FLIGHT FROM INFLATION written by E. C. RIEGEL

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Editorial Preface (Spencer H. MacCallum)

I MET E. C. RIEGEL in New York in 1953, on a visit up from Princeton where I was an undergraduate. "Uncle Ned, " as his intimates called him, was a friend of my grandfather, Spencer Heath, and both were residents of Greenwich Village. Occasionally they would meet at the apartment of Mr. Riegel's friends, Major and Mrs. Ivan Firth. Here I met him, some months before his death. He suffered from the effects of Parkinson's disease, which made him appear older and more frail than his 74 years.

My grandfather regarded Mr. Riegel as a genius for his understanding of the nature and functioning of money as a human and social institution. It was clear, however, that this old man had not revolutionized the world with his ideas and could not now do so. The idea formed and grew in my mind that I should keep in touch with Mr. Riegel and the Firths, who were not much younger than he, in order to preserve his papers from being lost after his death. As to what might be done with them, I had no idea at the time. An intuition told me that they should be preserved.

When "Uncle Ned" died some months later, his papers went to his friends, Ivan and Gladys Firth. I kept in touch with the Firths through my grandfather for the next ten years. Then, in 1963, in the same year that my grandfather died, Major Firth died also. Gladys decided to move from her small apartment to still smaller quarters; moreover, it had been Ivan and not she who had understood and valued "Uncle Ned's" ideas. The papers were at the point of being discarded. Here was the moment I had foreseen. I paid Gladys Firth five hundred dollars for Mr. Riegel's intellectual estate, and in moving from her apartment, she did an excellent job of collecting together every scrap of paper that related to him.

With the papers safely in my possession, there was no pressure of time to look into them, and ten more years went by. With the papers had come a small stock of soft-cover books, *The New Approach to Freedom*, published by Mr. Riegel in 1949. I passed some of these to friends. Within this circle was Harry Browne, who was so much impressed with Mr. Riegel's explanation of the free market that he caused some excerpts to be reprinted and circulated. Years later, he mentioned it favorably in his best-selling book, *You Can Profit from a Monetary Crisis* -- and there is where this story really begins.

As a result of its mention in Harry Browne's book, a flurry of mail orders came in which threatened to put *The New Approach to Freedom* out of print. I decided to reprint it, and this seemed a good time to look into Mr. Riegel's papers to see if there might be some other material that should be included in the new printing. I began by sorting what correspondence had survived and arranging it chronologically, and reading it. I became completely absorbed. Toward the last years, there began to be mention in his letters of a book-length manuscript, *Flight from Inflation*, I tried to finish the correspondence in the orderly fashion I had started out, but gave it up and plunged into the other papers to see if the manuscript would be there. It was. I read it through with mounting excitement, sometimes having to get up and walk around to work off superfluous energy so that I could go on reading. Except for the statistical data and illustrations, the book was not in the least dated, Not only was it not hurt for having lain undiscovered for twenty years, but in the light of world events, its relevance was more immediate now than when it had been written. I determined to bring it into print.

Could it be a commercial success? Perhaps not. How could one promote a book that was more than twenty years old and written by an unknown author who was no longer around to be interviewed and do all of the endless things that go into a successful book promotion? On the other hand, the sheer human interest and the factual circumstances, together with the substance of the book, might lend itself to a different kind of treatment. Here was a man who had devoted his life idealistically to understanding money, although he never had any of it nor any interest in acquiring it-a man who had died, alone and old, in a cold-water flat in New York City, working painfully to the end to complete a manuscript which then lay unsuspected for more than twenty years until it was timely for it to be discovered. An unmailed letter from the last months discloses how he had worked painfully, trying to hit the right keys of his old typewriter and unable to make corrections because he could not control his shaking hands to make legible pencil marks on the paper.

I began a light editing of the manuscript, then did more, and then some more, as my interest in the subject matter grew and deepened with a careful reading of his other writings. In time, I engaged a talented friend, George Morton, to try his hand at improving the structure. He took me at my word, reorganizing the structure and cutting it drastically. It was excellent pruning. I then grafted into the restructured manuscript new materials-fresh expressions and amplifications of his ideas-drawn from the rest of Mr. Riegel's papers consisting of a number of books and more than 150 essays.

Editing Mr. Riegel's work was an audacious task for one without any formal training in economics. I was trained in social anthropology, however, and had an appreciation for social systems and institutions. As an anthropologist, Mr. Riegel's analysis of the institution of money strikes me as elegant. Doubtless it will be

debated whether the subject of his analysis is properly called money. Whatever the conclusion of that debate, however, there can be no doubt that he has analyzed an important feature of advanced exchange systems. I personally find with Mr. Riegel that money is the apt word to describe this phenomenon, which represents the culmination of a developmental sequence in the history of exchange. Those things now commonly called money are prior steps in that progression. I would regard the steps also as money, but money in its less developed forms-primitive money. Mr. Riegel's concept differs so strikingly from conventional ideas of money that it will be painful reading and mental adjustment for some people. Yet that may be one of the great and lasting values of this book-that it provoked its readers to think fundamentally about a subject that has long been taken for granted.

There is so much in Mr. Riegel's papers that did not find its way into either *The New Approach to Freedom* or this volume, that I should like to offer the reader in this Preface some of the perspective I have personally gleaned from studying the rest of his papers-perspective on Mr. Riegel as a person as well as on the development of his thinking.

Mr. Riegel's sense and grasp of individualism was intuitive and unerring. It was not a retreatist or “go-it-alone” philosophy; he was fully aware that individualism flourishes best in a rich social context. He had a balanced perspective on the healthy interdependence of individuals and institutions-at least, those institutions which are voluntary and nonpolitical. His unfailing principle was that freedom of exchange is the foundation of all freedoms. To enlarge exchange is to liberate the individual; to circumscribe it is to enslave him. The crucial question for him, therefore, was to discover which institutions have the effect of freeing exchange and which have the effect of restricting and narrowing it. His final conclusion would be that the single most restraining influence on freedom of exchange is our presently socialized monetary system.

On the way to that conclusion, however, he was to pass through a number of steps. In the 1920's, he crusaded against restrictive credit practices; a theme explored and developed in *The Credit Question*, written in 1926, and in a provocative little essay, "*Infidelism In Business*. " In 1928, he incorporated The Consumers Guild of America, which continued into the 1940's, when it was succeeded by The Valun Institute for Monetary Research. The purpose of the Consumers Guild was to simplify buying and raise the dignity of the consumer, and it opposed anything that would suspend or restrain the consumer's right of bargain. Through the Guild, Mr. Riegel mounted virtually one-man war to make America safe for the consumer, producing four books in the first two years: *Barnum and Bunk: An Exposure of R. H. Macy & Co*.; *The Yellow Book*; *The Three Laws of Vending*; and *Main Street Follies*.

During the decade of the 1920's, Mr. Riegel had given his attention to the man-in-the-street in his role as consumer. The stock market crash and ensuing depression shifted his focus. He now became concerned, on the one hand, with understanding the causes of the crash and the depression, and on the other hand with the practical question of promoting recovery-the need of the common man to get on his feet again.

With respect to the causes of the crash and the events preceding it, Mr. Riegel now resumed an investigation he had begun a few years earlier into the freedom of choice of the average citizen not only as consumer, but as investor and speculator. From this investigation, he had become acutely sensitive to the danger of the invisible partnership between the business community and the various levels of government. Specifically, he saw the trade association movement, stripped of all pretense, as constituting virtual warfare against competition. How did this relate to the problem of how the normal investment motive of middle-class America became corrupted into the excesses of Wall Street speculation? The answer he published in a preliminary booklet in 1931, The Indictment of the *Better Business Bureau Conspiracy*. While *The Indictment*, like so much of Mr. Riegel's writing of this period, is badly marred by polemics, one cannot help but admire his rejoinder to one critic that the trouble with intolerance is that there isn't enough of it-for

so much of what goes on in the world.

The Indictment was only a prelude to the extraordinary piece he wrote the following year, *The Camorra of Commerce*. *The Camorra* is a responsibly documented expose of the role of the Better Business Bureau, after 1922, in collusion with the Investment Bankers Association and the New York Stock Exchange, to protect the Bureau's members from competition. Prominent among its members were Wall Street brokerage firms and companies listed on the Exchange. The means of protection was selective enforcement of the blue-sky laws, in which the Better Business Bureau played a key role under President Hoover's "neighborhood enforcement" policy.

As Mr. Riegel develops his indictment, it becomes increasingly reasonable that this may, indeed, have contributed to the stock market crash by eliminating alternative investment opportunities for the average man and thereby channeling his investment funds into speculative Wall Street issues which were, in effect, exempted from the blue sky laws. Nor did this conspiracy to harass small enterprisers and discourage prospective entrants into business facilitate recovery from the depression. Oddly, considering the toughness and determination of its author, this hook went no further than galley proofs. On the cover of *Indictment* appears this statement (slightly edited):

> The usurpation of legislative, judicial, or police powers, by private organizations, or the illegitimate influence upon public officials exercising such powers, constitutes invasion of the citizen-consumer's civil rights. Such invasion, whether it springs from commercial, financial, professional or political interests, will be fought by The Consumers Guild to the limit of its powers.

Apparently it was in focusing on the problem of recovery from the depression, together with his long-standing interest in consumer credit, that Mr. Riegel first conceived his highly original monetary ideas. Recovery depended upon the ability of small businessmen to finance and readily exchange their products, and this greatly depended, in turn, upon the facility of the monetary system. Much of Mr. Riegel's attention in those depression years was focused on the difficulties experienced by the small enterpriser in obtaining commercial bank loans, and with the injustice of charging interest for such so-called "loans" of newly created money. His reasoning is made clear in the present volume, so that space need not be taken here. Much of his writing in this period grappled with what he called financism and the extent to which small businesses were disadvantaged by the banking monopoly over the power to authorize the issuance of new money. Suffice it to say, Mr. Riegel believed that if the common man could exchange his product freely-and be dealt with justly in financing his enterprise – we would have more than a recovery from a depression; we would enjoyed cultural renaissance.

In the mid 1930's, Mr. Riegel wrote *The Meaning of Money* and *The Valun Discourses* and *Monographs*. By now he had conceived the basic outline of his concept of money, with its implication that the single reform that could bring most leverage into the service of individualism and freedom would be the separation of money and state. His work thereafter, to the end of his life, dealt with various ways of promoting that separation. In the depression years, he pursued this goal through a comprehensive program of reform which he called the Radical Right Movement. This embraced three complementary programs, The Duocratic Institute of the World, Americans of the Radical Right, and The Consumers Guild of America. During these years, he also took particular exception to the New Deal and to Roosevelt's actions which were leading to United States involvement in the war. The Consumers Guild published a series of four provocatively titled booklets in 1936 (Roosev*elt Revalued; Are You Better Off?; Brain Trussed; The Franklinstein*) and two more in 1941 (*Quarantine the Aggressor in the White House; The Fifth Column in America*).

By 1941, Mr. Riegel believed that the feature of the political monetary system that posed the greatest single threat to human freedom was its provision for deficit public spending. In *Dollar Doomsday*, written in the fall of that year, he predicted that the dollar would never again be stabilized and that the deficit spending inaugurated a decade earlier would culminate in global inflation. It is his lucid analysis of this threat that

makes *Flight From Inflation* timely today. From 1941 onward, he vigorously pursued the inflation theme in his writings as the most likely way of influencing monetary reform.

After World War II, and the publication in 1944 of his most widely read book, *Private Enterprise Money*, Mr. Riegel made the acquaintance of Major Ivan Firth and his wife, Gladys. Major Firth was a friendly critic and deeply interested in the money question. As friends and neighbors, he and Gladys were invaluable to "Uncle Ned" in his last years.

It was at this time, also, that Mr. Riegel met Spencer Heath, who became a friend and a source of inspiration to him. Prior to their meeting, Mr. Riegel had conceived the ultimate social ideal to be the separation of commerce and state into two "houses " of democracy, one economic and the other political. The latter would be limited and controlled by the former, which in its turn would develop in a wholesome manner and continue so because of its freedom from the pervasive effects of state-imposed controls. This was Mr. Riegel's concept of duocracy, which he promulgated in the 1930 's and later called bicameral democracy. He was troubled, however, with political democracy, which seemed to him to harbor internal contradictions. Spencer Heath resolved this, with his suggestion that the free market, unfettered, might in the natural course of its development bring a purely contractual, business administration to the tasks that, for want of any alternative, are now assigned to the state. Hence the state did not have to be any part of an ultimate social ideal. The present volume, therefore, entertains the possibility that the state will wither away as evolving commerce brings its functions increasingly and then wholly within the framework of voluntary exchange.

Through all of Mr. Riegel's writings, one theme stands out, and that is the ideal of democracy and faith in the common man. While, as a social reformer, his driving motivation was to advance the lot of the common man, his deep conviction of the dignity and worth of the individual forbade charity; it forbade, in fact, everything but justice -- and justice, he insisted upon with a consuming passion. He had an intuitive, sure sense of justice. He knew the feel of it. He had a certain conviction that all the common man requires is honesty and straight dealing from his fellows and within his social institutions.

Mr. Riegel's advocacy of pure capitalism was based on the conviction that the only way of obtaining justice for the common man was to completely free exchange. He exposed all big business/government alliance as conspiratorial against the common man. But he did not criticize the profit motive or oppose bigness as such; he opposed only the unfairness of enleaguing with government to disadvantage the public. To him it seemed demonstrable that the root of socialism in the United States lay not in anything so exotic as Marxist ideology, but in the efforts of American businessmen to escape competition. He traced the massive build-up of government in this century directly to businessmen seeking unfair trading advantage. He saw the league of big business, government, and finance, as tending to bring about an aristocracy in America, a privileged class that was diametrically at odds with his ideals of democracy and justice.

The image of Edwin Clarence Riegel that emerges from his papers and letters and from an interview with Kathryn Barnes, of Indianapolis, a distant cousin and the only remaining family link, is inspiring in many ways. He was born in Cannelton, Indiana, in 1879, during his father's term as treasurer of Perry County, but his home was in Tell City, a predominantly Swiss-German settlement. The family name was Zuckriegel. His grandfather, an army officer, had refugeed from Innsbruck at about the time of Carl Schurz. His mother, Kathryn Dusch, was an accomplished musician. For some years she was principal of The Bailey Company School of Music, the largest conservatory in Cleveland. Later, with the help of her husband, Peter Zuckriegel, she opened her own school of music in Louisville.

Edwin left home about 1894 and went to New York City. His only brother, Oscar, a few years his senior, was a successful salesman in the clothing industry. The two brothers differed radically in temperament, Oscar looking for success-and finding it-in rather conventional and material terms, Edwin in the pursuit of

an all-compelling, ideal vision of social justice for the common man. Some letters which Oscar saved show a brotherly love tempered with rivalry in which Edwin, against well-intentioned pressure from Oscar, resolutely defended his own unconventional life. In one of these letters, Edwin wrote his brother:

> I don't want a job, I want no boss; I will be free and independent. I am working for certain ideas and ideals and hell itself will not swerve me from them. I may shift from one course to another, I shall employ whatever strategy seems best to me, but I shall face in one direction.

Certainly as a libertarian in New York City in the 1930's and 1940's, Mr. Riegel was a lonely man philosophically. He held no academic degrees or distinctions that I have been able to discover. At speaking engagements, he introduced himself as a "non-academic student of money and credit. "

Mr. Riegel never enjoyed a regular income. He was no stranger to walking about Manhattan for lack of bus or subway fare. His life of dedication did not permit conventional habits. When he needed funds to live in his Spartan fashion, or to pay his constant printing and publishing bills, he would apply for a sales position at the most fashionable department store, where he was invariably well received because of his distinguished personal bearing.

A vignette sheds further light on Mr. Riegel's character. He did not care for his middle name, but let himself be known as E. C. Riegel. Among his effects, I have his Social Security card. The card evokes in the imagination the scene that must have taken place when he applied for it and the Social Security clerk instructed him to write out his full name. He refused, and Social Security insisted. The card, as issued, carries the rest of the story: his full name appears as "Edwin Controversy Riegel."

His correspondence reveals, often entertainingly, a personal trait not unrelated to the above. That is that he never permitted himself to be put down or brushed aside. The occasional official of a corporation or university or government bureau who attempted it invariably had occasion for second thoughts. Mr. Riegel tolerated no hypocrisy or personal evasion of responsibility in such situations. He was adept at picking up the “put down" and turning it aside or handing it back to its source, and he would do so urbanely, without losing sight of his guiding ideals and objectives.

In a June wedding ceremony in 1905, Edwin married Blanche Ellis Beach. It seems fitting with his life that, despite the conventions of the time, the dissolution of their marriage seven years later was a civilized one and they remained friends. Edwin's life was too ascetic, too devoted, and too idealistic, for a conventional marriage relationship. It would have been a rare partner who could have shared such a single-minded life. Throughout Mr. Riegel's papers and correspondence, the reader glimpses his integrity, his uncompromising individualism, his gentleness, his toughness, and his resilience. It has been a rare privilege to have known him through the editing of this book.

Spencer Heath MacCallum

San Pedro, California August 1, 1978

Notes on the Editing of this Book

Since editing always involves some revisions to an author's work, and since a reader may therefore wonder to what extent he is reading the editor rather than the author-especially where the editing was done after the author's death-it is only good manners and scholarship to give some explanation of the nature and extent of the liberties the editors took with the manuscript.

In editing throughout, the emphasis was on pruning and on rearranging, so that the actual words as they appeared would be Mr. Riegel's even when the organization was not. Rearranging frequently entailed

splicing-in phrases, sentences, paragraphs and whole sections from his writings elsewhere. By carefully pruning, arranging, and splicing, it was seldom necessary to write even brief connectives of our own. Some stylistic editing was done, however, partly to moderate what would otherwise come across as polemical and distract from the ideas. For example, Mr. Riegel was fond of the word perversion in connection with government, as in "government perverting the money supply," or "the perversive effects of inflation." In the course of editing, these examples became "government diluting the money supply," and "the destructive effects of inflation." Also, where Mr. Riegel used money as an adjective, a usage Webster does not recognize, we changed it to monetary. Thus "money system" became "monetary system " throughout. We also followed the precedent set by Mr. Riegel in *The New Approach to Freedom* but not adhered to in this text of substituting the term "personal enterprise" for "private enterprise."

The reason for this is explained in Mr. Riegel's words from a brief essay, "*Labor Money*:"

> The term private enterprise has come to be thought of as applying to employers and excluding employees. This is a misconception, but because of the prevalence of this idea, we shall use the term personal enterprise. Corporations and partnerships are assemblies of individuals, but the activating force in all economic affairs is personal. There is no incentive other than personal. We are all personal enterprisers and we are all capitalists, because each of us is equipped with the tools of production even if we have only education and experience.

Updating of statistics and illustrations was not attempted, since it in no way affects the central thesis. Moreover, it would have been unfair to Mr. Riegel, since if he were writing today, undoubtedly he would in many cases employ different figures and different illustrations as being more appropriate to the changed circumstances.

It should also be noted that the "Selected Correspondence" has been subjected to editing along with the rest of the text. In a very few cases, material was added from other places to strengthen a point Mr. Riegel was making in a letter. Hence his letters are to be considered as a literary device to present different facets of his thought in his own words, and may not be taken in every case as historical documents evidencing what was said on a certain date to a certain person. Some brief selections from elsewhere in his unpublished writings are also included in this section and are identified as "Random."

The major deletions from the manuscript include a chapter on "The Index Dollar," an idea which Mr. Riegel had advocated for some time as a way of mitigating the full force of the inflationary storm, a chapter on "Currency Reprint," in which he proposed a defensive maneuver against the possibility of communist governments in the Cold War undermining the United States economy by engaging in wholesale counterfeiting of dollars abroad, and a chapter entitled "socionomy," exploring a voluntary, contractual approach to financing community services as an alternative to taxation.

Beyond these points, the reader may be reasonably assured that he or she is reading the authentic E. C. Riegel. Mr. Riegel's original papers contain much of interest and value that did not find its way between these covers. The Heather Foundation, Box 48, San Pedro, California, 90733, maintains these papers available to the public and invites their use.

Spencer Heath MacCallum and George Morton

Introduction

THIS BOOK PRESENTS a new concept of money, one which promises greater freedom and a broader base for democracy. It points up the futility of the political ballot-and the facility of the monetary 'ballot'-for the attainment of human aspirations. It elucidates an evolution that has progressed unobserved since the inception of monetary media and that is now coming to an end in what appears, on the surface, to be a world calamity.

What man does not understand, he fears. But today's disturbances, which many take to be omens of approaching adversity, are in fact, signs of a departing perversity, the perversity of political power over money. In this, the decay of the old order, all schools of economics and politics, unconscious of the meaning of money, are vainly striving to preserve the politically based monetary system. Such attempts will fail and chaos will ensue unless fresh insights are brought to the problem. This book is the first to depart from the traditional concept of money as an instrument of the state. It is the first to propose that money and state be separate.

It is not necessary to attempt to alienate society from the declining system, nor to conduct any crusade against it. The flight from inflation that has already begun, and that is gaining momentum, is the popular movement away from the decaying system and, in itself, represents a search for a stable monetary medium. In times past, many national inflations have reached the point of extinction of the local monetary unit. In each such crisis, there remained other political monetary units to which flight could be taken. But in this world crisis, as I see it, there will remain no stable politically-based unit to which the panicky will be able to flee. There will be a total inflation of all existing monetary units.

To avert the chaos and catastrophe inherent in a moneyless world, I visualize the emergence of a nonpolitical monetary system to which business will resort for self-preservation. I see an orderly transition from the old order to the new. But an orderly transition will require the leadership of businessmen and bankers in organizing an operating system to which everyone may turn.

While such a program will require the separation of money and state, and the restoration of the monetary system to the sphere of personal enterprise, it also will offer the greatest protection for the state from violent revolution and the attendant hazard of its capture by non-democratic forces. Inflation to the point of panic is a confession by the state of its inability to maintain order. It is a clear call for help from the citizenry.

Scholars have never understood the social service of money. There has never been, therefore, an adequate appraisal of the contribution made by money in the revival of civilization's march after the stagnation of the thousand years of the Dark Ages. The Renaissance, a great shifting forward in that march, coincided approximately with the liberation of money from its embodiment in things of intrinsic value, such as gold and silver, to intrinsically valueless paper carrying only a promise of value to the bearer. This transformation was, I believe, a fulcrum upon which the incentive to advance lifted society forward and made it more mobile than at any previous time.

Coincident with its liberation from tangible materials, however, the monetary medium was thrust into captivity by the state under the false belief that, to assure credibility for a medium of no intrinsic value, the state had to sponsor and control it. This unnatural association has limited the good that might have flowed from a free monetary system, and has magnified the evils that afflict the economy. For the regulation of money is inherent in the competitive trading process, and politics is alien to it. Yet the state has continuously distorted exchange by its attempts to substitute synthetic controls for natural. It has brought the political monetary system to its certain doom by employing it, through the process of inflation, as a tax-collecting device.

What effect the envisioned second and final liberation of money-this time from bondage to the state-may have upon human behavior is possibly beyond imagination. With the passing of nationalistic monetary units, there will remain no reason for the polyglot monetary system that exists in the world today. A single, worldwide monetary language will unify the world's peoples on the economic plane. New vistas of human advancement will open under the new order that will surely arise following the separation of money and state and the abandonment of the false political means in favor of the economic means of realizing social objectives.

Chapter One, Storm Winds of Inflation

We have sown the wind and must reap the whirlwind, which will scatter dollars like autumn leaves across the countryside.

The mariner, on the approach of threatening clouds, does not take measures to abate the coming storm. He accepts it as beyond his control and takes steps to minimize the stress upon his craft. If we would be realists, we must accept the inflationary storm as inevitable and set our sails to ride it out.

All attempts at political control over the economy, such as rationing and price and wage controls are but attacks upon the storm, attempts to flatten the waves of a troubled sea. They undertake to suspend the operation of the law of supply and demand. If they succeed in smoothing the waves in one place, the waves multiply elsewhere. In so doing, therefore, such attempts render a disservice instead of relief. Exchange, which is the transfer of goods and services and upon the facility of which the economy depends, is distorted to a much greater degree than otherwise it would have been. It is these artificial impedimenta to the working out of natural laws that make the experience of passing through inflation so trying and perilous.

Inflation, running its natural course, impairs and ultimately destroys the unit of account. It does not, of itself, destroy wealth. It merely shifts it. In general, this shift is from the creditor class to the debtor class, since debts are wiped out. To be sure, inflation hampers exchange, and whatever hampers exchange impedes production. There is no escaping lowered standards of living. But if we manage properly, we can pass through inflation experiencing neither the destruction of existing property, on the one hand, nor paralysis of business on the other.

What is it that causes business destabilization and ultimately paralysis in an inflationary movement? It is the confusion resulting from applying one name to the unit of account in all stages of its decline in power. At the outset of the inflationary price rise, there may be a change of only one per cent a month in the power of the monetary unit, but as the movement accelerates, there may be a change of this much *per day* and even more. To call all of these successive units, with their varying powers, by the name *dollar,* obviously frustrates exchange.

As the successive changes in the power of the unit accelerate, sellers must reduce the time allowed between billing date and payment date. If they do not, they risk losing their profit from sales because of the decline in the power of the monetary unit. The actual loss suffered during a recent period from this unseen cause is shown in Table 1. This trend toward reducing the credit period ultimately destroys credit altogether and forces business to a cash basis. Under normal business practices, prompt payment entitles the buyer to a discount, and thus there is an inducement for him to pay within the discount period. Inflation reverses this; the longer the buyer delays payment, the smaller the ultimate payment by reason of the decline in the power of the unit. Thus the prompt payer penalizes himself, and the inducement is for him to defer payment. It is readily apparent that business cannot operate on this upside-down basis. The alternative of resorting to a cash basis, on the other hand, would be so awkward in a highly commercialized nation such as the United

States as to amount to practical paralysis. Before such an impasse is reached, of course, the holders of longer-term contracts such as mortgages will have had their claims decimated, if not wiped out.

Imagine how business would be impeded if words like *pound, foot,* or *gallon* were continually changing their meanings. To undertake to conduct exchange transactions with a changing unit of account is, if anything, worse.

Sources of Inflation

There are in the world today 144 national political monetary units. This means that there are 144 springs of inflation through which governments of the world are undermining the monetary system. This present polyglot system is, moreover, an instrumentality of national isolation that permits governments to block the free flow of commerce.

TABLE 1

LOSSES SUSTAINED IN BILLING
BY REASON OF DOLLAR SHRINKAGE

Based Upon Bureau of Labor Index of Wholesale
Prices on Date Nearest to First of Month

INDEX:		1926 = 100	BILLS DATED	PERCENT LOSS (OR GAIN) IF DEBTOR PAID IN		
				30 DAYS	60 DAYS	90 DAYS
1946	May 4	109.9	May 1	− 1.1	− 2.6	− 13.8
	Jun 1	111.1	Jun 1	− 1.4	− 12.5	− 15.5
	Jun 29	112.7	Jul 1	− 10.9	− 13.8	− 10.1
	Aug 3	125.0	Aug 1	− 2.6	+ 0.7	− 7.8
	Aug 31	128.2	Sep 1	+ 3.2	− 4.4	− 8.3
	Sep 28	124.1	Oct 1	− 8.6	− 12.9	− 12.9
	Nov 2	134.8	Nov 1	− 3.7	− 3.7	− 4.1
	Nov 30	139.1	Dec 1	0.0	− 0.9	− 5.3
1947	Jan 4	139.1	Jan 1	− 0.9	− 5.3	
	Feb 1	140.3	Feb 1	− 4.3		
	Mar 1	146.4				
			TOTAL	− 30.2	− 55.4	− 67.8
			AVERAGE	− 3.0	− 6.2	− 8.5

The above illustrates the great hazard in doing business on credit during inflation. The extreme instability of the dollar in 1946 is shown by a range of 3.2 per cent net gain (by reason of a decline in the price level) on the thirty-day payment of September 1st bills receivable, to a loss (by reason of price rises) of 15.5 per cent on the ninety-day payments of June 1st bills receivable. The average for the whole period was a loss of 3.0 per cent on the thirty-day payments and 6.2 and 8.5 per cent respectively on the sixty and ninety-day payments.

Since business profits generally average only about five per cent on sales, it will be seen that "credit losses" alone, in the period reviewed, wiped out profits, to say nothing of losses sustained by shrinkage of capital and reserves.

If there were free monetary exchange internationally, as there was before 'money management' practices came into vogue, the 144 units would be subject to change. In the course of a year, there might occur thousands of changes. While free exchange would require great agility on the part of international traders, it would at least be realistic and permit trade to move freely except where limited by tariffs and embargos.

Under the current managed-money practices, the various governments try to peg their units with respect to one another. This has a deadly effect on international trade and forces exchange to resort to the black market, so-called.

This divisive system, which makes each nation's unit of account alien to all others and thereby impedes international trade and intercourse, may be observed in the tabulation of foreign exchange quotations reproduced in Table 2. Note the extraordinary confusion of tongues, the numerous *dinars, pounds, rupees,* and *shillings,* as well as the thirteen different *dollars* that range in value from the United States dollar to the Hong Kong dollar, which is equivalent to 17.5 United States cents.

In foreign exchange quotations, the United States dollar is taken each day as the index figure of 100. This convention allows no comparison between one day's figure and the next. Compared with its value in 1900, the United States dollar has been eroded by nearly 70 per cent. [**The erosion of the dollar as of 1978 exceeds 85 per cent, based on Bureau of Labor statistics. -Editors.**] The entire field of 144 units, therefore, should show correspondingly more decline in that period than they do show in their daily quotations against the dollar. Thus the decline of the criterion unit, the United States dollar, obscures the actual depreciation of the other units and fails to show how far these units have approached worthlessness.

