

PART FOUR

FREE-MONEY

Money as it should, and can, be

If the national economy were endowed with a close circulation, i.e. with a complete and regular exchange of products, goods for exchange and work would be raised to a level higher than that of cash, thus providing human society with more security towards a more rational ordering of its work. Proudhon

INTRODUCTION

The human mind is baffled by the abstract, glancing at it with the same intensity as that of an ox contemplating a mountain. And money has been wholly abstract up to now. There was no standard of comparison. It is true that there were various kinds of money, metal and paper; but the forces that regulate its circulation were the same for all these different varieties, thus leading the minds of monetary theorists into error. Equal things are not comparable, and, offering no hold for the intellect, hinder understanding. Monetary theory is like a mountain impossible to climb. In no country there existed, or exists now, a legally sanctioned theory of monetary policy serving as a basis for its management. Everywhere monetary policy proceeds in fits and starts guided purely by experience, which nevertheless claims absolute authority.¹ Yet money is the foundation of economic life and public finance; it has been a tangible object for millennia, and its practical importance fires the imagination as scarcely any other does; we produce it artificially and have been using it for 3 000 years! Consider what this means: In one of the most momentous aspects of public and private interests we have for 3 000 years acted blindly, unconsciously, ignorantly. Were proof needed of the hopelessness of so-called abstract thinking, here it is.

With Free-Money as described in this book, the situation radically changes. Money ceases to be an abstraction. Free-Money provides for the first time a point of comparison for examining the subject matter. Money has found a background; it has become an object with a colored surface and clearly defined edges. “Give me a fulcrum,” said Archimedes, and I can shift the world from its axis. Given a point of comparison, any problem can be solved.

Free-Money supplies the plumb line for the construction of monetary theory, by which every deviation from the vertical is immediately noticed.

¹ [90 years later nothing has changed. An article in *The Economist* of 28th February 2004, p.82 is the epitome of the ox looking at the mountain mentioned in the text. Its author repeats 19th century objections against paper money (including “value”!) demolished by Gesell in Part III of this book. It must be read to be believed.]

Chapter 1.

FREE MONEY

Money is an instrument of exchange and nothing else. Its function is to facilitate the exchange of goods, thus eliminating the difficulties of barter. Barter was unsafe, troublesome, expensive, and often failed. Money, meant to replace barter, is meant to secure, accelerate and cheapen the exchange of goods. It's all we demand of it. The touchstone of its usefulness is the degree of security, rapidity and cheapness with which goods are exchanged.

But if, in addition, we were to load it with material characteristics, we shall do so provided we do not hinder the purpose for which it exists.

If security, acceleration and cheapening of the exchange of goods can be attained by a form of money easy to hoard and immune to moth and rust, let us by all means have it. But if such form of money hinders the security, rapidity and cheapness of the exchange of goods, away with it!

Knowing that the division of labor, the very foundation of our civilization, is at stake, we shall select whatever form of money suits its necessities, regardless of the wishes or prejudice of individuals.

To test the qualities of money we shall use no scales, crucibles or acids; neither shall we scrutinize coins or consult experts. We shall consider, instead, its functions. If a certain form of money seeks out goods and conveys them from workshop to consumer by the shortest route; if goods cease to congest markets and warehouses, the number of merchants decreases, commercial profits shrink, no crises occur, and producers are assured of a ready sale of all they produce while working at full capacity, we shall exclaim: What an excellent form of money! And we would hold onto this opinion even if, on closer examination, we found it to be physically unattractive. We shall consider money as we consider, say, a machine, which we judge exclusively in terms of efficiency, not of shape or color.

For money to be an efficient instrument of exchange it must: -

1. Secure the exchange of goods, judged by the absence of trade depressions, crises and unemployment.
2. Accelerate exchange, judged by the smaller stocks of wares, the decreasing number of merchants and shops, and the increasing number of private storerooms full of durable and semi-durable goods.
3. Cheapen exchange, judged by the small difference between the price obtained by the producer, including transport, and the price paid by the consumer.

How inefficient the traditional form of money is as an instrument of exchange has been demonstrated in the third part of this book. A form of money that necessarily withdraws when scarce, and floods the market when abundant, can only be an instrument of fraud and usury; it has to be considered unserviceable, no matter how attractive to the eye and pleasant to possess it may be.

Judged by this criterion, what a disaster the introduction of the gold standard for Germany was! At first a boom, fed by the millions taken from France, and afterwards the inevitable crash!²

² [The boom took place in the three years 1871-1873. At the same time (from Lincoln's death in 1865) the U.S. Congress was debating the reintroduction of the gold standard that Lincoln had kept in abeyance. He had financed the civil war with 450 million of Greenbacks issued free of debt by the U.S. Treasury. He had not borrowed from the banks. Usury won with the Resumption Act of 1879. The boom lasted until the panic of 1893.]

We introduced the gold standard expecting advantages, and what advantage could we expect from changing our monetary system, other than a greater security, a cheapening and an acceleration of the exchange of goods?

But if such was the purpose of the operation, who explained how could the gold standard achieve it? It would have been very interesting to hear it. It was pretended that gold coins, beautiful and shiny, should facilitate, accelerate and cheapen the exchange of straw, iron, limestone, hides, petroleum, wheat, coal, etc.

How all that would happen nobody could explain; everybody believed it and that was that. Everybody - even Bismarck - relied on the judgment of the "experts."

After the establishment of the gold standard, just as before it, the exchange of goods consumed 30%, 40%, and sometimes even 50% of the entire output. Trade depressions continued just as frequent and as devastating as in the days of the thaler and the florin; and by the increased number of dealers we can observe how slight the mercantile power of gold money is.

The reason why the mercantile power, the power to exchange goods, of this money is so slight, lies in the fact that it has been over-improved – but improved, that is, exclusively from the viewpoint of its holders. In choosing the raw material for money, only the buyer, the demand, was taken into account. Supply, the sellers, the producers, was entirely overlooked. The very finest of materials, a precious metal, was chosen for the manufacture of money - because it offered certain advantages to its holders. Our experts closed an eye to the fact that the possessors of goods for sale pay dear for these advantages. By selecting gold as money-material, the buyer has been granted all the time he chooses to decide on the most favorable moment for spending his money, forgetting that this freedom forces the seller to wait patiently till the buyer chooses to appear. Through the choice of the money-material, the demand for goods was placed at the discretion of the owner of money, and delivered up to be the sport of whim, greed, speculation and chance. Nobody paid attention to the supply of goods, which owing to their material nature, remains at the mercy of this arbitrary will.³ Thus arose the money power which, growing into financial power, exercises a crushing pressure on all producers.

In short our stolid experts, when considering the currency question, forgot the goods - for the exchange of which money exists. Thus they improved money (from the point of view of the holders) so well, that it became worthless as a medium of exchange. The purpose of money evidently did not concern them and, as Proudhon put it, they forged "a bolt instead of a key for the gates of the market". The present form of money repels goods instead of attracting them. People do, of course, buy, but only when they are hungry or when it is profitable. As consumers, everybody buys the minimum.⁴ No one desires to have a store; in planning a dwelling house the architect never includes a storeroom. If every householder were today presented with a filled storeroom, by tomorrow the contents of these stores would be back on the market. Money is what everybody exclusively wants to own, although it is known that this wish cannot be fulfilled, since universal ownership of money would neutralize its usefulness. Possessing a gold coin is incontestably more agreeable than possessing goods. Let "the others" have goods. The others! Who are they, economically speaking? We ourselves are "the others:" all of us who produce goods. So if, as buyers, we reject the products of the others, we, one and all, really reject our own products. If we did not prefer money to the products of our fellows, if instead of the

³ [The incredible reason for the return to gold given by the author of the article mentioned in Note 1 is that the banks have 30 000 tons of it. And this in 2004!]

⁴ [Gesell lived when everybody intensely disliked debt. He could not foresee the situation of universal debt prevailing at the beginning of the 21st century.]

desired yet unattainable reserve of money, we built a storeroom and filled it with the products of our fellow men, we should not be obliged to have our own products offered for sale in expensive shops where they are, to a great extent, consumed by the cost of commerce. We should have a rapid and cheap turnover of goods.

Gold does not match the characteristics of our goods. Gold and straw, gold and oil, gold and guano, gold and bricks, gold and iron, gold and hides! Only a wild fancy, a monstrous hallucination like the doctrine of "value" can bridge that chasm. Commodities in general, like straw, oil, guano and the rest can be safely exchanged only when everyone is indifferent to whether he possesses money or goods, and that is possible only if money can be afflicted with the same defects inherent in those goods. That is obvious. Our goods rot, decay, break and rust. Only money with equally disagreeable, loss-threatening properties could effect their exchange rapidly, securely and cheaply. For no one, on any account, could prefer such money to goods.

Only dated money expiring like a newspaper, rotting like potatoes, rusting like iron, evaporating like ether, could stand the test as an instrument of exchange for newspapers, potatoes, iron and ether. For such money would not be preferred to goods, either by the purchaser or by the seller. We would then part with our goods for money only because we needed the money as a means of exchange, not because we expected an advantage from possessing it.

So if we wish to improve money as a medium of exchange, we must make it deteriorate as a commodity.

Like the owners of goods, who are always in a hurry for exchange, it is only just and fair that the owners of money, as medium of exchange, should be equally in a hurry. Supply is under a permanent, immediate, inherent constraint. Demand ought to be placed under the same constraint.

As supply is independent of the will of the owners of goods, so demand ought to be made equally independent of the will of the owners of money.

Let us try to understand that if we can abolish the privileges enjoyed by the owners of money and subject demand to the same compulsion to which supply is subjected by nature, we would remove all the anomalies that form part and parcel of the traditional form of money. Demand would thus be compelled to appear regularly in the market, independent of political, economic or natural conditions.

Above all, the calculations of speculators, the opinions or whims of rentiers and bankers would no longer influence demand. The so-called "mood of the Stock-Exchange" would be a thing of the past. As the law of gravity knows of no moods, so the law of demand will know of none. Neither fear of loss nor expectation of profit will be able to retard or accelerate demand.

In all conceivable conditions, demand will then equal the volume of money issued by the State, multiplied by whatever velocity of circulation the existing commercial organization allows.

With such compulsory circulation, all private money hoards would disappear. The full volume of money issued would circulate uninterruptedly, regularly and rapidly. No one could any longer interfere with the public monetary administration by putting into circulation, or withdrawing, private reserves of money. And the State itself would be under obligation at all times rigorously to match demand to supply - an obligation which it could fulfill by issuing, or withdrawing, trifling sums of money.

