: "What we need is a better distribution of wealth." Nature rarely distributes anything equally. She has not endowed her children with an equal degree of intelli-

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gence, energy, sagacity, the ability to produce, or the ability to save wisely.

Mountains of wealth do not accumulate merely because of unequal distribution, but chiefly because of unwise saving. Accumulation of excess long term savings paralyzes spending, consumption, and therefore production and distribution. More spending creates more production, more work, more profit, wages and dividends. But merely seek to divide present wealth, and we will have none!

The mountains of California, for instance, are beautiful. Divide or equalize them or distribute them and they will di-appear, and with them much that we call beautiful.

For seventeen years Russia has been trying to distribute its economic mountains. Go there and see paradise for yourself. A people will not give its best without compensation according to ability. The individual wants his own little mountain, and he can't be changed into saying "ours" for "mine."

Central control of interest and premiums will help all the mountains, large and small, to grow steadily, and the beauty of living will grow with them. America has the opportunity as a creditor nation to lead the world in progressive ideas and open the door for the free exchange of honest barter, value for value, without the millstone of a metal "money base," a tradition from feudalism.

The human mind must have the stimulus of competition, but it must be the right kind. Competition is desirable when it comes from traders competing, bidding, bargaining, chiseling for goods, causing natural price rises and increased production. But competitive selling to capture a lagging demand comes about through an over-supply of fixed interest and fixed premiums on long term savings. It results in falling prices, and is emphatically undesirable. It means depression!

Under government control of life insurance and regulation of interest and premium rates to borrowers and policy holders, the undesirable competition can be avoided. Prosperity is achieved by stimulating consumption. When consumption reaches the point where it exceeds production the price level rises in adjustment with supply and demand, and a higher standard of living for all is the natural result.

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THE DESPISED MIDDLEMAN

The followers of Marx have long maintained that the wrench in our economic machinery is the middleman. They despise him as a superfluous factor in our economic order. But if we were to do away with the middleman, we would ruin our economic machinery. The explanation of this statement lies in the fact that, in this era of automatic production and mass distribution, there is no commodity or service that one man can call his own creation.

In our system we have only part service. Each man performs only a portion of the production and marketing processes. Our system is far more complicated than the previous system, which produced only enough for home consumption with a bare surplus to exchange for tax revenue. Nowadays, the book-keeper, the school teacher, the farmer, the laborer, the electrician, the policeman, and countless other members of our society perform their specialized services, and must be considered as important parts of the economic whole.

The entrance to the serene realms of Utopia, the land of perfection, lies hidden in the shadows of illusion. Could these illusions [illegible] our economic problems would be over. May [illegible]ns the "Three Little Piggies," for they go h[illegible]hey have brought the big bad wolf of Depr[illegible] These "Three Little Piggies" are the Exce[illegible] The Metal Money Illusion, and the [illegible]ney Illusion is the middle piggie, [illegible]termination of the other two [illegible] middle piggie, instead of on

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Chapter Eight

THE SOLUTION

We are constantly being told by optimistic advisers that modern science must be looked to for a solution of our economic and social problems. We were told that the machine and applied science would make us free. Unfortunately, with each technological and scientific development in the fields of production, our economic and social situation became worse, until it has now reached the breaking point. Technological development offers no solution to our problem. Only through the application of the scientific method and scientific thinking to social security and the economic problems will they be solved.

Reason applied to the economic problem would recognize the basic instincts of mankind and would adapt an economic system to these, rather than attempt to formulate an economic system over-riding them. To attempt an adjustment of the economic mechanism without a recognition of the instinct for security and liberty strongly engrained in each individual is doomed to failure.

Despite dictators, fascistic and communistic, and their contempt for liberty and individualism and their imposed economic systems, these instincts will wreck dictatorships in the end. Even to the degree that they work, they bring about conditions no better, if not worse, than those they set up to cure.

Capitalistic individual saving institutions are failing because they provide no rational method of gaining social security, which is the very essence of the need for organized society. The bee has no security outside the swarm. Animals keep together in packs and herds for security's sake. The beginnings of organized society date to the need of security for the individual from the enemy outside. But today the enemy is within. Organized society has become an institution chiefly for the making of laws and the protection of privilege, and has failed to afford the individual the security which his deepest instincts demand, and the supplying of which is the basic reason for the existence of society.

The fruitless attempts of the individual to provide economic security through savings and through all forms of private in-

surance have failed. Consumable goods cannot be preserved for an indefinite future. It is impossible for a man in his producing years to warehouse food and clothing for consumption in his old age or in periods of disability.

THE SOCIAL DILEMMA

Here is the social dilemma. The individual, fearing a penniless old age or disability, and urged on by the instinct of thrift, holds back from consumption a part of his income. No one can blame the individual—indeed he is acting in his own best interest as an individual. But when *all* individuals, or a great number of them—society as a whole—indulge in thrift, it brings about an economic collapse, and destroys all possibility of individual security. The entire system is brought down in wreckage.

Everyone with a life insurance policy or a savings account, no matter how small, is a contributor to depressions. Underconsumption, due to saving, is reflected in so-called overproduction, followed by falling prices, unemployment, loss of profits, and low wages. It is the people themselves in their desire for security who create savings banks, money lenders, and insurance companies. Savings banks and insurance companies only attempt to give the savers the security they want. Furthermore when the supply of savings becomes excessive, exceeding the market demand for funds to finance legitimate capital production, speculative investments appear, with disastrous results.

The people have not yet discovered that this forced saving brings disaster rather than security; that it is their own oversupply of savings that gives rise to speculative developments, bringing on economic crises, the so-called "business cycle."

The impossibility of this in modern society has driven the individual to the saving of money, i.e., credit and debt, falsely believing that credit money saved today in the form of long time securities would be available for him in the distant future.

The record of the last few years shows the impossibility of this. Its fallacy is to be found first in the money system itself. Money in essence is not a commodity, is not wealth,

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but merely a system of credit and debt book-keeping. The millions who lost their savings in the failure of banks and the slumping of securities are the victims of the delusion that the saving of credit money can provide future security. Security by this method is impossible of achievement.

Credit money saved by being invested in bonds and mortgages is not secure. The tastes of the public change, and new inventions and improvements make equipment and productive organizations obsolete from day to day. The saved credit money invested in these securities is no more permanent than changing tastes and fashions and productive methods. The economic system is not static, but dynamic.

SHORT AND LONG TERM SAVINGS

One must make a distinction between short and long term savings. Short term savings for immediate consumption and trading purposes do not figure importantly in the problem of savings. It is on long term savings through bonds and mortgages and large policies that our problem of economic instability hinges. The individual anticipating future needs twenty, thirty, or forty years in advance, saves a portion of his earnings by denying himself the right of immediate consumption of his production. It would be impracticable to trade (that is, barter) all he has produced, and save the actual goods and services against the time when he will need them. So by saving credit money, which has been entitled "a license to consume," he fortifies himself for a time of want when he can no longer produce, and he plans to exchange this credit medium later for the margin of food, shelter and clothing, and other services he denies himself in the present. Such is long term credit saving (future security).

NATIONAL COMPULSORY INSURANCE

Just as we have seen it to be practically impossible for the nations of the world to abolish tariffs while attempting to operate gold standard currencies, likewise in establishing the 100% commodity credit dollar and the control of interest on

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same, the government must first merge all insurance companies in all branches of risk for all its citizens. This plan calls for the regulation of premium rates by the government; and since savings are largely in the form of life, fire, and accident insurance policies for protective purposes, simple justice requires that the state only should supply this insurance.

Further justification of complete government insurance for all is to be found in the fact that life insurance and indeed all insurance, as at present conducted, is a hollow mockery for society in general. Insurance institutions are a chief factor in bringing about the depressions which make it inevitable that hundreds of thousands of policy holders must forfeit their policies, thus losing both savings *and* insurance.

On broader philosophical grounds, it is the duty of the government to provide insured security in all fields of risk for all citizens. The state was instituted to provide security of life, limb and property from enemies both without and within. Foreign invasion and anarchy are not the greatest threats today, but mass economic insecurity, unknown in the beginnings of government, which hangs like a sword over the heads of vast numbers. This enemy it is the duty and should be the task of the state to repel.

Only society as a whole, working through one national cooperative insurance institution governed by law, can promise long time security for credit money saved. The promise of a government is as lasting and as sound as the government itself, through its power of taxation by legislation.

In this lies the salvation of the individual with a surplus of income that may be saved. But in 1929 the average per capita income of all salaried employees at work was only $1475. 44% of all those employed, with the exception of farmers, had annual earnings of less than $1,000. 70% had earnings of less than $1500. Comment is unnecessary. The impossibility of saving money for old age out of such incomes even if the money was safe under the present system of security investment, is obvious. If they were able to save more, the depressions that these savings would bring about would be even greater and more frequent.

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Nevertheless if the capitalistic system, the chief characteristic of which is saving, is to survive—and no better system for the production and exchange of wealth has yet been devised—security against unemployment, old age, disability, economic and social hazards of all sorts must be provided; and it must be provided by the very nature of the problem by organized society working through one central cooperative insurance institution.

We have two dynamic forces in our economic system which work against each other.

First: Society endeavoring to increase wealth for use.

Second: International bankers demanding the increase of their fetish, useless gold.

The law, a tradition from feudalism, is in favor of the international bankers. The Constitution reads, "Congress shall have the right to coin money and regulate the value thereof, and of foreign coin." This should be changed to, "Congress shall have the right to authorize the Central Bank to issue credit money (two to one security) as legal tender, and regulate the interest (tax) thereon.

"Congress shall have the right to authorize the Central Bank to force every citizen of all ages to be insured and carry insurance policies on all risks and regulate the premium thereon."

For the government to supply police power and military security is not enough. If real social security were provided, police and military needs moreover would diminish. Fear of the future, deep in the racial psychology since its origins with primitive man, must be dispelled. Fear creates savings; savings create credit; credit creates debt; and debt creates interest (usury).

Faint glimmerings of the situation are becoming evident to those in power. The need for old age and disability pensions is undoubtedly the biggest issue before the country today. Scarcely a Congress in a decade but what has introduced a bill to provide old age pensions for Federal employees. There are military retirement pensions; teachers, trade unions and fraternal organizations have their retirement funds (debts). The railroads and other industrial organizations take care of the needs of certain classes of their aged employees.

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Furthermore, there is a precedent for government life insurance. The savings bank system of insurance was instituted by the State of Massachusetts in 1907. It provides straight life, endowment, annuities, and combinations of these forms. The administrative expense is borne largely by the State, no dividends are paid to stockholders, the policy holders share in the annual profits, the costs of solicitation and selling are nil. This savings bank insurance plan in Massachusetts has proven a comparative success so far. The State of Wisconsin has also instituted an advanced and more or less adequate old age pension plan. These various State institutions and the security legislation of the present Administration are the shadows cast by coming events.