[TABLE FROM BETWEEN PAGES 4 AND 7 IN ORIGINAL BOOK BELONGS HERE; however, I (Cal S.) decided not to reproduce this table as it is merely a set of international exchange rates from 1951. In the original book, this table folds out to five pages and lists about 145 countries currency exchange rate against the United States Dollar. The source quoted is Manufacturers' Trust Company.]

The following units, for example, on the basis of their 1939 standings, have suffered actual losses as of June 1951, in the percentages shown here:

Switzerland	39.5	Columbia	71.6
South Africa	41.6	Argentina	73.4
Sweden	43.7	Spain	73.4
Canada	45.4	Belgium	74.8
U.S.A.	46.1	Mexico	74.8
United Kingdom	48.5	Brazil	76.3
Uruguay	49.9	Chile	85.3
Australia	50.0	France	94.6
Netherlands	61.5	Italy	98.1
Egypt	68.1	Japan	99.3
India	68.5	Greece	99.9
Turkey	71.1	China	99.9

Figures above are from International Monetary Fund Cost of Living Statistics.

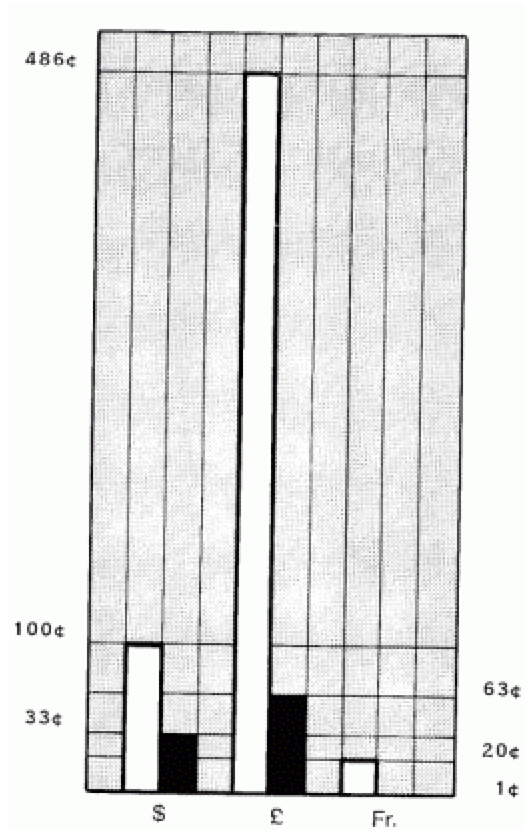
Even these shrinkages are understated in most instances because of the various blocking devices and price controls. As of December 1951, there remained but three monetary units that were not restricted-the United States dollar, the Canadian dollar, and the Swiss franc. In other words, all of the quotations, save the three mentioned, are unrealistic because of restrictions on free exchange.

Further, the United States Government is bolstering other units by dollar loans and gifts, thus absorbing some of the deterioration of those units. How far this will go, and how much it will be reflected in the deterioration of the dollar, we can only speculate. It is possible that, due to the transfusion of its blood to

other national units, the dollar may decline faster than other units. This may lead to a false sense of improvement on the part of the money managers of other nations, as they may find an easement in dollar exchange which they will credit to arise in their unit rather than perceiving that it is due merely to an out-distancing decline of the dollar.

Figure 1 takes the distortion out of the relativity picture in the three units, the dollar, the pound and the franc, by comparing their present status with their status in 1900.

Figure 1 DECLINE OF THE DOLLAR, POUND AND FRANC FROM 1900 TO 1950



The graph shows the purchasing powers of the United States dollar, the English pound and the French franc in 1900 (white bars) and how they have declined to 1950 (black bars) as compared with the 1900-dollar. The dollar has lost 67 per cent, the pound 87 per cent and the franc 96 per cent.

The pound would have shown even greater decline if the 1950 exchange rate had not been officially pegged. No black bar appears for the franc because the 1950 comparative rate, being less than one 1900 cent, is too small to illustrate.

The Approaching Storm

Since all national moneys are but fractions or multiples of the dollar, it follows that each may go through inflation without disturbing the value of the dollar. But when the master unit goes through inflation or deflation, all other national units will automatically be disturbed, since they partly depend for their stability on central bank dollar reserves. Hence inflation of the dollar means international inflation, a new experience for the world.

Monetary management, more properly called monetary maneuver, is now so universal that it is difficult to accurately observe this international inflationary effect. The very fact that all governments feel impelled to interfere with international ratios and exchange rates, however, shows the difficulties in which the political

monetary system finds itself.

The world has seen many national inflations end in the total extinction of their monetary units. But these have always involved minor or secondary units with isolated spheres of influence. The premier unit, and therewith the main structure of the monetary system, has never before been affected. Always the premier unit has remained the criterion of worth and stability, in terms of which accounting could be carried on and exchange not completely break down. Today, however, inflation is universal, attacking the stronger as well as the weaker units. The criterion unit itself now varies from day to day, and it is impossible to measure the variability of monetary units in terms of a variable. The monetary mariner no longer has a guide; for the North Star, the dollar, is moving. This is the first time in history that the world has witnessed global inflation, with the whole field of monetary units sliding into the sea.

Whether we survive the storm that will attend this destruction of the political monetary system will depend upon how we respond to this danger. If we apply remedies designed to preserve the power of the monetary unit, the sails of exchange will be shredded by the gales of inflation. We will find ourselves adrift in a chaotic world; for exchange is the device by which the ship of social order moves forward. If, on the other hand, we allow nature to take its course with the unit of account, adjusting matters to preserve the exchange system as required, we will be able to weather the storm and maintain civil and social order.

The purpose of this book, then, is to propose a means of preserving the exchange system in the coming emergency. If, in the process, we find our way to a clearer understanding of political and economic realities, so much the better. If, still further, we discover a vehicle through which men can more effectively pursue their destiny of freedom and self expression, then my hopes for this book will have been wholly justified.

It is my belief that through the establishment of a nonpolitical monetary system, run by and for private enterprise in a free market, we can achieve all of these things. How such a system might be organized, the nature of the philosophical argument for the necessary separation of money and state, and the implications of a nonpolitical monetary system for the modern world, are subjects to be dealt with in the following chapters. First, however, let us inquire about the nature of money itself.

Chapter 2, A Monetary Rationale

It tests the imagination to visualize the blessings that await mankind once the balance wheel is no longer disturbed by the eccentric of primitive monetary concepts.

Notwithstanding that money is the very language of exchange, it is so little comprehended that the term itself lacks even a generally accepted definition. Prevailing concepts of money range from the multi-material to the ethereal. A prominent New York bank widely publicizes its "money" collection of some 75,000 specimens, including a wide range of commodities used in indirect barter. The author of a recent book on money, on the other hand, begins his thesis with the statement, "Money is nothing." Such range of premise creates endless confusion.

In his book, *Money,* Montgomery Burchard reviews "Selected Passages Presenting the Concepts of Money in the English Tradition, 1640 to 1935." He concludes:

> What does this book 'prove?' In any narrow or positive sense it proves, I hope, nothing. But if the passages illustrate anything it is the broad negative thesis that, in the history of English writings on the nature and function of money, there has been, from the earliest times to the present, no observable advance.

In 1934, after years of fruitless search for a money master, my own hopes were rekindled by a press statement from Professor Irving Fisher, the renowned monetary economist and teacher, that there were "only a few persons in the world who understand the meaning of money." I asked Professor Fisher to name them, and he submitted the names of thirteen American and five Europeans. Of these world authorities I succeeded in getting six Americans and two Europeans to enter a symposium to be presented to the United States Congress, which at that time was debating monetary theories.

(E.C. Riegel, *Irving Fisher's World Authorities on Money.* New York, Empire Books, 1935. *Participants in the symposium were Harry G. Brown, Irving Fisher, Ragnar Frisch, Von Schulze Gaevernitz, CyrilJames, Wilford I. King, George LeBlanc, and Warren M. Persons.*-Editors.)

After submitting the result to the Senate Committee on Banking and Currency, I published the work in a book entitled, *The Meaning of Money,* concluding as follows:

> The total of 176 answers to the 22 questions showed such contradictions, inconsistencies and disagreements that we feel it a patriotic duty to state that there appears no understanding of the subject of money among the contributing authorities or among others whose writings we have studied. No clear principles are established; projected theories are not demonstrable; the basis for the construction of a monetary science seems lacking.

Economics professor John w. McConnell more recently has undertaken to render a symposium of the opinions of authorities from before the Christian era up to the present. I commend his book, *The Basic Teachings of the Great Economists,* to all who wish to wander through the forest of economic confusion with much of the underbrush removed. He opens his seventh chapter, "Money, Credit and Banking," with the observation, "A great deal of confusion has surrounded the discussion of money in all ages." His review of writers from Xenophon onward amply proves the contention. Search as one may the literature of money; nowhere does one find a comprehension of the subject.

Confused as the picture is, there are nevertheless certain common threads running through the literature which, taken together, reveal some fairly consistent, traditional assumptions about money. This traditional view may properly be called the *objective* view of money, inasmuch as it represents money as an entity having some kind of an independent existence, of and by itself. By its logic, money is an entity that can be created by law, apart from trade, and that can be used as a stimulus to trade. Operating under this assumption, men naturally look to governments to be the issuing and regulating authorities for the monetary system. For purposes of discussion, this system will be called the *political monetary system.*

The new idea, the *subjective,* or *integral,* idea of money, is that money can spring only from trade-that trade creates money, and not vice versa. But before pursuing this idea, we shall first look into the origins of money. Let us start with fundamentals.

What is Money?

Civilization began with exchange, and exchange began with whole barter. *Whole barter* means the exchange of things for things, with each transaction complete in itself. Obviously such transactions require contact between two traders, each of whom has something the other wants. Such contacts are not easy to make. For a trader to find someone who has what he wants and wants what he has, requires so much time and effort that he loses much of what he might otherwise gain from the specialization of labor. Only when an escape from this limited exchange method is found, can men begin to specialize their labor sufficiently to raise their standard of living above that of a meager subsistence.

The first improvement on whole barter was *indirect barter,* the practice of utilizing commodities of common use as reserves to be later traded for commodities of immediate need. A list of such commodities adopted at various times and places would include salt, hides, grain, cattle, tobacco, nails, etc. The trader accepting

these found them useful, and, because of their general acceptance, he was assured of being able to use them to secure desired commodities in exchange. These interim commodities tended to be perishable, however, and a major difficulty was the inconvenience when large values were to be stored or transferred.

The adoption of precious metals, such as gold and silver, as intermediating commodities reduced the inconvenience. This step reflected a growing emphasis upon facility in exchange. Moreover, the durability of the precious metals led to the realization that the actual transfer of these commodities was not required. Accordingly, a new means of completing exchange transactions arose in the practice of depositing precious metals with goldsmiths, who in turn issued warehouse receipts. Such pieces of paper were negotiable, in that purchases could be effected by their transfer.

Acceptance of these promises of future delivery marked the first real step toward the utilization of money, for it was at this point that barter was split into two halves, with the buyer receiving value and the seller only a claim. Previously, the seller had had always to receive some tangible asset from the buyer in exchange for his wares. He had received that asset even when he had no personal use for it-as was usually the case when the asset was silver or gold. Now, through an understanding among traders, one could defer his part of a transaction to another time and place and to another trader. This was the first faint glimpse of the tremendous liberating power of money.

Because of the use of precious metals during the last phase of whole barter exchange, it is natural that the first step toward money should have involved a promise to deliver these materials. The belief widely persists to this day that money, to be sound, must promise the delivery of gold or silver. The essential quality of money, however, is its promise to deliver value in *any commodity or service at the choice of the holder.* To comprehend the excellence of this promise, we must only inquire what the seller would most desire that the promise (money) should convey. Would he desire that it promise him gold, or silver, or any other specific commodity, or would he prefer to have the promise stipulate only a specific value--a value applicable to any and every commodity or service? Obviously it is the latter. We see then that the ideal of money is to split barter absolutely in half, without any limitation imposed upon the seller.

Not only is the ideal of money most fully accomplished when the promise imposes upon the holder no limitation as to choice of commodity, but any concurrent delivery of value with the monetary instrument is a reduction in the sum of money conveyed. Unlike a dollar bill or a dollar check, for example, a silver dollar is not wholly money. The former are complete split-barter instruments, while the silver dollar is a qualified split-barter instrument, in that some value is conveyed with the promise. To that extent it is not money. If a silver dollar contains fifty cents worth of silver, its transference is half a monetary transaction and half a barter transaction. Or, counting both sides, the transaction is three-fourths barter, since the seller, of course, delivers his half in value. When inflation so shrinks the power of the dollar that the silver content of the silver dollar becomes worth more than its face value, silver dollars will disappear from circulation and be melted for bullion while the dollar bill and dollar check will remain. This demonstrates that money has no intrinsic value and will tolerate the use of a valuable vehicle or token only so long as the value is less than the sum of its face.

The purpose of money thus is to obviate the definitive and invoke the relative, i.e. to enable the acceptor to requisition any commodity or service at the market price. Hence we can see that money is a device that operates within the trading community for that community's own self interest. The necessity of splitting barter into halves in order to facilitate exchange is the motivating force that makes the monetary system operate.

A would-be money issuer must, in exchange for the goods or services he buys from the market, place goods or services on the market. In this simple rule of equity lies the essence of money. Money, as a monetary

instrument is an evidence of purchase that is issued by the purchaser to the seller. Since it is in the self-interest of all concerned that the monetary system continue to operate within the trading community, it is apparent that the buyer who issued the monetary instrument to the seller has made a commitment to the community that is that he, in his turn, will engage in business, i.e. will bid for money by offering his own goods and services in the open market. In this competitive situation, he redeems his original issue through the sale of his goods and services. Thus money is actually backed by the value surrendered by the seller and potentially backed by a value in the possession of the next seller.

To print bills and mint coins is not to issue or create money. This has no more monetary significance than if you were to write a check and leave it in your check book. Instruments that have not been put into exchange are nonexistent in the world of exchange and money. Money simply does not exist until it has been accepted in exchange. Hence two factors are necessary to money creation: a buyer, who issues it, and a seller, who accepts it. Since the seller expects, in turn, to reissue the money to some seller, it will be seen that money springs from mutual interest and cooperative action among traders, and not from authority. That the Government can issue money for the people, or, in other words, that there can be a vicarious money power is an utter fallacy. Money can be issued only by a buyer for himself, and he must in turn be a competitive seller to recapture it and thus complete the cycle. He must recapture to stay in business, since his issuing (credit) power is limited. Moreover, in a market conducted under free competition, he will be compelled to give the par value of his issue, since under free competition he must bid for money against all other sellers and thereby return as much to the market as he took out with his issue.

This competitive situation, in which the trader redeems his original monetary issue through the sale of his goods and services, assures that the community's monetary system will maintain its stability. It is cooperative self interest which maintains the parity of the monetary unit, and that same cooperative self interest justifies the seller in surrendering value without fear of loss.

All enigma as to what causes money to circulate and maintain its power is thus dissolved by comprehending the natural law of money issue. This is that its legitimate issue is confined to personal enterprisers in the market place, since they alone, by the logic of their situation, are able to be and are desirous of being issuers of values as well as issuers of money.

It is important to note, further, that only an impecunious person or corporation can create money, as strange as that may seem. A person already in possession of money can only draw upon the existing supply-that part of it which is in his possession. The reason for this, of course, is that money is an accounting system, and under the principle of accountancy a net debit and a net credit cannot exist side by side. A person without money is neutral unless he creates money, which puts him on the debit side.

To create money one must first be impecunious, and the act of creating money is the act of paying for a purchase. There is no other way. Such payment by an impecunious buyer puts him on the debit side of exchange. The effect upon the recipient of the payment-the seller-is to create either a credit as an addition to a previously existing credit or an offset to an existing debit. Thus purchasing (and paying) either creates money or moves the purchaser nearer the creative line. Selling (and receiving payment) either destroys money by offsetting a debit or moves the seller farther from the creative line by increasing his credit balance.

Let us now consider a hypothetical community of traders who, finding the need to facilitate their exchange with monetary instruments, hire a bookkeeper to keep track of their transactions. Each member of the exchange might receive some blank pieces of paper on which he directs the bookkeeper to debit his account and to credit the account of the seller by a specified number of monetary units. Nothing need be deposited with the bookkeeper to authorize such orders. This implies that the members would be authorized to start the

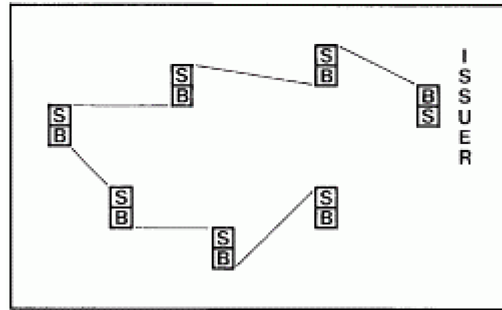
exchange with a bookkeeping debit or overdraft. Let us pause once again to realize that money can spring only from a debit, not from a credit. This shows that the basis of money is a pledge to surrender value on demand-to offer goods or services in the market at competitive or market price and, thereby, to give value when money is tendered.

Now if we assume that, in a trading day, the buyers issued checks in the sum of 950 units, and that each trader deposited his checks with the bookkeeper, the bookkeeper would have 950 units as a total bookkeeping entry. However, since the buyers are also sellers, there might only be a net debit of 50 units to the accounts of those who overbought, and the same amount as credits to the accounts of those who under bought. In this case the actual amount of money in existence at the end of the day would be 50 units, although monetary transactions to the extent of 950 unit's had taken place. It is even conceivable that there might remain no debit balance, and hence no money whatever in existence, despite a healthy monetary exchange. Money is created by the process of incurring a debit and is destroyed by the process of offsetting a debit.

The volume of money extant, therefore, has no relation to the volume of business transacted in its name. The volume of money is determined by the amount of deferred spending, or "savings." In the example, those traders with credit balances have a claim upon values held by other traders. The traders with debit balances are the money issuers, and have proclaimed thereby their obligation to other traders. This demonstrates that money is but a medium of evidencing barter balances. It is a claim upon neither particular goods nor particular traders, but upon any goods in the hands of any trader. In that sense only is there a store of value behind monetary instruments. The idea that there is a reserve of value, such as gold, which can back or support the money extant, is a chimera.

Monetary Circles

Perhaps an easy way to visualize the money creation and redemption process is through the use of monetary circles. A monetary circle begins when, through a line of credit at a bank or other bookkeeper, a check writer issues a check that is accepted by a seller. With the acceptance of this monetary instrument, the check writer has issued money into circulation and stands as a debtor to the market, i.e. he has taken something of value out of the market and, in due course, must put an equal value into the market in order to liquidate his "loan"at the bank. The money issued passes from hand to hand in what may be a wide circle of traders. Each holder of money stands, to the extent of his holding, as a creditor to the market, because his holding of money is evidence of having delivered value to the market. Thus, as the result of one man's issue, a monetary circle consisting of one debtor and a number of successive creditors is created. The creditors (money holders) displace each other, while the debtor remains until, in due course; he makes a sale (delivers value to the market), thereby capturing the money with which to liquidate his "loan." This completes the circle-from issue to redemption. Redemption does not imply, of course, recapture of the identical units issued, but merely an equivalent offset.



The above describes an uncompleted seven-factor monetary circle. The issuer starts the circle by buying before selling. The six trader-transmitters sell before buying (S-B). Any number of additional trader-transmitters may be imagined before closing the line to the buyer-issuer, but this line ultimately must be closed by the buyer-issuer making a sale to the last trader-transmitter, and thus the circle is completed from issue to retirement.

Monetary circles may be of wide or narrow orbit, depending upon the length of turnover in the business of the issuer, and can be sustained as long as necessary to supply the needs of any business. The only essential is that the initiator be also a potential finisher. To be such, he obviously must be a personal enterpriser, i.e. one who is obliged to go into the market and bid for money. This requirement being fulfilled, his issue is genuine money.

Money as an Abstraction

With the passage of time, trade psychology has become more and more enslaved to the superstition that trade by money must be state permitted and regulated. This attitude has come about because man has not understood money. He has believed that, in passing from whole barter exchange into monetary exchange, he passes to a higher plane where, by political magic, there is conferred upon him a power that he could not exert without the sanction of the state. In truth, trade has not risen and cannot rise above barter, because it is inconceivable that one trader would surrender value without being assured of receiving value. Money does not destroy the principle of barter. It merely splits it into halves, improving it by introducing a time lag between the surrender of value and the requisition of value, during which lag the monetary instrument certifies the right of the seller to make the requisition at such time and from such trader as he may choose. The monetary instrument acquires no value; the value resides solely in the thing or things to be requisitioned.

To believe in a metallic or other "standard," or to identify money with any commodity or "backing" or "coverage" or "reserve," or to attribute value to it, is to confess inability to master the monetary concept. The monetary concept is a concept in accountancy. It is as abstract from value as mathematics. Indeed, money is the mathematics of value, and is valueless in the same sense that mathematics is valueless. No amount of value can create money. But when men form a compact to trade with each other by means of accounting, in terms of a value unit, then a monetary system is formed, and actual money springs into existence when any of them, by means of the act of paying for a purchase, incurs a debit in the accounting system. Conversely, money is destroyed by the process of selling, in which a credit is earned against a previously incurred debit. Yet value is neither created nor destroyed by the process of creating and destroying money, since money is but a concept.

Every lawyer knows when he draws a contract that the real contract exists in the minds of the contracting parties, and that the paper and ink are but the evidence of the contract. Likewise, the substance of money is a tradesmen's agreement to carryon split barter. The monetary instrument is but the evidence of, and accounting device for, the split barter exchange consummated under the tradesmen 's agreement.

It is well to realize that the monetary concept must come before the monetary instrument, and that, indeed, there may be an actual monetary exchange without instruments. When traders are able to evaluate things in terms of an abstract mathematical unit, they have conceived money, and may carry on monetary exchange without record or instruments. Of course, this is not feasible to any great extent. But we should understand that money, first of all, is a concept, and that the bookkeeping and instrumentation that follows is but the record of transactions consummated in accord with the concept.

If a farmer approaches the village storekeeper with the question, "What are you giving for eggs?" and the storekeeper answers, " A peck of corn or three yards of calico," the trading is on a whole barter basis. But if the answer is, "Thirty cents," the trading is on a monetary, or split-barter, basis. A deal may be struck whereby the farmer turns over five dozen eggs and gets credit on the dealer's books for $1.50, against which he orders merchandise, and this method might continue indefinitely without a single monetary instrument passing between them. Yet these transactions would be perfect monetary transactions. They would constitute trading by means of money simply because the traders were able to state prices in terms of an abstract value unit. It is important for us to realize that the sum of monetary instruments used in trade is far from coextensive with the sum of monetary transactions. Offsetting items are common in business, which reduce the need for monetary instruments to settle balances.

The Mathematics of exchange

It is obvious that exchange is a mathematical process, because it deals in numbers, using addition, multiplication, division and subtraction. This is true even with traders who are uneducated in mathematics. To trade, the mind must think mathematically. In the absence of a basic concept, the mind deals in physical objects, comparing one with another. To establish relativity, which is the prerequisite of exchange, we may take any valuable thing, call it the unit of value, and give it the numeral 1. Other things, by comparison, will be either multiples or fractions thereof. It is of little consequence what commodity we choose as the representative of the unit of value, but it is all-important that we realize that we are choosing the value of the commodity and not the commodity itself. For values are always in a condition of flux, moving in and out of commodities under the control of the law of supply and demand, and hence no commodity retains a fixed portion of value.

When we have adopted a unit, which we designate as the figure 1, and approach the mental process of evaluating in terms of mathematical relatives, we have conceived of money. This is the monetary concept. As we have seen, it is possible to conduct a monetary exchange without going any further. Therefore the concept is money, and the instrument or record that follows is also money, but in another sense of the word. Thus, we do not give money in exchange for things; we give values (represented by goods and services) for values. We give things for things, mathematically evaluating them in terms of the unit, and then we give checks or currency as evidence of an accomplished exchange. It is important to note this so as to preclude the false idea that money ever buys anything or is a thing of value. Indeed, it is mistaken to attribute purchasing power to money, for it has none; it is merely the conduit through which purchasing power flows; such purchasing power lying in the commodities or values exchanged.

Money, the concept, is the determination of value by mathematical relativity of the unit of value. Money, the manifest, is the evidence of an accomplished unilateral exchange transaction through the monetary concept.

Monetary Rationale

Let us now formulate a definition of money that we can refer to as we consider the workings of monetary systems. Only by turning our backs on the muddle of past monetary economics can we fully understand the

subject of money. We must reject such irrelevancies as metallic and other standards, managed currency, bullion and specie redemption, quantity theories, legal tender, and other issues which have consumed endless hours of debate. Let us simply apply our common sense to the rationalization of the subject of money. Error has labyrinths; truth is an obelisk.

a) Money is a Receipt for Value
b) Expressed in Terms of a Value Unit, and is
c) *A Transferable Claim*
d) For an Equivalent Value
e) To be Determined by Competitive Exchange
f) In Which the Issuer is an Active Vendor
g) *Whose Issue Conforms to the Customs of a Convention of Participants in the Monetary System.*

a) Money is a Receipt for Value

A receipt for value implies an exchange. Hence, money springs out of exchange and not vice versa. It cannot be created by political statute nor by any action that is independent of trade.

b) Expressed in Terms of a Value Unit

The value unit may be the equivalent of any measure of any commodity at the time the unit is adopted. Thereafter the value unit must be divorced from identity with the commodity selected since, under the law of supply and demand, the value content of all commodities is constantly changing. The selection of amount, commodity and time serve merely to provide a reference point for the value unit, i.e. an initial value. Thus a new monetary unit might be established by making it par with an existing unit, but its parity at launching would not imply continued parity, inasmuch as the values of the two units would thereafter depend upon the monetary policies of their respective administrations.

c) A Transferable Claim

Transferability is of the essence. Hence, there can be no promise, in the ordinary sense of the word, involved in money, for if the fidelity of a monetary instrument depended upon the credibility of a given promisor, its transferability might be severely limited. Monetary credit must be a *social* credit, backed by all participants in the exchange system but identified with none.

d) For an Equivalent Value

This implies stability of the unit, which is necessary for a viable monetary system.

e) To be Determined by Competitive Exchange

There is no way to assure the holder of money that he will receive a value at the time he buys equivalent to the value he gave at the time he sold, other than by free competition. Only under free competition can the requirements of trade equitably regulate the value of money.

f) In Which the Issuer is an Active Vendor

Only as an active bidder for money under competitive exchange can the issuer of money justify his issue power. He who would create money to buy goods or services must be prepared to produce goods or services with which to buy money. Since personal enterprisers are dependent upon reciprocal buying and selling, it may be seen that they are compelled, by self interest, to be redeemers of money as well as issuers. It should readily be seen that governments are not under such necessity, since they have the taxing power. Such services as they render are not subjected to the choice and evaluation inherent in free trade.
Hence governments are not qualified to issue money.

g) Whose Issue Conforms to the Customs of a Convention of the Participants in the Monetary System
The rules and regulations prescribed in the convention of the participants must be honored, to assure fidelity of issue. This implies a formally structured monetary system and authority which establishes the monetary unit, prescribes the issuing process, its limits, the implements to be used, and such other mutually acceptable rules as will give dependability to the unit and to the system.

Breviate

The purpose of money is to facilitate barter by splitting the transaction into two parts, the acceptor of money reserving the power to requisition value from any trader at any time.

The method of money is to employ a concept of value in terms of a value unit dissociated from any object.

The monetary unit is any adopted value, which value is the basis relative to which other values may be expressed.

The monetary system is a cooperative agreement among traders to regulate the issuance of monetary instruments, to express and exchange values in terms of the monetary unit, and to keep account of such exchanges.

Monetary instruments may be any evidences of monetary transactions that serve the convenience of trade and the purpose' of accountancy.

Chapter 3, Banking and Business Cycles

Commercial banks do not lend money. They permit the "borrower" to issue money. The "loan," which is not in any true sense a loan because it does not reduce the money resources of the lender, is simply entered as a credit to the borrower on the books of the bank. It is a paper transaction, no money having been lent and no new money having come into existence. The borrower, however, now has legal authorization to write checks to the extent of the loan and tender them in trade. Upon their acceptance by a seller, new money comes into existence. Until such time as the borrower, through becoming seller, recaptures the money (extinguishes the money he created) with which to liquidate his "loan," there may be many purchase and sale transactions effected by the money he issued. Yet, throughout it all, not a single unit of money has been lent or borrowed. "Borrowing money" from a commercial bank is but a figurative phrase. It is getting authorization to create money-the first step in the money creating process.

Money may, however, be truly borrowed from existing reserves of money. True moneylenders include savings banks, building and loan associations, finance companies and individuals. Such money, however, originated in commercial banks through the process above described, and was accrued from surpluses.

It is interesting to ponder the question: Why does money lending exist? A little thought shows that it exists because of the deficiency of commercial bank credit. The borrower obviously borrows money because he wishes to buy something.

The motive is the same for creating money. Borrowing money offers no advantage over creating money, and it has positive disadvantages. Interest charges are usually higher for borrowed than for created money. To the money lender it involves the hazard of default by the borrower, whereas default in a commercial bank "loan " is distributed, almost painlessly, over the entire economy. "Loans" through commercial banks are

underwritten by the entire trading community, whereas a loan of existing money is supported by the resources of the borrower alone.

Why, then do buyers resort to money lenders rather than commercial banks for needed funds? The only answer is that the banker, the gatekeeper of the trade channel, is limited by statute in the number of passes that he can issue to personal enterprisers. Let us investigate the source and consequences of this limitation.

Bust Without Boom

We in America are in the habit of thinking that boom-bust, the business cycle, is due to an inherent fault in the personal enterprise system. We also believe that *boom* means inflation, and that *bust* means deflation. This confusion between inflation and boom must be eliminated before we can understand the source of the business cycle. Some definitions are in order.

Boom results from an expansion of the genuine money supply. This is not inflationary, because it justifies itself by an expansion of production and trade.

