

## CURRENCY PROBLEMS OLD AND NEW.

BY LLOYD CHRISTIAN.

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In the preface to his book on *Money and the Mechanism of Exchange*, published nearly fifty years ago, Professor Jevons says: "It is the grave misfortune of the moral and political sciences that they are continually discussed by those who have never laboured at the elementary grammar or the simple arithmetic of the subject. Hence the extraordinary schemes and fallacies every now and then put forth. Currency is to the science of economy what the squaring of the circle is to geometry or perpetual motion to mechanics. There are men who spend their time and fortunes in endeavouring to convince a dull world that poverty can be abolished by the issue of printed bits of paper. Other philanthropists wish to make us all rich by coining the lands of the country, or coining everything." These words are as applicable to the present time as they were to the period in which they were written. There must be an extraordinary complexity in a system which turns so many that study it off the right path and leaves them floundering in quagmires of absurdities. The persistency with which these attacks are made, the unbroken line of knight-errants which every generation sees rushing forth with lance in rest tilting at windmills in their efforts to overthrow it, may well cause doubts to arise in our minds that perhaps after all there may be some grave defects in a system which has aroused so much hostility, and that we, more fortunate than our predecessors, may slay the dragon and release the beautiful damsel from captivity. Observing that those who plunge into this subject quickly lose themselves in the mazes which surround it, I have decided to enter by the gate where the road commences, and ask you to refresh your memories by briefly considering with me such old time-worn subjects as the theory of exchange and value and the functions of money. By adopting this procedure I hope we may be able to throw fresh light upon but half-revealed truths and so straighten out the crooked road we have to traverse.

The phenomenon of exchange is the human characteristic which, more than any quality he possesses, distinguishes man

from all other living things. It has made of him that strange anomaly, nowhere else seen in nature, a highly individualistic creature living in communities with others of his kind. Ever contending with them, competing with them, yet devoting his life to their service and depending upon the exertions of others for his very existence. It has moulded his character, built his cities, and placed within his reach luxuries which, without its aid, the owners of countless slaves could not hope to enjoy.

When exchange is confined to material things it is easy to define it, when immaterial things are dealt in the definition gets more complicated. In order to simplify matters I will ask you to accept, in every case where the context does not imply the contrary, that the term "goods" is intended to include not only commodities but all services, securities, property, and anything else whatsoever having utility and value in exchange.

Barter is an exchange of goods. Each party to the deal makes a sacrifice in parting with the goods he is surrendering his right of possession over. He derives a compensating satisfaction in the acquisition of the goods he receives. The latter must be of greater utility to him than the former. Otherwise there could be no deal. Even when an article is made to be sold the element of sacrifice comes in. Thus a double satisfaction and a double sacrifice must be the accompaniment of every completed exchange. This does not occur when a medium of exchange is used. For example, if one of the parties to a deal finds he cannot obtain what he wants and accepts something else in exchange as a temporary expedient, he has made his sacrifice, but derives no satisfaction from the possession of the article he has acquired. He sets forth, let us suppose, to exchange a shovel for a spade. He finds himself with a saw; he has no use for it; he is no nearer the fulfilment of his desires than he was before. Not until he finds someone who will give him a spade for a saw is the exchange complete. This is true of all transactions of the kind. Money as such is incapable of satisfying a single human want, no matter what its utility, what its value as an article of commerce may be, its only use is what we can get in exchange for it. Anything which people will readily accept as such can be used as a medium of exchange, but unless someone is to suffer loss it must have the power to give to the last holder of it a satisfaction equivalent to the sacrifice the first holder for value made to get it. It carries with it all through its life a burden of debt due to whoever holds it. When he passes it on for value received that debt is discharged and it takes on the debt of the next holder. So it floats about the world ever seeking to un-

burden itself, ever succeeding, only to find itself with a fresh load. If it be a sound medium of exchange made of a substance having value equivalent to its face value it carries the satisfaction of the debt with it. In expiring as a medium of exchange it frees itself from its burden. The ratio between the burden of debt assumed at its birth and the burden laid down at its death is the measure of its success or failure as a medium of exchange. This conception of money as a debt due to the holder, or if you prefer to put it that way, a right to a future satisfaction which the holder can exercise when, where and how he pleases will clear away many misconceptions. Therefore every transaction of commerce through the instrumentality of a medium of exchange is a credit transaction.