More than that is not needed to protect the exchange of goods against any conceivable disturbance, to render crises and unemployment impossible, to reduce commercial profits to the level of wages, and in a short time to drown interest in a sea of physical capital.

And what do the priceless advantages of compulsory monetary circulation cost us producers, who bring money into being through the division of labor? We would

have to give up the privilege of infecting demand with our arbitrary will, in the process ridding ourselves of greed, hope, fear, care, anxiety and panic. We need only abandon the illusion that we can sell our produce without someone else's buying it. We need only pledge ourselves mutually to buy, at once and in all possible circumstances, exactly as much as we sell. And in order to secure reciprocity for this pledge, we endow money with properties that compel the seller of goods to comply with the obligations entailed in the possession of money; we compel him to convert his money into goods again - personally, if he has any need of such; and if he has not, through others to whom he lends his money.

Are we then willing to break the fetters enslaving us as sellers of our produce, by renouncing our despotic privilege as buyers over the produce of our fellow producers? If so, let us examine more closely the unprecedented and revolutionary proposal of compulsory demand. Let us examine a form of money subjected to an impersonal compulsion to be offered in exchange for goods.

Description of Free-Money

1. Free-Money is issued in 1 - 5 - 10 - 20 - 50 – 100 – 1 000 unit notes. The monetary authority also sells, through the post-office, currency stamps of value 1 - 2 - 5 - 10 - 20 and 50 cents in perforated sheets. The total of stamps in a perforated sheet amounts to a unity.⁵
2. Free-Money loses 1/1000 (0.1%) of its nominal value weekly, at the holder's expense. The stamps serve for purchases inferior to the unit, but in the end they get obliterated when paid in at a public office, or stuck to a note to keep it circulating. A ten-cent stamp, for example, must be attached every week to the 100 note. In the course of the year 52 ten-cent stamps must be attached to the 100 note, which in other words depreciates 5.2% annually at the holder's expense.⁶ Everyone of course would try to avoid the expense of stamping the notes by passing them on - by purchasing something, by paying debts, by hiring labor, or by depositing the notes in the bank. The bank must at once find borrowers, by reducing the rate of interest on its loans. Money would thus circulate under pressure.
3. At the end of the year the fully stamped note is exchanged for a fresh one for circulation during the following year.
4. The purpose of Free Money is to break, once and for all, the superior strength of traditional money. Such superior strength is exclusively due to its indestructibility in regard of goods. The products of our work must be stored and taken care of at considerable expense, retarding at most, but certainly not stopping, their eventual demise. The holder of money is protected from such loss by the material of which money is made, especially if this material is a precious metal. He is not in a hurry. He can wait, whereas the seller is always on tenterhooks. If a bargain fails, the loss is always on the seller's side, and in the last analysis on the worker's. These circumstances allow the capitalist to exert great pressure on the trader (and on the worker) so as to force him to give away the product of his work below what is just.

⁵ [I.e. 100 x 1 cent, 50 x 2 cents, etc. The recommended method is evidently low-tech. Obliteration, mechanical or electronic, would be preferable today.]

⁶ [The frequency recommended by Gesell is not obligatory. In 1932 Wörgl issued notes depreciating at 1% per month, and renewable monthly for a year.]

5. It is not necessary to “redeem” Free Money at the money office, since its use is uninterrupted. Why? Everyone is always in need of money, so that no duty of redemption is foreseen. But the public money office has the duty of issuing money so as to keep the average price stable. Therefore it issues an excess when prices tend to sink, and withdraws money when they tend to rise. With Free Money prices are determined by the quantity of money corresponding to the existing stock of wares. Its nature assures that the quantity issued is immediately offered for exchange. The Currency Office will not be dormant like our present monetary administration, which with indolent fatalism expects the national currency to get stabilized by the mysterious so-called "intrinsic value" of money, to the great advantage of swindlers, speculators and usurers; it will intervene decisively to establish a fixed general price level, thereby protecting honest traders and industrialists.
6. The great importance of foreign trade makes it desirable that there should be an international agreement to stabilize international exchanges. In the meantime we shall have to decide whether the monetary administration, when regulating the issue of money, is to stabilize home prices or foreign exchanges. It cannot of course do both, for to stabilize foreign exchanges means to conform to the price levels of other countries. And these price levels, in countries with a metallic standard, constantly fluctuate.
7. The exchange of metal money for Free-Money will be entirely optional. Those who cannot bear parting with their gold may keep it. Gold, however, like silver formerly, will lose the "right of free coinage", and gold coins will no longer be legal tender. After expiry of the legal period for exchange, the coins will no longer be accepted by any public office.
8. For payments abroad use can be made as up to now of bills of exchange offered for sale by merchants who have shipped goods abroad. For small amounts Post Office Money Orders may be employed, as now.
9. Anyone wishing to purchase national products for export with only gold at his disposal, i.e. if he has not been able to buy any import bills, can sell his gold to the Currency Office. Anyone needing gold for the import of foreign goods, because there are no export bills on offer, can buy gold at the Currency Office. The price of this gold will depend on how the question left open in No. 6. above is answered.
10. The sale of the currency stamps creates a steady revenue for the Currency Office, amounting to 5% of the value of the currency notes in circulation.⁷
11. This revenue of the currency administration is an accidental by-product of the reform, a comparatively insignificant one. Disposal of this revenue is to be especially provided for by the law.⁸

Effects of Free Money

a) On commerce:

- Uninterrupted circulation of money, and therefore more and more payments in cash;
- Regular sales;
- Elimination of commercial and economic obstructions;

⁷ some 200 - 300 million of pre-1914 marks in Germany.

⁸ For other methods of applying the principle of Free-Money see page [...].

- Elimination of the causes that lead to the collapse of prices and to a crash;
- Elimination of the boom and bust cycle, due to the ups and downs of the prices of goods, services and money;
- Elimination of Stock Exchange and Commodity Exchange speculation;
- Simplification of commerce, and general reduction of handling costs;
- Evident redundancy of the majority of commercial enterprises, with a corresponding increase of productive enterprises;
- Decrease of commercial costs from 30%-40% to 10%-15%;
- End of senseless protection tariffs with transition to free trade;
- Elimination of the economic causes of war;
- Widespread knowledge of monetary questions, to the advantage of all and sundry.

b) On capital, work and wages:

- Money loses its capacity to generate interest, becoming thus degraded to the rank of goods and work;
- Uninterrupted investments of excess money in means of production, housing, etc. without consideration of profit;
- An immediate end to unemployment, and solution to the problem of excess working population;
- Gradual decrease of interest, which disappears altogether some time after the introduction of Free Money;
- Gradual increase in salaries up to the total amount of surplus value. But since this depends also on the rent of land, a land reform will also be necessary.
- Greater ease of savings due to a) the fall of interest that up to now is a burden on capital, b) the uninterrupted production and exchanges no longer hindered by economic constraints; and c) the reduction of the cost of commerce as noted above.

Chapter 2.

PUTTING FREE-MONEY INTO CIRCULATION

The proposed monetary reform deprives the Bank of Issue of the privilege to issue banknotes. Its place is taken by the National Currency Office, entrusted with the task of satisfying the daily demand for money.

The National Currency Office does not carry out banking business of any kind. It does not buy or sell bills of exchange, it does not classify business firms as first, second and third rate. It entertains no connection with private persons. The exclusive task of the National Currency Office is to issue money when the country needs it, and withdraw it from circulation when there is an excess of it. That's all.

To put Free-Money into circulation all public treasuries are instructed to exchange, upon request, the old national metal or paper money for Free-Money, at par: one unit of Free-Money for one unit of old money.

Anyone disagreeing may keep his gold. There will be no compulsion, legal or otherwise, to change it. The public is merely warned that after a certain period of grace (1, 2 or 3 months) the former metal money will be pure metal, not money. If after that time anyone still possesses metal money, he is free to sell it for Free Money to a dealer in precious metals, but bargaining about the price. The only form of money recognized by the State will be Free-Money. Gold, for the State, will be a mere commodity, like wood, copper, silver, straw, paper or whale-oil.⁹ And just as today taxes cannot be paid in wood, silver or straw, so gold will not be accepted for paying taxes after expiry of the grace period.

The State knows that from now on there is no room for any but State money, and consequently no special efforts are needed to give this money currency. The indispensability of money and State control of it automatically ensure circulation. Should anyone decide to set up a private mint and strike coins of any particular weight and fineness, the State would just look on. Coins, for the State, have ceased to exist, as have their counterfeiters. The State simply deprives all coins, including those formerly struck by itself, of its guarantee of weight and fineness. It will sell the minting machinery to the highest bidder. That is all the State has to do to prevent gold from circulating - but it is enough.

Should anyone oppose Free-Money to the point of refusing it as payment for his goods, nobody will interfere. Let him continue to demand gold for his products. But he will have to weigh the gold and test its purity, coin by coin, with touchstone and acids. He must, moreover, ascertain whether anyone will buy that gold, and at what price, and be prepared for some surprises. If on second thoughts he found this procedure troublesome and expensive, he would still be free to act as a penitent sinner at the sanctuary of Free-Money. He would then only be following the example of the former enemies of the gold standard, the German landowners, who at first fiercely opposed the new gold money but very soon accepted it.

What is the State to do with the gold received in exchange for Free-Money? The State could melt it down and have it manufactured into chains, bracelets and watchcases to present to all brides of the German Empire on their wedding day. What more reasonable use could be found for gold, the treasure of the Huns?

⁹ [Whale oil used to be the best product for domestic lighting. In 1850 speculators cornered the market and quadrupled the price. Somebody noticed that a black stuff oozing from the ground was a cheaper substitute, and the oil industry took off. It is one of the many lessons for those who maintain the existence of "scarce resources."]

The State does not need gold, and by selling the gold received for Free-Money to the highest bidders it would depress its price and embarrass nations still anchored to the gold standard. That's what happened when Germany thoughtlessly sold its demonetized silver. If on that occasion Germany had used the silver thalers to manufacture wedding presents, or to erect in front of every pawn-shop and credit-bank life-size statues to the champions of the gold standard - it would have been better for economic life at home and abroad, and even for State finances. For the few millions that the State realized from the sale of silver, a pittance from the point of view of German economic life as a whole, were largely instrumental in depressing the price of silver, and the difficulties of the German landowners, caused by the low price of grain, were partly due to these silver sales.¹⁰ Had Germany adopted the above proposal and manufactured the thalers into silver cutlery and wedding presents, it would have gained, balancing the loss of silver with a tenfold increase in the taxpaying capacity of its citizens.

¹⁰ Laveleye: *La Monnaie et le Bimétallisme*.

Chapter 3.