Inflation, on the other hand, is the result of the injection of monetary units into the money supply without an offsetting increase of values in the market place.

Bust results from a reduction of the genuine money supply, which is brought about by bankers calling or, as they mature, failing to renew, the "loans" upon which the money is based.

Deflation is not to be confused with *bust,* for there cannot be deflation without prior inflation. Just as inflation is not an increase in the genuine money supply, so deflation is not a reduction. Both are produced by governments. By deficit financing (through borrowing from banks) water is injected into the circulation, and by surplus budgets it is extracted, in no wise affecting in either operation the substance of the money supply.

Now, if the expansion of the genuine money supply, resulting from bank loans to personal enterprisers, is justified by the expansion of production and distribution, how can we explain the reduction of the genuine money supply that occurs during the bust part of the business cycle?

The shrinkage of the genuine money supply, which causes the bust, is due to a limitation imposed upon banks by the political monetary system. When a bank makes loans to personal enterprisers, it assumes the legal obligation to convert all of the deposits resulting from such loans into currency on demand. But there is a limit to the actual cash the banker can deliver. This limit is determined by the amount of gold certificates and Government bonds he holds. A Government bond can requisition cash by its deposit with the Treasury, which will deliver to the banker its equivalent in currency at the mere cost of printing.

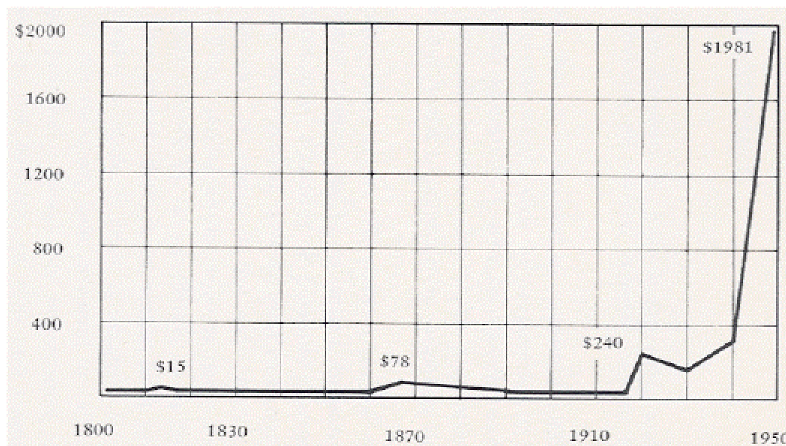
At the beginning of the boom there exists a wide margin of safety, since demands for currency can easily be met. As the movement progresses, however, this margin is reduced, until it becomes hazardous for the banker to further extend the loan volume. His attempt to keep the volume of loans within the limit of his holding of gold and federal securities arrests the movement of the boom. As a result of this effort, business is stalemated. This further increases the banker's caution to the point where he stops making loans. As outstanding loans mature without an offset of new loans, the money supply begins to decline, and the bust movement is on its way.

Our worst boom-bust culminated in 1929. It was aggravated if not precipitated by the action of Secretary of the Treasury Andrew Mellon, who retired the federal debt from its peak in 1919 of approximately $25.5 billions to about $16.2 billions in 1930. His reduction of the federal debt was acclaimed by leaders of

banking and business. However, in so doing, Mellon cut away the foundation of the bank credit pyramid. By taking Government securities from the banks, he eliminated the margin of safety by reducing the availability of currency. Some ten thousand banks failed to meet the public demand to exchange deposits for currency.

Since in a crisis the demand is for currency, and since the Government is the only debtor that can convert its debt into cash on demand, it should be obvious that a banker's security depends upon the ratio of public debt to private. In the years preceding the depression, the ratio factor was continually cut as the banks rapidly expanded private loans. When business began to contract and the demand was for cash, the banks discovered that they were short. Their frantic calling of loans further diminished the money supply, and the spiral ended in depression.

The demand for currency need not have risen to critical levels but for still another piece of legislation, the legal tender law, which forced many in the chain of credit, if they would stay out of bankruptcy, to sue for cash payments in order to be able to satisfy the demands of their creditors, who in turn were hard-pressed for cash to meet their obligations. But for the limitations on choice imposed by the legal tender law, many creditors would have agreed to alternative, non-cash settlements, or simply let their notes run, and excessive pressure would not have built up in the system.



Note in Figure 3, a graph of the Per Capita National Debt, the beginning of the undermining movement in 1920 as Government debt began to be cut back, contrasted with the rise from 1932 onward.

Today we are experiencing not boom, but inflation, resulting from the great increase in public debt especially since 1940. The ratio factor of public to private debt is now so enormous that there is not the slightest danger to the banks in extending private loans. They hold enough securities to meet any demand for currency; hence the deflation precipitation point is practically non-existent. Nor would the banks call Government loans as they might private loans. The reason is that the Government can replace each bond with currency, and thus the banks would be exchanging interest bearing paper for non-interest bearing-a loss of interest with nothing gained, since there is no hazard to them regardless of how high the Government debt mounts.

Consequently, there will be no deflation to follow this inflation. We are out of the boom-bust cycle, and have seen the last of that phenomenon. We are not, however, out of trouble.

Chapter 4, Legal Counterfeit

Let us imagine the formation of a political state calling itself Pretense. and declaring the national monetary unit to be the Pretensia ...

Everyone knows that it is a crime to counterfeit bills and coins and that governments, with the cooperation of banks, are constantly vigilant against those who practice this nefarious art. What is not generally known-even to the perpetrators-is that governments and banks unconsciously cooperate in *legal* counterfeiting.

It has been seen that, under the natural law of money issuance, governments cannot qualify as issuers, because they are not in the necessitous situation of personal enterprisers. They do not barter, and therefore have no need to escape from barter. They do not bid for money in the open market with goods or services. Their taxing power relieves them entirely from selling; they take merely by taxing. Hence, when they are admitted to the issue power, their issue cannot be a genuine promise to deliver value in trade. It must of necessity be counterfeit, regardless of any statutory laws intended to validate it.

This legal-illegal practice is innocently perpetrated, in the United States, not by the issuance of bills and coins, but through the loans made to the Government by commercial banks. As we have seen, to borrow money from an individual, private corporation, savings bank, building and loan association or any lender other than a commercial bank, means to reduce, by the sum borrowed, the monetary resources of the lender. Hence, no increase in the total money supply is produced. To "borrow" from a commercial bank, however, implies something quite different. When one borrows from such a source, no reduction in the capital funds of the bank ensues, nor is anyone's deposit reduced. The only effect is that the "borrower's" balance is increased by the amount of the "loan." The total money supply is increased the moment checks are drawn against this higher balance and accepted in trade.

All money is created through "borrowing" from commercial banks. When carried out by personal enterprisers, this practice is legitimate and essential. But when governments follow this practice, it becomes illegitimate and is infinitely more destructive that is counterfeiting by private individuals. The presence in the circulation of these counterfeit units reduces proportionately, by a blending process, the power of all units. No increase is produced in the money supply; the increase is solely in the number of units. From failure to discriminate between money issued through bank credit by personal enterprisers and by governments, has come an inflationary mixture of true and false money that threatens the social order.

Legal counterfeiting is by no means a modern invention, though it is practiced today on a much larger scale than ever before. Ever since the beginning of money, governments have found various ways of surreptitiously taxing their citizens and subjects through spurious money issues. With the advent of paper money, the opportunity was expanded and extensively utilized. Through the bank check, which is the latest evolutionary step in monetary instruments, has come the opportunity to practice legalized counterfeiting on the grandest scale and in the most subtle manner-indeed so subtle that even government officials are not conscious of it. This Open Sesame to weaken the money in circulation through dilution by counterfeit issues exists because of the popular belief that checks are not money. In fact, however, they are the primary form of money in use in the United States today. This becomes obvious when one stops to consider that currency, which most people consider to be the principal form of money, is usually obtained by cashing a check.

Lest readers gain the impression that legal counterfeiting and the introduction of various pieces of window dressing in our monetary legislation to justify it indicate malicious intent on the part of politicians, let it be clear that the practice arises from a universal misconception of the source and essence of money, a misconception which blinds legislators as well as the people they undertake to serve. Money cannot be governed by man-made laws; it operates solely by natural law. Under this natural law, governments cannot

be vested, either by usurpation or by delegation, with the money issuing power. Efforts to legislate this power result in legal counterfeit as distinguished from illegal (the one is amoral while the other is immoral.) It should also be understood that the practice of legal counterfeiting is indulged in allover the world, and to a greater degree abroad than at home. That is why the dollar is as yet the strongest monetary unit in the world.

History of American Legal Counterfeit

All of the thirteen American Colonies legalized the issuance of 'money' by government, and all thirteen units of account passed out into thin air through total inflation-the inevitable result when counterfeiting is carried to extremes. Following these Colonial experiments came that of the Continental Congress, from which sprang the *continental,* object of the reproachful phrase, "not worth a continental. "

It is not surprising that, with these horrible examples of legalized counterfeit before them, the delegates to the Constitutional Convention resolved to withhold from the federal Government this perverting power. The question arose when Article 1, Section 8, Paragraph 5 was up for discussion. This provision, as adopted, reads:

> Congress shall have the power to coin money, regulate the value thereof and of foreign coin, and fix the standard of weights and measures.

The clause as first presented included the words, "emit bills of credit." After debate, the delegates voted to strike out these words, and thus the Government was denied the power to issue currency. In those days currency was called *bills of credit,* and these were the only instruments of legal counterfeit, the checking system not yet having come into practice.

The clause, as enacted in the Constitution, authorized the Government to "coin money," but not to issue it. It meant that the Government was empowered to set up a mint to stamp out coins from metal brought to it by private owners. The coins minted were not Government property; they remained the property of the citizen from whose metal they had been coined. He was thereafter entitled to issue these coins into circulation bearing the Government's guarantee of weight and fineness. To "regulate the value thereof" meant to define what constituted a dollar and its fractions. It did not mean to regulate the *power* thereof, as this would involve price fixing, an impossible task.

> (For authorities on the above report of the action of the constitutional Convention, consult Max Farrand, *Records of the Constitution,* Volume 2; E. H. Scott, *Madison's Journal of the Constitution*; Charles Morris, *Making the Constitution*.)

For the first seventy years of the Republic, the intent of the framers of the Constitution was respected. During that time, no currency (bills of credit) was issued by the Government; business was conducted with private bank notes and with gold and silver coins minted by the Government for private owners of the metal. The Civil War emergency, however, induced Secretary of the Treasury Salmon P. Chase to recommend to Congress the issuance of United States notes, popularly called "greenbacks," and Congress obliged. This was the first legalized counterfeit issued by the United States Government, and it was frankly recognized as unconstitutional. It was justified on the ground of national emergency by Chase, although later, as Chief Justice of the Supreme Court, he condemned it in a majority report as unconstitutional. By a still later decision, however, with Chase this time in dissent, the Court sanctioned the practice and thus read into the Constitution what the founders had deliberately voted to keep out.

> (See Hepburn vs. Griswold (1870) Wallace 603; Know vs. Lee (1871) Wallace 457)

The above quoted Article 1, Section 8, Paragraph 5 is the cause of popular misunderstanding. It is generally

believed that this is the money enabling clause. However, except for the Civil War instance cited and some minor issues of silver certificates issued since, the great evil of legalized counterfeit has not sprung from this clause. The power comes from another clause that is never suspected because of its innocent wording. The enabling clause is Article 1, Section 8, Paragraph 2:

Congress shall have power to borrow money on the credit of the United States.

This paragraph opened the way for the modern method of counterfeiting that is far more insidious and dangerous than the "printing press" method that Paragraph 5 (the first quoted paragraph) undertook to exclude. That a government precluded from the issue power should, as an alternative, be permitted to borrow, seems quite logical and consistent, and no harm could come from the exercise of the borrowing power but for the double meaning of the word, "borrow."

The bank borrow-creating process is the modern form of "printing press money" which the framers of the Constitution endeavored to preclude. Under this modern method the Government has some bonds printed which it delivers to commercial banks, receiving therefor a deposit credit. Subsequently it writes checks against the credit thus established and "buys" what it wishes. The checks, in turn, are either cashed or deposited by the recipients, and in either case, they increase the dollar supply. Since all bank deposits are subject to conversion into currency, it may be seen that the public demand is the gauge of the amount of deposits that are converted into currency. In response to this demand, the banks call upon the Government to supply the needed currency, and thus, by a roundabout method, we reach the printing press again. If the Government resorted to the printing press directly to print and circulate bills, there would be a loud outcry against "greenbackism " and "printing press money." But by circumvention the unlawful issue of currency becomes lawful, and the legalized counterfeit permeates all bank deposits and currency, with the people quite unaware.

A strong case might be made against the Constitutionality of the Government's practice of "borrow-creating" on the ground that the Constitution makers could not have had this in mind when they wrote the word *borrow* into the Constitution. The practice of commercial bank borrow-creating had not come into use in their time. Their complete unconsciousness of this modern method is borne out by the debates in the Constitutional Convention. More fundamental, however, is the fact that neither constitution nor legislation can qualify a government to be a money issuer. As stated, money issuing power springs only from natural law, and this law disqualifies governments. Had the Constitution makers undertaken to invest Government with the money-issuing power, it would have had the same enabling power as if they had declared that it should have power to regulate the movement of the planets.

Chapter 5, The Hazard Ahead

Governments forbid counterfeiting, as they forbid force, yet they practice both.

Legal counterfeit blends with the genuine money supply and is indistinguishable from it. It is, therefore, more insidious and, through sheer volume, vastly more destructive of the power of the monetary unit than is illegal counterfeit. It inevitably manifests itself in higher prices of goods and services. The public is bewildered by the higher prices, and it requires but slight propaganda by the author of the inflation, the Government, to deflect criticism onto private business which, in the end, is always obliged to bring the bad news of rising prices to the people. The public does not realize that it is, in effect, indirectly paying taxes over the merchant's counter instead of paying them directly to the tax collector. The Government finds this a ready way to increase taxation without being detected.

To collect sufficient taxes to balance an extravagant budget brings citizen resistance if the tax collection is obvious. However, inflation taxation is not only covert; it operates by seemingly putting a dollar into the

taxpayer's pocket instead of taking one out. By lavish counterfeiting and spending, the Government increases the number of dollars in circulation and thereby creates an appearance of prosperity.

We delude ourselves, moreover, if we think that deficits, or government "debts," are deferred taxes to be paid by future generations. They are current taxes, paid not only by the nonbondholders to the bondholders as interest, but by the bondholders themselves through the depreciation of the purchasing power of the dollars represented by the very securities that they hold.

Strictly speaking, there is never and there cannot be a government deficit. All government expenses are and must be paid by taxes. What is commonly called *taxes* is merely that shown in formal tax revenues, whereas the amount which is called *deficit* is in reality another bracket of taxes-inflation taxes and this the most vicious form, since it disturbs and ultimately destroys the monetary system upon which the entire economy depends.

Even tax-conscious persons think only of the taxes shown by Government revenue receipts. They tell us that the United States is approaching the danger point of a tax collection rate that is thirty per cent of the national income. They do not realize that it has already passed beyond this point, because they do not reckon the unaccounted taxation, actual and potential, through the depreciation of the dollar-inflation taxation. As inflation accelerates, the rate at which conventional taxes are levied will not be able to keep up with the national income-this, despite the false dollar prosperity floating the citizenry into progressively higher income tax brackets. The relative percentage will decline, giving to those who take this narrow view the impression of a decline in taxation. It is but a fool's paradise. Can anyone blame the politician for employing this painless way of plucking the goose?

Under the deficit financing policy of the United States Government for the years 1941 to 1950, inclusive, the figures show:

Expenditures	$540 billions
Collected by Levied Taxation	334 billions
Total Deficit	206 billions

Only sixty-one per cent of the cost of Government has been presented in revealed tax levies, leaving unaccounted thirty-nine per cent. It is unlikely that the unaccounted portion will ever be presented in any future above-board tax levies. That would require a surplus budget. Therefore, it will have to be paid through inflation taxation in the form of higher prices over the retailer's counter.

Although we cannot isolate and identify a legally counterfeited dollar from one that is genuine, we can determine the volume of legal counterfeit in our total dollar supply by deducting from the total that part which was created by all governments, i.e. national, state and city, through bank "borrowing."

The forty-eight state governments have the power to deficit finance only to a limited extent, because when they borrow, they can pledge only to payout of tax income and, therefore, soon reach their borrowing limit. The federal Government, on the other hand, can create an unlimited amount of debt because it does not have to payout of income; it can pay by its power to issue "money." Hence the federal "debt" is not a debt in the true sense of the word. It is a promise to pay in terms of its own promise. The obligations of other political divisions are promises to pay in terms of the federal Government's paper, which is not in their control, and therefore these are real debts.

Table 3 (from page 42 of the Riegel book) is titled DOLLARS AND DEBTS JUNE 30, 1950
(All figures in $ Billions)

TOTAL FEDERAL DEBT	257
TOTAL STATE, CITY, and LOCAL DEBT	24
	281
TOTAL DOLLAR SUPPLY	
CURRENCY	27
DEPOSITS	148
	175
TOTAL BANK-HELD FEDERAL DEBT	84 (1/3 of Total Federal Debt)
TOTAL BANK-HELD STATE, CITY, and LOCAL DEBT	8 (Estimated at 1/3 of Total)
TOTAL COUNTERFEIT MONEY	92
TOTAL GENUINE MONEY	83
	175
PER CENT COUNTERFEIT	52.6

Thus it may be seen in Table 3 that more than fifty per cent of today's dollar is "water" injected by government-created "dollars." But this is not to say that the total supply of counterfeit has yet manifested itself. Actual inflation and potential inflation are two different things. Prices are determined not by the total monetary-unit supply relative to the total goods supply, but rather by the amount of each that actually meet in the market. $175 billion of federal securities are held other than by banks. All of these dollars are being held out of the market, hoarded under the illusion that they will grow through savings. But even with a moderate rise in prices, more is lost from the principal than accrues from interest or dividends. Gradually, this will become more and more evident to more and more people, thus causing holders of Government securities and savings deposits to convert into goods and property. This will bring into the market a flood of dollars that are now inactive.

The resulting price rise will pinch the population of low and fixed incomes and thus throw upon the Government the obligation (under the now prevalent idea that the Government owes every man a living) to issue additional counterfeit dollars. This in turn will cause further price rises, calling for further counterfeit and so forth until the dollar is completely extinguished.

Unfortunately, it is no longer within the Government's power to avert the threatening disaster merely by balancing the budget on the premise that inflation thereby will be arrested and prices will stabilize themselves on a new plateau. For, sooner or later, the trend toward cashing Government bonds by individuals, trusts, insurance companies, savings institutions, etc will set in and mount until there exists a veritable buyers' panic, with prices rising in a runaway inflation. Let us examine what dry wood there is lying around to feed the fire.

Each year, approximately $50 billions of Government bonds mature and are refunded by new issues. This will continue as long as the holders are willing to renew. A part of this sum is held by banks, which can always be counted on to renew. Banks cannot lose by inflation, since both sides of their ledgers are in terms of money and both are current. Their assets and liabilities are both expressed in current dollars, no matter what their power. But businessmen and consumers, who trade in and out of dollars, suffer the attrition that the monetary unit undergoes in the interim of the turnover. They find it to their interest, during an

inflationary rise, to keep their cash, or paper promising cash, at as low a level as possible, and the level of their goods holding as high as possible.

Assume, now, that of the holders of yearly maturing Government securities, one half, or the holders of $25 billions, should prefer cash for investment in property or goods as a hedge against inflation. Add to this the $55 billions of savings bonds which are payable any day that the holder sees fit to present them, and we see that there is a total of $80 billions that is a definite fire hazard. Every such dollar demanded of the Government that is not covered by either surplus tax revenues or the purchase of bonds by another private subscriber, must cause one more counterfeit dollar to be injected into the circulation.

We are thus confronted with an inflationary movement, the first in peacetime in the history of the United States. Nothing can stop such a movement but deflation, and deflation can only be brought about by the Government. To bring about deflation, the Government must run a surplus in its budget and apply the surplus to the reduction of its debt. Political expedience bars such a possibility. A government that has not been able to face realities over the last two decades surely cannot now muster the courage to run the surplus budgets needed to reduce the enormous deficit that it has incurred.

Realism therefore compels us to recognize that inflation will continue until the point is reached at which the dollar will be worthless. The Government will find it much easier to let taxation by inflation wipe out its debt than to liquidate its debt through direct taxes by running a surplus budget. The nation born under the slogan, "No taxation without representation," is now practicing taxation by misrepresentation.

Fidelity of Contract

The destructive effect of inflation is not confined to its covert taxing power. That is only its early manifestation. Its later destructiveness lies in its power to amend and finally to nullify the contractual relationships upon which the social order depends. The whole philosophy of freedom is written in the single phrase, *Power to Contract.* This phrase betokens voluntary action for mutual benefit in the pursuit of self advancement. Such cherished freedoms as freedom of press, speech and assembly and all others are collateral to the master freedom, freedom and power to contract.

In a money economy, contracts are spoken and written in terms of the monetary unit, which in turn is based on the compact of fidelity implicit in its issue. By violating this fundamental compact through the issuance of counterfeit, all contracts existing in society are altered by reason of the changed meaning of the word that expresses the monetary unit, as, for example, the word *dollar.* While a small deterioration of the unit of account impairs contracts previously written, a runaway or total inflation actually destroys all existing contracts and prevents the making of new ones. This is because the rate of deterioration makes it impossible to faithfully fulfill even short-term contracts. This means the complete destruction of commercial credit, resort to cash transactions, and, finally, abandonment even of cash transactions in favor of barter.

Thus it is that under a political monetary system which permits legal counterfeiting, there can be no such thing as fidelity of contract. Neither contracting party can guarantee that the government will not exercise its counterfeiting power, let alone estimate the extent of the abuse. A government may pay lip service to personal enterprise and denounce socialism and the police state; yet, by counterfeiting money, it robs enterprise of its indispensable tool, fidelity of contract.

Weathering the Storm

We have seen that inflation is epidemic and worldwide, attacking the stronger as well as the weaker units. We have seen how far monetary deterioration has gone and how the decline of the dollar obscures the real decline of all foreign exchange units, inasmuch as they are all rated in terms of current dollars. We observed, too, that the United States Government has been following the policy of transfusing blood from

the strongest unit, the dollar, to the weaker units, thereby deferring the collapse of those units but threatening the ultimate collapse of the entire structure. To these considerations should be added still another which, though little observed, will contribute its part to the collapse of the international political monetary system. This is the reserve of gold and dollars held by foreign governments and central banks. The Federal Reserve Bank of New York reported these reserves of gold and dollar balances, as of March 31, 1950, to be $15,690,000,000. Russia's secret gold hoard is not included. The sole support of these reserves, including Russia's, is the United States dollar. As the dollar declines, the value of these reserves declines, although this is not realized because the weight of the metal and the dollar valuation ($35 per ounce) remain unchanged. Thus by weakening the dollar through inflation, the United States has been steadily diminishing the reserves of foreign nations and promoting their ultimate bankruptcy.

This is a cold, mathematical picture of a coming collapse. It lacks all the colorings of human reactions of reason and emotion. But in reality the experience will be anything but cold; it will be wrought and fraught with passions. Men cannot calmly watch their fortunes fade, least of all when others are profiting by the fade-out. Broadly speaking, the entire debtor class will benefit by the depreciation of their debts, and many men, foreseeing this, will pile up debts as a means of thus acquiring property cheaply. Trust funds, visualized by their testators as permanent, will be wiped out, and not only private individuals dependent thereon, but educational institutions, hospitals and charity institutions, will find themselves bankrupted. Insurance companies may weather the storm, but their benefit payments will decline to a small fraction of what the insured paid in, and the companies will emerge emaciated and shrunken if, indeed, they survive at all. The Government's entire Social Security program and veterans' benefits will be reduced to the vanishing point, unless the Government sees fit to increase payments as the dollar declines. But this will, of course, only further feed the raging flames of inflation.

Many businesses, following the normal markup on costs without anticipating replacement costs, will be wiped out, and their owners will be added to the unemployed. Social unrest will intensify racial problems. Morality will loosen. The climate will be riotous, rebellious, and dissolute. America will be tried as she never has been tried before.

But the whole experience will be bearable, provided that we can prevent exchange from breaking down. There is away that this can be done. A new monetary unit, one that would be immune to legal counterfeit and, hence, not subject to inflation, would permit a complete separation between old dollar contracts and new contracts, thus permitting the old ones to wash up in the course of inflation without disrupting current business. This is a new inflation strategy never before tried. It would make it possible for the nation to go through total inflation without chaos and all the while maintaining an orderly domestic and foreign policy. Inflation does not destroy wealth; it merely shifts it. There are of course many painful adjustments, but the wiping out of a nation's monetary unit through inflation is in itself not calamitous, and for many it is a positive gain. Society can tolerate the neutralization of past commitments, but the social order breaks down if there is no common language in which new ones may be entered. A new and stable monetary unit must be provided to serve the current business of living.

Chapter 6, Toward a Natural Monetary System

Since money is but the mathematics of value, there is no more justification for the nations of the world to have separate monetary systems than separate systems of mathematics.

It has been said that a communist is a socialist in a hurry, to which it may be added that a fascist is a socialist dragging his feet. They all face in the same direction. All groups, whether they are called radicals or conservatives, progressives or reactionaries, have turned their backs upon personal enterprise and their

faces, directly or obliquely, toward state dictatorship. All advocate state intervention in some form or degree.

Adam Smith in his political economy allocated the money power to the state, and thus he anteceded Marx as a socialist. It is his followers, unconscious socialists, and not those of Marx, who constitute the greatest peril to the social order. The Smith philosophy is taught in all our schools and colleges, and we are all indoctrinated with it, unaware that in its monetary concept it is antithetic to the true philosophy of personal enterprise.

The Smith and Marx philosophies are of the Old World, authoritarian. America, under the democratic ideal, must perfect the personal enterprise system by reserving to it all three essential factors, to wit, the means of exchange, the means of production, and the means of distribution. In the Old World structure of the enterprise system, monetary power, the keystone of the arch, has always been lacking, and thus the temple of personal enterprise has never withstood the political winds and storms.

"Political economy," the gospel of the so-called free world, is an assembly of speculations upon the behavior of man in political subjection. It offers no emancipation. It challenges no political presumptions, nor does it embody a fundamental concept of money, the life blood of economy. Hence its speculations are useless, for man's behavior must of necessity differ under a true monetary system than under a perverse one. An unnatural monetary system begets unnatural economic manifestations.

How can a free economy work with the monetary system socialized? As the very name suggests, *political economy* is an attempt to compound antitheses. The term is usually applied to the so-called classical school founded by Adam Smith, but it can be applied just as appropriately to the mercantilists, the physiocrats, and others that went before. All take the socialist approach; they differ on the extent and means of political intervention, but not on the principle. We search their literature in vain for any challenge to the basic socialistic doctrine of political money power.

With the modern world thus educated to think in terms of the political means of accomplishment, is there hope of salvation? Professional economists do not find the principle of separation of money and state in their textbooks, and to espouse it would require turning somersaults in public. If salvation depended altogether on reason, therefore, there might be none, for statism is deeply imbedded in the mores of the peoples of the earth. But it is not solely upon the rationality of the truth that we must depend; the irrationality of the existing order is being demonstrated by the collapse of the political monetary system. As we progress toward runaway world inflation and all that that signifies, there will come a public demand for an escape which political action cannot supply. Private, nonpolitical action alone can provide a true monetary system to which the peoples of all lands may turn for self preservation.

A monetary system is simply a system which facilitates the money issuing powers of its constituents and accounts for their monetary instruments. Personal enterprisers, which term includes employees as well as employers and the self-employed, have in their hands all the powers for the establishment and maintenance of such a true and stable system, while governments hold none. The substantive element of all money ever issued has been supplied by personal enterprisers, hence it is nothing new to propose that money be issued by them. What is new is the idea that governments be excluded from the issue power. Governments under such a system would be enabled to collect and dispense money that had been created by personal enterprisers, and they would also be enabled to borrow such money, but they would not be permitted to undertake the creation of money.

Whence will come this saving and liberating movement? It might come through a worldwide effort of superstatesmen of the business and financial spheres, or it might arise, instead, from small local action in

one or several locales with the humble and modest purpose of preserving and promoting local trade. In the former case, a world authority would be set up with a single monetary unit and overall administration. In the latter case, each locale would nominate its unit and govern itself until mergers brought about unification under one unit and one administration.

Any sizable group anywhere, any day, could start a nonpolitical monetary unit and system. There is no law against it, and no legislation need be invoked. The legal tender provision is gratuitous window dressing, for any monetary unit that is not acceptable in trade cannot be made so by law and, if acceptable, needs none.

Since participants in a personal enterprise monetary system will have to be drawn from the established political monetary systems, its success will depend upon demonstrated merit. By the test of competition, it will have to prove itself worthy of universal acceptance by traders. Such a system will enjoy no monopoly privilege. It will entail no political action. Therefore, there will be no question of majorities-or minorities-denying to any his right to trade with whatever medium is preferred by him. If the system does not prove responsive to the needs and preferences of all people, it will soon face competition from one or more alternative systems. Because trade naturally tends to unify and to adopt a single monetary language, one of these systems, through sheer merit, must sooner or later become universal.

To avert the utter and complete disorder of a moneyless world, however, such a system must come into being before the present expires through total inflation. The present monetary units must not sink to complete worthlessness before a new unit and a true one becomes available. Not only must we act while exchange is still operating under the political monetary system, but we must also make it as easy as possible to exchange the old currencies for the new. To do this, it will be necessary also that we exchange old ideas for new.

The Valun Universal Monetary System

The valun plan for a nonpolitical, universal monetary system represents a concrete effort to implement a new approach to freedom. It takes its name from *valun,* which is the name for any *value unit* that is established by a social compact of its users, who agree to bargain with one another in terms of it.