The fact is that the field of insurance has not yet been scratched. There should be compulsory life, health, old age, fire, and accident insurance. Insurance benefits should be provided for widows and mothers with minor children. Insurance in these various fields should be provided and controlled absolutely by the Federal Central Bank, if for no other reason than that it is only the state that can actually guarantee insurance. Were it not for the pumping directly and indirectly of government credit into the present life insurance structure, it would have come down with a crash like the banks.

It is inevitable that some great national insurance organization must take over the functions of the present competitive insurance companies—life, health, disability, property, etc. The present Administration is realistic in that it faces the necessity of social security and is not sticking its head in the sand. None the less the term "insurance" is a misnomer. The present private competitive insurance companies make no attempt to insure social security. They cannot; it is impossible. The hundred billion dollars in debts created through life insurance in this country destroys these false institutions themselves, and protects the policy holders only when the government comes to their rescue in times of stress; which panics in turn are largely created by these very companies, their false promises, and their reserves in debts.

"Insurance" as we know it would not be involved in this security legislation, for underlying the present ideas of

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insurance is the conception of new debts and reserves against a specified contingency. It has been pointed out that any company which was rash enough to undertake to insure the American workingman and his family against want in the event of unemployment would necessarily have to set up reserves in new debts against the risk—i.e., would need more bonds, which are debts (and more interest charges, which have already wrecked our economy on account of these excess bonds and reserves and liquidity). For a government to set up such vast reserves as would be needed would be ridiculous. No such sum could ever find legitimate investment in new development, and there is no reason why such reserves should be established when the present reserves are idle, which has caused falling prices and depression and the loss of most savings. More reserves would mean even more surpluses left unconsumed, more unemployment, more depression, and more bankruptcies.

"Private insurance companies," it has been pointed out by a writer in the magazine FORTUNE, "must establish reserves because private insurance companies are mortal. But governments are not mortal, or rather governments in their mortality carry everything else down with them, so that it serves no useful purpose to set up funds in debts to survive them," as happened in Germany and Russia.

Federal compulsory insurance against old age, want, disability, loss of property, etc., must be made to function by the government through a central savings and credit institution governed by law. Every citizen should be compelled by law to save part of his income as disability insurance of all sorts (and property insurance if he possesses property), the size of the policy and the rate of insurance to vary according to the size of his income. All policies now existing would have to be rewritten in order to conform to this plan.

All these forms of insurance should be handled through one central banking institution, and it would be the duty of this central banking institution to see that every citizen, old, young, sick or disabled, was insured. Individuals carrying large amounts of insurance because of larger incomes would pay the highest premium rate. Individuals possessing smaller incomes would pay the lowest rates. And whenever rates of

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insurance were adjusted from time to time to take care of the changing demand to meet risks on disabilities, epidemics, catastrophes—in short, all losses due to natural causes designated usually as "Acts of God"— the rates would be raised progressively higher on the larger policies, beginning at the top. That is, the wealthy man desiring a high degree of security, voluntarily taking out more than the legally required amount for one of his income, would pay a higher rate for it.

This again would be done on the principle that the rich man, wishing to leave millions in the form of insurance policies to his heirs, should pay more for this privilege than the poor man leaving a small and scarcely adequate substitute in his place as a breadwinner.

AN ILLUSTRATION

Suppose Henry Ford decides to sell his factory for one billion dollars. The bonds he will receive will be amortization bonds, no coupons and no interest, and will be deposited in trust with the Central Bank. Ford or his beneficiaries may draw on them at need for spending, but will have to pay disability premiums as if this sum were income from work, profit or salary.

If Ford or his beneficiaries should decide to go in business again, they can apply to the Central Bank for a loan on these bonds. The bank appraiser will appraise the property and machinery. If the reproduction of the factories and machinery (without land value) would prove to have a market value of only 200 million, then a loan of 100 million only would be granted, with, of course, amortization. Good will should never be figured in the appraisal. The new Ford syndicate may issue stock, but common voting stock only, no preferred.

Should any bonded appraiser knowingly or by error cause any loss to the Central Bank or pawnshops, the county or city involved will be responsible, and the premium on all policies will be increased for that city or county until the loss has been made good. Each State will be separately responsible for each individual appraiser's ability, so that there will never be any loss to the Central Bank or its pawnshops.

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This great national insurance institution might be considered as possessed of a revolving fund into which the individual would pay throughout his producing days, and from which he or his dependents would draw out in times of old age or disability. The interest and saving premiums being paid in today would be paid out tomorrow in benefits; a continuous flow, it will be spent and used as fast as it accumulates.

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Chapter Nine

REFORMS IN THE MONEY AND CREDIT SYSTEM

The 100% Commodity-Credit Dollar

In addition to social security insurance and as a necessary part of it, a rational money system free from the delusions of a metal base must be installed. Begin where you like, all social and economic problems in the last analysis come up against the money system. The present money system is the greatest racket, illusion, and fraud of all time.

What changes must be made in the present money and credit system that will provide society with a rational mechanism of exchange without at the same time despoiling those who are possessed of honestly acquired wealth, and that can be put into effect with the least economic and social disturbance?

First let it be said that usury, condemned by all religions and the wrecker of civilizations, must be abolished, and the institution of interest must be regulated.

We now have 23,000 tons of gold bullion and millions of tons of silver buried in vaults for the purpose of extracting interest. This is sanctioned by law for the benefit of a small group of international bankers and credit money changers. We need a paper credit currency by a Central Bank of the people, by the people and for the people, and not for a small group of bankers, if we are to give security to all the people; the security they so eagerly desire.

Every Central Bank dollar issued and in circulation will have security two to one in actual free competitive market value of all useful commodities that people desire, and are willing to work for. It would not be based on gold, for it is not true, as James P. Warburg in his new book on money, "The Money Muddle," wants to believe and to make others believe, that gold has some mystic, magnetic force.

Mr. Warburg should only stop to think for one moment. If interest on gold were taken away from it and copper took the place of gold by law, would Mr. Warburg keep the gold hoarded in vaults? Or would he rush to get rid of it by trading

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it off for copper, and put the copper in the vaults? Do not the gold hoarders of the gold block nations demand interest on 23,000 tons of useless gold—6%, 7%, 8% yearly in more useless gold—thereby bankrupting the industries and commerce of the world markets, debtor and creditor alike? Every war of the past was nothing but a war for markets to satisfy the metal hoarders; the Warburgs, the Kahns, Morgans and Vanderlips, the international bankers.

They need not be blamed personally; their consciences may be clear. They simply follow a traditional fallacy. Many professors of economics also blindly follow the bankers' stupidity and continue to teach a false economic belief—the necessity of a metal base for credit currency.

A RATIONAL MONEY SYSTEM

The first step to establish a rational credit money system would be the setting up of a Central Federal Credit Bank and its branches. This Central Bank, in one department of which would be the disbursement of insurance payments and the collection of premiums in the compulsory insurance of all sorts carried by the citizens, would have as its other chief function the sole issue of credit money. And the issue of this money would not be based on a fictitious value of gold and silver, but on the security of commodities of every sort and description, with the exception of unimproved land and such securities as common stocks and rapidly deteriorating goods, as for example certain food stuffs.

The credit notes of the Central Bank and its branches would be very similar to the Federal Reserve credit notes of today, which are backed by 40% gold bullion and 60% securities representing all sorts of commodities; with this one important exception, that these credit notes would have no gold backing except where gold might be pledged for loan like any other commodity.

This Central Federal Savings and Credit Bank, with branches in all cities similar to the present banking system, would issue credit notes which would be not only full legal

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tender, but the only legal tender. It would never issue these credit notes for more than half the price value of the commodities pledged at the time of loan, the exchange value of the commodities pledged to be those indicated in free and unrestricted stock and commodity exchange markets.

What would as a matter of fact be the status between the Central Bank, the lender, and the citizen, the borrower? Neither is the bank a lender nor the citizen a borrower. It simply means that the owner of the credit certificate (called money) has left with the U. S. Central Bank twice as much value as security, and the holder has U. S. legal tender to that much value in U. S. markets of commodity exchanges to supply and demand.

These loans of credit certificates would have amortization clauses attached, which would enable the Central Bank to recall part of the loans in relation to the fall of commodity prices, in a similar fashion to a stock broker demanding a larger margin from a customer on a falling market.

Wherever possible the commodities pledged would be under lock and key or under seal in official warehouses, and the key delivered to the Central Bank. It will hold a first lien on all unmovable property.

Here we have a currency backed by real wealth. As more needed goods were produced more credit currency would be issued by loans against them, if the owners of the goods desired this circulating medium for further production or consumption. As goods were consumed or depreciated, the amount of money in existence would decrease.

Under the plan I propose what would the Treasury of the United States consist of? Storage houses of *real wealth,* real value, pledged for the circulating credit (a medium of exchange). It would consist of useful commodities, including gold and silver at free market values like all other storage commodities, all individually controlled by the law of supply and demand.

There could be no danger of inflation under this plan, since all commodities are not exchanged for gold first. Each single commodity is controlled separately by its own supply and demand.

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GOVERNMENT PAWNSHOPS

In addition to and as a supplement to the Central Bank and its branches, there should be established in every community small loan agencies or government pawnshops, in which personal property of a value, say, not to exceed $500 could be pledged when the owners desired a medium of credit exchange, as a fluctuating rate of interest as with the Central Bank. No loan greater than half the appraised value of the article would be issued. The purpose would be to make a medium of exchange always available to the owners of real wealth, and to provide a safeguard against loss to the government lending institutions by amortization. It would also collect the premiums on all insurance policies and interest on loans, for the national budget, which would do away with all other taxes.

After all, what is a bank but a pawnshop, which takes paper securities representing frozen assets in large blocks, and then liquidates them in small denominations of paper credit currency for the purposes of trade barter? And what are the present pawnshops (which must nevertheless fill an economic need, otherwise they would not exist) but usurious leeches upon the public?

INTEREST AND PREMIUMS

Interest would be charged by the Central Savings Bank and the government pawnshops upon all loans, and the interest collected would take the place of all present taxes. What is interest in essence, in any case, but a tax upon production and consumption?

These interest and premium rates would be regulated to provide the bulk of the credit monies needed for the government budget, from which first the social security insurance would be paid, and secondly, all public works and government activities financed. The disabled should have first lien for needed goods and services—it is ridiculous to provide schools for children too hungry to study. Public works would include the establishment and upkeep of schools and hospitals and such other undertakings as were decided upon by the majority vote of the electors.

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When tremendous public undertakings were decided and voted upon, the interest rates to borrowers would be raised during the time of construction, and not from borrowing through bond issues. It would be a system of pay as you go.

Any yearly increase of losses on account of accidents, sickness, earthquakes, floods, etc, would compel the Central Banks and pawnshops to increase the interest rates to borrowers on old and new loans and also increase the premiums from top down, heavier on top and lower on bottom. A decrease in accidents would decrease the interest rate to old and new borrowers. Any increase of benefits to all the disabled will increase consumption, which will create more work for the able bodied producers; any decrease of interest rates to borrowers increases the trading power for all consumers. Interest and premiums, after all, are nothing but a tax on production and consumption.