THE MANAGEMENT OF FREE-MONEY

After putting Free-Money into circulation and withdrawing metal money, the sole function of the National Currency Office is to observe the ratio at which money and goods are being exchanged and to stabilize the general price level by increasing or decreasing monetary circulation. For the purpose, the National Currency Office makes use of statistics as discussed in Part III of this book. Statistics show whether the price-level tends to rise or to fall, according to which the monetary circulation is reduced or enhanced.¹¹

To increase monetary circulation, the Currency Office pays new money into the public treasury in lieu of taxation. If revenue is expected amounting to 1 000 million, and 100 million new money is issued, taxes are reduced by 10%.

The method is simple enough. To decrease monetary circulation is even simpler. Since the amount of Free-Money in circulation decreases by 5% annually through depreciation, all the Currency Office has to do to decrease the volume of money, is to do nothing. Any surplus disappears by itself.

Should this not be enough, the volume of the currency could be reduced by increasing taxation and destroying Free-Money notes for an amount equivalent to the surplus. The Currency Office could also regulate the volume of currency by purchasing or selling Government securities.

With Free-Money, therefore, the Currency Office has perfect control over the supply of the instrument of exchange. It completely controls the manufacture as well as the supply of money.

The Currency Office does not require a palatial building with hundreds of officials, like the German National Bank. The Currency Office carries out no banking business of any kind. It has no counters, not even a safe. The money is printed at the national printing press; it is issued and exchanged through the public treasuries; the general price level is calculated by the Bureau of Statistics. All is needed is transport for taking the money from the printing house to the public treasuries, and from the revenue offices to the incinerator to destroy it if in excess. The whole establishment consists of a printing press and a stove. Simple, cheap, efficient!

With this simple apparatus we can do away with the arduous labor of gold-digging, the complicated machinery of the mint, the working capital of the banks, the strenuous activity of the Bank of Issue, and yet make sure that today, tomorrow, for ever, in good and in bad days, there is never a penny too many or too few in circulation. And this is more than merely replacing the present organization. We permanently establish a model currency system for the world to imitate.

¹¹ Instead of altering the amount of money the Currency Office might alter its rapidity of circulation by reducing or raising the 5.2% rate of depreciation. But the first method is preferable.

Chapter 4.

THE STATISTICAL BASIS FOR ABSOLUTE CURRENCY¹²

The proposals I made in my paper “The Imperial Currency Office” are aimed at maintaining balance in the Reich’s domestic policy, so as not to have to resort to the disastrous money printing presses.

The proposal relies on the knowledge that the people’s tax-paying capacity increases or decreases with the price of goods. If this increases ten-fold, so must the revenue, even without the intervention of any other factor. No change is expected in the burden of taxation. There is no reason either why inflation should not affect also postal or railway charges, or why landlords and landowners should not have the right to adjust the rent they charge to the circumstances of the market. I also propose utterly to give up any idea of reducing prices, for lowering prices means lowering revenue, which would be tantamount to call for the help of the printing presses. I propose to start from present-day prices, for traders and entrepreneurs to have a firm basis for their calculations.

Absolute currency, which forms an integral part of this program, means that the general price level ought to be kept constant by means of an active monetary policy, so that a certain sum of money has always the same purchasing power.

The prices of goods ought not to be fixed according to the maximum –or minimum- attained. They should freely be determined by supply and demand, as they used to be determined before the war.

Everyone is free to charge as much as he thinks the market will allow. Nevertheless the Currency Office ought to calculate the mass of circulating money rather exactly, so as not to allow prices to fluctuate needlessly.

Price statistics ought to form the basis for such “active monetary policy.” Such statistics show how prices vary.

The Economist often lists the prices of 22 main items of consumption. This number can be increased at will, but the result would not improve, because the prices of wares maintain a fixed ranking if they depend exclusively on their cost of production. Let us therefore accept that if the index of the main products remains unchanged, the index of the other products also remains unchanged. It is the law of competition.

The relative ranking of the various articles is a more important factor than the number of prices in the index. Bread and pepper, for instance, have the same relative importance, whether in the family or in monetary statistics. Examining such statistics in depth, therefore, is enough to know the needs of the economy.

The objection that such statistics do not provide figures calculated “mathematically” can be safely set aside. One can answer: No one is prevented from perfecting the method of calculation for the index. Criticism does not prevent us from doing something useful, but the method of arriving at a result can doubtless be improved over time. We have been making bread for ever, but baking technology has improved a great deal in the past 10 000 years. From the standpoint of monetary variations such criticism is rather ludicrous.

To improve the index, we could use the Statistical Abstracts. We multiply prices by quantities of consumer’s goods produced and the figures can be compared directly.

¹² Written in 1921 and published for the first time in *Freiwirtschaft*, February 1921. [This chapter was added by the curator of Die Natürliche Wirtschaftsordnung in Internet.]

To have an idea of such variations, here are some data (obviously not 100% reliable):

| Production, i.e. imports | Amount 1910 | | Amount 1911 | |
|--------------------------|-------------|-------|-------------|-------|
| | Price | B | Price | C |
| Rye.....8 552 000t | 152.30 | 1 302 | 168.30 | 1 439 |
| Wheat.....5 240 000t | 211 | 1 108 | 204 | 1 068 |
| Cotton.....4 360 000dz | 151 | 650 | 134 | 584 |
| Pig-iron..14 793 000t | 66 | 976 | 64.80 | 957 |
| Coal.....152 827 000t | 10.46 | 1 598 | 10.16 | 1 552 |
| Total | | 5 634 | | 5 600 |

Expanding this list to all the main products, one finds that the difference between totals B and C is marginal, and that therefore the purchasing power has been maintained. It is a sign that the Currency Office has done good work. It is in fact inevitable that if the prices of the raw material stay unchanged, so do the prices of the derived products. Changes in salaries, however, have to reckon with interest on capital and the rent of land. Production depends exclusively on the weather when it is not disturbed by crises and strikes. It must therefore be as constant as the number of workers. The coefficients, therefore, or the production statistics, can be used for a long time, a year at least without thinking so much about them. Only the prices ought to be watched, monthly, weekly or even daily depending on the needs of the Index. And if the Director of the Currency Office desires to have on his desk the index at every close of the Stock Exchange, even this desire can be satisfied.

About the coefficients, the production figures vary not only relatively, but also absolutely. It is therefore necessary to return to the amount of column B as a starting point, which is here 5 634. The other positions can be increased or decreased according to need.

Example. If we have

| | | |
|---------------------|------------|------------|
| Rye.....8 000 000t | instead of | 8 552 000t |
| Wheat...6 000 000t | “ “ | 5 240 000t |
| Cotton...5 000 000t | “ “ | 4 360 000t |

Etc., we ought to calculate these new figures in respect of the 1910 prices. The total would be about 6 197, which is 10% more than 5 634. In such case all production figures have reduced by 10%. The new coefficients can be multiplied by the new prices.

Suppose now we want to improve the Index in the case of ten-fold inflation, but intending to maintain the necessary transactions. We begin by publishing a list of the main products at ante-bellum prices, which are now multiplied by 10. Then let us publicly announce: “The prices here quoted are the natural ones, ranked according to the conditions of production for each item. The ranking has been upset by the war economy. Prices will fall, according to this ranking, only when legal constraints are removed. The public is therefore advised to buy at today’s prices, because they will soon fall.” But the office will see to it not to let the general price level deviate too much from the ten-fold increase of the Index. Let everyone be warned!

Everyone can estimate his position. Everyone demands for his wares the price that he thinks the market will obtain for him. If he strikes a good bargain, he will get enough to absorb at least one future loss. But the Currency Office will make use of absolute currency to see that the difference between gains and losses is as little as possible. The Index will therefore not only remain valid as time passes, but the grading of prices will no more be disturbed by a boom or a bust.

Observe also that every change in the general price level, normally caused by financial shenanigans, destroys also the natural ranking of prices, because the purchasing power of the various classes of people is affected unequally. An increase in price, for instance, favors debtors. This class buys and consumes products altogether different from those bought by creditors, who are harmed by the same increase in prices. Debtors will buy dearer foodstuffs and more luxury items. At the same time demand for wares ordinarily bought by rentiers correspondingly decreases.

Increasing prices cause such distortion; decreasing prices cause the opposite. With absolute currency, the main cause of price oscillation of single items collapses.

In Switzerland the Press unleashed a strong attack on the proposal made by the Association for Free Land and Free Money about absolute currency. The objections came mainly from interests linked to the monetization of gold, which are the opposite of the active monetary policy proposed here. The opposition stems from the fact that money income and expenditure do not operate on prices immediately, but only after some time (Nikolson estimates up to three months). Let us laugh heartily at such attempt by high finance, for it proves nothing. The modern medium of exchange condemns it altogether, as the facts show. If the reins of a horse had their effect only after three months, that horse would be uncontrollable: it would be exchanged for another. The same happens in commerce. A non-manageable currency is as useless as such reins: one throws it away.

With the horse of Free Money there is no need to wait for three months to feel the effect of the reins. Free Money is a very sensitive beast. An increase or decrease in the quantity of money is felt by the market on the same day. Every attempt by high finance to shake off absolute currency will always bounce off gold money.

Chapter 5.

THE LAWS OF CIRCULATION OF FREE-MONEY

Let us take a closer look at Free-Money. What can its possessor/holder do with it? On January 1st its value in the markets, shops, pay-offices, public treasuries and courts of justice is 100, and on December 31st it is only 95. That is to say, if at the end of the year the holder of the note intends to pay a bill of exchange, an invoice, or a tax worth 100, he has to add 5 to the note.

What has happened? Nothing but what happens with every other commodity. Just as an egg steadily and rapidly departs from the economic conception "egg" towards a rotting thing that has nothing in common with the original, similarly the individual 100 note steadily and rapidly departs from the conception "100" to the conception "95." The unit of currency is permanent and unchanging; it is the basis for all calculations; but the money-token representing the unit has only its starting point in common with it. Nothing has happened, then, but what happens with everything about us. The species, the conception, is unchanging; the individual, the representative of the species, is mortal and moves steadily on towards dissolution. All that has happened is that the object of exchange has been separated from the unit of currency, the individual from the species, and money is now under the universal law of birth and decay.

The holder of this perishable piece of money will be wary of keeping it, just as the egg-dealer will be wary of keeping the egg any longer than he must. The holder of Free Money will invariably endeavor to pass it on, together with the loss entailed in possessing it.

But how can he do that? He had come in possession of this money by selling his products. He was forced to accept it, though well aware of the loss entailed in that possession. He knew that possession and loss had been combined on purpose.

Nevertheless he had sold his products for truly "bad" money. His products were intended for the market from the first.