> **(Dennis Riness, of Seal Beach, California, has suggested *Riegel* as an appropriate name for a new, wholly nonpolitical monetary unit. -Editors.)**

This proposed system will not be the only one devised or tried, nor need it be the one that ultimately prevails, but it provides a much needed starting place for thought and action. Free competition in the marketplaces of the world will be the ultimate arbitor, as it is in all things where free choice prevails.

The "built-in " features of the valun system have been limited to those considered indispensable to a successfully working monetary system, leaving to experience and the process of competition the selection of operating policies and details. The "built-in" principles are two:

a) All governments are excluded from the issue power.
b) The power to convert check drafts into currency shall not be limited.

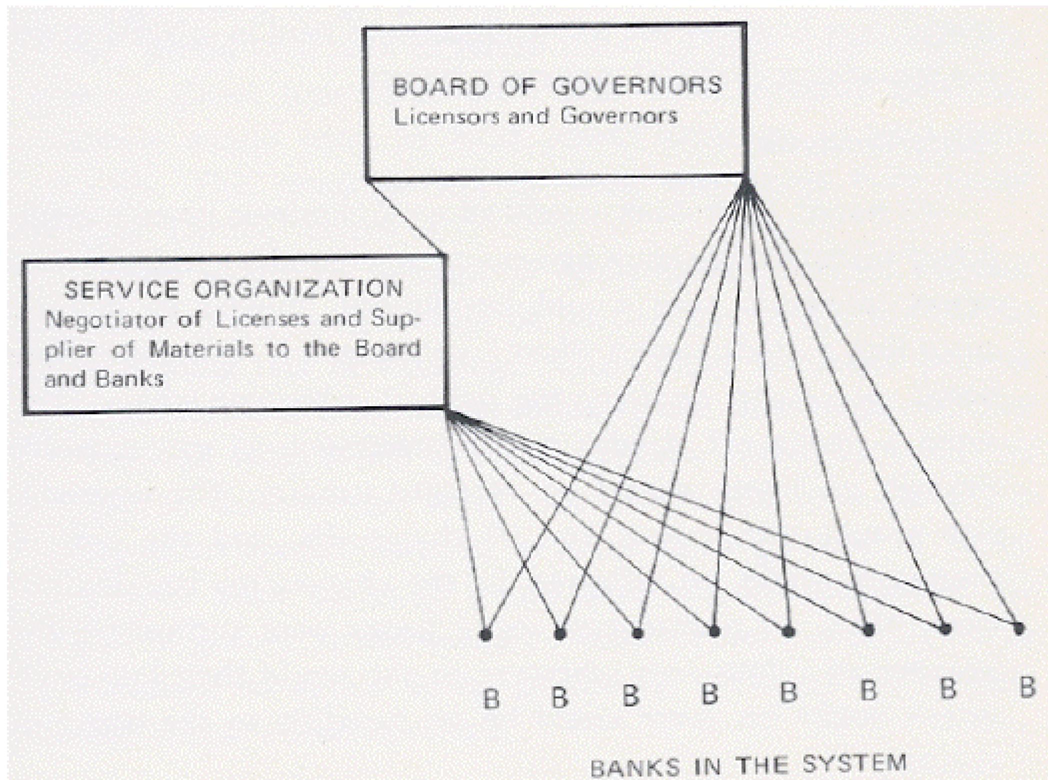
The first principle, being basic to the whole thesis, needs no elaboration. The second is necessitated by the distinction made in the political monetary system between currency money and check money, a distinction which, as we have seen, puts a purely gratuitous hazard in the banking business: The political monetary system imposes artificial restraints upon the banks' ability to convert any or all bank deposits into currency. This is the reason for the recurrent bank crises of the past. Bank runs forced banks to resort to clearing house certificates or else fail, even though they were perfectly solvent but for the arbitrary distinction

between currency and checks. This hazard in the banking business has been displaced in recent years by the yet greater evil of legal counterfeit. The banks have purchased so many Government securities that there is practically no possible demand for currency that they could not meet. A true monetary system, however, must preclude not only the major evil of counterfeiting, but the secondary evil of the business cycle as well. Hence the provision for the full interchangeability of checks and currency.
Let us now look beyond these bare-bones features which would obtain in any successful private enterprise monetary system, and envision how such a system actually might work in operation.

Organization of the Valun System

The valun system would be governed on a mutual participation basis. A board of governors would license the participating banks, and the board and member banks would be served by a separate service organization which, like the banks, would be organized and operated for profit. This basic structure is illustrated in Figure 4.

Figure 4, THE UNIVERSAL VALUN SYSTEM



The board of governors would be a non-capitalized, mutual association of participating banks in which all members would have one vote. With the bank stocks, in turn, being held by personal enterprisers, the whole monetary system would thus be truly of, by and for personal enterprise. The banks would pay stipulated fees to the board, and any surplus accruing would be redistributed among the banks in proportion to their volume of valun business, probably with check clearances being the criterion.

The board would license new and existing banks to operate under the system, without distinction as to nationality or the monetary unit in which the latter normally transacted business. Valun banking would require merely a separate set of books. The operating licenses would stipulate rules of practice and provide for periodic examinations. Through its control of the name *valun,* the board would guarantee adherence to uniform standards by all banks in the system. The board would also authorize the printing of bills and minting of coins and provide for surveillance against counterfeiting of valun currency.

A chief responsibility of the board would be with respect to credit policy. The board could set what it deemed to be the most conservative policy and provide therefor a minimum percentage to be charged for loss insurance, and from there up graduations of more liberal policies, with appropriate percentages for loss insurance for each. Thus there would be no more need for standardizing the basis of credit in the valun system than in the present banking system. Each bank could choose its own credit policy. The appropriate loss insurance percentage would then be added to the check clearing charge made to the customers. In this way, customers of the various banks would pay more or less as the policy of their bank was less or more conservative. The insurance fund thus set up against defaults would be held by the board, subject to draft by any bank to cover any "loss" from credit default.

The service organization would be a profit corporation with capital adequate to promote the adoption of the system by banks and their depositors. In addition to negotiating licenses for the board, it would supply the banks with checks and other forms required by them, as well as any mechanical equipment desired. It would also supply valun currency in bills and coins, as authorized by the board. In view of the national and international potentialities of the valun system, it can be seen that the service organization would have the possibility of becoming a very profitable enterprise, expanding both in capital and income with the growth of the valun system.

The function of the banks would be to administer, for an appropriate service charge, the mutual credit of their account holders. The banks would provide credit facilities for the issuance and redemption of valuns by personal enterprisers and would clear checks and render other appropriate banking services. There would, of course, be no interest charge for lines of credit, since the banks would take no credit risks. Traders to one another would extend the credit, and the banks would not be involved except as administrators.

Hence, under the valun system, credit would be free, but not printing, bookkeeping, insurance and other expenses; service costs would be paid for by the account holders. The small percentage charge stipulated by the board of governors to set up reserves against credit "losses" might range from 1/20th to 1/10th of a per cent per month. Thus the valun system would save business the tremendous sums paid in interest under the speculative political monetary system.

Parity Provision

As noted, each bank would adopt and pursue its own credit policy under an insurance agreement whereunder a base, or minimum, premium rate would be charged, subject to increase according to that bank's "loss," or charge-off, experience, the board, of course, reserving the right to determine what constituted a charge-off. Under this arrangement, all valuns issued through all banks would be of equal validity. The insurance rate would compensate for all charge-offs, and the cost of insurance would be reflected in the charges for banking services. Thus, no matter how many banks were authorizing the issuance of valuns, nor wherever in the world their borrower/issuers might be, there could be no variation in the worth of valuns.

In other words, every issuer of valuns would be practically underwritten by the account holders of his bank, through the provision of reserve percentages adjusted to the "loss" experience of each bank. The board of governors might, for example, set a median rate of 1/10th of one per cent per month on debit balances, and then raise or lower this rate in accordance with the experience of each bank. Since these reserve percentages would affect the service charges of each bank, competition among banks would tend to deter laxness in the administration of credit. This credit, it will be remembered, would be based upon the debtor's potentiality of placing in the market, at the market price, the commodity or service that he dealt in, and not any specific, price-pegged commodity.

This insurance feature might better be called the *parity* provision. Unlike the Federal Deposit Insurance Corporation, its purpose would not be to insure depositors against default of the banks, but rather to preserve the parity of valun issues emitted through the various banks.

How much money might the banks permit each issuer to issue? As much as he could redeem, which means, as much as he might need to get a turnover in his business. This, admittedly, would vary with different lines. All lines, taken together, average about four turnovers a year. Thus, roughly speaking, business would need an issue power sufficient to span three months. This question will be dealt with more fully under "Credit Limits," below.

There would be no need for valun currency at first, because all existing currencies would be purchasable with valun checks at the going rate of exchange. When these currencies became so depreciated as to be inconvenient to use, then valun currency in bills and coins would be made available. These bills and coins would be uniform the world over and would be made of the cheapest serviceable material, without any suggestion of intrinsic value. Such currency would bear the certification of the board of governors and would be available from banks by check requisition, its author being, of course, the check writer from whose check it was converted.

Credit Limits

The major policy question to be resolved in valun banking would be the matter of credit limits, i.e. how much should the enterpriser be permitted to issue (to take goods and services out of the market) before being obliged to cancel out an equal sum (to recapture by sales). This could be worked out on the basis of the needs of various trades and professions, rather than passing upon the applications of each member thereof. On the other hand, account holders, once established, might be extended a line of credit based on a percentage of their previous year's business. This being done, each participant would be authorized to draw checks against his assigned credit without giving any note or other instrument. The credit would have no term, but would be in the nature of a call credit, since the pledge would be to deliver value on tender of money.

Different banks would have different needs, determined by whether they were largely agricultural, manufacturing, or mercantile. The nature of the prevailing industry and the degree of presence of reciprocating trades would determine the need for debit balances. For instance, a farmer who sold only once every six months or year, but who bought continuously, would need a longer debit line than a shopkeeper whose selling was more closely synchronized with his buying. A territory where the local product had to be transported a considerable distance before a sale could be effected would also need more time than one which was more integrated or self-sufficient.

The ideal issue policy would be that each customer of the bank be empowered to purchase equivalent to his capacity to sell and to emit sufficient money within such limitation. Whether this ideal could be determined would depend upon solution of the problem as to what constituted "capacity to sell," since value can be determined only in actual exchange and not prospective exchange. Whether the ideal would need to be attained, would depend upon the actual requirements of the money volume and its relation to total exchangeable wealth, of which the former can be determined only by experience and the latter can only be estimated.

Whenever men organize, there is always the possibility that their association may disadvantage some of their number or non-associates. If a debit policy is adopted that makes the money supply inadequate for some or all of the members, the ideal that animates the undertaking is defeated and conspiracy, in effect, exists against those adversely affected. For the money issuing function, although it is private, can be exerted

only within the limits of the communal arrangement. There is an ideal debit policy, but it may have to be worked out by trial and error.

Launching the Valun

The determination of what value relativity a monetary unit should represent at the time of its adoption is a matter of choice. It might be the equivalent of a bushel of wheat, a bale of cotton, a pound of brass, or any other commodity. On the other hand, it could be placed on a parity with an existing political monetary unit which had attained a significance. It would be easier, obviously, to identify a unit in the public mind by making it at the outset equivalent to the current unit. Doubtless it was for this reason that the United States dollar was initiated at par with the Spanish dollar. For the same reason, therefore, the valun would be initiated at par with the United States dollar.

This does not imply constancy of parity; it merely means keynoting. All monetary units are, in practice, established by relativity to an existing unit. The relativity thereafter is subject to the issue policy governing each. Hence the valun would have an initial value of one dollar, which would be equal to the power of the dollar on the day of the valun's launching. Thereafter, it would be entirely dissociated from the dollar and independent of any subsequent fluctuations in value that the dollar might have.

Existing banks presumably could open valun departments without legal difficulty or political embarrassment, since under the valun system, they would extend no credit and therefore take no risks. Banks would merely administer the credit extended by the account holders to one another. A large bank such as the National City Bank could make the valun plan a world system overnight by offering it from all its far-flung branches.

The actual launching of the valun might be accomplished by enlisting a number of business concerns to pay their bills with *valdol* checks, which would offer the payee the option of accepting payment in valuns or dollars. The purpose of this would be to establish parity for the initial valun issues. It is expected that sufficient acceptances would be had that, from that point on, there would be a money exchange market for valuns in terms of dollars. After this, the free money market would be the guide to the values of the respective units and would govern the number of valuns required to pay for bills rendered in dollars.

The participating banks would open valdol accounts upon request, against which the holders could draw valdol checks. The valdol account would honor the payee's preference of payment in either valuns or dollars or both. In the case of a shortage of either valuns or dollars in an account, and there being an adequate balance of the other, the bank would be authorized to sell a sufficient amount of the long unit on the money market to offset the deficit in the short unit.

Valdol checks are proposed merely as an initial expedient. They would give non-valun account holders the option of accepting either valuns or dollars. Because of this option, these checks would be usable by participating banks in payment of any bill. This would extend invitations far and wide to others to become members of the valun system. Between valun account holders, however, such a form would not be needed, and a single-unit valun check would be used.

The face of the valdol check would carry spaces for the tender of either valuns or dollars, or half in each, and a place for the payee to state his preference and to add his signature. For the information of the recipient, the back of the check would carry the following notice:

> After stating your preference and signing on the face of this check, deposit in the regular way if your bank carries valdol accounts. If it does not, write your name and address here (space) and mail to us (name and address of issuing bank). We will immediately send signature card and, upon receipt thereof, will mail you a valdol checkbook.

Thus prospective valdol account holders, no matter where located, could bank by mail should there be no valdol bank in their locale.

The Money Exchange Market

All political monetary units are inflated and growing more so. There is no sound unit to which uneasy money can take flight. As inflation progresses, many will flee from the dollar into property, but it is exchange that produces income, and not the holding of property static. As the many retreat into a static situation, the volume of product will drop, thus aggravating the general inflation problem. The true and ideal accomplishment in an inflationary movement, for the individual as well as for society as a whole, is to keep active in exchange and thus produce income. Yet in order to continue in business without grave hazard, one must switch his exchange commitments to a stable monetary unit and convert his reserves and working capital to such a unit.

The valun, having no inflationary element and being secure against any, would naturally be desired by both the holders of idle funds and by active businesses that wanted to avoid the destruction of capital and profits. Since no valun could be issued except by a producer in the market, no inflationary units could enter into circulation, and the unit would remain stable. The valun user, therefore, would escape the storm; he would not be tossed about on a sea of confused costs and prices. Through the money quotations of the spot market, current remittances could be determined by translating dollar obligations into valuns. Through the futures market, manufacturers, importers, and exporters would be enabled to hedge against the inflationary decline of all national monetary units.

One of the most vexing problems of business is the difficulty of adjusting wages to the decline of the monetary unit. These troubles would be eliminated by employers paying wages with valdol checks. The employee would have his salary or wage stated on his check in both valuns and its equivalent in current dollars. Moreover, given the option to receive their pay in valuns, labor would not have to strike for cost-of-living raises. As inflation raised the dollar cost of living, each valun would purchase an additional corresponding amount of dollar currency.

With the exception of those who had joined the valun system and who thus, by mutual consent, were using the valun, pricing and billing at the outset would be in dollars. As the system spread, however, more and more business would be initiated in terms of valuns, first by manufacturers, then by wholesalers, and finally by retailers.

Once the valun system had started in the United States and the international money market had begun valun trading, check forms appropriate to the currencies of other nations, such as valmark, valpound, valfranc, etc., would be provided. As stated, between valun account holders, valun checks would be used for international as well as domestic payments.

As valun banking spread in this manner, the implications for world trade would be far-reaching. Since the valun would be a universal unit, it would be as much domestic to a nation as would be the unit of that nation. It would be issuable by the citizens of any nation, either through an internal bank or through one beyond the national boundaries. Thus the present obstructions to international monetary exchange would be removed. With monetary exchange operating internally between the national unit and the valun, the limitations on exchange between national units would no longer be restrictive of trade. Exporters and importers could operate with valuns. The valun would thus ameliorate trade restraints even if the national restrictions upon exchange between national units continued.

For these various reasons, therefore, it is believed that the valun would immediately take its place in the

world as the monetary criterion, that the dollar would sell at a discount in valuns, and that all other units would be affected in relation to their dollar exchange value.

Universal Liquidation

It might seem impossible to liquidate the extant astronomical numbers of units of money by means of valuns, a unit that would have to start from scratch and that, at the outset, would be infinitessimal in volume. But the problem seems otherwise when we remember that money springs out of exchange, and not vice versa.

If the seller stipulates the unit that a transaction is to be expressed in, the buyer must provide payment accordingly. If he has bank credit in the stipulated unit, he creates the desired units. If he does not have the required bank credit in the unit stipulated, he uses available funds to buy the desired unit. Any unit that is not entirely worthless will buy any other unit at the market price.

Thus, demand for valuns would always be met by supply, either by bank credit in the purchase of goods or services, or by purchase of existing valuns by conversion from other units. As demand for valun bank credit increased, so would facilities therefor, either by expansion into a wider territory by the banks that already offered valun credit, or by new banks nearer to the locale of demand.

By the same token, supply of valuns would never exceed demand, even though there would be no credit limitations imposed upon member banks. The banks would be free to use their discretion, with the sole proviso that their parity insurance rate would be upped or lowered in accord with their loss experience. But with the freedom allowed valun bank credit, one must not visualize an irresponsible surfeit of valuns, for money can be issued only when it is bought into existence by a seller. To establish bank credit does not constitute issue. Issue is not effected until a tender has been accepted in exchange for value. In other words, money, to be issued, must be bought into circulation either with goods or services or by delivery of money of another name, which, being money, is a claim for goods or services. No issuer will issue money except for market value, and each, in turn, is under necessity of bidding for it to remain in business. Thus would the competitive system tend to maintain the parity of the valun unit both during and after liquidation of all political monetary units.

When May the Valun be Expected?

To put the valun theory into practice, it is not necessary to expand the number of theorists. It is no more necessary for men generally to understand the science of money than it is for them to understand the science of any other utility. Given a sufficient number of traders to participate initially, it will take only a few directing individuals to put the system into operation. These numbers of traders are as indispensable as the few theorists, however. One might understand the theory of baseball, be familiar with all the rules, have the diamond, the bats, the balls and gloves, but there would be no game until there were eighteen participants -nine on a side. Likewise there must be many times nine buyers and an equal number of sellers before the game of exchange can be played.

The simile may not seem a good one because the players of ball must be experts, while to predicate exchange upon expert participants would seem to be hopeless. Expertness in monetary exchange, however, does not imply comprehension of the theory of money. It means expertness in making up one's mind on what is wanted and what it is worth. Every person has this expertness. However much we may hear of super-scientific money management, there is no money management, just as there is no money creation, except by the buyer. Money management means spending for self gain, nothing more and nothing less.

To whom shall we look to start the valun? We must look to employers, for as we have seen, it is the buyer and not the seller who creates money. The common man begins his exchange activities by selling his services. He must do this to live, since he cannot apply his services directly to fashioning all his necessities. His psychology is really a buying psychology, since his selling is but the means of his buying. He visualizes the things he needs or desires, and hence, mentally buys before he sells, but chronologically he sells before he buys. The bit of paper or metal that intervenes between the sale of his services and the purchases of his wants, he calls *money* - if it works. He gives no further thought to the matter.

The first *buyer* in the chain of exchange is the employer. Therefore we must look to employers to start the valun, and employees have the right to expect it to be trustworthy. Employees will repose confidence in what employers profess to be an honest medium of exchange, and they will underwrite that medium with the basic commodity, the mother of all wealth, namely brain and brawn and sweat. If no one cheats - and in the valun system no one could cheat - the currency will circulate freely without popular understanding of the theory of its being. Let us understand clearly, therefore, that while we need numbers, we do not need understanding numbers. We need no educational crusade. We need but to comprehend the simple acquisitive instincts and how to serve them.

Chapter 7, Credit and Banking Under Monetary Freedom

The natural law governing monetary exchange must be adhered to by all, but upon whom does the right and duty to invoke this law fall?

> "The phrase 'right and duty' of each member to consume seems to justify the introduction of a moral factor which I wish to disclaim. On the other hand, it does not seem to me to be the function of a true exchange system to bias itself in favor of capital accumulation or in favor of anything except free exchange. Capital formation must justify itself as must also money saving. There is nothing in the valun idea to impede or promote either." *E. C. Riegel, in a letter to Raymond J. McNally* -Editors.

The answer to this question is all important. Money is potentially the perfect medium of democracy, as will be elaborated in the next chapter. But it will be a limited democracy if money cannot be issued by all who qualify. If those who want money and are willing and able to return value to the market for it are restrained from creating that money, the functioning of exchange democracy will be impaired.

The process of money creation and retirement must go on unimpeded if exchange is to fulfill its function in society. While the use of money benefits both buyer and seller, the responsibility for creating it falls entirely upon the buyer. If the prospective buyer remains away from the market for lack of money, the reciprocal good that he could do by creating money turns into a reciprocal ill, hurting the potential seller as well as himself.

The buyer who merely buys with money in hand, i.e. does not create money, is but a passive supporter of the exchange system. He is a reactor to the stimuli supplied by those who originated the money he spends. It is true, of course, that there must be a greater number of reactors than actors, because every issue of money passes through a number of hands (transactions) before it returns to the issuer and is retired thereby. It is likewise true that those who have money cannot issue money, because to issue money, one must be without it.

We can comprehend the issuance and retirement of money by visualizing a red-ink bottle from which money flows, and a black-ink bottle into which it is retired - destroyed. Money can only flow out of red ink; black ink is sterile. Persons in the black vis-à-vis the banks are powerless to issue money - to supply the dynamics of trade. The red-inkers are the dynamos of business. The black-inker may be ever so wealthy, yet he can do nothing to give lifeblood to exchange. The black-inker, if he ever was an issuer, is now sterile.

When we realize this, we develop a favorable attitude toward credit. Since money is the lifeblood of business, and only the impecunious can supply this vital element through bank loans, it is adverse to the social welfare to put bars against the borrower.

Those who have money are, to the extent of the sum thereof, creditors of the market, i.e. they have, as evidenced by their black-ink balance, delivered more to the market than they have received, and are in position at any time to requisition values from the market. In other words, they own units of value that are not in their possession but which they are able to requisition at any time. To thus accumulate property without actually possessing it is one of the tremendous benefits of monetary exchange, because it makes possible the saving of values without materializing them and subjecting them to deterioration and obsolescence. In the market these values are always being turned over and the supply kept fresh.

This constant freshness is available to the money accumulator only because there are others who are in the red to the market, i.e. are taking out of the market with the purpose of later bringing fresh production into the market. Black ink exists only because of red ink. Red ink is the sower; black ink is the reaper. Bless the red inker. The greater his number the sounder and safer is the economy.

Since every red-ink entry produces a black-ink entry or a diminished red-ink balance it is, of course, not possible for all enterprisers to exert money credit at the same time. It is not even necessary that there be as many money issuers as money holders, because each issue initiates a number of purchase and sale transactions before it gets back to the issuer and is retired. But the starters of these monetary circles should potentially include every personal enterpriser. If the economy is to be kept fully responsive to purchase stimuli, the power of money issuance must be exerted by everyone who has need thereof.

Every man having something to sell must be able to buy and, if need be, to issue money to start the exchange. One of the virtues of money, if indeed not the greatest, is the generally unrecognized fact that it acts as a boomerang. To buy is to cause someone to sell, and to sell is to be transformed thereby into a potential purchaser. Therefore, by buying from others we create buying power for our own wares or services. In other words, by buying from others, we indirectly buy from ourselves, which is to say, we employ ourselves. Should we, by shortsighted credit practices, veto the right of any man to employ himself? Must the personal enterprise system be hamstrung by our ignorance of the reciprocity of buying and selling?

Since buying and selling are reciprocals, it follows that not to buy for lack of money is to deny another the opportunity to sell. To quit buying because unemployed is to drag someone else into unemployment. Thus a vicious circle is created by the first market boycotter, since the reaction to his negative action is to take another buyer out of the market and thus diminish further the demand for labor services. The function of money is to bridge the gap between buying and selling, and this bridge can be erected only by the buyer. The would-be buyer who is unwilling to build the bridge, therefore, is not fulfilling his function in exchange. Under the political monetary system and the conventional attitude of the banker toward the small tradesman and employee, this failure has largely been due to disbarment.

The obvious maldistribution of benefits derived from the operation of capitalism is due to the malfunctioning of the political monetary system. This system not only permits the state to inject unlimited numbers of spurious monetary units into the money circulation; it also limits the true issue of money. It is not enough, therefore, to eliminate the counterfeit issues by the state. Inequalities in the issue power of money must be abolished as well. For disequilibrium of monetary power leads inevitably to disequilibrium in the distribution of the wealth created. The banking system must not carry into the personal enterprise monetary system the concepts of creditworthiness prevailing under the political.

Having evolved from pawnbroking, the banker has used wealth as the criterion of credit; the propertied

alone being regarded as good "risks." He has been retrospective, whereas money is the instrumentality of the prospective. His attitude has been aristocratic, whereas exchange is democratic. He favors seniority, whereas the dynamic force abides with the juniors. He caters to bigness, which in the aggregate is smaller than the sum of all small business interests. He rates high the materialized and low the potential.

The banker has been so dominated by the state and so intimidated by the consciousness of hazards in the political monetary system that he has functioned more as a subject of the state than as an agency of personal enterprise. So far as he shall operate under the *nonpolitical* monetary system, however, he will be oriented completely away from the state, with freedom to serve society according to his own judgment. He will acquire a new consciousness of his place and function in the economy. He is destined to be the equilibrator of capitalism.

Under the valun system, or an equivalent system of personal enterprise money, the banker will be free of all restrictive regulations, all stipulation as to capital, surplus, and profits. He will determine his own credit policy and will go as far as he chooses in approaching the fundamental ideas herein discussed. Some bankers will approach them more nearly than others, and thus competition will be the ultimate determinant of the prevailing practice.

The idea that the banker is a credit "grantor" will be dispelled, and with it will go the idea that he creates money. As was noted earlier, to mark a figure, called a "loan," on the banker's books is not an act of credit and, of course, does not constitute a money issue. It merely puts the "borrower" in the way of getting credit from the market at large. The credit, and therefore the money, does not arise until the 'borrower'/buyer purchases something from a seller, and then the credit exists between the buyer and society. In other words, so-called banking credit is *social* credit. The banker is but the bookkeeper and administrator.

Inasmuch as banking "credit" is social credit, its incidence and volume must be determined by the interests of society. Is it not in the interest of society that exchange be facilitated as fully as possible? To deny the would-be 'borrower'-buyer access to the market is to deny the prospective sellers the opportunity of making sales, and this limits, in turn, the buying of such prospective sellers - a vicious circle.

No banker can be wise enough to judge the potential of a would-be 'borrower'-buyer to redeem his money issue by subsequent sales. That can be determined only in the exchange process of the market. If and when the market refuses to accept the goods or services of the 'borrower'-buyer, a "loss" will appear on the banker's books which will have to be absorbed, not by the banker, but by his customers, since all costs of banking service must be borne by the customers. Such "loss," being accountable, will stand out like a sore thumb. But the loss to society resulting from a refusal by the banker to admit to the market the applicant for credit, though unaccountable, is far more serious. The first of many consequences is that the rejected applicant becomes a potential object for charity, either private or public, and his support is either contributed voluntarily by society or, through taxation, by the "welfare state."

When we contemplate the jams that occur in the distribution of commodities, moreover, and the large advertising and selling effort needed to overcome them, we realize what a cost is incurred by the economy for lack of an adequate money supply, adequately distributed. If we distribute buying power adequately, the products of industry will be drawn by the buyer rather than having to be pushed by the seller. With the equitable distribution of the money power, the distribution of goods and services will no longer be a problem.

It is said that two out of three business enterprises fail in the first two years. Such a shocking record must be due in large measure to the inability of such enterprises to buy-and to benefit from the buying of others who are likewise limited. If two out of three business enterprises die before their third year because they are

beneath the notice of the banker, is it any wonder that capitalism appears to be a rich man's game, and that by failing to nurture new enterprises it strikes at its own generative process? Does not this exclusion shunt the would-be enterpriser into the labor market, thus making competition therein excessive while curbing competition among the surviving businesses?

Equity between the price of labor and the price of goods and services cannot be attained unless there is ease of entry from one sphere into the other. Whenever inequity appears in either sphere, it must be readily adjusted by the employee going into business or the businessman retiring to the employee sphere. This automatic adjustment must not be impeded by bank credit policy.

The dignity of man requires justice, not charity. Capitalism must operate for all members of society who bring values to the market. There must be no ostracism. When the applicant for banking credit conceives a marketing plan, the banker is confronted with the option of acting as midwife or abortionist. The impersonal experience of the market should be his only guide as to whether, and at what point, such a would-be money issuer should be barred from bank credit.

The money creator is the self starter or spark plug of exchange. His issue starts a chain of exchange, and it is doubtful whether his failure to retire his issue by sales could be as harmful to the economy as his exclusion from bank credit. The economy is dependent upon the initiation of exchange by money creators, and it is manifest that it is better that there should be many such with small issues, than few with large issues. It is also patent that the unemployed man can do more harm to the economy by not buying, than by buying on bank credit, even though his credit remains unliquidated. By the latter process, he isolates the germ of unemployment; by the former, he renders it epidemic.

If capitalism is to be equilibrated and rendered equitable, it must be at the point where the banker functions, and this point is so critical, that the banker must be free to submit himself to the impersonal judgment of the market rather than acting *ex cathedra* as he is compelled to do under the present system. Under a natural monetary system, the banker, divorced from politics and free to determine his own credit policy, will arrive by the aid of competition, at the happy median where the profits from increased business counterbalance his charge-offs. At that point he will become the equilibrator of capitalism, and capitalism will be universally acclaimed.

Chapter 8, Omnibus Reform

There are no tyrants among men; there are only tyrannies, and the mother of tyrannies is money monopoly.