Suppose, for example, that a flood or earthquake in California should do damage to the tune of 500 million. The Central Bank would then be ordered by Congress to increase the interest for the next six months or following year. The nation's budget would simply be increased to that amount. The less fires, the less floods or earthquakes, the fewer sick and disabled, and the smaller will be the interest rate, the smaller will be the premiums from the bottom up, and the higher will be the standard of living for the whole nation.

Through this rationally controlled money system the entire economic life of the nation would be kept in balance. The regulation of the interest rates and premiums by the Central Bank, as the sole source of money, would provide the most just and equitable means of acquiring the funds needed for social security purposes and public works approved by the people through their vote. Interest charges are the most basic of all taxes, and provide the most easily manageable mechanism for balancing consumption with production, making long time reserves unnecessary and impossible, and abolishing for all time that most iniquitous of institutions, usury.

The Central Federal Savings and Credit Bank would take over all gold from the Federal Reserve, since it is public property and has already been paid for with government barter

certificates called money. This gold would be sold in the open market like all other commodities. Mining for gold and silver would also be subject to the law of supply and demand as is the case with every other commodity.

Individuals unable or unwilling to spend all their income could save what they wished of it, just as at present, and if they pleased could deposit it with the Central Bank. But the Central Bank would pay no interest on these voluntary savings. The depositor could withdraw it as he saw fit. Naturally his inclination would be to let it remain on credit until such time as disability, old age, or financial difficulties gave rise to need for it.

Then, in addition to withdrawing his voluntary savings, he would also draw, in the case of old age or disability, the benefit payments provided in the insurance policies on which he has been paying premiums. (Disability would have to be proved by competent physicians employed by the government). Thus under this system every citizen would have two forms of future security open to him—(1)compulsory disability, accident, fire, etc., insurance, and (2) voluntary savings (Central Savings Bank certificates).

Premiums paid on insurance, and interest charges collected from borrowers, would be used to retire the present public debt, and no other taxes would be necessary. All floating American mortgages and bonds would be exchanged for Central Savings Bank certificates, on which of course no interest would be paid. These savings certificates could be left in trust with the Central Bank to be drawn upon by their owners as needed. Credit money would be used under this plan for consumption and trading purposes only. It could not breed special interest payable to individuals, as previously to gold or silver hoarders.

With a cut in the rate of interest to all old and new borrowers and the lowering of insurance premium rates on all forms of insurance from the bottom up, and immediate paying of disability benefits to all the nation's disabled ones, the renewal of consumer demand after the absorption of "surplus" commodities by the disabled would at once relieve the debtors. Many defaulted debtors would get on their feet again, and

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rented buildings and producing factories would again yield income to pay new premiums.

This plan would end at once the bank bond racket, and would return to the people full control of the monetary system. By the exercise of this control—lower interest rates to all borrowers from the Central Bank and government pawnshops, and lower insurance rates—the undue accumulation of goods and services by long term savings would end, and real and immediate security in the form of all kinds of benefits could be provided to the citizens of these United States when disabled or suffering loss of property.

PRIVATE COMMERCIAL BANKS

Private commercial banks, which would be distinct from the Central Bank, would make ordinary commercial short term loans from commercial deposits, second lien loans on public holdings of frozen assets, common stocks, land, or anything else, They should pay no interest on deposits, since they are short term savings, and since they must not be allowed to compete for savings with the Central Bank. But these commercial banks should have the privilege of charging a service fee on checking accounts and interest on loans, according to their speculative judgment and what the borrowers would be willing to pay, no loans to be for more than one year. If commercial banks are willing thus to speculate they should not only be allowed but even encouraged to do so by the Central Bank, which should have the power to make loans to these commercial banks with only a 25% margin of safety, say, instead of 50% as with the public. But the depositors in these commercial banks would necessarily have to be insured against loss to 25% only. Directors of these banks would have to be liable for any excess losses.

The purpose behind this idea is to assure that at all times there shall be no fiat credit money in the hands of the public to carry on barter of surplus values, which results in the creation of wealth; but that money shall be created only when and as the citizens demand it *and are willing to pledge securities and property with the Central Bank to twice the*

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value of the money issued. Since the interest collected would not be looked upon as profit by the government and would be for the purpose of paying annuities to all disabled citizens, children, the aged, and all insured risks, the result would be that long term savings (goods in storage) would accumulate only as needed for the near future. Consumption and production would never be thrown out of balance by over-saving. All savings are spent immediately on the disabled and legislatively approved public works.

This plan would return the private banks to their true status, and remove from them supreme control of credit money based on gold. Why should this credit note currency privilege be tied to a metal, the demand for which is artificially created by government fiat in making this metal lawful money for payment of taxes, debts, and interest? Only the international bankers and insurance brokers, who are the exploiters of long term savings, benefit.

These bankers and brokers now selfishly demand that the government shall not loan long term credit to industries, home buildings, etc., at low interest rates in competition with them and their interest rates of 5%, 6%, and 7%, plus overhead. The continuation of such a system, in which the government is only permitted to borrow the savings to invest in public construction, will create more public debts, taxes, and liabilities. This present system creates business cycles decade after decade, bankruptcies, strikes, discontent, confusion, socialism, communism, and revolution. Under the present system repudiation of debts stares us in the face and is unavoidable.

Borrowers from the government will be those who possess unconsumed or partially manufactured goods. More borrowers mean more producers for consumption in the near future, more money in circulation, more benefits for distribution to the disabled, sick, aged, and children. As goods are produced through savings funds, these in turn can be used as security for new borrowing up to 50% of their free market value.

Again, more hoarding (saving) in government storage for future gain will make the open market short—i.e., higher priced. The result will be competitive production of those goods, or importation of them to the free market; and values will decrease.

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Commodities in storage left as security will fall equally with market values; the Central Bank and pawnshops will call in the difference in value, and speculators will withdraw all or part of the goods from government storage by paying off the loans to the Central Bank, bringing more and cheaper goods to all consumers. A higher standard of living will result. The government should not interfere with speculators' productivity, because this is a godsend, creating more real wealth for all humanity.

THE WAY TO A NORMAL ECONOMY

In short, under this plan of a U. S. Central Bank: (1) Every dollar issued is a safe dollar, an honest dollar, secured by two dollars in value in commodities; hence, real money representing real values, and (2) Under this plan the government would control all interest rates charged to borrowers, all benefits paid to the disabled, and insurance premiums on all risks. Through this graduated rate of interest and premiums a perfect check and balance would be maintained over production and consumption. This control of the economic machine would also abolish most usury. Finally, interest accruing to the Central Bank in its role as the chief source of loan credit would be used for a normal balanced budget.

The cure for our economic illness is this control of interest rates on long term savings. The Central Bank is the mechanism which, having the sole power to issue credit currency and to control its volume through amortization, effects this cure. When such machinery is set up, production must balance the demand for consumption needs, and depression cycles will end.

This Central Bank of the Federal government would stop the piling up of an unconsumed surplus of goods through these simple means: (1) By a reduction of interest rates to borrowers of old and new long term loans. (2)By a reduction on insurance policies, with of course the greatest reduction on the smallest policies. (3) By an increased rate of benefits to the disabled, old, young, and sick. The increase of benefits to these classes would tend to bring about more consumption and more production. All these measures would stimulate trading and would drive long term savings into immediate consumption.

The present heavy interest load on homes, farms and enterprises financed by the existing 400 life insurance companies and building and loan associations, and demanded by these lenders in order to maintain their liquidity, would no longer be possible where Central Bank control of interest rates and insurance premiums was in effect. Instead, the surplus funds originating in interest charges would be forced constantly into consumption fields as they accumulated, and the steady interchange would keep the wheels of industry turning and progressively raise the standard of living.

This financial mechanism can be compared to the governing valve of a steam engine, which permits more steam to enter the cylinders when the load on the engine increases, and cuts down the supply from a racing engine under a suddenly lightened load. Thousands of leeches living and fattening on extortionate interest would have to find themselves more legitimate and useful work to do.

A higher standard of living for all society, and a nobler civilization, would result. Despite the progress of technological development and the subsequent unemployment, there is no proof that unemployment would necessarily be a problem in a free economic society operating under a rational money and insurance system.

LABOR AND EMPLOYMENT

During the World War the demand for labor increased, and higher wages, through government credit funds, were paid and the general standard of living was improved even in those nations not under arms. The need for vast quantities of goods to supply the combatants called into use all available labor and all savings.

When one considers the low standard of living in great parts of the world, it would seem more than probable that if these low standard nations were given the opportunity to barter and exchange with the more highly developed countries through a rational money system, all available labor could still be used. Goods could be consumed and used in as vast quantities in peace as they were wasted in war, if a free trading barter market permitted their production and exchange. There will

never be lack of employment while human needs and wants remain unsatisfied, and the unemployed able individual with needs and wants is given an adequate opportunity either alone or through association with his fellows to supply these wants for trading purposes. The increase of benefits to the disabled, old, sick, and children will thus create that much more work for the able bodied worker.

The fields of employment may shift. More and more labor will shift from the production of goods and services to the production of new goods and new services. But if a commodity credit means were always available to inaugurate any desired undertaking, the unemployed would employ themselves. Were the gold illusion dispelled and the money monopoly abolished, any economic activity that was physically possible would then be financially possible; as it actually is. With a commodity dollar issued by a Central Bank to anyone possessing any commodity of value to pledge, the necessary capital would always be available to inaugurate any new undertaking. Borrowed credit would always be there to start some form of production to fill the desirable wants of all mankind. Those with initiative would employ themselves, and employ their neighbors. The unemployed, as all other citizens, should of course receive insurance payments if incapacitated by illness, disability, or old age.

It might be thought that unemployment insurance should be the first and largest form of insurance to be undertaken by the government, in light of the present appalling amount of unemployment. But a little reflection will disclose the fact that unemployment insurance would not be necessary in a free producing, free trading, free bartering economy, when all disabled, sick, young and old are insured by a government Central Bank with a graduated control of interest and premium rates, and voluntary savings.

It is the boast of Russia that she possesses no able-bodied unemployed, as do the so-called capitalistic nations. In accepting this Russian statement we often excuse ourselves by saying, "Ah, yes, but Russia is still a primitive country. There is an immense amount of work to be done. Wait until they have a highly organized industry and have acquired machine

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technology." This excuse is a poor one. Material progress and development are relative. Despite all the improvements, buildings, and projects in this country as compared with Russia, we still live as a whole in a comparatively primitive and undeveloped condition. There is a tremendous need for soil preservation, forestry, reclamation projects. The entire housing of the United States is practically obsolete. There are millions of homes without baths, electric lights, or refrigeration. All the able-bodied for a century to come could profitably be used in this country in both public and private projects sorely needed.