When the inconveniences inseparable from barter were overcome a fresh difficulty arose, namely, the inconvenience caused by the scarcity of the medium of exchange. No substance suitable for the purpose has ever been discovered which was plentiful enough to supply the requirements of commerce. The difficulty was overcome by the development of credit. Promises and orders to pay in money filled the gap.

Now these promises are not the medium of exchange. They act as a secondary medium for effecting exchanges of the medium for goods, not of goods for goods. They place the seller of goods who accepts them further removed from his satisfaction. Instead of two exchanges he now has three. They do not carry their redemption with them as standard money does. They do not run about like the little pigs in the fairy tale with knives and forks stuck in them, crying out: "Who'll eat me?" They are uneatable. The difference between them and standard money is the same as the difference between a debt secured by legal mortgage and a promissory note. Unlike money, they do not constitute the holder a creditor of the community for satisfaction equivalent to the value stored up in them. They are evidence of the debt of a definite sum of money due to the holder by a definite individual or corporation. If this were all it would appear that the substitution of promises to pay would but aggravate the difficulty occasioned by the relative scarcity of money to the value of goods exchanged, seeing that the promise to pay would have to be kept. Experience shows, however, that if the credit of the issuer of promises to pay is good they will not all come home to roost at once. Just as a sovereign in a free market in gold is not melted into bullion, but continues to circulate, so does a note pass round. Credit instruments are therefore capable of functioning as a medium of exchange, but are incapable of acting as a measure

or as a standard of value. They are the hand-maidens of money, doing most of the work as becomes servants, but if left to themselves they do it badly. Upon the stability of the purchasing power of money the monetary well-being of the world depends. It can only be maintained when all such instruments are based upon and readily convertible into standard money which should be composed of a substance valuable as a commodity, the supply of which just equals the demand.

If such conditions are constant the value of the Commodity will remain fixed and any variations in the ratio of exchange between it and other commodities must be due to fluctuation in the value of the latter and not in the value of the commodity used as the medium of exchange. This is the ideal form of money, the perfect measure and standard of value. Unfortunately there is no known substance which fulfils the conditions laid down. There is no commodity of which it can be said the supply and demand remain constant, or which shows no variation in value, consequently there is no perfect measure of value. It is as if we had a foot rule which was eleven inches in length on one day and thirteen inches upon another. There is no such thing as fixed value. The best that can be done is to find a substance subject to the smallest fluctuations, and allow for the variations as the mariner allows for the variations of the compass.

The earliest problem was what to use as a medium of exchange. Every kind of merchandise has the two qualities of measuring and transferring value, and will serve as money if people will accept it as such. An extraordinary number of things were tried before the world finally fixed upon metal as the best material form money can take. During the experimental stage experience showed that so imperative is the need for a medium of exchange that people will use any worthless thing as money rather than have none. If custom has given sanction to its use the mass of people will endow it with attributes it has lost long ago or never had. When the supremacy of metal was established the problem was what metal to use. When that was decided upon other questions arose. A standard coin of a guaranteed weight and fineness, fashioned so that it could not be tampered with had to be struck. Suitable minor coins to form the subsidiary issue had to be designed and put into circulation side by side with the standard coin. Steps had to be taken to ensure the equivalence of the value of the standard coin with the value, as a commodity, of a like weight of the metal composing it, and also to maintain the parity of the standard and the subsidiary coins. The final task was to see

that sufficient coins of all denominations to meet the requirements of the community were kept in circulation, neither more nor less. All these problems were not solved at once. It took centuries of experience, some of it very bitter, to teach the governments controlling the currencies all the lessons they learnt by their mistakes. If the handling of the coins in circulation were left to those exchanging goods for them there would be comparatively little difficulty in maintaining a sound currency, but enemies bent upon defeating this end arose.