The launching of a nonpolitical, universal monetary system will mark the beginning of a revolution in its most consummate sense. Figuratively speaking, it will reverse the world upon its axis. Just as the political monetary system trends power toward the state, so the system based on true money will release the natural forces that trend society toward private initiative, enterprise and democracy. Pending this fundamental reversal, all resistance to statism is futile. As long as the only available monetary system is political, exchange, that process by which the social order functions, will never accomplish its natural purpose, the development of prosperity and freedom.

To rely on education to reverse the present trend toward statism shows a want of comprehension of the naturalness of personal enterprise. No one needs to be educated in private initiative and enterprise. These qualities arise spontaneously. All that is needed is that the counterfeiting power of the state, which robs productive effort and rewards parasitism, be removed. The various educational efforts to propagate personal enterprise are worse than wasted, because they imply that but for propaganda and indoctrination, personal

enterprise would be overwhelmed by state-sponsored systems. In reality, it is the tax-supported institutions that are artificial and that must, therefore, conduct crusades to proselytize supporters to their cause. Under the present political monetary system, personal enterprise cannot be saved by propaganda. Freed from the perversion of that system, it will need none.

The appeal of the welfare state lies in its seductive promise of wealth with the least possible effort. That, under the illusory system of the welfare state, the benefits to some are the loot of others, is beside the point. The beneficiaries may not realize this, or, realizing it, may argue that it operates in their favor rather than against them. We cannot stop this pernicious robbery of the industrious and reward of the indolent by attacking it on the reward side. Every beneficiary is aware of his benefits and is grateful for them. As for those robbed, there is complete bewilderment as to the cause of their loss. However, we would not accomplish anything but rebellion against the state if we made it clear to all the Peters that they are being robbed for the benefit of the Pauls. The cause of the injustice is political, but the remedy is not.

The trouble has arisen from the failure of personal enterprisers to provide a sound monetary system of, by, and for personal enterprise. In their default, the state has contrived a socialized system. We are neither grounded in the philosophy *of* personal enterprise nor intelligently opposed to socialism, if we do not realize that a socialized monetary system must generate socialism. If, realizing it, we continue to tolerate it, we forfeit our right to complain against the inevitable trend toward statism. But even if we are opposed to the mother of socialism as well as her whelps, it is not words, but works, that are called for. Sooner or later we must institute a nonpolitical monetary system.

Through its deficit spending policy, the state has begun its acquisition of control. Unless this be halted, all reform is useless, all idealizing vain. Indeed, so subverted have men's minds become under the influence of the state's seemingly unlimited power that reformers almost universally turn to political rather than economic means of reform. Thus their reform efforts effected through political action, actually salute and strengthen the generator of the evils against which the reforms are directed.

Vindicating the Democratic Ideal

No reform that invokes the power of the state can be predicated on democracy. The state's profession of being an instrument of democracy is pure sham. It is inherently exploitative and autocratic, because it has no means of invoking support by appeal to voluntary patronage. It lives by taxation and functions by edict: To regard the state as the implement of democracy, when it is itself anti-democratic, is surely the most consummate delusion of man. This delusion deepens as the state expands its means of robbing industry through the insidious process of issuing counterfeit money, which gives the state the appearance of being a generator of wealth, provider of welfare, and guarantor of security. Conversely, as the state's prestige is increased by this deceptive device, that of personal enterprise declines, and business becomes the culprit for all the ills of society. The extent to which this idea of the benign state and the malign business community prevails among would-be reformers can be seen in the frequent "pass-a-law" provisions that occur in their proposals. These laws are usually directed against business and prosecuted by the presumed defender of justice, government. Let us have done with the idea that democracy can reside in, or operate through, the state; nothing can be democratic that is not dependent upon voluntary patronage.

Instead of expanding state activities, they must be contracted. To what extent the state should be reduced cannot be determined in theory. We must first free personal enterprise through a nonpolitical monetary system and give it an opportunity to show how far it can go in taking over the activities of local, state, and national governments. In this way will the activities of the various governmental entities be brought from a tax-supported basis into the sphere of personal enterprise, with its attendant competition and voluntary payment for services rendered.

Thus the ultimate domestication of government will be accomplished only as, and in the degree to which, personal enterprise is prepared to render community services on an optional basis and at competitive prices. For there is profit in rendering service, and the boundaries of private and public service are not fixed. The extent to which private enterprise may absorb so-called public services depends solely upon the vision and initiative of enterprisers. There is already in existence an impressive body of thought, developed by Spencer Heath, which is directed toward just such ends. Such worthy aims, however, await the liberation of personal enterprise from the political monetary system. Only then shall we be able to reverse the present trend and begin whittling down the sphere of the state by enlarging that of personal enterprise.

The state presently renders disservices as well as services, and the citizen must pay for both, either by open taxation or by hidden taxation in the inflated prices he pays for the things he buys. Once the state is denied its power to impose taxes by watering the money stream and is confronted with an aggressive personal enterprise movement that will take over services for which there is actual demand, its disservices will be recognized as such simply because personal enterprise will make no bid for them. Public resistance to taxation will then dispose of them.

Exchange, served by a true monetary system, is a constant reform mechanism. It is the sifter of proposals and projects, the natural mechanism whereby all undertakings are measured for public approval. Its constituency votes early and often, making change and progress facile. Served by an unbiased monetary system, it will be the perfect instrument of democracy. Here will democracy function, vindicating its ideal.

Chapter 9, Economic Democracy

Rising from tiny springs of rebellion in the consciousness of primitive men, democracy, like an ever expanding river, deepening and widening, has swept aside all the ancient forms of political government, and with them their pretenses of divine power and aristocratic preference. Its traditional service to humanity, however, has been only that of a negator of tyranny and presumption in the political sphere. In the future, it will be recognized and acclaimed for its more positive service in the economic sphere.

Under the constant challenge of democracy, the modern state has abandoned its former attitude of arrogance and now cloaks its undertakings in such flattering phrases as "democratic government," "rule of the people," "equality," "welfare state," and so on. These pretenses have been forced upon the state by the very failure of democracy as yet to assume a positive role in the affairs of mankind. The state is a positive organ and, as such, retains the initiative and leadership to which the people must turn for the "remedy" of this ill or that. Though the state is impotent to do more than change one economic ill for another, we cannot blame the demagogy of politicians for promising salvation from all the ills of mankind. This must continue, and the people must go on suffering under the delusion that they can resort to the political means of salvation, until an agency functioning through the economic means is supplied.

The ultimate accomplishment of democracy in the political sphere is the perfection of the rule of the majority. If this be all that democracy can deliver to society, the game is not worth the candle. It is little comfort to the individual, striving to express his personality, to know that democracy has wrested government from the hands of a few and placed it in the hands of a majority. Human aspirations for freedom can never be gratified as long as there is a veto power over self expression, whether imposed by a man on horseback or by means of the ballot box.

Yet the democratic state has no means of functioning other than by popular elections. That being so, the functions of the state must be limited to those public services which are desired by all. Consider the folly of

undertaking to express the people's will in all human affairs by an occasional election at which, in one confused shout, we sound our yeas and nays on a multitude of questions. At the same time, we select representatives to guess what it all means, and to divine from it how to execute our will on hundreds of issues that arise after we have given our confused "mandate." Is not our boasted political equality but the equality of frustration? Can we have self-government, and at the same time delegate the power to govern? Are we indeed fit for self-government if we accept these delusive exercises as the processes of democracy? Can democracy offer nothing better?

Turn, now, from this sham democratic process offered by the state, with all its trappings of majesty, power, ritualism and futility, to a sphere in which real democratic expression obtains-so far as the state does not stultify it. This sphere of democracy has a true balloting system, whereunder every ballot is the clear and irrevocable mandate of the buyer through which he expresses his will, his aspirations, his freedom, and his personality. In this balloting system, elections are held every hour of every day. Its voting booths are the market places of the world, its candidates, the goods and services offered by competing vendors. In this balloting system there is no tyranny by the majority. Every voter wins the election. Whether he chooses the blue label, or the red, or the green, no one is denied his choice. Here every man is a king, and the economic constituency is made up of sovereigns in cooperation.

This voting system is the elective process over which the house of economic democracy must assert its exclusive sovereignty. It dispenses with the legislative process, for it is governed not by man-made laws but by a natural law that cannot be broken or biased by any man. This law, which provides absolute equity, is the natural law of competition, or, better, the law of cooperation, since it automatically rewards him who cooperates and withholds rewards from him who does not. The house of economic democracy requires no constitution and no executive or judicial mechanisms. These powers reside in the buyer, who exercises them by the simple criterion of self interest. As the whole consists of its parts, so the exercise of these powers by buyers in endless variety and circumstance compounds the social order in perfection.

Every power of the state must arise either by delegation from the citizen, or by usurpation. If we but give the matter a little independent thought, we can see that the money power can neither be delegated to the state as agent, nor exerted by it as principal. It can reside only in the same place where resides the productive power, and can be exerted only in association with the bargaining power. These powers belong not to the government, but to the individual, for he alone can produce wealth, and he alone can express selectivity and exercise bargaining power in the market place. Professed money springing from any other source is pure counterfeit. It is a menace to the social order, which is utterly dependent upon the functioning of true money.

We all know that the rise in men's living standards from primitive times to the present has come about through the specialization of labor, which is made possible by exchange, and that this in turn has been facilitated by the use of money. But do we realize that, without the guidance of the money-pricing system, we would lack all cue as to what products we should apply our specialized labors to? Production and exchange constitute a vast cooperative system wherein the cooperators are mostly strangers and usually remote from one another. Most of civilized man's energies are devoted to the production of things for which he as an individual has no direct use. His only way of knowing that some other individuals have use for his product is by the reaction of the market to his product in the form of a money price. The money-pricing system is the antenna of exchange, constantly keeping the cooperative mechanism responsive to demand and supply, by bringing together those buyers and sellers who at any given moment have mutual interests-and in the process regrouping and realigning those interests.

As we pass money from hand to hand, we give little thought to the delicate precision with which it preserves the equity of economic democracy and advances the social order. Every transfer of money registers an

impulse on the market that changes the price of some commodity or commodities. These registered prices give the signal for more or less production of the commodities affected, thus keeping human energy, which is the generator of all values, intelligently applied. This readjustment is in progress every moment of the day and night. This is the dynamics of social progress, constantly rewarding the efforts of those who conserve human energy and remain responsive to the buyer's will, and punishing those who do not. If there can be omniscience on earth, here it abides, and it is this all-seeing eye that political planners would sacrifice for the blind directions of bureaucracies.

It is through the preservation and perfection of the monetary system that economic democracy will demonstrate its potential for human welfare. In this way it will avert the disaster that is now threatened by the attempt of the state to exercise a power it cannot command. The challenge is by no means difficult if we ignore the jumble of complexities that have been written about money. Let us forget the false premise of political money power. Let us endeavor neither to reconcile the irreconcilable, nor by some protective device to legitimize the illegitimate. The establishment of a nonpolitical monetary system is but an undertaking in accountancy.

In renouncing the political money idea, we abandon the idea of monetary nationalism. Trade is homogeneous; it knows no nationality, race, color, creed, or caste. Moreover, a truth is universal. Once a monetary science develops, it will no more be localized or nationalized than mathematics is today. There opens before the mind, therefore, the prospect of a universal monetary unit and system that will operate without regard for political boundaries. It will have no nationality or politics. None will be coerced to participate. None will be barred. There will be but one monetary language for the world, and a democratic monetary system will unite people everywhere in the universal freedom of exchange.

Chapter 10, New Vistas

Ideas have wings. There is no transportation problem in the export of an idea, and one may give an idea without losing it. Both the giver and the receiver are benefited if the idea is sound. Let us give the peoples of the world an idea, a liberating idea, a constructive idea that involves no sacrifice on our part and no obligation or embarrassment on the part of others.

The social interest is served by the abolition of boundaries. Just as it is imprudent for the family to strive for self sufficiency and deny itself the advantage of specialization and exchange, so it is adverse to the social interest to be walled about by political boundaries. Yet this adverse condition grows with the ever-increasing number of nations, each of which strives for self-sufficiency, balking the economic law of inter-dependence.

The comparative success of the American federation of states is due largely to its denial of nationalism to the individual states. None of the states of this union has the power to set up trade barriers, make war or operate a separate monetary system. But for this curbing of nationalism, America would be another Europe. If the forty-eight states were independent nations, each would undertake to be self-sufficient, thus countering the advantages of specialization and, through the war-making power, burdening itself with costly military establishments. The example of the United States demonstrates that the less nationalism over a given area, the better for the citizens thereof.

While the United States has continuously extended the area of non-nationalism from the original thirteen states to the present forty-eight, the rest of the world has been giving birth to separate national states, setting up more barriers to free intercourse. Each war brings new splinter states. The "secret" of the success of the American federation has apparently been kept from our statesmen. They hail the birth of each new nation as

a manifestation of self-determinism and democracy. Nonetheless they object to such separation in the realm of the United States, as was amply demonstrated by the Civil War.

Independence, in politics, means the right of politicians to bracket a portion of society under their exclusive governorship. These "independent" peoples are walled about against intercourse with the rest of society, and denied self determination within their own realm. All of us are prisoners of some state to which, we are told, we must give fealty under a private brand of patriotism.

Nationalism means separatism, while all human urges, conscious and unconscious, are toward union. Federation of states is impossible because of the jealousy of the politicians who govern the several states. Nor would it serve the social end of self determinism if it were possible, since the ideal of self determinism must be pursued in nonpolitical ways. The authentic approach to realizing man's dream of world union is through the vehicle of a nonpolitical monetary system.

We are approaching the universal collapse of the political monetary system. With such collapse will come revolutions, unless an alternative monetary system shall first come into existence. A true monetary system could avert the chaos and forestall revolution, thereby preserving the existing national states even while gradually rendering them harmless. For the political monetary system is the principal instrument of state separatism. Once it is gone, all other interferences with production and exchange will recede. Denied power over the economy through their respective monetary systems, the states will be obliged to abandon their paternalistic pose and stand before the people in their true light, as dependents without productive powers, and utterly devoid of any powers of largess. The trend of human affairs will then be as irresistibly toward individualism and self determination as the present trend is toward socialism and domination by the state. The tide will have set strongly toward union and away from economic separation.

Social, political and economic schemes in great variety have been dreamed by dreamers who fitted men into the mosaic of their vision. Seldom ever has it been proposed, through an empirical system that each man dream his own dream and let the pattern of society work itself out.

Happiness is the objective of every life, but the word *happiness* cannot be defined except concretely, and then only by the one who is to experience it. Even if it were possible to give to any man or system dictatorial powers, and they were exerted ever so benevolently, they still could not bring happiness, because no mind outside the individual can conceive happiness for him. The concept and the indulgence are inseparable.

It is a concept of most profound implications to envision each individual as the architect of his own happiness and the builder of it. This is the ideal that the valun system projects. The life which it contemplates is individualism triumphant. Of course, the valun system or its equivalent would operate in a world of tangibles, and it is not suggested that happiness is made up only of material things. But so far as material things or their creation can bring happiness, a true monetary system is the tool of attainment.

Since no social order has heretofore been predicated upon the principle of a nonpolitical monetary system, it follows that its promulgation will require a revolution in thought and action and that it will be many years before its full implications can be comprehended. We can be sure, however, that if man holds to the old concept that the power over the issuance of money lies in some external entity, he will curb his progress. When he asserts that the creation of money is within his own powers, he will surmount the last major barrier to self advancement and a limitless horizon will open before him.

End of the Flight From Inflation book. Next are the Selected Essays 1936 to 1950

WHAT DO YOU MEAN BY "DOLLARS?" - 1944

If you have been accounting for the past thirty years (1914 -1944), your statements have had twenty-nine different meanings, since only in the years 1928 and 1929 did the word "dollar" have the same meaning. In the years ahead, the meaning is going to be more variable than in the past, because of the drastic inflation that is imminent. Can there be scientific accountancy with a dollar that is unaccountable? Can the accountant continue in his profession, either oblivious of or indifferent to the changing meaning of his language-tool, the dollar?

That the subject is not being ignored by the leaders in the profession may be illustrated by the following excerpts from the recent book, *Financial Accounting,* by George 0. May:

> Again, the monetary unit is generally assumed to be substantially constant in value, but at times this assumption of stability has to be abandoned, with the result that accounting conventions have to be modified. ...The sole relevance of accounts of the past is throwing light on the prospects for the future. These considerations have additional force where the implicit assumption that the monetary unit remains stable is widely at variance with reality-as for instance, in the case of property acquired before a decline in the purchasing power of the monetary unit such as occurred between 1913 and 1920. ...It has frequently been said that the changes revealed by successive balance sheets are more significant than the individual balance sheets themselves. ...An appreciation of property in terms of a stable monetary unit has a different significance from one that reflects only a decline in the value of the unit. Perhaps the most difficult of all problems in this field is presented where a decline in value as the result of use or obsolescence is either accelerated or offset by a change in money value due to fluctuations in the price level. The disentanglement of the elements in such cases is essential to sound accounting treatment.

But, is "disentanglement" possible? Another authority, Henry W. Sweeney, in his book, *Stabilized Accounting,* published in 1936, seems to think it is. Mr. Sweeney criticized the profession for dealing in "form rather than substance," and that he felt and thought deeply on the subject may be seen from the mere quotation of chapter headings, such as, "Where Ordinary Accounting Always Goes Wrong," "Ordinary Accounting Procedure is Mathematically Unsound," "Ordinary Accounting Procedure is Incomplete." He advocated adjusting the statement to the current power of the dollar on the basis of a price index. The fly in the ointment is the fact that there is and can be no accurate price index, and furthermore, to use Mr. May's words, "the sole relevance of accounts of the past is throwing light on the prospects for the future. "Price indexes do not undertake to forecast, and in these days they are not even permitted to approximate current conditions, since no merchandiser will stick his neck out by reporting his "black market" prices Incidentally, it should be noted how often a black market is the merchandiser's only device for keeping "in the black."

There is no source of accurate information for appraising the current weight of the dollar, nor is there any crystal ball into which the businessman may peer to read the future. We can all feel the boat rocking, and we know whether she is moving toward the crest or the trough, but we don't know whether the storm will abate or grow worse. Nor do we know, when the sea is placid, whether storm or calm is ahead.

Is the accounting profession therefore stymied? Can it shrug its shoulders and assert that it is no more to blame for changes in the power of the monetary unit than the weatherman is for the weather, and get away with it? I believe not. Though the businessman does not expect his accountant to control the dollar, he may, rightly or wrongly, blame him for rendering misleading statements. To the businessman, figures are either black or red. He is not prepared for the shocking discovery that there are also gray figures and pink ones. To him a figure on the right is a rightist and one on the left is a leftist, and if the lefts have a majority, he relies upon his accountant to put a red shirt on the majority. He does not realize that, under the influence of

changes in the power of the dollar, figures may actually cross the aisle and vote on the other side.

When in the near future the American businessman discovers that his pride in a cash position was a delusion and a snare; that his cash reserves which he meant to freeze have melted and evaporated under the heat of inflation; that they might have been preserved, had they been cast into materials; that his bonds and money claims on others have shrunken and that he might have profited had he known enough to get into debt; that his tax refund dollars are far less in power than the once he paid in; that he must pay capital gains taxes on what are actually losses; in short, that the whole accounting picture was a delusion, who do you think will be the whipping boy?

The accounting profession is fated to be the master of money and the community's leader in monetary reform. It did not plan to be, but conditions will make it so. There is no profession now occupying that sphere, and because the accountant is constantly trafficking in monetary accountancy, destiny lays its finger on him. He is continuously on the battlefront, continuously a victim of the evils of monetary instability, continuously the medium of business torture. In self defense he must choose to be a money master and stabilizer to avoid the impossible task of keeping step with a jitterbug dollar.

The accountant can neither practice an ostrich head-in-the-sand policy, nor become a mathematical acrobat. On the other hand, he cannot pursue the study of his profession into its fundamental meanings without, sooner or later, discovering that the art of accounting must be based upon the science of money. This science has not yet been formulated pragmatically. Until that foundation science is laid, accountancy must remain mystic.

Higher accountancy teaches us that there is a master ledger over all other ledgers wherein are consolidated all exchange transactions. This is not a physical ledger, nor has it any place. It is the composite of men's minds. This ledger records the emission of monetary units and the creation of value units. If, in order to strike a balance, it becomes necessary to add a figure on either the value side or the monetary unit side of the ledger, then the monetary unit is destroyed and a new one is created. It is for us to realize this, and to comprehend that this process is the consequence of a natural law that cannot be altered by man-made laws. If we do not realize this, or if, realizing it, we persist in calling by the same name the series of different units that are automatically created, we are basically false accountants and cannot perfect the art of accountancy.

What can we do about this omniscient, omnipotent and omnipresent master ledger? We cannot influence the accounting a jot or a tittle [sic], but we can influence the facts which the master ledger records. We can devise a monetary system such that the issuance of monetary units not matched by value units will be minimized to the point where accountancy can become precision accountancy-using that term in the usual sense with allowance for permissible tolerance.

It is not an impossible challenge to create a nonpolitical monetary unit of constant power, and while the purpose of this discussion is to stress the benefits of an escape from accounting confusion, it is easy to imagine that other benefits would follow.

Not only are accountants logical candidates to master the rationale of money and promulgate a sound monetary system based upon it, but it will be straightforward for them to do so because it is purely a study in accountancy. They will also find it morally easy, since they have not heretofore taken a position on monetary theory and hence need not reverse themselves, as the economists would be obliged to do. The bankers are not free to explore this new approach, because they are part of the political monetary system and must play the game. With a few notable exceptions, lawyers' minds are so steeped in statutory laws that they are not hospitable to truths based upon natural laws. Nor are they professionally conscious of the problem of monetary instability.

There is avoid that aches for new leadership. It the accountants will step into it, they will not only relieve the problem that intimately touches their own work, but they will win anew and elevated place in business and public esteem.

CREDIT LIMITS UNDER THE VALUN SYSTEM - 1943

The essence of credit under a true monetary system is not a promise to pay money but a promise to receive money.

The crux of the valun proposal lies in the determination of the limit to be placed on each individual's money issuing power. The stability of the valun and, therefore, the viability of the entire valun system, rests upon finding this limit. If we are to create a working monetary unit to replace the inherently unsound politically based monetary units now in existence, we must be assured that inflationary instability is not implicit in the structure of the valun system at its inception. To do this we must examine how real value is created, and how the exchange process assists society in realizing the maximum gain from this created value.

Monetary exchange is indispensable to all of us because we are interdependent. We are interdependent because we have discovered that we can exploit ourselves fully only through others. If we were each only able to consume that which we individually produced, we would have a low standard of living indeed. In other words, we as individuals cannot make everything we would like to have. If, on the other hand, we exchange our output for the output of others, our standard of living is limited only by our ability and by the efficiency of the exchange process.

To date, the most efficient methods of exchange that have been devised utilize money. There is nothing sacred, however, about money or the monetary system on which it is founded. A monetary system is not an end in itself; it is a means to an end. It is a device for facilitating exchange and, hence, a means of exploiting our own wealth-producing capacity.

Each of us is but a very small part of the vast mechanism of production. Many of us apply our minds and hands directly to none of the things that we use or consume. Yet all we acquire is, indirectly, of our own making. Regrettably, most of us have made more than we have acquired. Our unfair political monetary system, through its distortion of the process of exchange, has allowed others to appropriate some of our production.

Ideally we make all we consume and consume all we make, however indirect the process may be. It follows that each of us is his own customer and that a true exchange system is one that permits us to buy from ourselves everything we produce and nothing more. If I am a shoemaker and desire an automobile, then when I have made an adequate number of shoes, I should come into possession of the automobile that I desire. The transformation of the shoes into an automobile is the service that exchange renders me. Similarly, the transformation of the automobile into shoes and other things is the way exchange serves the automotive worker. The function of exchange is to transform our production into the things that we want.

If exchange plays no tricks on us, we are really all working for ourselves; we are all buying from ourselves; we are all selling to ourselves. But just what is it that we are buying and selling? In the final analysis, it is simply human energy, mental and physical. Infinite varieties of human energy have appeared in physical form to be exchanged in the market place, but, basically, there is only one commodity exchanged, and that is human effort. Labor is the basic or virgin commodity. It has no quality of obsolescence, for it is always associated with the latest and therefore the most timely products. It is the only value.

Others have comprehended this, and from this premise, that all value is labor, and additionally from the premise that money is based on value, they have reached the conclusion that money must be based on labor- and rightly so. The fatal error that labor money planners have made is that they set a measure of labor, such as an hour, as a unit of value. While it is true that labor, both physical and mental, is the only value, and therefore the sole commodity that passes through exchange, it does not follow that all labor is equally valuable. Indeed, labor may be so unintelligently applied that it is completely worthless.

We are all laborers and, therefore, fountains of wealth, because we all emit human energy. We must, however, direct that energy to meet the demands of our fellow laborers. By the measure to which we respond to this demand, will our energy be valued. It will not be by the hours we have spent projecting our energy, nor by the sweat and toil we have put forth. In turn, our fellow exchange participants must use their energy to our liking. The process of evaluating this released energy is the function of exchange, and, after evaluation has been completed, money can be used to express this evaluation. But money itself, if it is to be of maximum utility, should have no influence whatever in determining values. Money is not a measure of value; it is a method of stating a value that has already been determined by exchange.

To be of maximum utility, money must be available to all who wish to increase the value of their output, but who can only do so through an investment of capital. Traditional banking credit practice is based on the idea that the creditworthiness of the individual (or entity) seeking to establish a line of credit derives from that individual's possession of material resources. This is an outgrowth of old aristocratic attitudes by which an individual was judged by his social status rather than by his ability. To be sure, this idea of creditworthiness that exists in the banker's mind is reinforced by the shortcomings of the politically based monetary system which force him into a conservative posture. Nevertheless, the whole attitude is basically one that has been inherited and to which our minds have become habituated. We must take care that we do not borrow this counterproductive mental habit in the construction of the valun system.

The ideal that we must strive for is to keep money neutral in all aspects of the exchange process. To do this, we must, among other things, make the money creating process available to anyone who wishes to utilize it. There are, of course, certain limits which must be observed, and these bounds will not be easy to determine. The best principle can, however, be simply stated thus: Each person or corporation is entitled to create as much money, by buying, as he or it is able to redeem by selling.

Each of us, as noted, is basically his own supplier and his own customer. The exchange process is, in fact, a shuttle movement. The shuttle goes from us laden with our energy and returns this energy to us transformed into the energy of others. Or it comes to us first, and then we return it. In either case, the movement is initiated by money power, and whoever lacks money power is unable to start the shuttle. An economy that restricts its shuttle starters limits its productivity. The power to start the shuttle is really the power to buy from one's self, i.e. the power to create demand for one's own services. A true monetary system must make this power available to all.

While the power to buy induces demand to sell, it does not follow that this reciprocal transaction invariably reacts on a particular buyer, for he may not have the particular value for which a demand has been created. Therefore, we cannot solve the economic problem by merely providing money power and multiplying shuttle-starters. If the problem were as simple as that, we could establish the money creating power for everyone without limit, on the assumption that selling would automatically balance buying in each case. Buying does create demand that reacts on some seller, but not necessarily on the one who created the demand. There is, however, no way of determining in advance whether a particular buyer may create a demand for his own wares or services. Since this is so, it is obvious that exchange can operate only on a trial and error basis. The problem we must solve is how large a margin of error can be allowed to each member

of the valun exchange without the cumulative errors of all members being large enough to introduce instability.

The best that we can do is to set up a policy subject to amendment as experience may dictate. Although it is possible that we may underestimate the effect of errors, this should not intimidate us, because greater harm can follow from being too conservative. Creative and productive effort must not be impeded by a lack of adequate financing, even though some banks fail to realize the ideal of a full redemption of credits allowed. It is better to allot too much money power than too little.

The normal experience of business is that income and outgo keep approximately abreast of each other, so that our purpose is merely to provide a margin of working capital. In some industries, due to differences in lengths of turnover, the margin required is larger than in others. Some industries, particularly the farming industry, have net deficits for a long period before returns come in. Others, the retail grocery business, for example, has a lag of only one or two weeks between outgo and income.

A study of the turnover of various industries should be made as a guide for establishing general rules. As a suggestion for the initiation of trading in valuns, the following might be considered:

Each employer would maintain with his bank a list of the names of employees, together with the amount of salary payable to each over a three-months period. This amount would then constitute the debit limit for each such individual. Each would then be authorized to write checks until the stated limit was reached. The amount of the stipulated salary would be credited to the account of the employee as earned, and would be simultaneously debited to the employer's payroll accounts. Checks written by employees would be debited to their accounts. No further payroll process would be necessary. Thus the money-creating process would begin with employees writing checks to cover their needs. If an employee had a salary of 100 valuns per month, his debit limit would be 300 valuns, and he would be entitled to overdraw his checking account by anything up to 300 valuns. .

The employer would have two checking accounts, a payroll account and a commercial account. His payroll account would have a debit limit equal to his total payroll for three months. His commercial account would have a debit limit as determined by the class of his industry and his gross sales.

A monetary circle cannot begin until some buyers create money through debits or overdrafts. Therefore, the most essential provision of a monetary system is a debit policy that permits members to draw against a debit in adequate amount to create circulation. To assure that all valun account holders have the necessary debit power, a minimum of, say, a hundred valuns might be provided for every account holder not drawing a salary. These debit limits would not be loans. No instruments would be executed for them, and the actual debit would be the amount of overdraft that had been drawn on the account. There would be no term to these overdrafts, and they might be maintained indefinitely. The reason for this is that they would constitute the money supply and would be necessary to exchange.

Debit balances on some accounts, of course, imply credit balances on others. Therefore, it would be impossible for all members to have debit balances at the same time. Some might start their check writing against a credit balance and never have a debit balance, while others might remain chronically on the debit side.