Unemployment insurance . . . emphatically NO! There is plenty of work to be done by every able man and woman on earth. There never will be enough labor saving machinery, skill, or power, to fulfil the desires of the people and do all the work they wish done.

The needs of a civilized nation in a world of changing desires can never be filled.

Why is unemployment insurance objectionable? Because it is nothing more nor less than the dole in its results, whatever it may be in theory. The dole is demoralizing to the recipient, and a burden on the back of those yet employed. No one would advocate that the unemployed must be allowed to starve, but this does not necessarily mean that a dole is the only solution. The point is that there will be no unemployed in our present state of development in a country where the dynamic urge to create goods for free trade is not throttled with interest and compound interest on monopolized gold or silver and a misdirected stream of credit.

It cannot be too often repeated that, contrary to the theories of the Marxians, it is not the profit system nor private ownership of the means of production that prevents the unemployed worker from creating the goods that he and others need for trading. It is the inability of those who would gladly employ those who lack the initiative and organizing ability to employ themselves, to get access to the necessary legitimate credit at a low interest rate. Usury, high interest rates, a private monopoly of the function of issuing money, a circulating medium based on gold, and forced excess saving through large premiums, are the barriers in the way.

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Naturally under such a system of free economy, monopolies must be abolished. If speculators try to corner the market on any commodity, they would be doomed only to stimulate production in that commodity and eventually to lose their money for the benefit of all others, provided they are not protected by government-given monopolies either in the form of tariffs, patents, or franchises. As the money flowed into the Central Bank the goods would go upon the market and be consumed, and the public would benefit in the end.

Credit money as a social mechanism must be made to serve society as a whole, but unless the true laws of money and interest are understood and acted upon, it cannot be so used.

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REVIEW

To REVIEW: I have shown—

That world money-value stabilization does not mean more gold or silver currency, or printing paper money, or clinging to the myth of a hard metal money standard;

That there must be a practical equilibrium in the trade of the various nations with each other, the distribution of this trade being determined, in the main, by the cost of production under free competition without tariff barriers or franchises;

That the long term savings of the people must, in the main, flow into long term permanent investment so that the amount of long term savings does not grow out of proportion;

That to accomplish this, there must be one Central Bank, government controlled, to issue credit and regulate the interest on same according to the nation's need, and not according to the international bankers' greed for gold or silver.

Bear in mind that our nation's long term savings amount to only about 20% of the nation's yearly income, according to the findings of the Brookings Institution. The other 80% is in short term savings intended for practically immediate consumption. This should be handled through commercial banks as heretofore, without government interference. It is the 20% long term savings that bring about depression and business cycles, overproduction and underconsumption, and disturb the 80% short term savings. The small rudder steers the big ship.

Individual action having failed, it is time now for a wise government to face the revealed truth and apply itself seriously to getting us out of this depression. Of the two kinds of dictatorship, we certainly do not want that dictation of industry, prices, and labor that will result in communism, slavery, and poverty. But dictation of the rate of interest and premiums, along with abandonment of a hard metal currency, tariffs, and special privileges, will yield fruit in freedom, liberty, and prosperity.

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A PROPHECY

I dare to prophesy that world disarmament will fail again and again, as it has failed in the past, until tariffs, boycotts, quotas and false money metal standards among nations are abandoned, giving place to compulsory social insurance and governmental control and regulation of the interest and premium rates. The accumulation of long term credit savings, which creates long term debts through interest and compound interest in the hundreds of billions of paper values for future security, is a forlorn hope and an illusion. Only the paper representing values can be hoarded away in vaults, not the physical values which it represents. Each generation will and must produce its own values. It cannot live on the paper values of the past, because of the changing desires resulting in continuously changing values. The elements of nature are against accumulation of savings for a long term future.

This invisible devaluation of accumulated long term savings is the cause of the cycles which appear decade after decade, resulting in bankruptcies, unemployment, and depression. Here, too, may be found the reason why workers and debtors lean toward socialism, communism, and fascism, and are willing to become slaves to the state, even going so far as to sacrifice their freedom and liberty only to be assured of a steady job. The only remedy is to allow them to produce wealth for real use and not, as the international bankers demand, to search for the false metal values of gold and silver for currency, following the standards handed down from the primitive days of slavery and feudalism.

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APPENDIX A

Q. What is the New Deal?

A. *The New Deal signifies a planned and managed economy for the nation. It is a virtual dictatorship with governmental bureaucratic regimentation and control of industry and farming, accompanied by fixing of prices and a large public works program, somewhat akin to Soviet Russia.*

Q. What has happened to the old Democratic platform plank of the past, "Free trade, low tariff"?

A. *No formal change, although the President is free to interfere in tariff commissions.*

Q. What happens to human rights when property and wealth are destroyed by curtailing production through shortening the days of labor and high taxation?

A. *Human rights soon vanish and join property rights in the realm of oblivion—as has happened in Russia.*

Q. Has the excessive accumulation of gold bullion by any nation in the past ever promoted peace?

A. *No. It created turmoil, wars and revolutions.*

Q. Why do international bankers want gold backing for currency?

A. *They are thus able to regulate and control money and credit to business and industry and extract interest.*

Q. How can the depression which occurred in 1894 under Cleveland's Democratic Administration be explained?

A. *At that time we were a debtor nation and owed debts payable in gold to foreign nations maintaining the gold standard. Unable to find sufficient gold in our own country we were obliged to buy gold abroad. The price of the metal rose and all other commodities in relation to it dropped. This excessive deflation of our commodities resulted in confusion, strikes, and depression.*

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Q. How did we manage to come out of that depression?

A. *We erected high tariff walls against creditor nations and curtailed our purchases from the gold standard countries we were indebted to. This wise policy was adopted by President McKinley, who headed the succeeding Republican Administration.*

Q. Why has Finland been able to pay her debt installments?

A. *Finland has had for a long time a favorable trade balance with us, her exports to us exceeding her imports. Again, in the 40% devaluation of the American dollar Finland can buy our dollar with 40% less of her commodities and get 40% more of our dollars for her commodities. Finland's gain in this respect is America's loss.*

Q. Are we better off today than we were in 1933?

A. *Yes, but on the surface only and only temporarily so. Money put to work acts as a stimulus and always helps; but the circulation of that money must come through legitimate business channels and not through taxation and government spending. People must do their own spending and avoid excess savings. My Central Bank plan in regulating interest and premiums (savings) would help here.*

Q. Will not people stop saving when the Central Bank does not pay interest on savings?

A. *Yes and no. If they stop saving they spend more and create more work and greater prosperity. They will also have less to spend when old.*

Q. How will the Central Bank raise money to pay all disability and risk when the people reduce their savings with the Bank through excessive spending?

A. *The Central Bank raises the interest rate on old and new loans and increases the income insurance tax and the premium on insurance policies—just enough to balance the demand for the National budget.*

Q. Can America sell to the world and pile up favorable trade balances year after year and demand payment of accounts in gold and silver?

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A. *No. Any nation must buy from the outside as much as it sells. Trade is barter, value for value, and must equalize.*

Q. May people keep on selling goods on credit and make contracts for the payment of the goods in gold or in value equal to that of gold?

A. *No, because debts payable in gold accumulate to such a level that there is not enough gold to satisfy the debts. Gold then becomes scarce and rises in value and other commodities fall in value in relation to it. Bankruptcy then becomes unavoidable.*

Q. The Public Debt is approximately 34 billion dollars. Who are the borrowers and who are the lenders of the money?

A. *The United States Government borrows the money. The lenders are the sixty to seventy million insurance policy holders and millions of savings banks depositors and others—people who deny themselves for fear of the future, who save for the rainy day which is sure to come; in fact, the greater the savings the sooner the approach of that fateful day.*

Q. How will the Life Insurance Companies be able to repay their policy holders their savings when due?

A. *They will not be able to so do. They are doomed and so are the savings banks. The present system of savings for future security has reached the end of the rope. America without backward colonies calling for new developments might as well face the facts and organize a Central Bank of issue as proposed and forever discard the present future security fallacy, the gold standard, and tariffs.*

CATECHISM

Q. What is the chief end of man?

A. *To work, produce, and save.*

Q. What is the purpose of saving?

A. *To save for disability and the support of widows and children.*

Q. Who buys the surplus savings of those who deny themselves consumption?

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A. *Other people who manufacture goods to pay wages for the production of more goods.*

Q. If all people save for the future, who buys all surpluses?

A. *The manufacturers and business men use efficient advertising, scientific salesmanship.*

Q. How will this help?

A. *By persuading people they cannot do without the things they have to sell. By establishing the installment buying plan, under which people are encouraged to buy more and save less.*

Q. But did I not understand you to say that we have to save more and spend less?

A. *Of course. But don't you understand it is necessary to sell more to have prosperity and work?*

Q. But how can we save for future security if we have to buy more to make prosperity?

A. *Oh well; that is a relative matter. We must spend wisely.*

Q. What is the precise significance of those terms?

A. *It means spending enough but not too much, and buying the right kind of things.*

Q. You refer, I suppose, to long useful things, such as building a home and buying furniture?

A. *Exactly.*

Q. Then we should spend as much as possible on useful things to make prosperity and create work?

A. *Oh no, of course not. We must practice the most rigid economy, otherwise we may never get prosperous.*

Q. But if we all practice economy, how are the surplus goods to be sold?

A. *Well, as I have said, we must spend wisely.*

Q. But still I do not see how we can sell more unless we buy more.

A. *We must sell more to other nations.*

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Q. Do other countries not have to practice economy?

A. *Indeed they do, just as much as we do.*

Q. How do they manage to buy a lot of our surplus goods in addition to their own?

A. *They do not buy all their own produce. They have to export a great deal to other nations also. Did I not tell you that no country can prosper without a "favorable balance" in trade?*

Q. Do not foreigners need a favorable balance of trade?

A. *All foreigners, like ourselves, must save and have a favorable balance in gold.*

Q. Why must we save, and trade in for gold?

A. *Gold has always been something that all kings, lords, barons, and international bankers desired. After man revolted against the feudal system and became free, he also got the right to become a lord of high finance. Any citizen who saves up $100,000 in gold may receive 6% yearly for the rest of his life and his children and grandchildren on and on, and will never have to work any more.*

Q. When will that time come when all two billion world citizens have each $100,000 in gold and can retire from work and live on 6% interest?

A. *The U.S.A., France, England—these three nations each have already a dozen or more people who have a hundred million dollars or more. There are more mountains not yet explored. Take for instance Ethiopia, where Mussolini is looking for adventure. If the Italian people, full of energy and initiative, conquer these unexplored regions, they may find enough gold to retire the entire nation. Each citizen will have enough gold so he will never have to work again. Instead of digging mountains, they will all clip gold bond coupons. Will this not make the sacrifice of a million Ethiopians and a few thousand Italians well worth while?*

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Appendix B

LEGAL ASPECTS OF A SOLUTION OF THE WORLD'S ECONOMIC ILLS

In his recently published book, "Government Control of Long Term Savings—The Way Out," Mr. Adolf Gang has set forth an analysis of the world's economic problems and a constructive plan for their solution. It is the purpose of this article to discuss the analysis briefly and to suggest the legal difficulties which may beset Mr. Gang's plan.