In the days when every nation started a currency of its own, and banking, as we now know it, was unknown, it became necessary for merchants going abroad either to take the currency of their own country with them and exchange it at their destination for the currency of the country in which they made their purchases, or to procure the foreign currency before leaving home. This practice brought into existence the business of the money changer, and traffic in money began; the currency of each country had its price in the currency of other countries. Money became a commodity and was bought and sold. From this practice evolved those highly complicated financial operations known as the Foreign Exchange. Dealers in foreign money soon discovered that coins bearing the same face value varied in the weight and fineness of the metals they contained. They turned the discovery to their own advantage. The heavier coins were not allowed to return to the country of their origin. They were more valuable in the melting pot. The real problem which exercised the minds of the controllers of the currency in those days was to protect the coinage from the depredations of these gentry. Their operations were pushed to the verge of honest dealing and sometimes overstepped it. A host of imitators arose who habitually overstepped it. It was found that portions of the precious metal could be extracted from the coins by sweating and clipping and the coin returned to circulation. The more reputable money changers, who would not stoop to such practices, were not above culling the heavier pieces from the debased coins, retaining the former and returning the latter to circulation. The history of metallic currency in this and other countries is a record of the efforts of states to restore debased currencies and to save good currencies from the ravages of the clipper. In vain they poured in good money, hoping it would replace the bad, but as fast as it was put into circulation it disappeared. Sir Thomas Gresham, an Elizabethan Knight, is credited with being the first to explain this phenomenon. It is now known as Gresham's Law, and its application extended. In its earliest form it is expressed as

follows: "If coins of the same metal, but of varying weight and quality, circulate together at the same nominal value, the worse coins will tend to drive the better from circulation, but the better will never drive out the worse." In currency by tale the general public do not discriminate between coins, provided there is an apparent similarity, but there is an unscrupulous class ever ready to profit by the failure of those who control the currency of a country to understand the general laws which govern all currency systems. The weaker and poorer classes necessarily suffer great loss thereby. The operation of this law forced the nations one by one to abandon the multiple legal tender system, and compelled England, owing to a small error in fixing the ratio between gold and silver, to adopt the gold standard. For not alone does the law apply to good and bad money, if two precious metals are circulating side by side at a fixed ratio and if the ratio vary from the relative value of the metals as commodities, the over-valued coin will drive the undervalued out of circulation. In like manner a depreciated paper currency will drive coin out of circulation. This is important because it is applicable to our own day. If a given number of sovereigns were put into circulation to-day they would have disappeared by to-morrow.

The growth of banking and expansion of credit have raised a fresh crop of problems awaiting our attention.

Banks are purveyors of the currency. It is put into circulation through their instrumentality, and it is through their agency it is withdrawn. Their aim has ever been to displace it with instruments and methods of their own devising.

They accomplished this in the earlier days by issuing to depositors withdrawing their deposits and to borrowers their own notes. This proved so profitable a business that hosts of mushroom banks sprung up and failed, leaving ruin in their train. No country suffered so much as Ireland from this cause. Although Henry the Second is reputed to have established mints all over the Pale, Ireland appears to have suffered from a chronic scarcity of money. The banks supplied the deficiency with issues of notes of various denominations from 1/- upwards. Whatever money there was in the country was driven out. It was said many banks failed not because of their insolvency but because the gold to meet their engagements was not procurable. The proceedings of the Irish Parliament were largely devoted to debates on the best way of dealing with this evil, but nothing was done. When the Imperial Parliament confined the issues within authorised limits and provided that notes issued above the limit should be covered by actual gold

or silver coins held, the banks found another means of economising the currency. Banks also deal in credits and debts. When Jones pays you his account with a cheque he transfers to you his right to demand payment of that amount of money from his bankers. When you lodge the cheque with your bankers you become their creditors; formerly you were Jones' creditor, now you are the bank's. The credit remains, the debtors have changed. This is done without a penny of money passing. A debt has been discharged and a fresh debt incurred just as if money had been employed.

A bank creates credit in this fashion. You wish to purchase goods (by which I mean anything exchangeable) upon credit from a number of people. Instead of asking them to give you credit you ascertain the total value of the goods you want, and you ask your banker to be your creditor for the total. Instead of being given credit by those whose goods you want you *purchase* the banker's credit. The total amount of deposits is swelled by the cheques you draw when they reach the accounts of the traders from whom you have made the purchases, and the currency is inflated by the amount of cash you have used in payments of wages and small items. But where does the money come from that has been put into circulation? If it be gold withdrawn from the Bank of England it merely repays the bank what it has expended. The debit entry made upon its purchase is transferred to the debit of your banker's account, but if it be Treasury notes the Government is credited with the notes purchased, which if it disburses will create fresh credit. Had the goods been got on credit this increase in deposits would not have occurred, upon the contrary, all your creditors would have been the poorer, having produced goods for which they received no payment. As it is they have all been enriched. It would be more accurate to describe this transaction as the creation of debt rather than of credits, for the debt is created before the credits are born, they are its children.