Under the above proposal, exchange would begin by consumers purchasing at retail and by employers purchasing at wholesale. At the end of the initial three-months period, the employer would find himself with a debit to his payroll account equal to the total earnings of his employees during that period. This would be the limit of the payroll account. For his employees to continue their drafts, he would have to draw on his

commercial account-into which would have been deposited all of his receipts.
Each account holder, with his debit limit assigned, could then, within such limit, create fountain-pen money by the mere writing of checks. If he should exceed his debit or overdraft limit, his check would be returned just as it now is when he exhausts his credit balance at the bank.

There would be no payroll problem for either employer or employee. The bank would automatically credit the prescribed pay to each employee's account each payday, and the employee would enter his pay in his checkbook.

Under this plan of employee money-creating power, employment is given a stimulus, because each employee brings to his employer his own debit power, and the employer has a three-months deferment of wage payments. This is a vital contribution toward the sale of labor services, because it makes the payroll less forbidding. Each employee becomes a capitalist who brings not only his services, but his own financing.

Once we have established the principle of debit power for all we have released a power for economic stability that does not exist when this power is restricted to certain "creditworthy" individuals. The full benefits of the democratization of the money creating power cannot be forecast, but it is plain that this power could positively prevent depression.

When goods show a tendency to accumulate in warehouses, it indicates that employees have not received wages high enough to purchase the goods they have produced. Reduced production, which means reduced employment, ensues, and this, in turn, implies further reduction in purchasing. Thus the imbalance between goods supply and money supply is accentuated. Perfect competition would, of course, preclude this imbalance between goods supply and money supply, because it would compel adequate wages. But can we hope for perfect competition?

Should there be no other recourse than to introduce a compensatory force to balance the inequities of imperfect competition, the valun system would be found to provide such a force. By the simple measure of continuing the debit power for a discharged employee, the depression spiral would be prevented from forming.

During a period of widespread unemployment, consumption would be able to continue while production would be retarded, thus tending to restore the balance between production and consumption. The employee, in effect, would buy himself back into employment, because his consumption would induce demand for production, just as his previously stinted consumption had brought about his unemployment.

A depression means shortage of employers and surplus of employees. Is it not made less menacing when the money creating power resides on the employee side of the employment line as well as on the employer's side? Since unemployment would no longer mean an immediate drain upon available funds, some employees would be induced to step across the line and become employers, and thus help restore the balance between employers and employees.

The aim of the valun proposal is to establish a true monetary system and to rely on competition to keep the economy on a steady keel. It is not inspired by the notion of establishing a compensatory system for inequities that might exist in the current system of exchange. It should be noted, however, that if a compensatory program were desired, the valun system could effectively provide the basis for such a program.

Since constant employment, with concomitant constant production and constant consumption, is the

economic ideal, we should regard the employer-employee relationship as existing between the whole body of employers and the whole body of employees, rather than between individual employers and individual employees. If we do this, valun banks will, of necessity, provide central employment bureaus where employee account holders are registered. Full information as to their qualifications would, of course, be available to prospective employers. Should any account holder be laid off, he could continue to draw on his account while, at the same time, receiving maximum assistance in locating other employment.

If there are advantages to the valun system's open credit policy, there are also disadvantages. One of these that might loom large in the minds of some people is the possibility of moral delinquency. Yet nothing is expected of anyone who issues valuns through his debit power other than that he will do just what he is in business to do in any case, namely, accept valuns, when tendered, for the goods or services that he sells. If he fails in this, it will soon show up on his account. If he has been willing to deliver his wares or work at competitive prices and has found no takers, the fault is not moral. If he willfully refuses to accept employment or patronage to discharge his debts, he automatically brings upon himself ostracism from the entire valun community. This self-imposed injury is much greater than any harm that will accrue to the remaining, reputable membership, which, after all, will go on functioning without even noticing his departure.

There will be honest failures, since men will continue to be fallible, and the system should provide some way of reestablishing the debit power of such persons. But this is one of the matters that may be left to the common sense of the members to decide.

The question of what becomes of unsatisfied debits that result from failures is not one that is peculiar to the valun system. Losses in business are absorbed in the price of goods, and this is one of the influences that tend to raise prices. Another such influence is the presence of private counterfeits. On the other hand, there are also factors that tend to reduce prices, notably the loss of currency through various causes. None of these factors are serious, and for the purposes of this study may be ignored.

We may assume that every issuer of valuns would redeem with goods and services all the valuns he issued. The failure, for whatever reason, to do so could not be as harmful to the economy as a pessimistic credit policy, which would hamper exchange. It is far better that more money be issued than is redeemed, than that too little be issued. Too little hampers exchange, and this in turn retards the production of wealth. Idle man hours are a more serious loss than unredeemed money and must never be hazarded by overzealously guarding against credit losses. Interrupted production is the only loss that is a net loss.

RELATIVITY OF VALUES - 1936

If, as stated, money is the mathematics of value, what is value? Value is the relativity of desire. It is arrived at in the mind by comparing one thing with another. Therefore, everything establishes its value in terms of something else or the same thing at a different time or place. A standard of value, in the sense of a fixed, commodity value, is impossible, since nothing is unchangeable in its desirability or relativity. This is not to say, however, that value has no unit. Value has a unit, even though it is not determinable. The smallest value, whatever it may be at any time, is the unit of value, or the numeral *one.*

Value is a common quality that runs through all commodities, but under the operation of the law of supply and demand, the content of value in each is constantly subject to change. The total, however, i.e. the sum of all the values in the universe of values, is changeless. The total of all values is no greater today, nor will it be greater tomorrow, than when mental appreciation or evaluation began. Whatever comes into life merely takes its proportionate part of the whole of value. Values vary quantitatively as fractions of the unchanging

whole of value.

What actually takes place in trading is the determination of relatives of values, and this mental process is the act of *moneyizing.* It is a process of fractionizing or multiplying, depending upon whether the thing evaluated or compared is of greater or lesser desire than is the criterion of value. It is a mathematical process, and hence the statement that money is the mathematics of value.

As the act of moneyizing is psychological, so the act of *monetizing* is material, and it should be noted that both arise out of and do not antecede exchange. Hence trade produces money; money cannot produce or induce trade. The act of monetizing, i.e. creating the money manifest, is in essence nothing but an act of recording accountancy.

Now, taking arbitrary relatives, let us say that the tailor with a pair of trousers, undertaking to dicker with the wheat farmer, estimates his commodity to be worth five bushels of wheat, and that the farmer concurs in this. The tailor's unit of value is trousers, and to him a bushel of wheat is 1/5 of a unit. The wheat farmer's unit is a bushel of wheat, and he regards the trousers as five units. From this it may be seen that whether the unit is large and divisible or small and multipliable is immaterial; the relativity alone is essential in the act of moneyizing. The next day, the ratio, under the influence of supply and demand, might be 4.5 or 5.5 to 1. This constant flux occurs within the totality of value.

The totality of value is fixed, but values (fractions) are volatile. They are uncapturable and uncontrollable, because they are subject to the mass mind, which has no stability and no governor. They cannot be shut off from the ceaseless agitation of public opinion. The same sum of value may abide in a cubic centimeter of matter as in a cubic yard, and tomorrow the substances of these cubes may hold widely varying value content. No commodity has a wall that can resist the ingress or egress of value. It is psychological; the minds of traders in concurrence govern the value content of all commodities. No physical measure nor psychological meter or control can be contrived. Commodities are the reservoirs of value, because value can abide nowhere else. But no one commodity can ever hold a fixed amount of value, and only the minds of traders can invest a commodity with value or divest it thereof. The total of value invests the total of commodities in constantly changing relativity. The concept of mathematical relativity of values is the concept of money.

Let us assume now that some marketers incline to take the sheep as the most desirable common commodity for a trading base or criterion. (Among the Romans it was the ox, or *pecu,* from which word *pecuniary* derives.) If we make the sheep 1, and adopt some arbitrary relatives, we might get under the decimal system the following:

Barrow of sand	**.10**	**Chicken**	**.10**	**Horse**	**5.00**
Bushel of corn	**.10**	**Cow**	**3.00**	**Sheep**	**1.00**
Bushel of wheat	**.20**	**Harness**	**2.00**	**Shoes**	**.50**
Candle	**.01**	**Hog**	**1.00**	**Trousers**	**1.00**

Thus the composite would total 14.01. At the particular time of this imagined meeting of traders' minds, the sheep, serving as the comparative criterion, or the numeral 1, represents about 1/14th of this universe of value. But almost during the time it takes to relate it, a change has taken place. Men's minds have changed; hence the relative value of the sheep has changed. Either more of value inhabits it, or some has escaped from it. But a compensatory deficiency or surplus abides elsewhere in the total inventory. Nothing has been lost, nothing has been gained, except to the individual traders as owners of the commodities whose values have risen or fallen. In other words, the sum total of value is unchanging, and hence money, which is the mathematics thereof, is always co-extensive, never deficient and never excessive. As stated, the total of

value in the example is 14.01. Had the candle been taken as the unit the total of value would have been the same, but the total of the mathematics of value-money-would have been 1401.

It is conceivable that the marketers, after gaining the concept of money as outlined here, might effect their exchanges without the scratch of a pen or a record of any kind. Their exchange would nevertheless be a perfect monetary exchange. Had they agreed to utilize some pieces of paper marked in a peculiar way for identification, and each trader had held, in advance of the trade, numbers of these pieces in ratio to the agreed value of their respective commodities, they would have materialized or monetized their money.

It is in taking the step from moneyizing to monetizing that every past effort of man has failed. He has invariably striven to perfect a standard of value, because he could not comprehend that exchange operates under the law of relativity, which knows no absolute. His monetary efforts have always miscarried, because he has tried to use as the monetary medium some intrinsically valuable commodity or a paper certification of a fixed measure of value. Since there is no fixed measure or standard of value identifiable with any commodity, the effort has been and must continue to be abortive. Since value exists in all things, and since value when mathematically compared is money, it is possible to convey money with gold or cheese or anything else, to the extent of their intrinsic value. The purpose, however, of a monetary medium is to isolate value accountancy from value itself, so that a sum of value may find its equivalent anywhere and not be related to specific things; all of which are constantly changing in their value content. That orientation is the quality wherewith money accomplishes its high purpose of emancipating trade from barter. Man's ignorance has to this day kept this spiritual weapon of liberation sheathed in a scabbard of materiality. The pure monetary medium, when it comes, will be an instrument intrinsically valueless, evidencing the transference of a value that is unidentified with any commodity, yet has a relative requisitionary power upon all.

THE FUTURE OF GOLD - 1944

As a monetary metal, gold for centuries has been the object of illusion and superstition. Yet in reality it is but a commodity like any other metal - nor is it one of the rarest. From the beginnings of time, it has been carried, like salt, by many streams to the oceans, from which it could be extracted if the price of gold justified it. Yet the very word is synonymous with riches.

Why?

In ancient times gold was used as a medium of exchange, for which its beauty, durability, malleability and relative scarcity ideally suited it. Hence its association with early monetary systems, all of which were on a "hard money" basis. As commerce grew more expansive and complex, and there arose the necessity of paper money and other credit instruments, it was believed that such instruments, to be acceptable in trade, had to be exchangeable for gold upon demand. Thus arose the correlative belief that a national currency, to have significance or "value" or "stability," had also to be identified with a measure of gold or silver. This practice was termed putting money on a gold or silver “standard.”

This posed a problem, however, for there is no stability in the value of gold any more than there is in any other metal. In order to give the value of gold the appearance of constancy, therefore, the *price* of gold, i.e. the amount of the metal exchangeable for the monetary unit, had to be stated above its true market value so that it could not vary. For many centuries, accordingly, one or more governments have always been willing to hear the expense of maintaining the price of gold above its true value as determined in free exchange, and thus gold has been given the appearance of having a constant value. This has given rise to the superstition that gold is not only stable in value, but that it is, in fact, a criterion of value.

The practice of setting a price for gold that is above its free market value set in motion economic laws, which have actually reduced the value of gold. When an artificially high price is put upon a commodity, it causes that commodity to be over produced, and when a commodity is in excessive supply, its units lose value commensurately. The association of gold with the monetary unit, an association intended to benefit the latter, has resulted in a benefit to gold miners, nothing more. The delusion of "gold convertibility" has, in effect, subsidized the gold mining industry for centuries and caused gross overproduction. The actual value of gold has declined accordingly, but the decline has not been manifest because some nation has always been willing to keep the price up on a peg. In short, we know the price of gold, but we can only guess at its value.

England maintained the price of gold for 600 years, from the 13th century until 1931, in which year she had to give it up, unable to afford the charade any longer. The United States then became the price pegger, but with a twist. Previously, nations on a gold standard had bought and sold gold to all comers at the fixed price. President Roosevelt was induced by his advisors, however, to exclude those within the United States from trading, and to confine buying and selling privileges to foreigners. American citizens were required to turn in their gold coins and certificates. In thus changing the rules, Roosevelt unwittingly exploded the gold standard fallacy.

Had the gold standard theory been correct, namely, that backing a monetary unit with gold convertibility gives it greater stability or acceptance than units not so backed, we would now have two dollar price levels, one for the foreigner and another for the American. This would have had to arise, since the foreigner's dollar is convertible whereas the American's is not. The fact that there is one dollar price for both demonstrates that the dollar is a power in and of itself, quite apart from any gold convertibility.

A corresponding observation is that as the dollar goes, so goes gold, and not vice versa, as the gold theorists would have had us believe. When the purchasing power of the dollar is high, that of gold is high, and when the power of the dollar declines, that of gold also declines. The purchasing power of gold, like that of the dollar, declined by nearly a third between January of 1940 and September of 1943. An ounce of gold, at $35, would have been required on the latter date to purchase the same amount of other commodities that could have been purchased for $24.50 three and a half years earlier. This in itself proves that there is no stability in the value of gold and that it has no power to uphold the unit that supports it.

In view of the fact that the purchasing power of gold is declining in America, why is it that foreigners are not withdrawing it? The reason is simple: the United States Treasury is the only market in the world for gold, and its price, despite the cheaper dollar, is still higher than its free market value. Outside of the United States there is not now, nor is there likely to be, any nation foolish enough or strong enough to burden itself by gratuitously paying a subsidy to the gold mining industry of the world. Nor will the United States pursue this folly for very much longer.

Circumstances are now compelling the realization that gold has no magic charm, no peculiar quality, no fixed value, and no special stability, but it is a commodity subject to the same laws of supply and demand that determine the value of any other commodity. Its last artificial support is the dollar, and when the dollar grows too weak from inflation to hold the price of gold above its actual value, gold will be on its own. The dollar will be so reduced in purchasing power that $35 per ounce will actually be a low price for gold, and its price will rise above that figure. From that point and beyond, unless the Government arbitrarily holds it for some reason, gold will move out of the Treasury and into the arts and industries. No more will flow into the Treasury, because there will be no profit to the seller at the old price. Indeed, if the Government continues its present policy of selling to foreigners at $35 an ounce in the face of continuing inflation, gold will flow out to other countries, who will buy it back for a minute fraction of what they sold it to the United States Treasury for in pre-war days. The gold problem will be solved by either action or inaction; for,

economic laws have away of compensating for bad statutory laws. In any event, the standard or base idea will be gone beyond recall in economic thought.

Of course, there will be some serious repercussions from the collapse of dollar support for gold. Foreign gold reserves held throughout the world are dollar reserves, nothing more and nothing less. As the dollar shrinks, these reserves shrink as well. Therefore, the inflation of the dollar is undermining gold reserves and the credit they support all over the world. The nation with the premier unit that makes the price and market for gold cannot go through inflation without affecting all nations. That is why our inflation is international inflation, the first such instance in the world's long experience with inflation.

The Federal Reserve Board and the Bank of International Settlements have estimated monetary gold reserves outside of the Unites States at $7 billion, and the Bank of International Settlements estimates $2.5 billion in unrecorded holdings of exchange funds and government accounts outside of the United States. The National City Bank estimates $2 billion of newly mined gold. Thus a total of $11.5 billion is estimated as the world holdings outside of the United States. If the dollar has lost 30 per cent, therefore (there is no definite index in view of the black markets), these hoards have already shrunk to about $8 billion in actual purchasing power. For the Unites States to make its own hoard maintain its Federal Reserve Bank reserve illusion, the price will have to be raised to many times its present artificial price.

Some indication of the extent to which gold has been excluded from industrial uses by the pegged price policy can be seen from the figures for production and industrial consumption in the United States during the period 1937 to 1941. In the latter year, consumption was only about 15 per cent of production, and this was far above average for the period. These figures only reflect United States production and consumption. When we consider that the United States produces only about one-eighth of the world's gold, but undoubtedly uses more for industrial purposes than the rest of the world combined, we can see how greatly current production exceeds current industrial demand.

The picture is all the more startling if we consider the tremendous accumulation that exists. The best available figures show that throughout the world, in government treasuries, stabilization funds, central bank reserves, and private hoards, there are nearly a billion ounces, all of which must, sooner or later, be dumped on the industrial market. On the basis of approximately one million ounces for industrial consumption in the United States in 1941, and assuming double this amount for world consumption, it would take five hundred years to consume the existing supply. Of course, this is no criterion for the probable rate of consumption when price support ends. There are many known uses for gold for which the price has always been prohibitive, and changing technology will continue to find new uses.

MANARCHY - 1950

In giving fundamental consideration to government, it might be instructive to have an authoritative opinion regarding the modern state, written while its author was on the outside looking in, and who when on the inside, magnified the intrusions upon private rights that he had condemned:

> The state, with its monstrous terrific machine, gives us a feeling of suffocation. The state was endurable for the individual as long as it was content to be a soldier and policeman; today the state is everything - banker, usurer, gambling den proprietor, ship owner, procurer, insurance agent, postman, railroader, entrepreneur, teacher, professor, tobacco merchant and countless other things, in addition to its former functions of policeman, judge, jailer, and tax collector. The state, this Moloch of frightful countenance, receives everything, does everything, knows everything, ruins everything. Every state function is a misfortune. State art is a misfortune, state ownership of shipping, state victualizing - the litany could extend indefinitely. ...If men had but a faint idea of the abyss toward which they are moving the number of suicides would increase, for we are approaching complete destruction of personality. The state is that frightful machine which swallows living men and spews them out again as dead ciphers. Human life has now no secrets, no

> intimacy, neither material affairs nor spiritual; all corners are smelled into, all movements measured; everyone is locked into his cell and numbered, just as in prison. -*Benito Mussolini*

Il Duce's candid appraisal has been shared through the centuries by many who have thought and written on the state. In a more reflective and perhaps more honest vein, Immanuel Kant wrote,

> Man is an animal which when living among others of its kind, needs a master. For he surely abuses his freedom in the presence of his equals, and though as a reasonable being he desires a law, his beastly selfish nature leads him to exempt himself whenever he can. Hence he needs a master who will break his individual will and compel him to obey a generally accepted rule whereby everyone can be free.

Likewise, Jean Jacques Rousseau:

> The citizen of the state is…….no longer the judge concerning the danger to which he may expose himself at the demand of the law, and when the state says to him, "Thy death is necessary for the state," he must die, since it is only upon this condition that he has thus far lived in security, and his life is no longer merely a gift of nature, but is a conditional grant from the state.

On the other hand, Henry David Thoreau denied the state any rightful authority:

> I heartily accept the motto-"That government is best which governs least," and I should like to see it acted up to more rapidly and systematically. Carried out, it finally amounts to this, which also I believe: That government is best which governs not at all.

And Proudhon:

> Liberty the mother, not the daughter, of order. ...The personality is for me the criterion of the social order. The freer, the more independent, the more enterprising the personality is in society, the better for society.

But Proudhon broke free from the horns of the tyranny/anarchy dilemma. He glimpsed an alternative.

> "So you want to abolish government," someone asked Proudhon. "You want no constitution? Who will maintain law and order in society? What would you put in place of the state? In place of the police? In place of the great political powers?"
>
> "Nothing," he answered. "Society is eternal motion; it does not have to be wound up, and it is not necessary to beat time for it. It carries its own pendulum and its ever wound-up spring within it. An organized society needs laws as little as legislators. Laws are to society what cobwebs are to a bee hive; they only serve to catch the bees."

Those who have pondered the past, present, and future of the state, have quite generally distinguished between society and the state, but they have associated government with the latter, hence implying that society would be anarchic but for government supplied by the state.

The view advocated here, however, is that society and self-government are inseparable. One could not exist without the other. They are natural and spontaneous. Social government operates by unwritten laws which spring from the common impulse of self advancement by the process of exchanging with others under the discipline of cooperative competition. The rivalry to win patronage and gratify men's desires, which we call competition, is really the broadest and deepest form of cooperation that social man can develop. But for the intervention of the state, it would always be tranquil. The state serves solely the purpose of evading the law of cooperative competition. Its appeal is always to the cheater, he who desires to escape this natural discipline.

Failure of the critics of the state to realize that society and government are concomitants, puts them in the awkward position of advocating anarchy to the same degree as they oppose the sway of the state. The diminution of state power does not mean less government, however, but its displacement by natural and nonpolitical government. It does not imply an increase in the sphere of anarchy. Rather, to coin a much-

needed word, it means *manarchy* - the natural government of man in society.

Manarchy means the prevalence of social customs wherein equality among individuals makes each a lawgiver as well as a law observer, without professional governors. The natural rule of manarchy has been submerged by the presumptions of the state, and as state power recedes, manarchy, the rock upon which society rests, emerges as the true government.

Since manarchy is the true government of society, and the intrusion of the state lessons its sway, the so-called government of the state is seen as disgovernment, or anti-government. Thus advocacy of the diminution of state power is the advocacy of the sway of government and the denunciation of anti-government.

What is the constitutional or fundamental law of society? It is the law of competitive cooperation. The beginning of the social order was the beginning of exchanges. Here independence ended and interdependence began. Here competitive cooperation entered as man discovered that his urge for self-advancement was best served by catering to the wants and wishes of his fellows through voluntary exchanges. But there arose would-be breakers of the rule of competitive cooperation. As Franz Oppenheimer has observed in his volume, *The State,*

> Whenever the opportunity offers, and man possesses the power, he prefers political to economic means for preservation of his life. And this is perhaps true not alone of man, for, according to Maeterlinck's *Life of the Bees*, a swarm which once made the experiment of obtaining honey from a foreign hive, by robbery instead of by tedious building, is henceforth spoiled for the "economic means." From working bees robber bees have developed.

The state was invented by those who wished to escape the law of competitive cooperation-by those who would be robbers through the exercise of political power. This is the explanation for the genesis of the state which Oppenheimer sets forth so well. Beginning with rape and evolving toward seduction, the purpose of the state has ever been to serve the ends of exploiters. Therefore, liberty will never be attained as long as the state is permitted to intervene in economic affairs. The state has ever been the implement of those who would escape the discipline of voluntary exchanges, and it has contrived a variety of cheating devices, the greatest and most deceptive of which is its power to issue counterfeit money. This very device, however, will prove to be the state's Armageddon.

Always an instrument for robbery of the many by the few, the state within the present century has gradually popularized its distribution of the loot. It is no longer the robber of the many for the benefit of the few; it now offers to provide for all citizens "from the womb to the tomb." It poses as the welfare state. No longer does it need the support of the wealthy; it has found a way to rob the whole constituency while apparently benefiting the many, and by this delusive method it has greatly enhanced its prestige. By subtly taxing the economy through inflation of the money supply while ostentatiously distributing its largess, the state has convinced the citizen that it is a fountain of wealth. But the popularity so achieved has been attained through the issuance of spurious money. Hence the state must be undermined as the mounting inflation discloses the falsity of its pretended power of paternalism.

Out of the impending collapse of the political monetary system will come not only a weakening of the power of the state, but a strengthening of society. For the nonpolitical monetary system which must replace the defunct political one will lead automatically to the union of peoples economically.

Once society has consolidated its power, while the national states remain divided, the subordination of political power will easily be accomplished. Thus will society gain the ascendancy and assure freedom and prosperity under the natural law of competitive cooperation.

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To William T. Foster (January 27, 1943)

There are, as you know, endless fictions, fallacies and fetishes in the theory of money, and I would like to follow the strategy of dumping them all into the laps of those who believe in political money and let them go on in the interminable task of trying to explain them. I would, on the other hand, invite those who choose the nonpolitical path, to join in the constructive effort of developing a new theory which at least, does not inherit the confusions of the old. It is a privilege to make original errors. You will note that the issue policy for the valun system is the central unsolved problem, and this alone is grist enough for minds that would mill and mull.

To Henry Morgenthau (April 10, 1943)

The word *stabilization* now so much used in political parlance, seems to mean in the Unitas Plan the act of rigging the market on the currencies of the member nations. Why cannot foreign exchange be natural? Why should not nations benefit from good fiscal policies and suffer from bad ones, the same as private corporations?

The endeavor to fix exchange rates springs from the fallacious belief that trading through depreciated currencies is unfair. This fallacy holds that when a currency becomes discreditable, the holder thereof has a trading advantage over those who hold currencies that are more creditable, and that therefore nations undertake to depreciate their currencies.

Now no nation but one ever deliberately undertook the depreciation of its own currency, and that one happens to be the one of which you are fiscal officer. It failed to accomplish its purpose, because it had not dawned upon our statesmen that the dollar is the criterion of all currencies, and that a criterion cannot depreciate in terms of itself. All nations that have depreciated their currencies have done so in terms of dollars, and in each case they merely recognized a *fait accompli* forced upon them by the natural operation of supply and demand. In other words, they acknowledged a fact beyond their control and reduced the "gold content" (dollar content) of their unit.

What is gold dissociated from the dollar? Is it not an inert metal that, because of artificial pricing, has been produced in excessive, supply, and if the dollar were withdrawn from it today, would it not plummet in

price? By marriage, gold was lifted to a parity with the dollar, but as the dollar sinks to the level of the actual value of gold, gold will divorce the dollar on grounds of non-support. You will recall how in 1934 the President raised the price of gold and expected all prices to rise in salute, but they remained sitting. This time as the dollar falls, gold, like all other commodities, will remain standing.

In other words, gold is a value of and by itself, and the dollar is an entity of and by itself. The dollar will continue to be the monetary criterion of the world, but in the end it will probably follow all other national units to extinction through inflation.

It does not require a convention of nations to make a unit the world standard; it is in the nature of the credit concept that all monetary instruments are and must be weighed in the scale with the best. Since the pound surrendered its premiership, there has been nothing but a dollar standard throughout the world, and gold has nothing whatever to do with it. That the dollar can lift the price of gold above its actual value is merely a demonstration of the dollar's power. But the time is coming when it will no longer be able to do so. Since the United States is the only nation that supports gold, we will then have an end of the gold standard nonsense.

To Leverett Saltonstall (July 1, 1943)

The political monetary system inevitably trends toward political centralization. The reason for this is that the central government denies to the several states participation in the monetary system, reserving to itself a monopoly of the issue power. By resort to this power, it is enabled to practice paternalism, and thus it draws to itself supplicants and pressure groups that the states are powerless to serve. In exchange for its grants and largess, the central government gains the fealty of its beneficiaries and thus undermines the prestige of local governments. It seems all-powerful because of its apparent ability to create riches by creating money, which is actually dilution of the money supply and which manifests in inflation, the cause of which the people do not understand. The state and local governments, on the other hand, must collect their taxes the hard and obvious way. Hence they are limited in their expenditures and thus in their power. In this way, the central government builds up a vast bureaucracy that reaches into the jurisdictions of state and local governments and harasses their citizens with regulations that discourage the spirit of enterprise and dull the sense of freedom.

To William M. Bellamy (November 3, 1943)

The classical theories of interest no longer have relevancy, because the lending industry is largely socialized and the interest rate is no longer determined by demand and supply. Its basis now is a pure gratuity or subsidy, and is determined solely by political expediency.

The time is coming when the banks will not be able to subsist on the present rate, due to the inflationary increase in their expenses, unless the volume is very much increased. It is just as easy for a bank to lend two or three dollars as one, and since there is no hazard in lending to the Government, the coming squeeze may be relieved by the automatic action of inflation, in that the Government will be obliged to borrow more from the banks as inflation progresses.

I say *obliged* on the assumption that the present policy continues. In fact, however, the Government is in no wise dependent upon the banks. The reverse is the case, since the Treasury may at any time it chooses merely issue checks against itself, and such checks would clear through the banks just like bank checks. This may be the ultimate resort, but in the meantime the Treasury has the problem of keeping the banks on

an earning basis. Therefore, the Treasury will compensate the banks for their increasing expenses by increased volume of loans until the end. Otherwise it will be obligated to raise the rate. This alone determines the future of interest rates.

To Willard T. Chevalier (November 11, 1943)

Fair exchange is a process whereby the producer sells his energy in one form and buys it back in another form. Thus the individual produces all the things he acquires, just as he did before exchange was introduced; he merely makes more and acquires more. Since the individual is the fountain of all wealth and the rightful acquirer thereof, and since to effect his productive-consumptive cycle he must utilize money to mediate his exchanges, is he not also the only rightful fountain of the money required for such exchanges? What has the Government to do with it? Could not men work and exchange by means of money even if there were no political government?

The premise of the prevailing monetary theory is that money issuance is a sovereign political power, and that government must either issue money for producer-traders or authorize banks to grant the power to a selected few at a price. Since the individual's ability to produce is dependent upon his ability to exchange, is it not obvious that to place the power to create the means of exchange in the hands of a privileged group gives to those privileged ones the power to control the individual's capacities either by design or by error with resultant miscarriages?

The power to produce wealth and the power to produce the means of exchanging such wealth must be coextensive and reside in the same person. This is the premise of personal enterprise money.

To William Langer (November 23, 1943)

The only way to get anything from government is to organize a party or pressure group. But how can we get anything out of an empty vessel? Does not everything drawn from government have to come from the people, and is not therefore any organized effort to draw anything from the government a conspiracy against others in the constituency?

Is democracy a conception of equal rights and equal service under government, or is it a game whereby those who gang up get special privileges at the expense of the unorganized? Now I realize that the first definition is the ideal, and the second is the practice, and that the idealists invariably lose out to those who play practical politics. Therefore the tendency of government is to degrade itself and, by evolutionary processes, ultimately to destroy itself, as a greater and greater element in the constituency reaches the conclusion that it must either rob others through the agency of government or be itself robbed through that agency.