Now he is forced to exchange them; as things are, he can do so only with money, and this is what the State issues now. Hence he is now compelled to accept this odious Free-Money for his products if he intends to attain the purpose of his labor. Perhaps he might have deferred the sale, say until in immediate need of other goods, but meanwhile his own products would have deteriorated and cheapened. Their quantity would have decreased and their quality deteriorated. Adding the cost of storage and care-taking, he would perhaps have incurred a greater loss than that entailed in possessing the money. When he accepted the new money, he was under the constraint caused by the nature of his products. He is now in possession of money that steadily depreciates. Will he find anyone willing to shoulder the loss entailed in possessing such money? The only one willingly accepting this "bad" money is someone under a similar constraint, who has produced commodities and is now anxious to dispose of them in order to avoid the loss attached to retaining them.

We are thus at the very outset of a truly remarkable fact. The buyer must inevitably try to pass his money to the seller, who is equally eager to pass his wares to the buyer. The gain from the immediate completion of the bargain is the same for both parties, and the effect, of course, is that in bargaining the buyer can no longer refer to his invulnerability (gold), threatening to withdraw should the seller not submit to his terms. Buyer and seller are both poorly armed; both have the same urgent desire to strike the bargain.

Does one have to add that the terms of the bargain will be fair and the transaction quicker?

Let us now suppose that the Free-Money note just considered has come into the possession of a saver, a merchant or a banker. What will they do? The money-token steadily shrinks away also in their hands. They came into its possession by exchanging gold coins no longer in circulation. No law forced them to make the exchange; they might have kept the gold, but the State proclaimed that after a period of grace it would refuse to give Free-Money for gold. They could have it made into gold ornaments, but who would have bought ornaments in such quantity, and at what price? And what would the gold ornaments be paid with? With Free-Money!

So they found it advisable not to let the grace period expire. And now they are paying attention to their new money. The uselessness of demonetized gold forced them to consent to exchange it for Free-Money, and the loss, inseparable from possessing this new money, now forces them to get rid of it as quickly as possible, so as to pass the loss onto others.

But since as savers and capitalists they have no personal demand for consumables, they now seek a market for their new money, trying to lend it to those who wish to buy but who at present lack money. So they offer it on loan - just as they used to in the days of the gold standard. There is, however, a difference. Formerly they were free to lend or not, and they only loaned as long as the conditions satisfied them. Now they are forced to lend the money, whatever the conditions. They now act under compulsion. First they were compelled to accept Free-Money by the nature of their property (commodities), and now they are compelled to lend Free-Money by the nature of the money itself. If they are not satisfied with the interest offered, let them buy back gold, goods, wine, (which is said to get better and dearer with time); let them buy Government bonds and securities, let them become employers of labor and build housing, let them enter trade, let them do anything they please that might be done with money. One thing only they can no longer do: lay down conditions upon which to pass it on.

Whether they are satisfied with the interest offered by the debtor or the yield promised by the projected housings; whether the securities selected are favorably or unfavorably quoted; whether the price of wine and precious stones which they intend to hoard has been forced up too high by the many buyers with the same ingenious idea; whether the selling price of the matured wine will cover the cost of storage, caretaking, etc., makes no difference. They are compelled to dispose of the money, and immediately at that: today, not tomorrow. The longer they stop to think, the greater the loss. Suppose, however, that they find somebody willing to borrow the money. The borrower can have only one intention, namely to invest the money at once in goods, in enterprises or in some other manner. No one would borrow money simply to put it in a box and let it depreciate. All would endeavor to pass on the loss inseparable from the possession of money by spending it.

In whatever way the money is invested, it immediately creates demand: directly, through purchasing, or indirectly through lending. The possessor of money is obliged to create demand in direct proportion to the quantity of money at his disposal.

It follows that demand no longer depends on the whim of the possessors of money; that price formation through demand and supply is no longer affected by the desire for profit; that demand is now independent not only of the expectation of rising or falling prices, but also of political events, harvest estimates, the ability of rulers or of the fear of economic disturbance.

The supply of money, just like the supply of potatoes, hay, lime, coal and so forth, will be weighable, measurable, lifeless and without volition. Money, by an inherent natural force, will steadily tend towards the limit of the velocity of circulation dictated by circumstances, or better, it will in all conceivable circumstances tend to leap over that limit. Just as the moon, calm and unaffected by

what goes on here below, moves in its orbit, so Free-Money, detached from the wishes of its holders, moves through the market.

In all conceivable circumstances, in fair weather and foul, demand will always exactly equal the quantity of money circulated and controlled by the State, multiplied by the maximum velocity of circulation permitted by the existing commercial organization.

What effect would it all have on economic life? The main one would be that we can now control market fluctuations; that the Currency Office, by issuing and withdrawing money, can tune demand to the needs of the market; that demand is no longer controlled by the holders of money, by the fears of the middle classes, by the gambling of speculators or by the mood of the Stock Exchange. Its amount would be absolutely determined by the Currency Office. The Currency Office now creates demand, just as the State creates postage stamps, and workers create supply.

When prices fall, the Currency Office creates money and puts it in circulation. This money is materialized demand. When prices rise, the Currency Office destroys money, and with it demand.

Thus the Currency Office controls the tone of the market, and at last we have attained no less than liberation from economic crises and unemployment. Without our consent, the price-level can neither rise nor fall. Every movement up or down is a manifestation of the will of the fully responsible Currency Office.

Demand depending on the arbitrariness of the holders of money was bound to cause fluctuations of prices, periodic stagnation, unemployment and fraud. Free-Money makes the price-level dependent on the will of the Currency Office, which uses its power in function of the purpose of money, which is to prevent fluctuations.

Confronted with the new money, all will be forced to conclude that the traditional storing up of reserves of money must be abandoned, since such reserves steadily depreciate. The new money, therefore, automatically dissolves all money hoards, whether of the careful householder, of the merchant or of the usurer in ambush for his prey.

Would there be further effects? From now on people would not need more than the exact amount of medium of exchange necessary for the immediate requirements of the market. Its amount would be regulated so as to eliminate fluctuations of prices due to too much or too little money. Nobody would be able to frustrate the policy of the Currency Office by flooding the market with money drawn from private hoards at a time when the Currency Office considers opportune draining the market, or by draining off money into private hoards when the Currency Office wishes to replenish the stock of money. It would mean that, to enforce its policy, the Currency Office would have to issue or withdraw insignificant quantities of money.

It would also mean that nobody from now on would need more money than dictated by immediate needs, since the regularity of circulation makes savings superfluous. Savings used to be a cistern, a mere receptacle. The regularity of circulation of the new money will make it into a perennially welling spring.

With Free-Money demand and money are inseparable; demand is no longer a manifestation of the will of its possessors. Free-Money is not an instrument “expressing” demand; it is demand itself, materialized. It meets supply on equal terms, supply which always was, and remains, something material. Such phenomena as the mood of the Stock-Exchange, speculation, financial crashes and Black Fridays¹³ cease from now on to influence demand. The quantity of money issued,

¹³ [24th September 1869. Two American financiers, Jay Gould and James Fisk tried to corner gold so as to cause a rise in price. President Grant frustrated the scheme by flooding the market with four million dollars worth of gold. The panic harmed the market, the economy and Grant’s administration.]

multiplied by the maximum velocity of circulation possible with the existing commercial organization, is in all conceivable circumstances the limit, maximum and minimum at the same time, of demand.

Money, anathema of all the ages, will not be abolished by Free-Money. It will be brought into harmony with the natural needs of economic life. Free-Money leaves untouched the fundamental economic law that we have shown to be usury, but forcing it to act like a force for good instead of for evil. By eliminating interest, Free-Money will clear away the present ignoble motley of princes, rentiers and proletarians, leaving space for the growth of a proud, free and self-reliant race of men.¹⁴

¹⁴ [This last paragraph appears in the 1920 Pye translation but not in the German original.]

Chapter 6.

SUMMARY

What has been gathered so far from Free Money follows.

1. Demand has become imponderable, above the will, mood, desire for lucre and speculation of the possessor of money. It no longer depends on such factors;
2. In every circumstance the quantity of money tends to break through the upper limit of velocity of circulation allowed by the commercial organization. In every given moment demand always corresponds to:
 - a) The quantity of money issued and managed by the State;
 - b) The velocity of circulation permitted by commercial services.
3. All private hoards of money, which can be considered as private issuing offices disturbers of the peace, are automatically undone. The State will be the sole trustworthy issuer of money.

These first effects will have the following results:

1. Regularity of sales, without possible stoppages;
2. Supply always matching production;
3. No more fluctuations of prices due to stoppages of sales;
4. Given the regularity with which both demand and supply appear on the market, prices will no longer fluctuate, which they always do with an altered relation between wares and money;
5. The State will have to issue or withdraw scanty amounts of money to match supply to demand, so as to attain a complete stability of prices;
6. There will be no need for more action, since a rapid circulation of money doubles, and even quadruples, money's purchasing power. An issue, or a withdrawal, will have the same multiplier effect. Instead of 10 billion marks, German commerce will need five million, perhaps even three.

The forced circulation of Free Money will further:

1. Neatly separate the medium of exchange from that of saving;
2. Force the owners of money to put it into circulation, unconditionally and without expecting interest or profit from it;
3. Make money circulate even after the fall and subsequent disappearance of all interest;
4. Make money circulate even without bringing profit to its possessors.

As a consequence of the above circumstances, the forced circulation of money renders a general economic stagnation and concomitant phenomena utterly impossible.

The personal loss attached to the possession of money will see to it that:

1. Merchandise, work and money will be the same for all, whether consumers or savers. They become articles of exchange without profit, interest or undue deductions;
2. Money becomes proof of work done, and an automatic insurance against unemployment;
3. All privileges attached to money are abrogated.

The perfect equalization of money with private initiative fosters:

1. Savings in durables and basic provisions instead of money;
2. Purchases no longer made in small quantities, but wholesale and in the package of origin;
3. A great decrease in the number of shops, and consequent redundancy of most traders;
4. The disappearance of hire purchase, since all purchases will be cash on the nail;
5. The impossibility of speculation: the entire production, distributed in millions of private stores, will be subtracted from possible manipulations by individuals.

The combined effect of the five foregoing circumstances will assure the complete exchange of all goods produced, accelerating and cheapening it. Commerce will mainly be simplified by the removal of stoppages and by the stability of prices, which will render everyone self-sufficient.