The above is only one of the ways in which new credits can be created. The transaction can be viewed in many aspects. I shall only deal with one. The new deposits compel the banks to strengthen their reserve of legal tender, *i.e.*, Treasury notes. The bank pays for the notes by drawing on its account in the Bank of England and pays it into a Government account. These payments were largely drawn upon by the Government to finance the war; when disbursed they created further new deposits necessitating further strengthening of the reserve, a fresh issue of notes and a fresh transfer from the credit accounts of the joint stock banks with the Bank of England to Government

account. Here we have an illustration of the danger which may arise when inconvertible paper is the sole legal tender. An unscrupulous Government could by such means gradually absorb the bulk of the wealth of the country and leave its subjects to compete for the residue with depreciated notes.

I have devoted so much space to clearing the ground that I fear I have but little time left to discuss the problems of to-day. If I have made myself clear you will understand I have had them in view in all I have said.

The Cunliffe Currency Committee has declared in no uncertain voice for the restoration of the Gold Standard. Great Britain is painfully finding her way back to the re-establishment of her credit upon a gold basis. Germany, by the simple expedient of repudiation, seeks a short cut to the same goal. We may take it that all countries will endeavour sooner or later to follow in their footsteps.

As regards the question of having a currency of our own in the Free State, speaking generally, I think all national currencies are a bar to international trade. If it were possible to have a universal currency internationally controlled it would facilitate trade enormously. Upon the other hand, the barriers which prevent the currency of a country circulating outside its borders are a wholesome check upon inflation and help to remind us that trade is really an exchange between producers of goods for goods, and that money is only the medium by means of which the exchange is effected. The people of a country should be the best judges of the currency suited to their needs, and it is the duty of their rulers to provide it. A nation cannot be said to exercise much control over its destiny which has no control over its currency. A number of the small states established under the Treaty of Versailles have adopted currencies of their own; their position is different from ours: not having a stable currency in circulation to retain they had no alternative.

The time is not ripe for us to follow their example. I have told you that if custom has given sanction to its use people will endow a worthless form of money with attributes it does not possess. It is equally true that they will reject the soundest currency if they lack confidence in it. Under present conditions there is a danger that would be the fate of a Free State currency if an attempt were made to establish it now. Nevertheless, there is no reason why we should pay tribute to Great Britain by continuing indefinitely to circulate her Treasury notes and token coin. They represent goods delivered and ser-

vices rendered. By returning them we would start with a substantial credit in London. A more excellent way would be to demand back our gold.

This, as you are aware, was impounded by the banks during the war, and together with the gold reserves held by the banks delivered to the Bank of England in exchange for Treasury notes and Treasury certificates. Ominous hints were made in the Currency Committee Report that the Irish and Scotch banks would not get back their gold. The Treasury notes and Treasury Certificates are, and always have been, payable in gold at the Bank of England. Other restrictions, it is true, made this proviso inoperative. It was a purely nominal right possessed by the holders of the notes, and was not exercised. When, however, all these restrictions are removed and the gold standard is fully restored the dormant right can be enforced. In my humble judgment it should be enforced, because the sovereign, worth its weight in gold all the world over, is better than the best paper money in the world, no matter what security is behind it. As I have said, we have not sufficient confidence in ourselves to tackle the question. The confidence required can only be inspired by proving that we and the men we select to rule over us are worthy of it. Such men may safely give such a people a national currency. In the meantime we have to a large extent a very sound national currency in our Irish bank note issue, none the worse because it knows no boundary save the salt water of the sea.

The subject of my discourse is too vast to be adequately dealt with in a paper of this length. My object has been to remove the prevalent misconceptions of what money is and how it functions, and to excite interest in a subject of the utmost importance which is imperfectly understood and but little studied.