Random (1944)

All about are evidences of the frustration of the political means of attainment. Every political project is stalemated. Governments that have failed in their respective sovereign spheres pursue the folly of internationalizing their problems.

Typical of this is the Bretton Woods effort to stabilize the various political monetary units-for the destabilization of which each of the participating governments is to blame. Here we have the spectacle of the perpetrators of destabilization posing as the proponents of stabilization, whereas it is but an international league of counterfeiters for the purpose of establishing standards of counterfeiting practice.

"Fundamental disequilibrium" (FD) is a phrase used in the protocol, and it means out of bounds. A certain tolerance is extended by the fraternity to any straying member, but a fundamental disequilibrium may result in expulsion from the lodge. FD means that the member has been issuing counterfeit out of ratio to the practice prevailing among the brothers, and, thus, has disturbed the relativity of the currencies of the brotherhood. For instance, if the prevailing watering of the currencies with counterfeit is fifty per cent, all members are honor-bound to try to stay within this ratio so as to maintain parity of debasement.

In fact, this scheme *requires* counterfeiting. If a member refrained from it, its currency would rise out of bounds with respect to the others, and thus it would be guilty of FD. Counterfeiting is recognized as a prerogative of all members, provided they counterfeit only the currency of their own nationals. But if the league is to hold together and the racket is to be preserved, the standards of practice must be respected.

This is another political effort wrong in principle and infeasible in practice. First, the participants must agree on parities before the freezing, called *stabilization,* can begin. But troubled waters do not freeze, and there is no calm in prospect. Even if it should ever get started, it would be doomed to fall apart, because standards of malpractice are difficult to maintain.

Random (Undated)

The accomplishments of the arts and sciences have been exclusively in the making of things. The consequent facility in production has not had a coordinate development in distribution - in the *swapping* of things.

Swapping began by direct action and evolved into the indirect method through the use of money, an instrumentality which has ever been shrouded in mystery. With a complete lack of science in the art of swapping, it is no wonder that we have suffered so many social ills; it is more a wonder that we have progressed so far as we have.

Life depends upon the ability to swap. He, who has nothing to swap, has no social security. But he who has something to swap should have social security, and he can have it - if the monetary instrument of indirect swapping is at his command.

The more the arts and sciences develop facility of production through the specialization of labor, the more important indirect swapping becomes, and hence the greater the need for money, the instrumentality thereof.

Intercourse among friends is on a direct swapping basis without the mediation of money, and this zone widens as the base of indirect swapping, by means of money, widens. Thus our culture depends upon our ability to expand our indirect swapping by means of money. A society that has few indirect swaps has few direct swaps or amenities. The mastery of money is therefore a cultural accomplishment. The more we command money, the less mercenary we become, for the greater the facility of money in our basic swaps, the greater is our freedom from the use of money in our direct, or social, swaps. This is because the facility of basic swaps so increases our wealth that, in our social relationships, value accounting is submerged in the greater value of free and generous fellowship and indulgences. Only a society that is money wise at its base can enjoy priceless social interchanges at the top.

To Spencer Heath (April 6, 1945)

I read your little essay, "The Inspiration of Beauty," and shall re-read it several times before I shall be able to extract all of the good that you so thoughtfully put into it.

I have always realized that I was working in the foot-hills of a sublime thought, but have not felt competent

to paint the beauty of the exchange relationship. I am convinced that in you I have found the person who can present the beauty of the exchange idea. This letter is the confession of a tyro and salute to a master.

To the editor of Money (May 1945)

Various readers and non-readers of *Private Enterprise Money* have likened the valun system of private enterprise money to the plans of Proudhon and Greene. I would like to make the distinction clear.

Proudhon, who saw clearly that it is the labor of the people that gives substance to money, proposed a mutual credit plan for the issuance of bills of exchange in terms of the franc. Greene, the American Proudhon, proposed a mutual credit plan for the issuance of currency bills in terms of the dollar. There have been other mutual credit plans, usually called Giro plans, in Europe. All these accept the political monetary unit and make no effort to limit the government's issue power. They are aimed at escape from the restrictions and impositions of the banks, but not the perversions of government.

A mutual money plan, to be successful, must be restricted to private enterprisers (employers, employees, and self-employers) so far as issue power is concerned, because they both buy and sell and, thus, redeem as well as issue. Any mutual credit plan can be perverted and ultimately ruined if the government is given the issue power.

Under the valun system, governments-national, state and local-would be entitled only to class *B* membership, thus limiting them to drawing against a credit balance, whereas all private enterprisers would be permitted to draw against a debit balance, the only method by which money can be created.

To the editor of Money (August, 1945)

July *Money* carries a letter by George A. Startup addressed to me in which he states, "Please stop trying to confuse the people more by talking about money to be issued by private enterprisers.

To avoid confusion, let me summarize. Broadly speaking, there are now three schools of monetary thought: *a)* those who denounce Government money issue and bend the knee to the banks; *b)* those who denounce the banks and bend the knee to the Government; c) those who denounce both banks and Government and bend the knee to nobody, while asserting the exclusive right of the citizen to issue money to negotiate his exchanges.

Mr. Startup is of the second, and I am of the third. Those who like to bend the knee to some power will choose the first or second school. Those who are self-reliant, self-assertive, and have private initiative, all typically American qualities, will align with the third group, leaving those of the first two groups to fight each other.

However, I must remind Mr. Startup that in the battle of the knee-benders, neither side can quote the Constitution in its support. It is not true, as Mr. Startup states, that "the Constitution places the power to issue money in the monopoly of the Federal Government." Article 1, Section 8, states that Congress shall have the power "to coin money and regulate the value thereof and of foreign coin." Thus the exercise of the power is optional and not mandatory. Nothing is said about exclusive power or monopoly. There is nowhere any prohibition against the people issuing money. It is true, that such money could not be made legal tender without Government sanction, since the state governments are forbidden to make anything but federal coins legal tender. But legal tender is immaterial, since even the Government accepts checks in payment of taxes.

The same section quoted above also provides that Congress shall have power "to borrow money on the credit of the United States." Here is another optional power. Congress can issue or not, borrow or not; so,

both groups of knee-benders can call theirs "Constitutional money." In other words, "Constitutional money" doesn't mean anything. The only possible unconstitutional money would be an issue by a state government as legal tender.

Let's not muddy the waters by misquoting and misusing the Constitution, which is perfectly neutral in this fight. We are all free to align ourselves with any of the three schools. The third school (private enterprise money) has the advantage in that it doesn't have to pass a law or engage in politics. It depends upon voluntary cooperation.

To Laurance Labadie (December 1, 1945)

This is a report on the references you gave me: Henry Meulen, *Free Banking,* 1934

He quotes approvingly from Whittick, *Value and an Invariable Unit of Value* (Lippincott 1896), page 244, to wit:

> "Are not two sparrows sold for a farthing?" A money system could be built upon this starting point. If two sparrows are sold for a farthing, prices of all commodities whose values were determinable could be expressed in farthings. The farthing might be a myth, and yet from it the proportions of all wealth might be determined. How absurd it would be to attach the sparrows in perpetuity to the farthing.

This conforms to the concept of abstract value, and recognizes that only precedent and practice are required to establish a monetary unit. Yet Meulen denies this by attacking "the sparrows in perpetuity to the farthing," when, on page 238, he says,

> Few of the millions of people who exchange ordinary commodities actually desire gold; yet, when gold becomes cheaper, prices of all goods must increase, to the confusion of all debt contracts.

This is the theory that the raising or lowering of the price of gold affects all prices - a theory that was disproved by the policies of Roosevelt. It does not seem that Meulen has the abstract value concept.

Alfred B. Westrop, *The New Philosophy of Money,* 1915

He also accepts the theory of the influence of the "standard" commodity over all commodities, in these words, page 93:

> The purchasing power of "standard" money is affected by the rise or fall in the market value of the "standard" commodity hence this purchasing power must vary.

His book does not live up to its title, as it merely proposes a mutual banking plan within the existing philosophy and the existing unit.

Arthur Kitson, *A Scientific Solution of the Money Question,* 1894

I am delighted to find myself in full concurrence with him on the basis for a monetary unit. On page 135, he says:

> The language of commodities was created as soon as their relationship was ascertained in terms of the quantities (either by weight or volume) of anyone commodity, whether gold, silver, wheat, or whatnot; and if from that instant prices had been reckoned *without returning to the standard commodity for successive comparisons and valuations,* we should have had an absolute method by which the variations in prices of each and every commodity would have been correctly registered, including the variations in the standard commodity itself. A commodity can only be considered a standard at one particular instant.

I have likened the starting of a unit to the keynote of an orchestration - to be lost and forgotten the moment the play of pricing has begun.

Kitson and Whittick, as quoted above by Meulen, are the only writers I know of who have expressed the same idea that I have expressed, and I thank you for leading me to them.

I also found in Kitson's book passages worth copying in support of private enterprise money. Beginning at page 276, he first quotes Spencer thus:

> "So constantly have currency and government been associated," says Herbert Spencer, "so universal has been the control exercised by law givers over monetary systems, so completely have men come to regard this control as a matter of course, that scarcely anyone seems to inquire what would result were it abolished. Perhaps in no case is the necessity of state superintendence so generally assumed, and in no case will the denial of that necessity cause so much surprise.
>
> "That laws interfering with currency cannot be enacted without the reversal of state duty, is obvious; for either to forbid the issue, or enforce the receipt of certain notes or coin in return for other things, is to infringe the right of exchange-is to prevent men making exchanges which they otherwise would have made, or is to oblige them to make exchanges which otherwise they would not have made."- *Social Statics.*

Then Kitson proceeds:

> To the average man, a currency that has not the authority or stamp of government is inconceivable; and yet there is no good reason why communities should not create and control their own currency without the aid or intervention of governments, just as they incur debts or liabilities without such aid or intervention.
>
> In the chapter on Credit, I showed first that the large proportion of the business of all commercial nations was done upon a credit basis; and second, that circulating credits constituted money in the strict scientific sense, and that whilst a large amount of personal credit was stationary, still a considerable proportion did circulate, and so performed all the functions of money. It therefore follows, that in spite of legislative acts, and in spite of the assertions of certain writers that "law and law alone creates money," the greatest volume of money is now created by the people themselves, without the aid or knowledge of governments. In fact, were it not for the power that individuals have of creating credit, the volume of the world's commercial transactions would be reduced to a mere fraction of what it is now. Whilst, therefore, as a matter of fact, the commercial world does create the greater portion of the world's currency, in form of bills of exchange, drafts, credit notes, etc., the effect of the legal tender act and governmental interference, is to force people to build credit upon an unstable, insecure basis. The entire volume of commercial currency is built upon that of the government, so far as domestic exchanges are concerned, and is liable at any time to be overturned by the manipulation of those in control of the government currency.
> How anyone who is familiar with the history of the coinage and currency of Europe, or acquainted with the financial history of the United States during the past fifty years, can imagine that the control of currency is safer in the hands of the governments of these countries than in the hands of the people, is astounding.
>
> A nation, whose currency is controlled by its legislators, is like a town built in the vicinity of a volcano. Its inhabitants never know at what period they may be enveloped in ruin.
>
> Governments cannot exercise the function of controlling the currency without violating the one function by which their right to existence is generally recognized, viz, the administration of justice. The issuance of money must be free, in order that industry and commerce may be free; and commerce must be free in order that people may be free. Freedom to life necessitates freedom to maintain life, and this involves freedom of exchanges. Denial of free money is, therefore, a denial of freedom to life.

It is astounding to me that Kitson, after thinking so clearly and fundamentally on money, should have since lapsed into a political money reformer instead of devoting his life to promulgating private enterprise money.

To Raymond J. McNally (April 10, 1946)

After money has been created, i.e. when one holds currency or book credits, it is evidence that one has delivered something to the market and has a claim upon the market. Such claim is transferable for a consideration. But the creation of money is purely a self-service based upon the mutuality of credit that the monetary system rests upon. I see no justification for interest here. If the participants in a monetary system wanted to charge each other interest, it would seem to me like taking in one another's washing.

To Raymond J. McNally (April 10, 1946) (b)

The essential idea in the valun proposal is that credit is based upon a pact of traders, and that pact may be anything that is mutually agreeable. Such a pact might even accept the administration of one man with power to extend or diminish credit, and it might permit such a person to make a profit or suffer a loss from administration. Such a set-up would apparently please you. As for myself, I would prefer to take part in a system where the members laid down certain principles under which the officers operated and then rewarded such officers for efficiency with adequate salaries. That private operation or a profit motivated system is necessary is contradicted by innumerable non-profit stock and commodity exchanges, chambers of commerce and trade associations and business and professional clubs.

To Fyke Farmer (July 10, 1946)

As you truly say, “the individual as a human being is not recognized by what is called 'international law.' ” Nor is international law recognized by the individual. Whence cometh this thing called international law? By what right do governments establish relations with each other? Can the citizens, even if they would, delegate to their national government the power to intervene in the affairs of another or compromise its sovereignty? The power to establish diplomatic relations is not and cannot be delegated; therefore international law is beyond all law, in the democratic sense.

I see no need for international relations, and I am sure there is no demand for it, except from special interests that have no respect for the rights of others. It is the provocateur of war. "A decent respect for the opinions of mankind " dictates that no national government have any opinions or policies pertaining to the affairs of other governments or peoples. The conscience and culture of one people should be allowed to react directly upon other people without the intervention of governments. The urge for world government, whether its advocates realize it or not, is an effort to abolish international relations. Is it the shortest way?

To Floyd B. Odium (October 11, 1946)

That the value of the shares of an investment trust is determined by the value of the underlying corporate shares is a matter of common knowledge. But it is not realized that the dollar, in terms of which these corporate shares are expressed, is itself a share certificate of participation in the general market of goods and services. It follows from this that every corporation is but an investment trust basing its stock on the underlying monetary stock.

Any corporation executive and stockholder knows that when a corporation declares a stock split, each outstanding share is proportionately diminished in value. But how many comprehend that when the dollar supply is increased without commensurate increase in the underlying capital of goods and services, that a stock-split has been executed? As the dollar goes down, corporate stocks must go down in value regardless of their nominal quotation on the stock market.

The basic stock of the economy thus is the monetary stock. Any businessman who has the necessary bank credit, has the power to issue this basic stock. Therefore, when issued by a producer, the underlying capital

for the monetary stock is maintained share for share, and parity is preserved. But when the monetary stock is issued by one who does not offer goods or services to the market, it constitutes a stock-split, and each unit in circulation is proportionately reduced in power. Banks ordinarily do not qualify such an issuer among private borrowers. But the sky is the limit when the Government borrows and issues dollar splits.

To Floyd B. Odium (October 11, 1946) (b)

It is apathetic commentary that many of our businessmen extol free enterprise and in the same breath uphold price control. Free enterprise means freedom to determine price. Thus a prohibition against the determination of price is a prohibition against free enterprise. Instead of defending their vital right of mutual agreement between buyer and seller, they undertake to operate in a straight-jacket and join in the aspersions cast upon those businessmen, known as "black-marketeers," who are the real defenders of free enterprise, upon the continuance of which all our liberties depend.

To Merwin K. Hart (June 10, 1947)

The organizations which you list are some of the conscious left-wing organizations; the unconscious left-wing organizations, such as yours, are those of the so-called right wing.

There are no truly right-wing organizations, because it has not dawned upon society that the political monetary system that prevails in every nation is fundamentally socialistic. To point the finger at conscious socialists is self-deceiving, for it implies that others are not socialists. The finger should be pointed as well at the professing individualists who accept the socialization of the monetary system and are naive enough to believe that we can have a free-enterprise system in spite of it.

Random (December 20, 1947)

Under the valun system, savings would not lose their value through deficit financing, and people could save and insure against hazards without fear of their savings being watered down in value. Such saving is a mark of prudence. A money hoarder, on the other hand, is one who insists on giving value without receiving value-a monetary masochist. He harms no one but himself, if his extraction of money circulation does not starve exchange, and it cannot if money creation is not controlled by a monopoly.

To William v. Burnell (March 12, 1948)

Your mind seems to be seeking an answer to the question, what makes money circulate? The ultimate answer to that question is the indispensability of money. Man will use anything to serve the purpose of money in the absence of something better, but will always seek the best. The best is that which attracts him by its superior stability, not that which rests upon legal compulsion.

For the first seventy years in our Republic only gold and silver coins were legal tender, yet by far the greater amount of business was transacted with letters of credit and private banknotes, and today all governments, federal, state and local, accept tax payments in checks which are, of course, not legal tender. Legal tender merely means that a creditor may require payment in currency. We are not concerned with plans of compulsion; we are planning a unit that will be preferred.

To Ralph W. Manuel (May 7, 1948)

It is so unusual to find a banker who feels a social consciousness in his work sufficient to ponder the problems of money and banking, that when one meets a thinker like yourself, he is especially appreciated. The banking business is burdened by statutory laws, yet the natural laws governing it are apparently not understood by either the legislators or the bankers themselves.

The contract or the meeting of minds between buyer and seller that forms the basis of money is extremely difficult to define. In fact, it may be questioned whether money has any existence, in a dynamic sense, except at the very moment that it is occupying the minds of traders in the actual process of exchange. I hesitate to assert that money exists only in motion, but I recognize a difference between a bookkeeping record of money and money in action.

It is an interesting speculation whether the volume of money actually in existence at anyone time is merely that which is actually in process of exchanging, and whether the record of issues is but authorized or potential volume and the exchange act a process of creating and retiring money from the potential supply. In other words, whether the substance of money is manifested only in exchange action, and whether it becomes a dormant entity after exchange, subject to reactivation by the next buyer.

If money exists only in motion, or if only the active units activate the demand-supply effects upon the price system, are not the other units (so-called savings) practically non-existent, except as potential re-issues?

We understand that the monetary circle has its birth in the issue by one who has credit in the monetary system, and its death is accomplished by the issuer as he turns from buyer to seller. Between his issue act (by buying) and his retirement act (by selling) there are a number of intermediate traders. These may be without credit in the monetary system, and, at least in this monetary circle, are not primary or initiating issuers. But since we recognize that they have the power to retire money from the circle, must we recognize the power to restore money to the circle as a power of re-issue? Do they not, as you have contemplated, have the power to affect the consequences of the credit which brought the circle into existence, and thus share with the initiator the responsibility for making money a benign agent?

Whether every person in the monetary circle is responsible for its equitable operation or only the issuer, is a question that touches the essence of the money compact, which, as stated at the outset, is extremely difficult to define. Is the pledge upon which money rests a pledge of only the issuer, or does it involve also the acceptor? Does the intermediate acceptor in the money circle affect the interests of the past members of the circle and the potential future members by interrupting or breaking the flow, or is the reaction solely upon himself?

It is because questions like these are unanswered, and in many cases not even posed, that I get much satisfaction out of the opportunity for experiment that the valun system permits. Each valun bank would adopt its own credit policy, and it is on credit policy that most of the unsolved problems hinge.

To FelixJ. Frazer (September 15, 1948)

I have found that the general impression of my proposal for a private enterprise monetary system is that I advocate the taking over the control of money by big business. Yet I have at no time advocated this. When I use the terms *private enterprise* or *private enterprisers,* I include employees as well as employers. To get away from the general interpretation of these terms, I am in my recent writings using the term *personal enterprise.* I hold that the money issuing power is inherent in every producer and potential producer and is not delegatable. The recognition of this principle is society's security against economic reverses, because it

enables money supply to spring automatically at the point of need.

Under the valun system, it is just as feasible for employees as for employers to start or join a valun bank and to secure credit upon which to issue valuns. After the board of governors is established, there will be nothing to prevent you from setting up a valun bank with any type of enterprisers you may prefer and can get. So please don't continue to have the impression that there is anything aristocratic or snobbish about the valun plan. Under the valun system, neither politician nor banker nor big businessman will be able to withhold from the little fellow the power to issue money if that little fellow has enough initiative to exert it.

To Felix J. Frazer (September 15, 1948) (b)

We are in agreement that the basis for all wealth is labor, and from this must follow the principle that all money credit is based upon labor. But do you include potential labor with realized labor, or commodities? I do. I hold that an unemployed potential producer has as sound a basis for money credit as the possessor of realized wealth. All that a money issuer promises is to accept money in exchange for his goods or services, and to deny that an unemployed man is a justifiable money issuer is to assert that he will not accept money when it comes his way, in other words, will not take a job if offered to him.

From Spencer Heath (November 1, 1948)

The ideal business organization for supplying exchange facilities would be the one that supplies, by the exchange process, the most services to the whole general public, and is thereby in best position to redeem all the tokens that it issues when buying from them. When the numerous owners of public communities unite their ownership in the service of their inhabitants doubtless they will supply them with many common services, including exchange services.

To R. Harland Shaw (April 6, 1949)

We disagree upon the necessity of stipulating a specified sum of a specific commodity for which the valun would be exchangeable. I hold that this is gratuitous, and you hold it vital. This is the old specie versus fiat controversy that has raged from the beginning of the political monetary system. It involves the effort to legitimize the illegitimate, namely, government issue, and has the further purpose (on the specie side) to supply a particularization deemed necessary for the certitude of the unit.

Since, under the valun system, we abandon the impossible effort to legitimize government issue, the first named purpose has no relevancy to our problem. The second purpose, namely, the convertibility or "deliverability," as you state it, I grant you, has relevancy to any monetary unit. But it is not an issue in the valun system, because the system permits its presence or absence accordingly as its operators believe to be sound. The question is to be resolved empirically by competition.

For instance, if you were conducting a valun bank under your proposed policy, you would ask the board to print on your currency a specie promise. I, on the other hand, would omit this pledge and rest acceptability upon the power of competition to maintain the parity and constancy of the unit. If your plan proved preferable to traders, your bank would attract business and mine would lose business.

I believe that the experience would prove the reverse; while, of course there would be no objection on the part of any trader to convertibility, I believe that there would be no preference. If this were true, your bank would have a competitive handicap by reason of the necessity of investing capital in the commodity reserve, thus imposing a greater overhead with consequent higher charges for exchange service, which would force traders to a non-convertible exchange.

As I conceive the function of a valun bank, it would be merely to administer the credit of its account holders, and not to underwrite their losses, except to charge each a sum for an insurance reserve against losses and to establish a parity of units issued by each account holder through each bank. For a bank to guarantee its account holders that any particular commodity would be available at a fixed price, would be a hazardous undertaking, and entirely uncalled for.

Nevertheless, as you see, there is room in the valun system for both the specie and fiat advocates. I should think that you and your fellow specie advocates would welcome this, the first opportunity you have had in all history to demonstrate to the world that your theory is correct.

So far as I know, there is but one piece of currency in the world that is "deliverable," as you call it. That is the United States silver certificate. Yet we see no preference for it manifested by the public over bills that merely promise other paper. Nor is there demand for redemption - "deliverability." This, by the way, demonstrates that the specie principle may be operable with the fiat principle in the same monetary system. Before 1934, we had the gold certificate as further demonstration.

If, however, you believe that we cannot play marbles with different colored marbles, or that different colored marbles cannot be par in the game, let me remind you that you will have the same opportunity that I hope to have to present views to the board of governors when that body is formed.

You come fresh to the battle, but I, after fifteen years of advocating nonpolitical money, have grown weary of frustrating side issues.

To Mildred Loomis (May 21, 1949)

In your effort to classify me among the "ists," please catalogue me solely as a valunist. I do not concern myself with social ends, but with means. I believe that with a true monetary system, the individual can avoid what he dislikes and bring his full power to bear in the attainment of his aims. To identify myself with any cause other than monetary reform would hamper my efforts in my chosen work, as it would create the impression that the valun system is designed to attain particular ends, whereas a true monetary system is without bias and is but a tool for the attainment of aims, regardless of what these aims may be.

Social reformers are divided into many movements, and each has its pro and con. None of these issues can be resolved under the existing political monetary system; which frustrates the operation of economic democracy, a process that can operate only by means of a true monetary system. If one tenth of the energy expended in attaining ends could be consolidated upon realizing the means, the world's problems could be quickly solved.

Random (Undated)

The purpose of money is solely to facilitate exchange and competition, and not to regulate exchange. It must have no governing power whatsoever. It must be the ever ready handmaiden of every trader who wishes to buy anything, anywhere, anytime, and for which he can deliver an equivalent value. It must not influence him to buy or not to buy; it must not color his opinions or aims; it must not impede evil impulses or impel good ones; it must not strive to augment some men's wealth and diminish other's. It must be neutral and insensible to moral considerations and all economic and political inequalities. It is an instrument of individualism, the servant of all men in the process of exchange. Through it, all the moral and immoral

forces exert their influence, but it is itself neither moral nor immoral.

Money is the mathematics of value and must remain as impartial as mathematics. It is the function of the trader's mind to evaluate commodities, and it is the function of money to mathematize such evaluation, i.e. to express in numbers and fractions the value determined by the trader, but not to influence such determination.

The natural issuer of money is the trader when acting in the capacity of buyer, and the sole aim is to serve him and others in their desire to trade with one another. Among the trading group will be some who are smarter than others, some more acquisitive, some more active, some more cunning, some more frugal, some more ambitious. Other differences that are natural to the human species must also exist. Regardless of what the human animal is and how many varieties there be, it is not the function of a monetary system to either approve or disapprove any characteristic, nor to promote or oppose any tendencies nor exert any leveling or paternalistic influence.

The valun therefore must exert no modifying influence upon exchange except to remove modifying influences and thus assure natural exchange. Man will continue and should continue to trade for private advantage; this self-seeking is nature's way of intriguing men into social progress.

To Curtis E. Calder (May 27, 1949)

I note that the International Relations Committee, National Association of Manufacturers, of which you are chairman, asks the Government to clarify the respective roles of government and private enterprise in the pursuit of the President's "bold new program."

We may be sure that the constructive part will be supplied by private enterprise and the destructive or socialistic part will be provided by government. What amazes me is that businessmen and especially deliberative bodies are always willing to join these two antagonistic forces and thus promote socialization, which always gains by such mergers.

The ideals of the "bold new program" can be and will be realized by business only in proportion as it separates itself from political action. This will come when businessmen make their practices conform to their anti-socialist professions.

If you and your Committee members really believe in the efficacy of private enterprise to promote human welfare and will consider a world plan of action to this end, entirely divorced from political action, I shall be pleased to submit such a plan.

From Arvid L. Frank (June 1, 1949)

Mr. Calder has referred to me your letter of May 27th regarding the recommendations which the International Relations Committee has formulated on the President's Bold New Program.

We appreciate the interest you have taken in the matter, and assure you that we are cognizant of the importance of the role of private enterprise in constructive accomplishment in the development of backward areas.

We have associated in our work many distinguished monetary authorities, and call upon them freely for advice on the monetary phases of our program.

To Arvid L. Frank (June 4, 1949)

Responding to yours of the 1st in reply to my letter to Mr. Calder.

I never had any doubt that you have on call many distinguished monetary authorities, but would it ever occur to you to ask any of them to submit a plan of action completely divorced from political action, or would any of them voluntarily offer such a plan, as I have done? The answer to both questions is no. So the NAM goes blithely on imagining it is a defender of the private enterprise system, while at the same time playing right into the hands of the socialists.

I enclose my recent pamphlet *The New Approach to Freedom* which I dare you to read, even though I should be intimidated by your rebuke for presuming to offer a suggestion.

To Curtis E. Calder (June 4, 1949)

I enclose copy of my answer to your vicarious response to my letter of the 27th ult. [sic]

Your name was prominently featured in the press release, and you were willing to accept credit as chairman of the International Relations Committee for the deliberations of the Committee. The moment, however, you were called upon to think, you took refuge behind a hired man, who in all probability prepared the publicity putting the words in your mouth.

How long must the real friends of private enterprise suffer from the mis-leadership of prominent business organizations such as the NAM, which is encumbered by prominent businessmen who are too lazy to think and who resort to canned publicity releases prepared by hirelings who don't dare to think?

How long, oh how long?

P.S. You will note that I have sent my pamphlet directly to Mr. Frank so as to save you the trouble of referring it to him.

To the editor of the New York Times (August 19, 1949)

The composite credit of private competitive traders, based, as it is, upon actual exchange of goods and services, forms the only substance of money. The different national monetary units are merely various dilutions of this substance. It is more correct to say that there is money in each unit than it is to say that each unit is money.

It is for this reason that Gresham's law projects in the words, "bad money drives out good money," a misconception of money. Good and bad are not proper terms to apply to money. Money is invested to a greater or lesser degree in various monetary units, the distinction being quantitative and not qualitative. That units with a lesser money content are proffered by buyers rather than those of larger content is but a natural manifestation of the bargaining instinct.

To M. S. Lurio (November 11, 1949)

Enclosed is a draft of the proposed constitution of the board of valun banks. The purpose is to make it as simple as possible and, except for the projection of a principle, to leave the board free to exercise judgment on the questions that will arise.

In the prospectus of the New York Valun Bank, you will observe that the word money does not appear. The process of the bank is described as "trading by transferable credits," which is really a definition of money. I am continuously at cross purposes between the impulse to make a truthful statement and to yield to expediency as a defense against the reactions that spring from the universal ignorance and superstition of money. In the present promotional effort, I have used the terminology current in business, and yet I inwardly rebel in calling the overdraft bookkeeping entry on the books of the bank, "credit."

This is really not credit in the accepted sense, as it delivers nothing of intrinsic value. It is merely authorization to the member in a debit position to tender a check or checks to some suppliers-who are the actual extenders of credit if they accept the tender. And they do not extend credit to the remitter, but look to some other members to make good. A valun check, like a dollar check, is merely a draft on the market where the real creditors and debtors function, while the bank is merely the bookkeeper.