The most attractive results, truly subversive, of Free Money, will be the elimination of unemployment and the creation of physical capital increasingly independent of the extortions of interest. The undignified mix of princes, rentiers and destitute people will be trodden under foot, and in its place there will rise a proud race of free and independent citizens, human beings able to look in the face of anybody in the world as they do with their compatriots.¹⁵

Free Money will not eliminate money as such, thousands of times cursed. It will adapt it to the real needs acknowledged by political economy. Free Money will become the basic law of our economy, which will be founded on self-interest, as remarked at the beginning. But it will indicate that usury will always operate like “that power that always wanting evil always creates good” until we subtract demand from the will, thus forcing it to face supply in single combat.

¹⁵ [Gesell repeats himself, but perhaps he can be forgiven.]

Chapter 7.

FREE-MONEY ON TRIAL

A. The Shopkeeper

My business has notably developed with the advent of Free-Money. In the first place my customers have taken to paying cash. It is to their immediate advantage to do so promptly, since they are paid cash themselves. Secondly, I no longer sell goods in small quantities. Formerly customers were loath to part with their money for several reasons:

- The money they handled did not compel them to pass it on;
- They received interest by depositing it in a savings bank;
- It was more convenient to keep money in the house rather than goods;
- And finally because nobody was ever sure of when he would be paid. The circulation of money was irregular and payments were so uncertain that everyone, except those with a fixed income, was forced to save up some money. And this savings were formed by purchasing on credit whenever possible and by purchasing only necessities for immediate consumption. Instead of a pound customers bought an ounce; instead of a sack, a pound. It did not occur to anyone to lay in provisions or to provide for a storeroom when planning a new house. The only feasible kind of store was a store of money. A modern house had rooms for special purposes such as a darkroom, a carpet-room, a box-room, etc., but never a room for provisions.

All this has now changed. The new money constantly reminds people that they are debtors: eager to pay, as they are paid, promptly. Money is now compelled to circulate, steadily and uninterruptedly. It can no longer be stopped by rumors. Regular circulation produces a regular turnover of goods, and as everyone, to avoid loss, is anxious to pay at once for what he has bought, the influx of money into my till has become very regular. We shopkeepers can now count on this regular influx, and are therefore no longer forced to keep a reserve of money, quite apart from the fact that such reserves are now uneconomic, as they depreciate. Instead of hoarding money, people now lay in stores; they prefer possessing goods to possessing cash, exactly for the same reason that they prefer paying cash rather than buying on credit. Instead of trifling quantities, they now buy large amounts of goods in their original packing: instead of a gallon, a barrel; instead of a yard, a roll; instead of a pound, a sack.

From this it might be imagined that we retailers are living the high life, in the seventh heaven so to speak. How wide of the mark! Luckily for myself, I watched developments closely, and was able to adapt my business to the changed conditions. Instead of my former retail prices I now charge wholesale prices, and have thus managed not only to retain, but also greatly increase the number of customers. Other shopkeepers, not as provident, have had to close. Where formerly there were ten shops there is now only one, which in spite of its tenfold increase in turnover, requires less labor to run. The rent of my shop has fallen by 90%, because so many shops have been vacated and are being converted into housing. But despite a minimum rent and a tenfold increase of turnover, my profits have not increased proportionally. All shopkeepers, owing to the general simplification of commerce, have been forced to reduce their margins. Instead of 25% my mark-up is now about 1%. But as I deliver orders in the original packages and am paid cash, a small profit margin is enough. No bookkeeping, no bills, no losses! And despite the tenfold increase in turnover, my

warehouse has not been enlarged. My customers have agreed to take regular supplies delivered direct from the railway station. Shop keeping has become a mere consignment business.

Fellow retailers who have been forced to close are, I admit, to be pitied, especially the older ones who are past retraining. As their impoverishment has been caused by the introduction of Free-Money, i.e. by State-interference, I think that in justice they ought to be compensated by a State pension. The State is well able to pay this compensation, since the disappearance of middlemen and the consequent cheapening of all commodities has greatly increased the tax-paying capacity of the population. Formerly the State felt itself bound to protect landlords against a fall of rent by introducing a duty on wheat, so it could now feel itself bound to protect retired shopkeepers by paying them a pension.

I must admit that shop keeping has been enormously simplified by Free-Money. It was bound to happen. Neither small retail selling, with the tremendous cost it entailed, nor the misuse of credit sales could have continued indefinitely. It was an intolerable abuse that the retail sale of daily necessities should have carried a mark up of 25% at a time when labor was forced to bargain hard for a 5% wage increase.

In 1900 Switzerland, with 3 000 000 inhabitants, employed 26 837 traveling salesmen, who paid an aggregate 322 200 francs for registration fees. Even if we put their daily expenses at only 5 francs per head, traveling salesmen cost Switzerland 48,977,525 francs annually.

In Germany there are 45 000 traveling salesmen permanently on the road. (In Switzerland this business is largely part-time, and that's the reason for such a large number of travelers and my low estimate of 5 francs/day for expenses). It has been calculated that each of these 45 000 traveling salesmen costs 14 marks a day (salary, traveling expenses, hotel bills), which is certainly not an over-estimate. That amounts to 600 000 marks a day or 218 million marks a year. Add to this other traveling expenses. One can say that two-thirds of all travel is business travel, and two-thirds of the hotels exist solely to cater for business travelers.

It was predicted that the introduction of Free-Money would render buyers more amenable, and I observe that their behavior has already been sensibly modified. Last Saturday a customer who wanted a sewing machine kept me talking for an hour, unable to make up his mind and discovering imaginary defects in my good machine - until I reminded him of the imminent weekend and the need for stamping his currency notes. That worked like a charm. His castle of cards came tumbling down. He looked at his watch, counted his money and calculated that if he delayed any longer he would have lost 10 pfennig. He stopped thinking, paid and off he went. I lost the 10 pfennig, but the time I gained was worth 100 times that!

Next, a wealthy customer bought some goods but said he had forgotten his money home. He asked me to charge the amount to his account. I reminded him that it was Saturday, and that it would have paid him to run home to avoid loss. He thanked me for my remark, went home, and in two minutes I had my money. With it I could pay a craftsman who happened to deliver some goods at the same time. If the first man had not paid, his indolence would have prevented me from paying the craftsman. How much labor, risk and worry Free-Money saves! I now employ only one bookkeeper instead of ten. It is remarkable that the great problem of cash payment has been solved by the money reform accidentally as it were. It was not poverty that kept buyers from paying cash, but self-interest; as soon as paying cash became an advantage, it became general. It is well known that under the old system the merchant was not paid more promptly by the well-to-do than by poor devils, since during the term of respite the debtor received interest.

About the depreciation itself I have no reason to complain. Personally, as a merchant, I would welcome an increase in the rate of depreciation from 5% to 10% a year, for that would make buyers still more pliable and book entries would cease entirely. I could dismiss my last bookkeeper. I now see that the more despicable money is, the more appreciated are goods and their makers, and the simpler commerce is. Workers can be respected only in a country where money is not superior to them and their products. This desirable result, though not quite attained by the present rate, would certainly be realized by a rate of depreciation of 10%, which would benefit workers more than anyone else.

And what is even 10% depreciation on my average cash balance of 1 000? A mere 100 a year! A trifle, compared to my other expenses. I can moreover contrive to reduce this amount considerably by getting rid of my money still more speedily, i.e. not only by paying cash but by doing so in advance.

To pay in advance may seem at first sight a ridiculous proposal, but it is really only an inversion of the former custom, when the goods had to be advanced and money came later. Money is now advanced and goods come later. Pre-payment binds the debtor to supply goods and work, which he has at hand; post-payment obliged him to supply money, which he could only obtain indirectly. It is therefore more advantageous and safer for both parties that money should come first and goods later, than vice versa as used to happen.

Payment in advance is all that is needed to satisfy the needs of craftsmen and of small businesses. If craftsmen were not forced to deliver their products on credit, they could successfully compete with the corporation trusts.

B. The Cashier

When Free-Money was introduced we cashiers were pitied. It was foretold that we would be overwhelmed by work, by permanent deficits and what not! But what has actually happened? To begin with my office hours have been reduced from ten to six. Next there was a cut of personnel: the older clerks were pensioned off and the younger ones dismissed. But not even that was enough; most banking establishments had to close, branches and all.

This development was indeed foreseeable, but the banks were so convinced of their indispensability! Bills of exchange and checks, which used to be the cashier's daily bread, have almost disappeared. According to the returns of the National Currency Office, the currency now in circulation does not amount to one-third of our previous issues. That is because our present money circulates three times as fast as the old money. Scarcely 1% of the former amounts now pass through the hands of the banker. Money changes hands uninterruptedly; it has no time to pile up in a bank. Money no longer acts as a bench on which the producer sighs of relief after the strain of selling his goods and on which he waits indolently until urgent need pushes him into turning his money over. The exchange resting point is now the commodity itself, no matter who produced it. The holder of money is hounded and worried by his possession, just as formerly the producer was hounded and worried by his goods until he had passed them on to someone else. Whence is the word "bank" derived? It comes from the "bench" on which the holder of money sat at ease, while the holders of goods ran about and fretted. With Free-Money, it is the holder of money who runs about and frets, and the seller of goods who sits on the bench.

The circulation of money has become so rapid, and everyone in such a hurry to pay, that bills of exchange are no longer required: they have been replaced by ready cash. Neither does anyone need to save, since the regularity of money circulation

renders saving unnecessary. The living, perpetually welling up spring has replaced the stagnant reservoir.

It was such hoards that had led people into adopting the great folly of the century, the check. Yes, I, the cashier, dare to proclaim that the check was rank folly! The use of money is to make payments, and gold was supposed to be the most convenient means of payment conceivable. Why, then, was it not used? Why did the check take the place of ready cash, if ready cash met all the requirements attributed to gold? Compared with ready cash, the check is an exceedingly unwieldy instrument of payment. It is bound up with the observance of various formalities; it must be cashed at a certain place, and the security of payment depends on the solvency of the drawer and of the bank. Yet checks were supposed to denote progress. It was even hoped to carry matters as far as the English have, paying cab fares with a check. As if that were an honor and an advantage for the taxi driver! The model check, for the receiver of payment, is hard cash, for it can be spent in any shop or public house, it is bound by no formalities, and its security is never in question. We were proud of our gold money and convinced that we had reached the peak of perfection with it. But we were blind to the contradiction that lay in the use of checks. Gold was too good for common use; therefore we looked for a substitute, the check. We behaved like the man who went for a walk with an old coat and a new umbrella and could not bear to open the new umbrella lest it should become wet. So he hid it under his coat. No one scrupled to thrust whole parcels of checks upon us cashiers, and we could find the total amount only by noting down the separate sums in long columns and adding them up. It was disgusting work, compared to which the counting of money is child's play. Only the pieces of money need be counted now, since their amounts are all equal.