According to Mr. Gang's exposition, the source of our economic ills lies in three illusions: the illusion of thrift (excess thrift), the illusion of a fixed metal base for currency, and the illusion of tariff. All three illusions are intimately interrelated, and a discussion of one will necessarily involve a discussion of the others.

The illusion of thrift is an ancient one, and reflects the eternal struggle and desire of the individual for future security. The vision of unprotected children and of the county poor house encourages thrift in the hope of warding off the specter of improvident old age. Thus people deny themselves present enjoyment because of their fear for the future. Yet it is this very saving which brings about depressions.

This is how it occurs: People do not spend their entire current income. They put away a portion in order to protect them from want in days when their earning capacity will be decreased. These savings find their way into savings banks and insurance companies. But what do people save? When a stenographer is given her $20.00 a week check, she takes it to the bank and cashes it, and takes out $15.00, and either deposits $5.00 in the bank or gives it to her insurance company. The $15.00 she spends for room and board and clothing, but the $5.00 has been put away and not consumed. What does this $5.00 represent? That $5.00 means that the stenographer has denied herself the enjoyment of $5.00 worth of commodities in the world market. To make this statement more concrete: the stenographer denies herself the enjoyment of certain goods she was credited with, because she wants future security. She might easily have spent that $5.00 on silk stockings, or if she

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had a taste for music, on victrola records or concert tickets. But the fact remains that she does not spend her entire salary on current enjoyment because she foresees a period when that $20.00 check might not come in, and then she will want to spend the accumulated $5.00 on the necessities of life.

This procedure is repeated in other walks of life. The business man with a salary of $10,000 a year does not spend all, but "invests" a portion in life insurance or in other paths of savings. Even he could have spent his entire salary in one year instead of putting a part aside. He would have enjoyed buying a new car this year, or building a swimming pool in his garden, but he too, is haunted by the specter of "insecurity." He might become ill or disabled, and he feels that he must have a margin of "safety."

Thus the savings of millions of people through labor, service, etc., find their way into savings bank or insurance companies. Quoting from Mr. Gang's book, "They who produce are entitled to consume immediately all they have produced. If everyone took advantage of this right, however, nothing would be saved. Consequently there could be no progress, for there would be no capital available for advancing industrial development. Industry would stagnate, and progress be paralyzed."

But from experience, people have learned conservatism. They wish to safeguard their future, to provide for emergency, and for disability, unemployment, and the old-age period when they will no longer be able to produce. Looking ahead, they save a portion of their incomes, denying themselves their legitimate right to consume at once all they have produced.

It is important to point out at this juncture in our analysis that it is on long-term savings that our problem of economic instability hinges. Temporary deposits, i.e., deposits which are to be used in a few months or a year are short-term savings, and are of great importance in world finance, (short time credit) because they are used to produce goods for the near future whereas the long-term savings represent a denial of goods, put away for a distant future.

What happens then to these unconsumed goods which are left in the market? (i.e., funds certified on paper which are deposited in the bank represent a right to goods, but this right

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is forfeited until a future date). The material goods cannot be saved. The silk stockings which the stenographer might have bought with the $5.00 cannot be saved for her ten years later, when she might want them. They will rot in a few months. The automobile which the business man covets cannot be saved. In two years it will be out of style, and in ten years it will be a relic. Something must be done currently with those savings, or they will devaluate and become useless. These savings must find an outlet which will permit them to be consumed now, but at the same time be building something which will give back the original investment at a time when it is needed.

Examples of such long-term investments are railroads, factories, buildings, road construction, etc.,—that is, any work which will employ labor to consume the currently produced goods, while its own productivity is delayed until a future date. Economists call such outlets "capital goods." The savings now represent industrial projects which will earn enough to supply the saver with the food, clothing and shelter required in the future.

Let us assume that the annual savings of the United States amount to 5 billion dollars, meaning by this that the consumers have denied themselves the immediate consumption of 5 billions worth of goods, in exchange for the promise of the return of the original sum plus interest 10 or 20 years hence. Investment companies must find new outlets for this sum. Purchase of old securities in old developments will not accomplish the desired purpose of using up the current goods and bringing back the original investment later, because the old securities already represent commodities in the market, and an exchange of them merely means a change in ownership title. Annual savings of 5 billion dollars mean that the people have left in the nation's market 5 billion dollars worth of all kinds of commodities and service; consumption goods which must be absorbed by progressively new long-term developments.

It is obvious then that the security of the savers depends on the availability of new and desirable outlets for long-term investments amounting to 5 billions of dollars. But suppose that the market offers an outlet for only 2 billion dollars. Such a situation would not be likely to arise in an undeveloped

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nation, but it is far from impossible in a country like the United States, which is industrially developed. When such a situation occurs, there is a scramble between the investment companies to obtain the "good' investments, and consequently prices of good securities rise in accordance with the law of supply and demand. The proportion of "good" investments (long-term) will always be small in a highly developed country because the outlet in new developments is small. But the most disastrous effects of the scramble for securities occur when speculative and unstable securities appear in order to absorb the surplus savings, and when people become chary of these speculative investments, idle surpluses of savings accumulate, and this means that commodities are left unconsumed in the world market. Thus the market is flooded, prices are cut, and production bogs down and unemployment increases. The situation in the United States of today is a perfect example of the process.

The increase of mass production during the World War brought on an era of mass savings in government bonds. These bonds in the hands of the masses were spending power and circulated and made trading and prosperity possible. Security brokers had on their hands in the past fifteen years, 28 billion dollars worth of long-term savings which they have disposed of in foreign countries for I.O.U. promises, there being no outlet for it in the United States. Had the foreign market been closed to us ten years ago, we should have reached our crisis long before 1929. Foreign markets buoyed us up to a false hope for future security.

After the war, factories which were built to accomodate foreign as well as domestic demands for exchange of goods were forced to close down, because trade decreased. Investors fearing for the safety of their investment started the run on banks and the hoarding of gold certificates.

Insurance companies have the most power in respect to savings. Millions of people having contracted with the insurance companies, are obliged to continue payment every year to safeguard payment made in the past. Their savings pile up in the hands of the insurance companies and surpluses of commodities pile up on the shelves of the dealers in the nation's market. Insurance companies desiring to be "liquid" refused to

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make new loans at a lower interest rate and to reduce interest rates on old loans, and refused to lower the premiums from bottom up, the effect of which would be to get rid of the excess commodities through increased consumption.

The conclusions which Mr. Gang draws from an analysis of the process described above merit a lengthy quotation.

1. Interest on long-term savings is profitable and aids progress only when it is reinvested in sound new developments, whose production of capital goods will answer the needs of the individual when he will demand his interest on savings in consumption goods.

2. Interest on long-term savings under the present system is uncontrolled, often greatly exceeding the amount actually needed for new developments. This excess interest is accompanied by the accumulation of great surpluses of commodities, causing a depression that lasts until they have been consumed or destroyed, by strikes, violence, wars or revolutions.

3. The investment groups,—life insurance companies, building loan associations, banks, acting as the medium through which interest seeks profitable channels, cannot be trusted to act in an orderly cooperative manner in the interest of all society when there is a critical need for such functioning. In fact we see that they usually plunge us deeper into trouble either through the piling up of surplus interest dollars so that they can keep their "liquidity" and their large policy holders, or through poor investment in speculations that totter under economic stress. But they refuse to lower their interest rates to debtors and fixed premiums to small policy holders.

The illusion of a metal base for currency is also an ancient one that is still tenaciously held, although it has long since outlived its usefulness in modern economic life. If one were to ask that mythical animal, "the average man," what is the reason for a fixed metal base for currency, he would undoubtedly look at you blankly for a moment, and then reply vaguely, "Why, as a measure of value, I suppose." But those words are very likely mere phrases remembered from distant college days, phrases which had never been reflectively analyzed. It has never occurred to millions of people to wonder why there must be a metal base for money. The fact is that it never was a

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measure of value and that values can only be measured by trading against other values.

Let us ask ourselves that question now: why must we have gold as a base for money? The chemist or mineralogist can tell us the qualities which gold possesses; it is malleable, etc., but those are not the qualities which make it desirable as money. The tons of gold which are locked up in the Treasury are certainly not valued for those qualities.

The continued use of gold or silver as a basis for money is a relic of primitive days which has long since outlived its usefulness. These metals lie buried in vaults, but their effect on the economic system is enormous. It is they who have caused the ills of the depression. The evil effect of these metals is strikingly illustrated in the tariff situation. The tariff problem is a monetary one. When nations trade their goods in other countries, they receive the other country's goods in exchange. If each nation would sell just as much as it bought in each foreign country, there would be no problem. The problem only arises when there is that bogey, "a favorable balance of trade." This means that the nation having the "favorable balance" is selling more than it is buying. The difference then between what the other country has bought and what the country with the favorable balance has sold must be paid in gold. When gold leaves the country, there results a restriction in bank loans from those countries which have the gold since the debtor country has no gold to repay bonds payable in gold. Thus the debtor nation can no longer trade with the creditor nations since it has no gold.

Further results of the loss of gold in the debtor nation are: falling prices (values), unemployment, low wages, bankruptcies, and a general period of economic distress.

Let us look at the effect of the influx of gold in the nation with "the favorable balance of trade." Gold piles up but finds no outlet because of the necessarily limited outlet for long-term savings. The gold cannot find borrowers to pay the interest rate because long-term developments are over-developed. The amount of savings for future is far greater than the possible outlet for it. Gold lies idle, credit is restricted with its consequent evils appearing.

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Foolish governments, in vain effort to avoid the cycle, and maintain themselves as creditor nations, put up high tariffs in order to keep foreign goods out so that they won't lose gold. This procedure merely results in making foreign trade impossible, since the free exchange of goods is blockaded, if goods cannot be traded for goods (units of value for other units of value).

The remedy, according to Mr. Gang, is the establishment of a 100% commodity dollar, that is, a dollar based on real values of all commodities, not only on gold. If the United States, which holds one-third of the world's gold, should offer it for sale in the open market, other nations who wish to trade with us will have to do so by exporting their goods to us. U.S. importers will buy gold in the open market, and pay for their foreign purchases with that gold. Then the foreign nations will have the gold on which they will have to pay interest to the gold bondholders in their country, and we will have more commodities, and consequently a higher standard of living. But the foreign nations will soon discover to their sorrow all the damage that gold as a favorable balance brings about.