Now, should we call the bookkeeping entry which authorizes the remitter through the process of red ink figures to tender checks to the market, "credit?" Or should we adopt a more honest name, such as "overdraft power" or "initiating power" or "unearned drawing power," as distinguished from earned drawing power, which is based upon an entry resulting from the deposit of a check which is evidence of having delivered value to the market? Or should we, for expediency's-sake, leave undisturbed the psychology established by banking practice and let account holders and the public think that the bank actually extends credit?

To David Diamond (January 31, 1950)

One of the collateral purposes of the valun plan is to diminish and ultimately abolish the use of currency in payrolls, and thus diminish the use of currency in general. Currency is indispensable, but its present uses are excessive. This is due to its general use in payrolls, and to the unattractiveness to employees of the present checking method.

Under our plan, each employee will be entitled to a check account with an overdraft power with which he immediately can draw checks, thus making it possible for the employer to make up payroll once a month. To accomplish this, the employer will be supplied with a payroll check about the size of a letterhead, on which he will list the employees and the various sums to be credited to their accounts. This will be mailed to the bank, where the various sums will be entered as deposits to the accounts of the various employees. No checks will be issued to the employees, and thus will be obviated the necessity of their making individual deposits. This will dispense with a great amount of detail.

To A. L. Giberson (May 16, 1950)

I have made several approaches to cooperatives, as it seemed to me and others that they were constituted ideally for the valun project for two reasons, to wit: they are drawn together by a common principle and interest and are organized mostly along lines of human necessities, and, second, their employees are more disposed to cooperate than the employees of non coops.

Before the valun or any other plan can gain wide usage, it must enter payrolls, yet this is impossible until the system has broad representation among dealers in consumers goods to bid for the employee's interest.

The dean of the Cooperative movement in America, Dr. James Peter Warbasse, has endorsed the valun plan and mentioned it in his latest book, *The Cooperative Way,* page 113.

I am enclosing copy of a circular letter now going to a selected list of manufacturers and wholesalers. If this brings response evincing interest, I shall ask them to sponsor the plan to their retail trade, as I find that the

retailer asks whether he can pass valuns on to the wholesaler.

To Percival C. Brundage (October 14, 1950)

As long as accountants fail to understand that the monetary concept is the basic concept in accountancy, they will be frustrated in their efforts to bring business facts into proper focus. It is as absurd for them to undertake to present true mathematical analyses of business performance, with the politician continuously changing the power of the unit, as for an artist to paint true pictures with colors mixed by another.

To Holgar J. Johnson (November 9, 1950)

As a constant reader of your excellently edited Money Matters, I see in it reflection of the deep concern that is held by the insurance companies over the progressing inflation. I wonder, however, how much they hope to sweep back the tide with a broom of words. Is there not some quest for action to be taken by the companies themselves to preserve the tremendous equities involved in life insurance?

I wish to go on record as forecasting the complete collapse of the political monetary system in total inflation with no possible point of stabilization. When the insurance companies are prepared to entertain this possibility, I shall be prepared to present my plan for stabilizing their income and outgo on a monetary unit dissociated from the dollar and proof against inflation

To Ivan Firth (February 12, 1951)

Inflation is not a condition of imbalance between goods supply and money supply, for such imbalance cannot occur. Money cannot be issued without an exchange of goods and services, since it is not an entity apart from exchange but springs out of exchange, nor can it be issued unilaterally, since every issue of money requires the tender of it by a buyer and a tender of value by a seller. Hence the two sides are always synchronized and always in balance. Thus, if there were no spurious monetary units injected, the price level would remain constant, though, of course, individual commodities would rise and, reciprocally, others would fall, thus balancing the rises with the falls.

To Ivan Firth (February 14, 1951)

Trade is a process of finding affinities, and it is, of course, more difficult to find direct affinities than by vicarious process. If one of two traders can give the other an instrument that will ferret out his affinity, it follows that trading may be consummated to a much greater extent than if dependence is had upon the mere chance that two traders can satisfy each other's wants.

This transforms trade from a bilateral to a multilateral operation. To accomplish this transformation is the sole and all important function of money - the ferret of affinities.

To Garet Garrett (May 7, 1951)

Our libertarian writers paint a drab picture of the decline of private enterprise and the rise of political enterprise. The political means of attainment is seductively turning the minds of the people from the economic means.

Education is futile to overcome this trend. The cause of the trend must be displaced by a mechanism whereby the trend will be in a wholesome direction.

The Welfare State is one that robs Peter to pay Paul, and its success lies in the fact that Paul is fully aware

and grateful for the benefit received while Peter is bewildered over the identity of the robber. He is apt to blame the tradesmen over whose counter he pays his shrunken dollars, and thus private enterprise is doubly punished.

The whole deception operates through a perversion of the monetary system. Many of us suspect this, but our remedy is the usual stereotype - education and a return to sound money. But to attain sound money we must advance, not return, because we never had sound money.

What we had in the "good old days" was unsound money only partly developed. The power to degrade the monetary system and thus sabotage private enterprise existed before Roosevelt, but he was the first to release it beyond the power to arrest. The egg has been hatched, and the chicken grows rapidly. "Sound money" advocates propose to put the chicken back into the egg.

The power of government to make paternalism seem practical, and thus insidiously to socialize the economy, lies entirely in the fallacious belief that government can and does issue money. An understanding of the essence of money shows that no government ever has issued or ever can issue genuine money. Their professed monetary issues have precisely the same effect upon the money supply as a farmer produces by taking the milk pail to the pump-not a larger supply of money or milk, but a mere dilution.

We bewail the ignorance of the people on economic and political matters, but the real cause for dejection is that our businessmen do not know the difference between real money and counterfeit. Because they and the would-be educators of the people accept the fallacy of political money power, they are unconscious socialists. This unconscious socialism is universal; so the task of restraining the onward march of the Welfare State is more gigantic than we have realized, if undertaken through popular education.

However, we need not educate the people on money or economics. We need not tear down the present political monetary system. No governmental or political action is called for. If we realize that only private enterprise can organize and conduct a true monetary system, one that will be stable and sound and inflation-proof, we need but to set it up, and the people will not be slow to secede from the false and join the true.

To Edward Boykin (May 22, 1951)

A friend has shown me your excellent article in the New York Times of May 13; on the 1874 Green back Bill.

In those days, the means of inflating the circulation was by printing currency. The modern way is to print bonds, sell them to commercial banks, then print checks to draw against the bank balance and let the currency expand according to public demand. This is the smarter way of using the printing press. It fools the people.

You will recall that the Act of May 12, 1933, gave Roosevelt the authority to direct the Treasurer to issue greenbacks up to $3 billions, which authority he did not use. He used the roundabout method and increased the circulation by many times this amount with not a single banker crying out, "printing press money. " You see, the greenback way pays no interest, while the bond-check-currency printing-press method does, and that stops the mouths of the wise and deceives the public.

The practice by government of inflating the circulation is now in its third and last phase. The first was by debasing coins, the second was printing currency, and now it is by the method above described. This is the end of the trail; all governments are now perpetrating this ultimate fraud, and I see no escape from total inflation, not only national but worldwide.

To Ivan and Gladys Firth (June 15, 1951)

A friend asked me to review this old book, and since it covers a period before your time, I thought you might be interested in reading this first draft.

Review of W. H. Harvey's *Coin's Financial School*

The tattered and faded book from which these photostats were made awakens nostalgic memories of the last decade of the nineteenth century, when depression-inspired pursuit of the solution of the money problem made passionate partisans of all men. Those were the days when one could get at least emotional exhilaration out of an otherwise dry-as-dust subject.

The "free silver" crusade of the late eighteen-nineties marked an epoch in American history. It was the all-time high for popular interest in the money problem, approached in fervor only by the Andrew Jackson campaign against the Second United States Bank. It divided the nation not only politically, but also geographically. Had the depression continued until the end of the decade, there might have been a schism between the West and South against the East, for the latter was considered by the former as "the enemy's country."

Josh Billings said, "The less people know, the more they suspect." The people, knowing little about the cause of the misbehavior of money, instinctively became suspicious. The demonetization of silver, called "the crime of 1873," served the need for the emotional surge. Added fuel was supplied by the suspicion that England had inspired the "crime."

The "gold bug" partisans for the gold standard against bimetallism were equally off the beam of reason, and answered their opponents with invective and diatribe. A veritable groundswell lifted all men into the air. While the free silverites were no more rational than the gold bugs, the writings of "Coin" Harvey gave a scholastic background to the former, for they were written in pedantic style and were widely read.

The torrent of hot words reached its climax in the presidential campaign of 1896 with William McKinley, the Republican candidate, opposed by William Jennings Bryan, "the boy orator of the Platte," who stampeded the Democratic convention with his impassioned speech concluded with the peroration, "thou shalt not press down upon the brow of labor this crown of thorns nor crucify mankind on a cross of gold." Though the campaign was a contest of passions, the race was not decided by the amount of heat generated, but by cold and brutal strategy conceived by Mark Hanna, the McKinley manager who enlisted the banks to pressure manufacturers to post ultimata on their plants. In cases where the plants were closed, a promise was made that they would open immediately after election if McKinley were elected. On the open plants, the poster carried the threat that they would close if McKinley were not elected.
But for this thrust at the breadbasket, the silverites might well have carried the election. For the force of their crusade much if not the major credit, must be given to "Coin" Harvey. His technique merits examination.

Harvey's style of writing was popular mainly because he personalized the subject by boldly using the names of prominent Chicago businessmen and bankers and publishers as stooges to appear at his "school" to ask the questions he wished to be asked, and brought off each fictitious encounter with a personal triumph of his little hero, Coin. The tactic second in importance was his liberal use of cartoons. He artfully professed throughout the book that he appealed only to reason and abjured sentiment, but as one comes to the end of the book one discovers that he used the method of Mark Antony at the grave of Caesar, for he climaxed with the most incendiary words.

While the conspiracy theme of the "crime of '73" is not referred to in the book proper, there are appended two chapters of his *A Tale of Two Nations,* wherein the fiction is given form with the arch conspirator being the English "Baron Roth." The reader can easily supply the second syllable. " A certain Senator," the American co-conspirator and mercenary, is easily identified as John Sherman, author of the "infamous" Sherman Act that demonetized silver. Such were the tools with which the little master, Coin, biased the minds of his readers.

After the presidential election had put out the fire, what resulted from the great conflagration? The silverites had argued that the demonetization of silver had cut half the base from under money, thereby reducing circulation and bringing hard times. The gold bugs had maintained that "sound money" could be had only with a gold base. Silver was not remonetized, and the gold standard held full sway until another and worse depression which overtook the nation in 1930-1933, brought forth the theory that the trouble came from trying to maintain any metallic base. In 1934 gold was demonetized, and we are today without any "redemption money."

So it was all much ado about nothing. The partisans of one metal and the partisans of two metals were not talking about money at all. They were merely debating, in their torrid fashion, whether the Government should peg the price of one metal or two. But the Turkish bath was good for the nation, because it got some poisons out of the system.

So intricate are the machinations of money and so complicated are the causes of its misbehavior, that it baffles even calm reasoning, and solution is hopeless when emotion confounds logic. The moral is that there will never be a solution of the money problem through groundswells and prairie fires.

To john Chamberlain (April 10, 1952)

Your booklet containing "The Faith of the Freeman " is written with such sincerity in the cause of private enterprise, that I assume you will welcome comments. I hang my hat on this quotation: "In terms of current labels, the Freeman will be at once radical, liberal, conservative and reactionary. It will be radical because it will go to the roots of questions."

I wonder if you will go to the root of the money question. In your recitation of the proper functions of government, you do not mention money control. No doubt you take that for granted, as your readers probably do also. I do not imply that you approve of the monetary policies of the present and past administrations. But you probably have not posed the question whether the state can, under any conditions, provide a monetary system that is not adverse to a free economy. Yet so long as you do not tackle this fundamental question, your other soundings will be immaterial.

You denounce, and rightly, such interventions as "tariffs, quotas, exchange control, bilateral treaties, import and export prohibitions or restrictions, government price supports, subsidies, or loans to favored industries," etc. This constitutes your credo as a professed friend of private enterprise. Like all other "friends," no darts are aimed at the political presumption of monetary control. This precinct you hold sanctuary.

With the monetary system socialized, the state can yield on all your protests, and still the economy will be progressively socialized by diluting the money supply with issues of spurious money. The state can even abolish all formal tax levies, thus creating the appearance of a taxless Utopia and giving society a free ride to its doom. You are, in fact, spreading the opium unconsciously, as you state: "It is imperative that those who already believe in a market economy, limited government, and individual freedom should have the

constant encouragement of knowing that they do not stand alone, that there is high hope for their cause."

Thus, within the purview of your iconoclasm, leaving untouched the superstition of the State's most stupefying icon, the more success that attends your efforts, the more you contribute toward the vulnerability of private enterprise, which you undertake to defend.

The universal attitude of private enterprisers and economists is to attribute the power and duty to the State of supplying the monetary medium to the economy, reserving only the right to bellyache over the consequences. This shows that at bottom, our whole society is tainted with paternalism. The blame for the political perversion of the monetary system must be placed upon society. For it has tried to escape the task of rationalizing the subject and has thrust the problem upon the Great White Father, who is just as ignorant as to what constitutes money but is, of course, glad to grasp power.

The monetary system must be alienated from the state and its control assumed by private enterprise. To accomplish this, businessmen must be roused from their private "initiative," and journalists can serve the public interest by ringing the alarm, not by soothing words.

To Ludwig von Mises (April 10, 1952)

You deplore the fact that the prevailing number of economic teachers and writers are of the Leftist persuasion. From the viewpoint of the Radical Right, there are no others. The so-called academic or conservative or classical teachers and writers are merely different categories of socialists, because they all accept the socialization of the monetary system. Can you name any "capitalist minded " authors, teachers, businessmen, bankers or taxicab drivers, here or abroad, who do not accept the state control of the monetary system?

The economy functions by means of verbal and written contracts, and under a monetary system, these contracts are all expressed in terms of the monetary unit. Hence the meaning of the monetary unit is the meaning of the contract. With the state's power to change the meaning of the monetary unit, it holds complete pervasive power over the economy. To admit this all-pervasive intervention while objecting to collateral ones, is to swallow a whale while gagging at minnows.

To Bennett Chalis (September 12, 1952)

A pipe through which water flows has capacity, but the power that moves the water lies elsewhere. The same is true of money. The monetary unit is merely the conduit through which purchasing power flows, such purchasing power lying in the commodities or values exchanged. Therefore the student of money must be careful not to fall into the error of thinking that money has purchasing power. *Things are purchasable only with things.* This unchanging law is just as operative under a monetary economy as under a barter economy.

To F. A. Harper (October 1, 1952)

I have now read with pleasure, for the second time, your pamphlet, "Inflation."

I have looked for areas of agreement between your ideas and mine, because I would be particularly pleased with such concurrence. Ever since reading your *The Crisis of the Free Market,* published in 1945, I have regarded you as an exceptionally clear thinker.

I would say that we agree that: *a)* Governments can and do issue counterfeit money, and that *b)* such issues

act as insidious taxation. We only partially agree as to the genuiness of any issue of "money" by any government.

Your designation as counterfeit (impliedly) applies to issues against deficits only. This makes the criterion of genuiness one of balancing the budget. As I see it, the professed issues of money by governments, national, state and local, cannot be genuine, because they are not the criteria of free exchange, i.e. a tax levy is not determined by free exchange, which is the only area in which money can be invoked.

I raise this distinction to lay a more fundamental objection to governments undertaking the issue function, although the distinction is really academic. Governments have no need to issue "money" where they have the courage to balance their budgets by frank taxation. Are you not saying, for all practical purposes, therefore, that all issues of professed money by governments are counterfeit?

It is not clear whether you use the word *money* in the sense that I do. I regard, as the primary monetary form, a draft against a drawing account established by a credit administrator of the monetary system. Thus the currency form would be but a conversion of a check, the primary form.

I read your pamphlet eagerly looking for some suggestion of a remedy for legalized counterfeiting, and found this on page 23:

> A step in the right direction…….would be to compel the government to live within its income. This means limiting government expenditures, strictly and absolutely, to taxes that are openly acknowledged to be taxes. This means prohibition of the concealed and deceptive tax of inflation."

Compel and *prohibition* are words of coercion that apply to Government measures over the citizen, but not in reverse. We cannot prevent the Government from following political expediency, and it certainly is expedient in practicing paternalism to hide the taxation under deficits by means of counterfeit money issues. To do otherwise would be to let the socialist cat out of the bag.

Even if it were possible to force Government to a balanced budget policy, it would not avert disaster, because of the more than $100 billion of bonds in the hands of private parties, which, of course, have not yet been monetized. When the demand for cashing comes, as come it must, the Government will have no place to go to get the necessary cash to "redeem " these bonds but to the banks, and this flood of counterfeit dollars will wreck not only the dollar but the Government itself. Business must build its own monetary system to save both itself and government from utter chaos.

May I discuss with you the point you raised at the conference relative to the "insurance" provision in the valun plan? Perhaps you think its purpose is similar to the Federal Deposit Insurance Corporation, but it is not.

My visualization of the problem is this: Each bank in the monetary system is the mechanism of a community of money issuers, all using the same name, dollar or valun, etc. These issues pass into the common stream of money. Yet the varying credit policies of the various banks with their varying loss ratios suggests that there be introduced some compensatory factor to make them par. Or should we ignore these discrepancies, as has been done in all monetary systems to date? The tendency of defaults of money issuers is to unbalance the money supply with the values supply, producing slight inflation. But there is an offsetting factor in the loss - which may be considerable - of our currency through various natural causes. What do you think?

To Paul L. Poirot (June 21, 1952)

Frank Chodorov's piece entitled "Shackles of Gold" turns out to be a confession rather than an accusation as the title had led me to expect. It is the old-time religion, humbly expressed and pleasantly intoned for the ears of the faithful of the Gold Standard League.

Chodorov has discovered that "money was invented by traders long before any government thought of monopolizing it." What escapes him is that traders have continued to issue all of the money in circulation and will ever be the sole issuers of money. He does not realize that no government ever has or ever can monopolize money issuance, because the so-called money issue of government cannot circulate of itself. It can only flow by blending with the real money issued by traders. The farmer cannot produce a salable commodity from the water pump alone; he must first get the milk from the cow and then inject the water into it to make diluted milk.

The nonsense about gold convertibility as a converter of counterfeit money into genuine: Does regulating gamblers make them any the less gamblers? This is not a perfect analogy, since in the case of counterfeit money the regulator and the regulated are the same. Nonetheless, the gold bugs do not seem to realize that we have gold/dollar convertibility on a sufficient scale to prove that it is no deterrent to the issuance of counterfeit. As you know, foreigners may convert dollars into gold, and yet gold piles up in Fort Knox. Also, there is no diminishment in the domestic gold miners' conversion of gold into dollars.

During the Civil War, the Government suspended convertibility. After serious debate for years, it restored convertibility on January 2, 1879, under tense fears of a run on gold. But the conversion worked in reverse; more gold flowed into the Treasury than flowed out.

When Roosevelt ordered the people to turn in their gold at $35 an ounce, they responded with alacrity.

The people, today, can get the substance silver not only in exchange for silver certificates, but for any bills. Yet there is no demand for conversion.

It is disconcerting that businessmen, realizing that there is something wrong with the monetary system, try only to get the counterfeiter to purify itself, instead of taking in their own hands the exclusive power and responsibility for the medium of exchange. It shows that they are at bottom paternalistic, willing only to whine against the socialistic trend which the political monetary system makes inevitable.

Random (Undated)

Are you not willing to give your IOU when you want to buy something, provided that that IOU is payable only in your services or goods? Of course you are. Everybody is. It merely means creating sales for yourself. We are all willing to issue our IOU's. Now all we have to agree upon is that we will all accept one another's IOU's. Thus we really redeem our own IOU's by accepting anybody's IOU's. Since, therefore, it makes no difference where the IOU originated, individual signatures need not appear thereon, and we can adopt standard pieces of printed paper and coins….

From Paul L. Poirot (September 11, 1952)

It is not clear to me why the details of a valun banking system are included at all in your presentation. Does that not presume an impossible insight into the results of freedom?

Let us say, for example, that I am in theoretical opposition to our public highway system; I would prefer

privately owned and controlled roads. Must I presume to know how or where or why or when individuals would voluntarily develop a system of highways? Or shall I leave that development to the voluntary efforts of individuals, some of whom are more facile than others? The question, I suppose, is one of strategy: How can I best persuade others to give private roads a trial?

Private money must be a credit instrument, a promissory note, for which some individual assumes responsibility. I can issue a promissory note without a bank's signature. I cannot circulate it as money except among those who have faith in my productive capacity, in my ability to deliver the promised goods or services. Within the trading circle of my immediate family, we use such a system, based upon unwritten "scrip" and unworded "promises." Credit is sought and received and honored strictly on the basis of personal acquaintance. Is there any other way of promoting the use of private money within a larger social circle than the family, except on that basis of faith in the individual? A man's money cannot possibly be any better than his word - his honest effort to redeem his promises.

I can see how voluntary credit insurance might be a profitable business adjunct of a private monetary system. I might well elect to patronize a bank which specialized in character reading and insuring the credit of individuals, just as I now buy term insurance to cover my outstanding debts. Certainly, I would prefer to "shop around" among competing bankers for that particular service, just as I now shop for life insurance or any other commodity or service. I would abhor a universally acceptable valun if I thought it depended upon, or might somehow lead to the development of, a single central bank or credit clearing house. I am trying to say that I do not care to know in advance precisely how the valun banking system might develop under private enterprise. But I am sure we could depend upon private competitive enterprise to coordinate and blend into a workable arrangement a series of individually developed and originally highly variable valuns.

I should not attempt to offer an exhaustive list of the means to be followed toward the end of perfecting a private monetary system. For to attempt such a thing would be in itself a denial of faith in individuality and private enterprise. Let the best man work out the best means.

To Paul L. Poirot (September 15, 1952)

If we assume that the money issuer's commitment is a promise, we, of course, involve a moral question. But the money issuing act does not involve a promise, and hence there is no moral element involved. Therefore, there is no need of having the act of money creation underwritten by credit insurance. The reciprocating action of the private enterprise money issuer, i.e. his compulsion to bid for money with his goods or services, as against his bidding for goods or services with money, makes the involvement of a promise entirely gratuitous, and, in fact, irrelevant, since there is no identification of creditor and debtor in the act of creating money. The promissory note that is customarily required by bankers from the "borrower" involves no loan of money. It is but the initial step in the creation of new money, which is not actually created until the "borrowers' " draft upon the "loan" is accepted in the market in exchange for values. Even then, there is no credit since the acceptor of the draft does not know whether it is drawn against black ink or red ink.

There is, in the commercial sense of the word, no credit involved in money creation. Commercial credit involves a specific creditor and a specific debtor, and arises out of the transfer by the creditor to the debtor of goods or services or *already existing money.* Though it is not recognized by the users of money, there is implicit in the monetary system a faith that none will be admitted to the issue power other than private enterprisers, who, for the reason stated above, keep the redemption power in constant balance with the issue power.

In the valun plan there is free competition among the banks in the system. Some may operate under a broad

credit policy, others under a narrow one. Some may operate by the present practice of requiring "borrowers" notes, some by merely allowing overdrafts. Some may charge interest while others may depend upon service charges, or both. Voluntary associations of workers or other groups might organize a bank. Does this not give the flexibility and freedom of competition that you seek?

The plan not only provides for competition within the system but also recognizes that the system as a whole must be exposed to competition and that it cannot grow into a universal system unless it responds to men's impulses for freedom of action. Other than the exclusive use of the name *valun,* there is nothing monopolistic about the plan. All its procedures are subject to the crucible of competition; it cannot begin as a universal system but must earn that status.

From Paul L. Poirot (September 16, 1952)

The step of running the valuns through a theoretical bank seems unnecessary to me; All the bank does is to *endorse a personal note, giving it negotiability. The original signer is still responsible, as a debtor, to redeem his promise, no matter who finally appears as his creditor. Any responsible person could serve the banking function of insuring the creditor against the debtor's default. That is strictly a business service. Let any enterpriser do it. Call him a banker if you please, but all he really does is endorse a promissory note. I can't see how you get to the point of view that valun holdings do not reflect the extension of credit to the original signer of a promissory note. Either the banker or the ultimate creditor - the person who finally claims redemption - extends the credit. But credit it is, or so it seems to me, involving persons who trust one another.*

To Paul L. Poirot (September 19, 1952)

Commercial credit is a relationship of a specific creditor and specific debtor, arising out of the transference of some value. It rests on faith in the moral responsibility and competence of the debtor, whose default inflicts loss on the creditor.

Banking credit, on the other hand, or money-creating credit, is social - without specific creditor or debtor. It is the money-creating process. It arises from an implicit compact among a group of traders to honor the requisitions of one another that conform to the rules of the monetary system as administered by a central bookkeeper and credit administrator, commonly called a bank. Its operation is as follows:

1. The bank establishes a drawing account for the prospective money issuer by entering a sum on its ledger. This is called a loan, but involves no transfer of money or value by the bank. It involves no deduction from the resources of either the bank or its depositors. In fact, it manifests itself as an increase in total deposits.
2. The "borrower" draws a draft upon his drawing account and tenders it to a trader who delivers value therefor. This exchange constitutes the issuance of money by the "borrower"- buyer and backing of the money by the seller, who becomes a creditor, not of the money issuer but of all the traders in the monetary system. The money issuer becomes debtor to the monetary system.
3. The money circulates, and thus creditor is replaced by creditor until it finds a customer for the issuer, who then returns value in exchange for the value received in the initial exchange. The money is thus retired.

Throughout the whole process, there has been no credit in the commercial sense of the word. The banker gave no money or other value. The "borrower," with the acceptance of his draft by the seller, created the money. If the "loan " should be defaulted, the banker would lose nothing, because he would merely distribute the deficit over the accounts of all his depositors through his charges for service. Nor would this constitute a loss to them because, but for the monetary system, trading would have to be by barter, and that would be a real loss.

All parties to a monetary system are either creditors (those who have surpluses) or debtors (those who have bought more than they have sold) of the whole system, but no individual is creditor or debtor to any other individual. There is no moral factor involved in money issuance, because the issuer acts as a redeemer of money by merely following his acquisitive instincts. He is eager to exchange his goods or services for money, for it is by this process that he gains his profit. To do otherwise would be to boycott himself. He may fail to "make" money and thus fail to act as a money redeemer, but, if so, it is contrary to his intentions.

But does the moral factor enter at no point in a monetary system? It enters very profoundly if the actors know what they are doing. Alas, all participants in the monetary system, as well as the politicians who make the rules, are innocent of infidelity to the basic faith upon which the system rests. This faith is the unwritten and unconscious pact that exists between the banker and the whole group of trader participants. It resides in the observance of the rule that none but private competitive enterprisers be admitted to the money issuing power. This observed, the monetary system automatically functions for good only. Ignored or contempted, it just as automatically miscarries.

From Paul L. Poirot (October 2, 1952)

I'm still confused as to the difference between commercial credit and bank credit. You seem to be saying that it is possible somehow for everyone to trust everybody without *your first trusting me, and vice versa. I would concede that a banker might be a highly useful promoter of this ideal of mutual trust, but doesn't his value in this respect depend entirely upon his personal assumption and fulfillment of responsibilities? I* can't *see that the mere presence of a banker automatically relieves all debtors of their responsibilities and all creditors of their fears of loss. If obligations are outstanding, it strikes me that they must be assessed against some individual.*

To Paul Poirot (October 9, 1952)

Your effort to understand the social nature of money credit as contrasted with bilateral credit may be cleared up if you will ask yourself this question: What becomes of the "losses" or "charge-offs" in the banking business? Are they borne by the bank or included in the costs of doing business and therefore borne by the bank's customers?

To be sure, if these items become excessive, the bank may be unable to pass them on to its customers, since its charges for services might not meet competition. There is an optimum point at which the charge-off percentage is neither too large, reflecting laxity, nor too small, reflecting ultra conservatism. This point can be arrived at only by free competition among banks, a condition that has not existed under the politically controlled monetary system with its many provisions of capital and surplus requirements and, above all, by reason of the limitation of currency supply.

Banks, incidentally, do not fail because of insolvency, but rather because of their inability to meet sudden and enlarged demands for currency. This limitation is purely gratuitous, as there is no sound reason for the distinction between check money and currency money.

From Paul L. Poirot (October 10, 1952)

The multilateral credit media to which you refer means to me that many persons have collaborated in its creation. In other words, a lot of people may agree that it's all right for me to trade with valuns, if I choose. But it seems to me that the multilateral arrangement ends there. I can't understand how private money or

credit can be anything other than bilateral. One responsible person grants credit which another responsible person has requested. If this credit instrument is then negotiable, that doesn't make it multilateral; it just substitutes one debtor or one creditor for ano*ther, still leaving only two* persons directly involved. T*he original credit instrument may go through hundreds of hands in that fashion, promoting one trade after another, but never are more than tw*o persons directl*y involved at any given stage o f this process.*

To Paul L. Poirot (October 18, 1952)

You are quite right in your statement that "The multilateral credit media…means…that many persons have collaborated in its creation…but never are more than two persons directly involved at any given stage of the process."

In other words, monetary media move by the displacement of creditor after creditor until they are retired by the issuer/debtor, there being at all times one creditor and one debtor. But the creditor's claim and the issuer-debtor's are vis-à-vis the market and not between two individuals, both of whose identities are merged in the compound which is called social credit. Failure of the issuer-debtor to retire an equal number of monetary units, by his sale of goods or services, imposes a cost on the whole body of exchange participants. These costs are distributed to all the exchange participants through the charges rendered for banking services.

These costs, however, are not losses to anyone, because they are the price for escaping the much greater cost of doing business by the whole-barter method. The method of finding the optimum of such costs is competition among banks, since they are reflected in the charges that banks must make for their services to their customers.

This virtuous social credit process is inherent in any monetary system; it is, in fact, the criterion thereof. Unseen and unsung, it has gone on raising man’s living standards and will continue to do so unless it be overcome by the antisocial counterfeiting practices of governments, than which there could be no greater calamity.

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