Moreover checks had to be cleared with various banks, and every single check charged to its drawer. And then the calculation of interest! At the end of every quarter an account had to be handed in with every check specifically entered. Thus every check was entered ten times over. And that was called progress! What absurdity! The unwieldiness of the gold currency and the irregularity of the circulation made bank accounts necessary, and these in their turn gave rise to the check. But this circumstance, instead of being considered a serious drawback of the gold currency, was regarded as something to be proud of!

Besides the checks, there were heavy bags of gold, silver, copper and nickel, and paper money into the bargain! Eleven different kinds of coins: 1, 2, 5, 10, 20 marks, 1, 2, 5, 10, 20, 50 pfennigs! For small change of less than one mark there were six different coins of three different metals! Hundreds of checks, eleven different coins and ten different kinds of paper money!

Free-Money comes in few denominations and there are no checks. Everything is light and clean, and always new. My cash account, which formerly took me an hour, is now finished in a few minutes!

I am asked how I deal with depreciation on my cash balance. The matter is simple. At the close of the week, on Saturday at four o'clock, I count my cash, calculate the depreciation for the week, and enter it among the expenses. With private banks this sum is charged to general expenses, which are covered by a reduction of the rate of interest on deposits. With public treasuries the loss is only nominal, since the State profits by the depreciation of the total amount in circulation.

Considered from the standpoint of the bookkeeping technique, there is nothing wrong with Free-Money. The best proof of this is the fact that nine out of every ten cashiers have become redundant. A machine that saves labor must be doing good work.

C. The Exporter

The gold standard was introduced on the plea that it would facilitate international trade. No sooner it was done, in conformity with the quantity theory of money, than a sharp general fall of prices took place and a great clamor arose for protection. Barriers like protective tariffs were erected so as to hamper trade with foreign countries. Isn't that sacrificing the end to the means?

But let us grant that the gold standard could have been introduced without depressing prices and without economic upheavals. It would still have been of little help to foreign trade. It is also being asserted that the gold standard has actually increased foreign trade since its establishment. But foreign trade increased because the population increased, and it did not even keep pace with it. Besides, the increase happened most among countries on a paper standard (Russia, Austria, Asia, South-America), whereas countries on the gold standard (France, North America) developed slowly. (England, a transit country, cannot find a place here).

The gold standard would make sense if it could be universally adopted without protective tariffs, without economic disturbances and without sudden fluctuations of prices. This could happen if there was one State with the power to impose the gold standard on all the other States. But no State has this power, and there is no hope of such thing happening,¹⁶ why not move towards an international paper standard? The German, who buys his goods with gold but is forced to sell them for paper rubles, paper gulden, paper pesetas, paper liras, paper pesos, paper reis and so on, is surely no better off than if he also bought his goods with paper marks. If the selling price has to be calculated in a currency different from that used in purchasing, it does not matter whether the purchase is made in a currency made of paper, silver, or gold.

But even if the gold standard were universally adopted for international trade, its advantages would be minimal. It was thought that the universal adoption of the gold standard would facilitate commercial calculations; that it would be enough to name a sum of money for anyone to know its full meaning for every country. How puerile! In the first place the gold standard does not eliminate fluctuations in the rates of exchange. Gold imports and gold exports vary in every country. The quantities may be trifling, but they are enough to cause considerable fluctuations in the rates of exchange. The rate of exchange fluctuates as much as 3% between the cost of importing and that of exporting gold, given freight, insurance, loss of interest and petty expenses. Add to this the cost of re-coinage. For, as Bamberger rightly said, when gold travels abroad it goes to the melting pot. Such expenses must be considered even in small transactions. And if a merchant is forced to take into account the fluctuating rates of exchange, what advantage does the gold standard have for his accounts?

The other supposed advantage of a universal gold standard is even more deceptive. The significance of a sum of money in a country can be understood only when commodity-prices, wage-rates, and so forth in that country are known. If, for instance, I inherit debts, I shall not remain in Germany but go where money is easiest to earn. If I emigrate, the amount of the debt is not decreased, but my power to pay it off increases. A man with a debt of 1 000 is a poor devil in Germany, but in America this amount is a trifle. The reverse is true when instead of a debt I inherit a fortune. In this case what use is the gold standard? Or take another instance: an emigrant is promised a large amount of gold. He at once inquires about the prices of the

¹⁶ [The United States adopted this very policy from 1944 to 1971. Following the 1971 collapse of the gold standard in the USA, the dollar took the place of gold. An effective dollar standard has been imposed on all countries except the Group of 8 (today 12)].

commodities produced and consumed by him. Not until he knows these prices can he form a conception of the sum of money named. From gold his thoughts immediately fly to the prices of commodities; these, not the gold, are the foundation on which he can build. But if in order to estimate the meaning of a sum of money, it is first necessary to know the prices of commodities, it surely makes no difference whether the sum of money is stated in gold or in paper. As a matter of fact nobody today knows, even approximately, the meaning of any given sum of money, no matter whether a gold dollar or a paper ruble.

In practice all this is of minimal importance to the merchant. What are all these small arithmetical problems compared to the thousand imponderable factors on which the merchant's theory of probabilities rests? The estimate of the demand for a commodity, of its quality, of its chances in competition with a hundred other commodities, changes of fashion, the likelihood of new import-duties, the margin of profit that this or that kind of commodity may be expected to yield etc. are the things that the merchant must take into account. The conversion of prices from one currency to another is a job for office boys.

Far more important than the exchange rates are changes in the protecting tariffs. To protect the gold standard many countries have abandoned free trade. But an exporter would prefer any kind of currency, even the cowry-shells of Central Africa, and free trade, to a gold currency coupled to protection duties. And there is no denying that wherever the gold standard has appeared, protection has followed hot on the heels of it.

In international commerce, goods are paid for with goods. If a deficit occurs, it can be paid for in currency only partly. Extension of credit, bills of exchange, loans and transfers of securities are resorted to instead. For the balance of payments the policy of the Banks of Issue is far more important than the existence of a form of money suitable for export. Here, as elsewhere, prevention is better than cure. The Bank of Issue must learn to see a fall in the rate of exchange as a sign that it is issuing too much money and thus raising prices, hindering exports and encouraging imports. In this case it must promptly limit the money supply so as to reduce prices. In the opposite case it must increase the money supply. By thus proceeding, payments always tend to cancel each other, leaving no balance to be covered by exporting money. It is therefore unnecessary, to say the least, to provide an exportable national currency. Indeed exporting and importing its national currency can be very dangerous for a country. If the currency can be exported, the Bank of Issue loses the monopoly of the money supply and the home market becomes exposed to the control of foreign, often hostile, influences. French money invested in German banks was, for example, withdrawn during the Moroccan crisis, with the stated purpose of injuring Germany, and so it was.¹⁷ Every blunder in currency control abroad reacts on the currency at home and cannot be counteracted - except by tariffs.¹⁸ When foreign countries introduce a paper currency thus driving out gold, this gold seeks employment elsewhere, our country for instance. It forces up prices, perhaps at a time when they are already too high. And when foreign countries adopt the gold standard instead of a

¹⁷ [The first Moroccan crisis was due to the conflict between French political interests and German commercial ones. In 1905 the Kaiser appeared before Agadir on his yacht, loudly proclaiming Morocco independent. The ensuing panic was calmed down at the Conference of Algeciras the year after. In 1911 the German gunboat *Panther* appeared at Agadir in a threatening sign of anti-French intimidation. Great Britain and the US supported France. The Great War was in the offing.]

¹⁸ [That's why the United States, after having inundated the world with an excessive (and secret) quantity of dollars from 1944 onwards, defend themselves from possible attacks with high tariffs, at the same time preaching free trade by means of IMF, WB and WTO. If a single government decided to dump its "reserve" dollars, the collapse of the dollar would be disastrous and irreversible.]

silver or paper currency, gold flows out of our country, not infrequently at a time when there is already a shortage. Such blunders in currency management have again and again caused difficulties for brought our debt-ridden German farmers.

All this had been known for some time,¹⁹ but has been demonstrated in practice only since the introduction of Free-Money, made of paper and completely detached from gold. With Free-Money there is not even the promise of redemption in gold, nevertheless the rate of exchange with foreign currencies is more stable than ever. At first the National Currency Office concentrated all its efforts towards stabilizing the general price index. Prices remained stable, but foreign exchanges fluctuated. The reason was that prices, in countries where the gold standard remained in force, fluctuated in the usual fashion. The other countries refused to admit this explanation, blaming our paper money instead. Our Currency Office then decided to prove that the fluctuations were due to gold. It gave up the policy of stabilizing home prices, and stabilized the rate of exchange instead. When the rate of exchange of the mark rose, the office increased the stock of money, and when it fell, it withdrew money. And since with Free-Money the stock of money is the demand for goods, the effect on the price of goods, as well as on the foreign exchanges, was exactly as foreseen by the Currency Office: the exchanges were stabilized and prices fluctuated. Thus we demonstrated to the world that a stable rate of exchange together with a stable price level cannot possibly be expected from the gold standard, and that the two aims can be attained only when prices are universally stable. The aim in every country must therefore be to stabilize domestic prices so as to obtain a stable rate of exchange. Only through national currencies managed on the same principle in all countries can stable rates of exchange for international trade be combined with sound national standards. The other countries seem now at last to have grasped this fact, for an international conference has been summoned for the purpose of establishing an international paper currency and an International Currency Office.

Something must be done. We want free trade, stable foreign exchanges and stable prices on the home market. National institutions alone cannot fully bring about these three aims, so we must come to an agreement with the rest of the world.²⁰ Free-Money seems destined to furnish the basis for such an agreement. For Free-Money is submissive, adaptable, and willing. It lends itself readily to the attainment of any aim.

D. The Manufacturer

What we manufacturers want is sales and more sales: steady, assured sales with long-term orders in advance. Industry hangs on the regular disposal of its products; we cannot fire our skilled workers the moment sales begin to slacken, only to hire unskilled ones the moment sales pick up again. Nor can we maintain production for stockpiling without forthcoming regular orders. Sales, steady sales! Give us assured sales and efficient public institutions to facilitate the exchange of our products; technical difficulties of execution can be left to us. Give us regular sales, cash payments and a stable price-level. Leave the rest to us.

Such were our wishes when the introduction of Free-Money was being discussed, and our wishes have now been fulfilled.

¹⁹ Gesell: Anpassung des Geldes an die Bedürfnisse des modernen Verkehrs, Buenos-Aires, 1897. Frankfurth und Gesell: Aktive Währungspolitik, Berlin, 1909.

²⁰ [Such conference took place in London, June 1933. 66 countries were represented. Those on the gold standard tried to convince the others to “stabilize” their currencies. But since these countries had got rid of the gold standard precisely because it did not guarantee any stability, the conference failed. Galbraith (1908-) calls this conference “bizarre”.]