Money is not gold. Money is that which denotes value and which may be traded for other values. Where there is no wealth there can be no values, and there can be no trading, and where there is no trade no money circulates. A nation's wealth should not be measured by its gold, but by its real wealth in exchange, i.e., by its oil, lumber, cotton, gold, silver, copper, coal, etc.,

Money issued against gold or silver is not honest money because the value of the gold and silver is fixed by government mandate, rather than in a free competitive market. The only dollar which is partially honest is the Federal Reserve dollar, which is issued against 60% commercial credit.

The foregoing analysis of the problem has been considerably abbreviated, but it will serve for the purpose of this article. Let us now turn to Mr. Gang's constructive solution:

It provides for the establishment of a Central Bank with branches. The function of this Central Federal Savings and Credit Bank will be to control the monetary situation of the nation by issuing credit notes. These credit notes would be

issued against all durable commodities in the proportion of 2 to 1. For example, Mr. Smith owns a sausage factory and requires $20,000 as a loan for expansion. Mr. Smith will apply to a branch of the Central Bank located in his city and the bank will send out a bonded appraiser. The appraiser will examine the factory buildings and the machines, and will issue the loan only if Mr. Smith can assign a lien (first lien) on the wholesale market value of his buildings or machines of twice the size of the loan, the land value not to be included. The bank will only issue notes on commodities which have a fairly stable long-term value, i.e., commodities which are not perishable and of temporary value, such as milk, which will turn sour, or clothes which will go out of style. These loans will have amortization clauses for the protection of the Central Bank. If the wholesale market value of the commodity on which the loan was issued should fall to a danger point just below the 50% margin, the Bank will have the right to call in the difference between the amount the commodity has fallen, and 100%, so that the government loan will always remain 50% of the wholesale market value. Loans may be made on bales of cotton or barrels of oil just as well as on buildings or machinery. The bales of cotton on which the loan is issued are to be put in a warehouse, and the lock delivered to the Central Bank to prevent dishonesty. *As the borrower repays the loan, the certificates are retired and destroyed because they have served their purpose.*

2. The second function of the Central Credit and Savings Bank would be to take over and manage and regulate the premiums on all forms of insurance, i.e., life insurance, accident insurance, etc. The Central Bank would be one tremendous insurance company. Every individual would be required by law to carry insurance with the Central Bank, the premiums varying with the ability to pay, measured not only by incomes, but by standards of living.

Thus the government will assume the risks of the nation. Assume for the moment that a hurricane in Florida does 500 millions worth of damage. The government will be empowered to use either or both of two levers to cover the amount: It might raise the rate of insurance premiums on all policies, or it might

use the other lever of the interest rate, or both. When more money is needed for any cause whatever, Congress could quickly authorize the Central Bank to raise this sum by increasing the interest rate on all loans new and old, all premiums from the top down.

Obviously there must be a clause in every loan and every policy providing for the interest and premium rate to be fixed for only one year, and allowing it to be raised or lowered by legislative decree. If the Central Bank should find that it has more excess premiums and interest accumulated than is needed for the national budget, then the interest rate shall be lowered. The manipulation of the rate of interest and of insurance premiums will be a method of control which will be ample enough to meet the national budget.

The following pages concerning the legal aspects of Mr. Gang's plan are not intended to be all-inclusive. The reader is advised that the author does not pretend to have uttered the last word on this subject. The materials presented are mere suggestions.

But when and if the time comes when the people of the United States are sufficiently enlightened to adopt Mr. Gang's plan it will be necessary to present it in legal form. These next few pages will serve their purpose if they but bring to the reader's mind the type of legal problem which besets any political and economic innovation.

Mr. Gang's three specific suggestions: to-wit: gold, tariff and U. S. savings, will be discussed in that order and under those titles:—

1. Gold:—

Mr. Gang's suggestion on this point can be briefly summarized as:

a:—requiring the issuance of *credit currency* against the *established exchange value* of all non-perishable commodities two to one security and

b:—forbidding the issuance of credit currency in any other manner.

The Federal Congress of the United States has the power to effect both of these requirements under Section 8 of Article 1 of the Constitution, which reads in part as follows:

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"The Congress shall have Power . . . to coin Money, regulate the Value thereof, and of foreign coin, . . . To provide for the punishment of counterfeiting the Securities and current Coin of the United States."

It might be added that no state can interfere with such action of Congress by reason of Section 10 of Article 1 of the Constitution which reads in part as follows:

"No State shall . . . coin Money, emit Bills of Credit; make anything but gold and silver coin a Tender in Payment of Debts."

It will of course be necessary to pass a constitutional amendment deleting the words, "gold and silver coin" in the foregoing Constitutional Provision and inserting in their place the words "lawful credit money of the United States."

2. Tariff:—

Summarizing Mr. Gang's theory on this point, it removes all artificial interferences with exchange of goods and services by reason of their place of origin.

The Federal Congress has the power to effect this requirement under Section 8 of Article 1 of the Constitution, which reads in part as follows:

"The Congress shall have Power to lay and collect Taxes, Duties, Imposts and Excises."

Under the quoted provisions of the Constitution, Congress could put Mr. Gang's suggestion concerning tariffs into effect by passing a law abolishing all duties on imports.

It might be added that no State can interfere with such action on the part of Congress by reason of Section 10 of Article 1 of the Constitution, which reads in part as follows:

"No State shall, without the Consent of Congress, lay any Imposts, or Duties, on Imports or Exports, except what may be absolutely necessary for executing its Inspection Laws: and the net Produce of all Duties and Imports, laid by any State on Imports or Exports, shall be for the use of the Treasury of the United States: and all such Law shall be subject to the Revision and Control of Congress . . . "

3. U.S. Savings:—

Mr. Gang's suggestion on this point can be briefly summarized as giving to Congress the power to influence the

proportion between consumed goods and services and invested goods and services by the regulation of premium rates on insurance policies, higher on top and lower on bottom. It would seem obvious that Congress could exercise such a power only if the Central Bank were the only insurance company and the only insurer of all accidents.

We do not find an express prohibition in the Constitution against the Federal Government entering into the insurance or banking business. It undoubtedly has the power to establish a pawnshop bank, which it has done in our present day Federal Reserve Bank. However, we find no express authority in the Constitution for the entry of the United States government into the insurance business, and on the authority of the celebrated case of MARBURY *vs.* MADISON, it has long been held that the Federal Government is a government of delegated powers, and that it cannot exercise any power not expressly or by necessary implication granted to it. This legal obstacle is not unsurmountable. It would be very possible to provide a Constitutional amendment which would amply cover this part of the plan.

Assuming that the Federal Government is given the power to enter into the insurance business, it would still be unable to regulate interest rates on loans or insurance premiums unless it were the only insurer and only saving institution in the country. Accordingly our proposed Constitutional amendment would have to forbid private competitive insurance and competitive saving institutions by any foreign nation or by any citizen of the United States.

Assuming that the Federal government is given the exclusive power to enter into the insurance pawn-shop business, it would still be unable to regulate premiums until such time as all or much of the existing debts and insurance policies had been liquidated. Accordingly our proposed constitutional amendment would also have to:

1. Provide for the taking over by the Federal Central Bank of the existing business of all insurers and refinance outstanding long-term debts.

2. Permit the Federal Central Bank to raise or lower the insurance premiums and dividend rates upon all such existing insurance policies and to reduce interest on mortgages.

We hasten to assure the reader that the power to be given to the Federal Central Bank and pawnshops to raise or lower the insurance premiums and interest rates on outstanding bonds and mortgages shall not be an arbitrary power, but shall be exercised in accordance with legislative power of Congress and Senate by the changing economic requirements of the country. It is expected nevertheless that such power need not be uniformly exercised beyond the requirements that all persons within a single class shall be treated exactly alike, and the further requirement that the classifications for this purpose shall have a reasonable basis for the benefit of all citizens, rich and poor alike.

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PLEASE COMMENT

Assuming that you have read carefully my booklet "Government Control of Interest Rate on Long Term Savings —The Way Out" and given the problems discussed earnest thought and consideration, I should like to know your reaction to it.

Do you agree with the Central Bank plan as proposed?

Do you agree with me that under such a plan every dollar in circulation is a safe dollar, an honest dollar, since it represents and is secured by "two dollars of value in bonafide commodities and hence is real money since it represents real value?"

Can you agree with me that whenever the government, carrying out the people's mandate, embarks on a vast public construction program it can readily raise the necessary revenue, not by issuing new bonds and creating new debts and increasing the interest it pays the bondholders, but by authorizing the Central Bank to increase the interest rate on the new and old loans made to the people, and increasing insurance premiums higher on top and lower on bottom?

Do you approve of my government pawnshop plan?

Instead of disarmament as now advocated, can you see that it is really the international bankers who should be disarmed? By going off the gold metal standard, be it gold or silver, by the devaluation of gold and silver in reducing them to the status of all other commodities, we would take away from the international bankers their weapon, the monopoly of money. Can you agree with me that this monopoly on money, taken away from the international bankers, should revert to and become the privilege of the people's government through a Central Bank?

Can you see as I do that when governments permit international bankers to establish a specified metal as money, a metal easy for them to control because of its scarcity and the difficulty of finding more of it, and when they loan money based on that metal and extract interest and compound interest in that one metal, debts accumulate, and that metal becomes scarcer and scarcer, till almost the entire world goes bankrupt?

Can you agree with me that by doing away with all that we shall take off the people's back an unbearable and intolerable burden of usury?

If you agree with my views, please help me in enlightening public opinion. Thank you in advance for your cooperation.

A. GANG
401 Taft Building
HOLLYWOOD, CALIF.

2540 North Catalina St.
Hollywood, California.
October 22nd, 1934.

Mr. Roger W. Babson,
Babson Institute,
Wellesley Hills, Mass.

Dear Mr. Babson:

I received the copy of my booklet "Government Control of Long-Term Savings—The Way Out" with your much valued and highly appreciated comment, for which, many thanks. If I may have your indulgence, I should like to dilate upon your comment and write a few words to clarify what may not be quite clear in my booklet.

I find that I cannot agree with the following excerpt from what you wrote: "As to your solution—I feel that there are many other factors besides monetary. Moreover I wonder if the greatest need of all may be a change of 'hearts' of us *all*."

In maintaining a metal base for our currency we are simply following a tradition dating back to the feudalistic age. The barons in those primitive days were wont to pay their laborers for their work on the barons' land with brass tokens. These brass tokens were given out as a check-off that the peasants fulfilled their part of the bargain in doing all the work required of them. The people were taxed by the barons and this also was paid with these metal pieces. Thus, at the end of every year, the brass checks reverted to their original owners and distributors, the barons. Industrious peasants who produced extra commodities traded among themselves and exchanged their surplus production for these metal pieces and then paid the barons in this manner in lieu of their regular labor. Needless to say, these brass checks soon became a regular method of exchange, a medium of barter, a currency.

Now, let us suppose that the land barons collected most of those brass checks from rentals and taxation; and, through labor-saving machinery and other devices, could dispense with most of the laborers working for them. Let us imagine, further, that the barons continued to insist on the collection of rent and tax from these peasants in brass checks, and in the same amount as previously—not payment through work or other commodities but only by a token which they established and which now, because fewer were in circulation, was almost not to be had. The peasants, the laborers, or the general mass of the people would be dispossessed of land and of everything, and starvation would stare them in the face. What recourse could they have? Would they be willing, as 1200 coal workers in Hungary did recently, to entomb themselves in mines and await a

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horrible death? Or would they revolt and turn to crime, banditry, kidnaping and murder? Or would they organize themselves politically into new strange parties and overthrow their despotic dictatorial rulers, the barons?

The land barons of that feudalistic period have been replaced in this industrial age by barons of high finance. The land barons could direct their peons to new fields, to new ventures. Following the discovery of America, these unfortunates could emigrate to new lands. Later still, these lords could say, as Horace Greeley said, "Go West, young man, go West!" But the Pacific Ocean has now been reached and there are no further places to go. Where can the millions of homeless unfortunates now be directed to new developments, to new fields and new ventures?

Herein lies the cause of the world's monetary troubles. Evil begets evil. Such a state of affairs leads to tariffs, and the consequences are strikes, wars and revolutions. A change of heart is only a change of emotion and will not and cannot set things right. What is required is a change of mind, a change based on logic and reason. A change from a metal check credit currency to a paper check credit currency issued by a Federal Central Bank, as I propose in my booklet, will solve the problem. Then, true Democracy and Civilization can rest more secure.

I expect to send you in the near future a revised copy of my booklet, which I hope you will do me the honor of reading.

Again thanking you, I beg to remain,

Very sincerely yours,

ADOLF GANG.

EDEN LODGE
TILFORD
NR. FARNHAM

Oct. 8th, 1934.

Dear Sir:

I apologize for the delay in thanking you for sending me your booklet on the Government Control of Savings. I have been away this last month.

The subject you raise is important and you treat it very interestingly.

Yours sincerely,

(Signed) SNOWDEN,
Chancellor of the Exchequer.

Mr. Adolf Gang.

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Sept. 10,1934.

Dear Mr. Gang:

Read your book with a great deal of interest.

If, when and as we reach a truly civilized state, undoubtedly some such plan as yours will be adopted.

K. W. SMITH
(Financial Editor Los Angeles *Times*).

SOUTHERN CALIFORNIA EDISON COMPANY, LTD.
EDISON BUILDING
Los Angeles, California

W. C. MULLENDORE,
Executive Vice-President.

Mr. Adolf Gang, May 21, 1934.
2540 North Catalina Street,
Los Angeles, California.

Dear Mr. Gang:

I have read with interest your paper on the subject "Government Control of Long-Term Savings," and I desire to compliment you upon the analysis which you make of the processes of trade. I am in agreement with your analysis. I do not find myself in the same accord with respect to the idea that the government should take charge of future savings and future investments for long-term development. I do not believe that public officials are as well qualified to determine the proper use of long-term savings capital as are private individuals who must suffer the consequences of mistakes. In other words, I believe that we cannot comprise the system of individual responsibility for investment any more than we can for spending without getting into further trouble than that from which we are trying to escape. I quite recognize the flaws and defects in the working of the system of individual responsibility, but I see some much graver dangers in the idea of government control even of long-term investments. I would prefer to stay by the present system.

However, I am not an expert on the subject and you should therefore not give a great deal of weight to my criticism.

Thank you for giving me an opportunity to read your paper.

Yours very truly,

(Signed) W. C. MULLENDORE,
Executive Vice-President.

WCM:o

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Adolf Gang
2540 North Catalina
Los Angeles, Calif.

May 31,1934.

Mr. W. C. Mullendore,
Executive Vice-President
Southern California Edison Co.
Edison Building,
Los Angeles, Calif.

Dear Mr. Mullendore:

Thank you for your letter of May 21st, and for your reading of my paper suggesting the government control of long term savings as a depression preventer. I am especially grateful for your criticism, as it is more useful to me than a mere casual assent to my arguments.

Seizing on your phrase: "I would prefer to stay by the present system," I would like to make it clear that my plan, so far as the savings control feature is concerned, seeks rather to apply improvements to the present system than to change it entirely.

I can best illustrate this by pointing to the example of an engine before the governor has been applied. Such an engine is somewhat erratic in its performance. But the governor, because of its ready sensitiveness to changing conditions, exerts a quick and positive control and thus assures an even flow of power from the engine. But note that none of the "individual responsibility" of the various components of that engine, or of the machinery it operates, is in the least affected by the governing influence.

Our present lack of an intelligent centralized control of the rate of interest is all too plain in the tragic breakdown of the past five years. With "responsibility for billions of savings by individuals" in the hands of so many hundreds and thousands we have a mass too cumbersome to move with necessary facility. You have a clash of interests, a vast variety and quality of opinion, sectionalism, prejudice; in other words, confusion and delay. How much more simple to apply a governor to the flow of capital-power through the control of the rate of interest!

You speak of the qualifications of public officials. You no doubt are thinking of the elective officials. Is it not true we have many men of ability and integrity serving us in appointive positions of a technical nature? On reflection, of course, you will think of several. In any event, whose fault would that be? We would not expect to see the powerful financial world

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sit supinely by and tolerate incompetency in the personnel of such a governorship.

It is my belief that my plan would, far from setting up more government interference in business, actually result in the elimination of much bureaucracy.

Because of the help of such criticism as yours in developing misunderstood angles of my plan, I am completing the preparation of a revised manuscript. I shall take the liberty of sending you a copy, and earnestly hope you will take the time to give it a careful study. I believe you will find it worth while.

Thanking you again for your courtesy, I remain,

Very truly yours,

(Signed) ADOLF GANG.

THE THRIFT AND SECURITY FOUNDATION, INC.
For the Promotion of Thrift, Income Extension and Security
1302 Connecticut Ave.
Washington, D.C.

January 10, 1935.

Mr. Adolf Gang,
Hollywood, California.

Dear Mr. Gang:

I have just read your pamphlet entitled "Government Control of Interest Rates on Long Term Savings—The Way Out." It was loaned to me by Mr. W. A. Julian, Treasurer of the United States. I would like to have a copy for the Foundation's library, and as you seem to favor the system of barter, I am sending you a pamphlet of the Empire Trust Company which describes a savings plan which I placed in operation in that Company fifteen years ago. I trust that you may find time to read this.

Looking forward to the pleasure of hearing from you, I am

Very truly yours,

(Signed) HERBERT N. FELL.
Herbert N. Fell,
Executive Secretary.

Kindly autograph.

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CALVIN BULLOCK

Colorado Nation Bank Building
DENVER

One Wall Street
NEW YORK

Mr. Adolf Gang,
2540 N. Catalina Street,
Hollywood, Calif.

New York
August 3, 1934.

Dear Mr. Gang:

I read your pamphlet with much interest and am returning a copy with some marginal comments. I agree fully with your criticism of the protective tariff and of planned economy, but I cannot go along with you in your criticism of thrift and of the gold standard. As I see it, thrift or saving involves abstention from immediate enjoyment for the sake of some future enjoyment. What we had during the 1927-29 boom was not abstention from consumption for the purpose of investment but the investment of borrowed funds. The banks provided loans which the borrowers proceeded to invest, thereby deluding themselves with the idea that they were thrifty people, but the net amount of individual saving during that period was probably less than nothing. The funds that flowed into capital goods and into speculation were derived either from the expansion of bank deposits against loans of this sort, or from the reinvestment by corporations of earnings that they should have distributed to their shareholders. As a result, the demand for finished consumers goods was not reduced and the demand for capital goods was increased. This stimulus to demand, being wholly artificial, naturally came to an end and since then we have been trying to readjust ourselves by reducing our normal demand for consumable goods to such a point as to enable us to pay off the debts we incurred during the boom. A decent banking system would never have permitted the boom to come into existence and would thereby have avoided the depression.

A related point is the fact that short term savings were frequently invested in long term projects, on the assumption that the investment could be sold out any time. The use of funds borrowed legally and theoretically for short periods for investment in semi-permanent forms has been one of the most important causes of disaster to banks and business concerns in every business cycle this country has experienced. A security that may be liquidated when one person wishes to liquidate becomes frozen when a large number of persons wish to do so.

I believe your criticism of insurance companies is in error because the funds they receive are to a large extent invested in productive enterprises and especially constitute a demand for materials and labor needed in the production of capital

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goods. Our greatest unemployment at present is in the capital goods industries and if it were possible for capitalists to invest more in those industries at the present time, it would have a very beneficial effect on the employment situation. In other words, more saving, if it were possible, would be desirable at the present time. Of course most people are unable to save now for fresh enterprises since they are so busily engaged in paying off their debts.

In your advocacy of a commodity dollar, you omit entirely any provision for stabilizing the value of that dollar. A commodity dollar that was actually convertible into a reasonable group of commodities at fixed prices would have a fixed value that could be counted on, but if it is not convertible into anything and especially if it is one that the Government will probably issue more of the same in order to finance its deficits, such a dollar cannot be taken as a basis for calculation. Under such circumstances, people will prefer to reckon in gold, or as in Germany in 1923-33, in rye and other stable commodities. The essential purpose of any money is to act as a common convenient denominator whereby commercial transactions can be facilitated. If its value can be changed by arbitrary government action, it cannot be used as such a common denominator. The advantage of gold as the basis for currency consists in two things. First, as long as the currency must be redeemable on demand into a commodity like gold, of which the supply is comparatively fixed, the Government cannot cover up its own extravagances by issuing too much money and the banks cannot so easily extend too much credit. Of course in extreme emergencies, the Government abandons the gold standard as they would any other standard. Also, of course, our banks have not been closely enough supervised to prevent them from over-extending credit. Nevertheless, this limitation on extravagance is of considerable value and can be made more so by proper changes in our banking laws. Second, the gold standard is valuable because it facilitates international transactions, gold being receivable without question all over the world in payment of debts.

The great fluctuations that have occurred in commodity prices have almost always occurred when the country concerned was not on a gold standard. During the Napoleonic Wars, our Civil War and the World War, the gold standard was abandoned. What was re-introduced after the World War was not the gold standard, but a managed currency system masquerading as the gold standard. Except in the United States, it was practically impossible to obtain gold for currency in amounts of less than $8,000 or thereabouts. Most countries kept a large part of their reserves not in gold but in the form

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of credit accounts in some foreign country. Most central banks, including our own, tried to manage the currency in such a way as to raise commodity prices. Naturally the result was the crash of 1929 which could not have occurred under the old-fashioned gold standard, since under that standard the speculative boom preceding it could not have occurred. It would not have been possible to persuade Americans to invest as much money abroad, if the borrowing countries had had monetary standards under which it was possible to appraise correctly their business and fiscal conditions. The many attempts at price fixing that were undertaken between 1923 and 1929 could not have succeeded, even temporarily, if the banks and governments that financed them had to pay interest rates reflecting the real relation of the demand for capital to its supply. The impossibility of receiving payment of war debts in any way except in goods and services would have been realized sooner. The vast sums of foreign money that flowed to New York in 1928 and 1929, causing the terrible rise in security prices that took place at that time, would not have come. Finally, if the Bank of France had withdrawn the funds it owned in New York in 1927, 1928 and 1929 instead of waiting until 1931, the boom would have been brought to an end earlier and the depression would not have been so deep. Under the old-fashioned gold standard they were allowed to stay here, and their withdrawal had very harmful effects in 1931 and 1932.