What is a sale? An exchange of goods for money. And whence is money? From sales of goods, in an unending circle!

Free-Money forces its holder to buy: it constantly reminds him of his duty as a buyer, through losses inflicted on him if he neglects it. Purchases therefore, at all times and in all possible circumstances follow hot on the heels of sales. And when everyone is obliged to buy as much as he has sold, how can sales slacken? Free-Money, then, closes the monetary loop.

Just as wares represent supply, so money now represents demand. Demand is no longer a straw blown about by any breeze of rumor or politics. Demand no longer depends on the will of buyers, bankers and speculators; money now truly embodies demand. The possessors of money are now disciplined; money leads its possessor like a dog on a leash.

And this is only fair. For we producers or possessors of wares are no better off than we were before. We do not control the supply of our products; we are forced by their very nature to offer them for sale. The nature of our products - the stench they emit, the room they take up, the risk of their catching fire, the decay they are subjected to, their fragility, changes of fashion and a thousand other circumstances - impose on us the need to sell them immediately after their production. The supply of wares is under an inherent material constraint; is it not fair that the demand for them, the supply of money, should be under a similar constraint?

It was an act of courage to answer this question in the affirmative by introducing Free-Money. Up to then the buyer alone had been considered, now at last it is understood that sellers also have wishes, and that buyers' wishes can be fulfilled only at the expense of sellers'. How long it took to arrive at this simple truth!

With Free-Money, when sales slacken and prices fall, the explanation is no longer that too much work has been done, that there has been overproduction. We now say that there is a shortage of money, of demand. Whereupon the National Currency Office puts more money in circulation: and since money is now simply embodied demand, this forces prices up to their proper level. We work and bring our wares to market - that is supply. The National Currency Office then pays attention to this supply and puts a corresponding quantity of money on the market - that is demand. Demand and supply are both products of labor. There is nothing left in demand like arbitrary action, desires, hopes, changing prospects or speculation. We order just the amount of demand that we require, and just this amount is created. Our production, the supply of goods, is the order for demand, and the National Currency Office executes the order.

And the devil may take the Controller of the Currency Office if he sleeps and neglects his duty! He cannot now, like the officials of our old Bank of Issue, entrench himself behind platitudes about having to satisfy "the needs of commerce". The duties imposed on the National Currency Office are sharply defined and the weapons with which we have equipped it are powerful. The German mark, formerly a vague thing like porridge, has now become a fixed quantity, and for this quantity the officials of the Currency Office are held responsible.

We are no longer the sport of financiers, bankers, and adventurers; we are no longer condemned to wait in hapless resignation, until, as they used to say, "the state of the market" improves. We now control demand; for money, the supply of which is in our power, is demand - a fact that cannot be too often repeated or too strongly emphasized. We can now see, grasp and measure demand - just as we can see, grasp and measure supply. Much produce - much money; less produce - less money. That is the astonishingly simple rule of the National Currency Office!

With the money reform, fixed orders have become so plentiful that we are kept busy for months in advance. Merchants tell me that buyers now prefer to possess

goods to possessing money; they do not now postpone a purchase up to the moment they need something, but give their orders whenever they happen to possess money. In every house there is a special storeroom, and the purchase of Christmas presents, for example, is not deferred till Christmas Eve, but made whenever an opportunity arises. That is why Christmas goods are now bought throughout the year, and my toy factory receives orders all the year round. The former Christmas rush and scramble has turned into a steady sale of Christmas goods from January to December. It is the same with every industry. A man needing a winter coat does not wait for the first snowfall, but orders it whenever he has the money, even though the temperature may be 30° C in the shade. Money burns in the purchaser's pocket, just like cloth burns on the tailor's shelves. The new money gives its possessor no peace: it makes him smart and itch and tingle, reminding him incessantly that the tailor has nothing to do and would be pleased to receive orders for the coming winter even though the suit should be paid for in this wretched thing called Free-Money. No money is as bad as unsold cloth.

This remarkable change in the behavior of buyers has made commercial establishments to a large extent superfluous; for when buyers provide themselves with goods for some time ahead and no longer insist on immediate delivery, the merchant does not need to stock the goods. He keeps a sample collection and his customers give him orders. The merchant collects orders and delivers the goods direct from the railway station when they arrive. In this way he can of course sell cheap.

The disappearance of shops, where formerly everything could be bought for immediate use, forces even the most dilatory buyers into considering in advance what goods they may need, so as to secure them at the right time by ordering early.

Thus Free-Money has brought us at last to the point where the estimate of the need for goods is not made by merchants but by the buyers themselves - to the great advantage of all. Curiously enough, it was the merchant who formerly estimated the consumers' needs in advance, and what orders he would place; and clearly he often miscalculated. The consumer now estimates his personal needs, which he obviously knows better than the merchant does. Errors are less frequent.

The merchant has thus become a mere exhibitor of samples, and the manufacturer is sure that the dealer's orders reflect not merely the latter's personal opinion about the demand for goods, but the immediate demand of the consumers, their real need for commodities. The orders now provide him with an unmistakable expression of the changes taking place in taste and in the needs of the people, for him to adapt his factory to these changes. Formerly, when orders reflected merely the dealer's personal opinion, sudden new departures, the so-called changes of fashion, were ordinary occurrences.

In this respect, again, Free-Money has solved many of my difficulties.

But if the manufacturer's work is so greatly facilitated, and if he needs only to be a technical expert and not at the same time a merchant, surely his profits must be unfavorably affected. There is no lack of able technicians, and if the commercial management of an industrial enterprise presents so few difficulties, every able technician will become an able manufacturer. By the laws of free competition the manufacturer's profit must come down to the level of a technician's wage. What an unpleasant surprise for many entrepreneurs whose success was mainly due to their commercial ability! With Free-Money, commercial creativity has become superfluous, for the difficulties calling for the comparatively rare, and therefore richly rewarded, commercial talent have disappeared. And someone must benefit by the reduction of the manufacturer's profit. Either goods must become cheaper, or, on the contrary wages must rise. There is no third possibility.

E. The Usurer

It was never considered dishonorable to borrow an umbrella or a book. Even forgetting to return such objects, the offence was condoned. The loser himself was anxious to find some excuse for the defaulter. Nobody kept a record of objects lent.

But how different it used to be when someone wanted to borrow money, even five miserable marks! What embarrassed faces on either side! The lender looked as if he was having a tooth extracted, or as if he was witnessing a serious moral offence!

Need for money was considered a disgrace, a moral stain, and you had to be very sure of a man's friendship before appealing to him when in need of money. Money! Why is the fellow in dire straits for money? An umbrella, a shotgun, even a horse I will lend you - but money? You evidently lead a loose life!

And yet it was so easy to be hard up for money. Business stagnation, unemployment, suspended payments and a thousand other causes brought everyone into straits for money, except those with a brilliant financial position. And those not blessed with a thick skin, and who shrank from exposing themselves on such occasions to a possible rebuff, came to me, the usurer; that was my business.

Those good old days are now a thing of the past. Free-Money has reduced money to the rank of umbrellas; friends and acquaintances assist each other as a matter of course with loans of money. No one keeps, or can keep, hoards of money, since money is under compulsion to circulate. And because no one can form hoards of money, no hoards are needed. Money circulates regularly and uninterruptedly.

When, however, an unexpected call for money does occur, one applies to an acquaintance just as one applies for an umbrella when surprised by a thunderstorm. Thunderstorms and money embarrassment are, morally speaking, on the same level. And the person applied to will forthwith comply with the request without making a fuss. Indeed, he welcomes the opportunity, first because in a similar emergency he would apply to the other, and secondly because it is to his immediate advantage. For whereas money in his possession loses value, money lent to a friend will return in the full amount. Hence he behaves that way.

It is not that people have become careless with their money, though money is not nearly as shy and retiring as it used to be. Money is, of course, highly esteemed, for one must work to earn it. But it is not more highly esteemed than work, or than the worker. As a commodity it is no better than any other, since possessing money entails the same losses as possessing a stock of goods. Commodities and labor are equivalent to ready money, and that spells the end of my business.

The pawnbroker is in the same boat. Anyone possessing money for which he has no immediate use is now willing to lend it, at no interest, against a mere pledge of restitution. For money's worth has become even less than a pledge. If you want ten marks in a hurry, you need not hide your needs and slink through back streets and alleys to the pawnbroker's. You go to your neighbor, and he advances the money to you on your pledge. Any amount of commodities that one stores whenever possible, is as good as, or better than, ready money. Goods are money and money is a good, for the very simple reason that both deteriorate. Both are ordinary, perishable things in this valley of tears. All the bad qualities of goods have their counterpart in the loss to which money is subjected, so that no one now prefers money to goods.

For this same reason labor is always in demand; and because it is in good demand, every one able and willing to work has, through his power to work, ready money in his pocket.

Alas for us usurers!

But I am not ready to admit defeat. I am going to sue the State for compensation. Money is a State institution just as it used to be, and I used to live off

it. I was therefore a kind of State official. Now the State has reformed money, i.e. it has forcibly interfered with my business, and ruined me. It has deprived me of my bread, therefore I am entitled to compensation.

When the German landowners got into difficulties, the State came to their rescue with the duty on wheat, introduced to relieve the so-called "agricultural distress." Why shouldn't I also appeal to the State in my hour of need? Is bread-usury any better than money-usury? Both of us: I the Jew and you the Prussian Junker are usurers - the one as base as the other. Indeed, you seem to me somewhat baser and greedier than I am. Your bread-usury is the cause of the distress that drives people to the money-usurer. So if the distressed bread-usurers used to be relieved by a State subsidy, bread-usury being thus placed under State protection, it is only fair to protect the money-usurer as well. For usury remains usury, whether practiced in respect of land or of money transactions. What difference does it make to the farmer whether he is fleeced on renting land or on borrowing money? Both the money-usurer and the land-usurer will exact as much as they can get, without the slightest rebate. If landowners have a legal claim to rent, moneylenders have a legal claim to interest. There is no escaping this logic by asserting that there is a difference between money and land, and therefore between interest and rent. Who or what prevented me from exchanging money for land, thus converting a usurer's grievance into a landowner's?

So I shall base my appeal on the wheat-duties, and the usurer's cry of distress will not pass unheeded in a justice-loving land.

F. The Speculator

The Free-Land reform prevented us from speculating in building sites, mines and farming land, and now the Free-Money reform has also snatched away our business in securities and produce. Wherever I step, I sink in quicksand. And they call that progress and justice? To deprive honest citizens of their livelihood, and with the complicity of the State, the very State that I have served so faithfully, witness my decorations and titles!