Thank you for the opportunity of reading your pamphlet.

Very truly yours,

(Signed) RUFUS S. TUCKER.
R. S. Tucker.

RST:R

Los Angeles, California.
December 31, 1934.

Mr. Rufus S. Tucker,
One Wall Street,
New York, N. Y.

Dear Mr. Tucker:

Many thanks for your interested reading of my pamphlet and for your comments. I am glad we are in agreement in our criticism of the tariff and planned economy, but am more interested in arguing with you about thrift and gold.

First allow me to point out a contradiction in defence of insurance companies. You say the funds they receive are largely invested in productive enterprises. But while such com-

panies admittedly are hoarding vast reserves, you declare that more liberal investment in industry at the present time would have a beneficial effect. It is because the companies fail here while still putting pressure on the public for still more thrift, causing so much self-denial to be unproductive of anything but unemployment, that I urge the necessity for government insurance and the control of the rate of interest on excess savings. Certainly we need thrift, but it must be intelligently directed to the interest of all the people.

As for stabilizing the dollar—of course such a thing is impossible. A stabilized dollar could only be achieved by stabilizing supply with demand, the "dollar" having nothing to do with that. That is why a metal "base" for money is now unessential, a sort of supercargo carried at the expense of every business transaction, and whose office disappeared with the advent of power, of the paper currency, and of credit. Money is actually the evidence of production of certain goods and services which are measured when trading in units of exchange value. Our possession of such security certified either on paper or on metal, gives us the right to barter—trade for other goods and services of equal units of value—value which fluctuates as the demand and the supply of such goods and services varies. The dollar as we should have it cannot be subjected to any arbitrary "fixing," any more than we can fix the number of bushels of wheat a certain farmer will produce next summer. Nor should a government be permitted to issue "more of same" either on gold or silver, or anything else, except a loan of 50 per cent credit on all valuable goods which must be retired or destroyed, like any business man's check.

As I say the true dollar can represent only a hundred points or units of market exchangeable value of goods or services. But how many any such article is worth bears absolutely no relation to that credit dollar. The article's value bears relation only to the demand for that article in a free open market, and the number of such articles available to meet that demand.

Therefore, the true value of gold or silver is as a *commodity* in a free market. When you mandate it above its value as a commodity in industry you violate the supply and demand law, cause inflation and create a burden of interest that inexorably takes its periodical toll in depression and bankruptcy. As the true central bank credit dollar will represent 100 units of real free market value backed and secured by two dollars value for each credit dollar in circulation, inflation is impossible as long as the integrity of that principle is observed.

Yours very truly,

ADOLF GANG.

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NEW YORK STOCK EXCHANGE

J. EDWARD MEEKER, *Economist.*

May 16th, 1934.

Mr. Adolf Gang,
2540 North Catalina Street,
Los Angeles, California.

My dear Mr. Gang:

Mr. Allen L. Lindley, Vice President of the New York Stock Exchange, has referred to me your study entitled "Government Control of Long-Term Savings—The Way Out." The subject matter of this study lies outside the technical province of the Exchange, but I will give you my personal reactions to it for what they may be worth.

There is much in the study with which I heartily agree. But at the same time, its fundamental contentions seem to me unconvincing. In the section on currency, the study seems to advocate basing money upon commodities in general, although it does not make it clear just how this could be accomplished or what situations such a currency would have to face in domestic or foreign trade. The present uncertainty regarding the status of the American dollar cannot of course be considered as typical of the workings of the gold standard, but rather to partake of the nature of a managed currency. While the gold standard has not operated as smoothly since the War as it used to before—which in the main has been due to the effects of the War itself—I am far from believing that it is out of date. Certainly I would not agree that money is identical with the objects which it can purchase.

Respecting the section on tariffs, undoubtedly the present nationalistic tendency of practically all countries to erect tariff barriers has curtailed international trade and greatly complicated the workings of the gold standard. Surely everyone would be better off with lower tariffs, import quotas, etc. Yet a policy of absolutely free trade would have to be adopted by most of the important countries of the world to be workable, and to avoid penalizing particular countries that adopted this policy. Such a radical measure during a depression would seem to me most dangerous for any single country attempting it. The practical likelihood of international agreements on this score seem unfortunately remote, as the London Conference showed us.

I cannot share your view that it is savings which bring depressions. Rather, it seems to me, that over-expansion of credit, which is of course an entirely different matter, lies at the root of our business cycles. For the government to attempt to regiment its citizens to the extent of dictating to them how

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much of their income they might save and how much they might spend, would be abominable tyranny, to which the American people would never submit.

A final point deserves mention. On page 16a the study speaks of securities as though their value represented, like warehouse receipts, mere physical inventories. This of course is wide of the mark. As a rule, security values are based upon company earnings. To take your own example, Swift & Company securities really represent, not the commodity meat, but earnings on the meat packing business.

Thanking you for your courtesy in allowing us to read your interesting study, I am

Yours very truly,

(Signed) J. EDWARD MEEKER.

ADOLF GANG
2540 North Catalina Street
Los Angeles, Calif.

May 28, 1934.

Mr. J. Edward Meeker,
New York Stock Exchange,
New York, N.Y.

My dear Mr. Meeker:

I am very grateful to you for the attention you have given my paper, and I appreciate the criticism and points you have brought up. I feel, however, that a few points need discussion and further explanation, and I should like to clarify them here.

I do not advocate a new *currency*, for I have tried to prove that all world currencies are only representative of commodity values, or *warehouse value certificates*, if you like, in free market values according to supply and demand. This was illustrated by the new paper currency issued in Germany after the inflation where the value was based on commodity value, and where tokens were warehouse value certificates in all exchangeable commodity *values*, and not on dishonest gold value.

We are living in an age of credit paper *value*, and not of metal value such as we had in the past when these metals were most desirable for tools and war implements and, because of this demand, became scarce, so that denials and savings were necessary in order to barter for these metals, and thus this metal became a medium of exchange.

Today, we have Power and Electricity, which are more desirable than metal, and which can only be expressed in

points of units and exchange value on paper. We cannot hoard or save this power or electricity and their equivalent except in so far as their values are expressed and certified on paper in units or points of values. Exchange-barter among individuals and nations alike is, therefore, transacted on paper in points or units of value, subject to fluctuation according to the law of supply and demand.

There is no connection in bartering oil stock for Swift & Co.'s stocks or others, with the value of gold or silver, for each is a straight deal in bartering points of value, and not a three-cornered deal, as is falsely believed. Each commodity has its own value when traded, bartered, or exchanged, according to the demand or desire for it, and is not measured according to the value of gold or any other metal.

If gold does have a standard measure, like the accepted 36" to a yard, and 16 oz. to a pound, for all commodities alike, why, then, is there so much bargaining and changing of prices?

You believe that the cause of the depression lies in too much extension of long-term credit. How is it possible to have this credit without long-term savings first? If credit is stopped, or should be stopped, why not go directly to the source of this credit which is the interest rate on long-term savings, and control this? When this interest and compound interest on savings is not controlled, then the results are accumulated, unconsumed commodities in a free market, falling prices, and depression.

In reply to the remark about Swift & Co. earnings: are not the earnings of the Company measured according to the amount of production of exchangeable commodities in the free market value, or in the exchange of the warehouse value certificates which represent other free market value, which are all subject to fluctuation according to the old order of supply and demand?

A fixed weight for tax purposes to pay in gold affects the gold commodity value only, and does not affect other values when traded—bartered against each other, and bargaining is generally in a free open market. A free people will bargain: slaves cannot. Government dictation of prices, even on gold, is slavery and not democracy.

Again thanking you for your letter, I am,

Sincerely yours,

ADOLF GANG.

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FRED E. LEHMAN
525 Stanford Ave.
Los Angeles, Calif.

Nov. 28, 1935.

Adolf Gang,
2540 N. Catalina St.,
Hollywood, Calif.

Dear Sir:

It was my privilege and pleasure to read your book entitled "Government Control of Interest Rates on Long Term Savings—The Way Out."

I take the liberty of complimenting you upon your wonderful grasp of social economic problems. Your philosophy has made an impression upon my mind as no other author of modern times. I might add that Henry George is my favorite author on some economic problems and that Geo. W. Slocomb with his book entitled "Honest Money and Legal Stealing" is another favorite.

You have introduced yourself to me in a literary way. I now ask permission to be introduced personally.

I am the author of a book entitled "Labour Standard to Replace Gold Standard"—1932 copyright and am about to publish another book entitled "Money Riddle Solved." Whether or not I shall succeed in this venture depends upon several factors, one of which is my 70 years age.

In case I should not be able to develop my manuscripts for the printer, I have a feeling that you are qualified to carry on where I left off. My motives are simply philanthropic in the interests of Humanity.

I have but one concept which I desire to have developed into practical operation, namely—My conception of an "ENERGY DOLLAR."

If you can arrange for a half-hour talk at either your residence or office or other place, I would be pleased to bring along some of my manuscripts for your consideration.

I firmly believe my theory to be practical and furthermore I believe you could improve upon my literary style in expounding its merits. I have no carbon copy as yet therefore I do not choose to mail the manuscript for your consideration.

Hoping for an early meeting you have my best wishes for success in all your literary ventures.

Respectfully yours,

FRED E. LEHMAN.

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Mr. Gang:

Your article is intensely interesting. I don't find any flaw in your logic as to the causes of depression. A copy of your article should go to the President, our economics-minded Congressmen, and to leading economists.

H. G. P.

(Judge HARLAN G. PALMER, Publisher
Hollywood Citizen-News).

San Francisco, Calif.
November 24, 1933.

My dear Mr. Gang:

Some weeks ago Mr. Jules Coblentz submitted to me, through the Secretary of the Commonwealth Club, your paper entitled "Government Control of Long Term Savings: A Way Out." After reading it I was certain that the presentation would be of the utmost interest to the Section on Economics, of which I am Chairman.

Yesterday, at our regular meeting, I read the paper to the members present and my faith in their interest was amply justified. I regret that you could not have been present in person for I am certain you would have enjoyed the constructive nature of the discussion that followed the reading of the paper, which has now been placed in the files of the Club. I thank you for your able contribution to the worth-while economic thought of the day and for the privilege of presenting it before my section.

Very sincerely yours,

(Signed) DR. MILTON H. EPSTEIN, *Dean*
San Francisco College.

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