This is not legality, it is robbery!

I had recently cabled, at my own expense, news of serious trouble between two South-American republics (I have forgotten their names) and of possible complications with foreign powers. Do you imagine that the news made any impression on the Stock Exchange? Not the slightest! I'm telling you, the Stock Exchange has grown incredibly thick-skinned.

Why, not even the news of the occupation of Cartagena by the Japanese has been able to rouse it! O, I'm telling you, this general indifference is terribly appalling! Actually it is not really extraordinary, but it is so altogether out of keeping with the former ways of the Stock Exchange that it is hard to come to terms with it.

Since the introduction of Free-Money, money has ceased to be the stronghold of investors, into which they retreated at the slightest alarm. When danger threatened, they used to "realize"²¹ their pieces of paper, i.e. they sold them for money and then considered themselves completely protected against every kind of loss.

These sales were of course accompanied by a fall in the price of securities, proportional to the extent of the sales.²²

²¹ Nothing demonstrates more strikingly the monstrous illusion under which humanity lives than this universally current expression. For everyone the only real thing is money.

²² [The sudden sale of 30 000 shares of RCA at the New York Stock Exchange on 31st October 1929 started the Great Crash.]

After a while, when I convinced myself that there was nothing more to be gained, I used to circulate reassuring news. The frightened petty bourgeois ventured out of their hiding places and were soon busily forcing up, with their money, the price of the very securities that they had sold cheap to my agents. That was business!

And now this wretched Free-Money! Before the petty bourgeois parts with his securities, he must ask what he is going to do with the money he gets by selling them. For this money does not leave him in peace; he can't take it home and wait. Money has become a mere transit camp. People ask: "What will be the yield of securities we want to sell for believing them shaky? You say the outlook for them is no good, and we believe you, but is the outlook any better for the money you give us in exchange? Tell us, what can we buy with it? We must know before taking a decision. We do not care to purchase Government securities, since others have forestalled us and forced up their price. Are we to sell them at a loss, simply to buy others at exorbitant price, i.e. at a double loss? If we lose in buying Government securities, we may as well lose on our own. We prefer to wait a while before we sell".

That's how the petty bourgeois speaks, and it is the ruin of our business. This accursed waiting! The first impression of our news wears off, the anesthetic effect passes away with reassuring news brought by another party, which exposes our alarming news as the exaggerations and lies that they were; and the game is up. For what matters is the first impression, which must be exploited. Catching peasants on the wrong foot has become difficult.

My working capital, moreover, is invested in this wretched money and rots away in my safe. To strike at the right moment I am forced to keep cash in reserve. But if I count this cash after some time, I find that it has substantially depreciated. It is a regular and certain loss against a very uncertain profit!

At the beginning of the year I had ten million in cash. Thinking that I could need it, as formerly, at a moment's notice, I let it lie idle in the form of ready money. It is now the end of June but I have not yet been able to influence the Stock Exchange towards selling on any appreciable scale, so the money is lying there untouched. Did I say "untouched?" A quarter of a million has disappeared! I have lost, irrecoverably, this large sum, and the outlook for the future is not rosy. On the contrary, the Stock Exchange's skin is thickening as time passes by. In the long run experience teaches even the shyest investor that when nobody sells, prices, despite gloomy prospects, cannot decline. Rumors and prospects alone are not enough; only facts justify a fall in quotations.

How much nicer it was in former times! Before me lies a cutting from the financial column of a newspaper. It looks like a report that I myself used to circulate:

"Black Tuesday. A panic broke out on the Stock Exchange today upon receiving the news that the Sultan was suffering from stomach ache. Considerable selling orders from provincial customers coincided with a great eagerness to sell on the part of local speculators, and under this pressure the market opened in a demoralized and panicky mood. 'Sauve qui peut' was the watchword."

And now? Eternally the same stupid question: "What am I to do with my gains? What am I to buy if I sell my securities?" This abominable money! How different it was with the gold standard! Nobody asked: What am I to do with the money I get? Those beautiful securities were sold at the bidding of speculators, for gold. Nothing was more beautiful than gold; investors were happy to see the money again, to count it and let it run through their fingers. With gold you were safe; you could not possibly lose, either in buying or in selling, for it had, as the economists put it, a "fixed intrinsic value". This wonderful gold money had a fixed intrinsic value, in

terms of which the prices of all other goods and shares rose and fell like the mercury in a barometer.

The famous "intrinsic value of gold!" How easy it was to speculate on it!

Investors now sit glued to their stocks, and before selling they always ask the same question: "Please tell me first what I am to do with the abominable money I should receive for my securities?" The merry old Stock Exchange days are no more; when gold vanished, the sun set in the heavens of speculation.

There is, however, one comfort: I am not the only sufferer. My colleagues of the commodities exchanges have fared equally badly. Their business has also been ruined by Free-Money. Once upon a time the whole production of a country remained on sale up to the moment of consumption; it was in the hands of the dealers. No consumer ever thought of laying in stores unless forced by hunger. Gold with its "fixed intrinsic value" was a substitute for all provisions; nobody could lose, so whoever had a reserve of gold had everything he might desire. Why, then, laying in stores for the moths to eat?

But the fact that everything was always on sale made speculation profitable. Here were consumers with not enough provisions for 24 hours, and there was the whole of the supply lying ready for sale at the merchants', so speculation was simplicity itself: you just bought the existing stock and then waited for demand to come forward. Generally you were sure of your profit.

And now? Goods formerly held for sale in warehouses are now held for use in millions of storerooms, so how can they be brought back to the market? And can these stores be bought? Not with Free-Money, for it was to get rid of Free-Money that the consumers bought them. These stores are no longer wares for sale: they have become simply goods. And even if the speculator could succeed in cornering the new output, prices would not rise immediately, precisely because of these private stores. For people no longer live from hand to mouth. Before these stores get used up, the news spreads that speculators have got hold of certain stocks of merchandise, so producers are on the alert, and have made up the deficiency before the speculators could dispose of their goods. Also take into account that the working capital of the commodity speculators is, like mine, ready money subjected to monetary depreciation. Who can endure all this loss of interest, loss by depreciation, storage costs, and no profits?

How was it possible to introduce an innovation so injurious to the State? For I, Rockefeller, am the State, and my friend Morgan and I together have built the United States. Whoever injures me injures the State.²³ Where the State gets the money for social services is a mystery to me. The State has sawn off the branch that gave the best fruit. Gold had, according to our professors and scholars, "fixed intrinsic value." The public, which exchanged it for goods, could not possibly lose.

According to our experts, to exchange is also to measure,²⁴ and as the measure of a piece of linen is the same at whichever end you begin, so the quantity of gold in buying and selling for exchange must always be the same. For gold has, it cannot be too strongly emphasized, a "fixed intrinsic value"! As long as we had gold, therefore, the public was protected by the fixed intrinsic value of gold from any possible cheating. How could we, the speculators who enriched ourselves, have done so at the expense of the public? Where our fortunes used to come from I don't know; perhaps from heaven.

Alas, what heavenly gifts have been shattered by Free-Money!

²³ [Whoever knows the monetary history of the United States does not laugh on reading this.]

²⁴ Measure of value? Transfer value, deposit of value, valuable matter, porridge of value and swindle of value! [Gesell's sarcasm is evident. His sense of humor can be better appreciated in the original German: Wertmass!?, Werttransportmittel, Wertspeicher, Wertstoff, Wertbrei und Wertschwindel!]

G. The Saver

Free-Money makes nonsense of all predictions; none of the dismal prophecies of its opponents have come true. It was said that no one would be able to save, and that interest would climb God knows to what heights. Exactly the opposite has happened.

When I save a sum of money now I do exactly what I did before - I take it to the savings bank. The bank enters the amount in my savings book. In this respect nothing has changed. It was said that the sum of money entered in the savings book would be subjected to the rate of depreciation of Free-Money, but this is nonsense. The savings bank owes me so many marks, not the notes that I hand in. The standard mark remains intact in respect of the notes. If I lend someone a sack of potatoes for a year, he will not give me back the same potatoes, which have meanwhile been eaten, but a sack of new potatoes. It is the same with the savings bank. I lend it 100 and it agrees to give me back 100. The savings bank is in a position to do so, since it lends the money on the same terms, while businessmen and farmers who borrow money from the same savings bank do not keep it at home. They buy only the goods they need, and in this way the depreciation spreads out among all those through whose hands the money passes in the course of the year.

Nothing has changed, then, with regard to sums to be repaid. But I now find that I can save a great deal more than I used to.

A social democrat attributed my increased power of saving to a general reduction of "surplus value" which, keeping pace with the decline of the rate of interest, has affected all capital (housing, railways, factories, etc.). The manager of a consumers' co-operative society explained to me that with Free-Money commercial costs have fallen from an average of 40% to barely 10%, so that for this reason alone I economize 30% on my purchases. And a social reformer attributed my increased saving capacity to the removal of economic disturbances. The three may well be right. The fact is that instead of 100 I now save over 2 000 and live more comfortably than before. For many, Free-Money has made savings possible for the first time.

How was it formerly with my savings book? Every political rumor brought in its trail a trade slump, and with it unemployment. This forced me to withdraw some money from the savings bank. That setback could take years, before I could re-fill the gaps in my savings book left by an industrial crisis. Saving resembled the labor of Sisyphus.²⁵ I have now regular employment and am no longer periodically obliged to have recourse to the money saved with so many privations.

I now carry my monthly surplus to the bank with astonishing regularity. And what is happening to me seems to be happening to everybody: there are always long queues at the counters. The savings bank has repeatedly reduced the rate of interest, with a new cut announced for next month. It justifies its action by stating that the sums coming in are in excess of those going out. From 4% the rate of interest has in this short period fallen to 3%, and it is said that with the universal introduction of Free-Money it will fall to zero! And so it will, in my opinion, if present-day conditions continue.

For while the influx of money into the savings banks is continually increasing, requests for loans are decreasing, since businessmen, farmers and manufacturers, for the same reasons that make saving easier for me, are now able to enlarge their businesses with their own surpluses.

²⁵ [Mythological king of Corinth and clever thief. He was condemned in Hades to push a huge boulder to the top of a mountain, from which it fell again as soon as it got there. He has remained the symbol of heavy but useless work.]

The demand for loans is shrinking, and the supply is growing. The rate of interest cannot help falling, for interest expresses the ratio of demand to supply of money loans.

The fall in the rate of interest is no doubt regrettable for the pages of my savings book already filled in, but it is all to the good of the blank pages, which are far more. For what is interest? Who pays it? What I save today is what remains of my wages after I have paid, in my personal outlay, my share of the interest-tribute exacted by the creditors of the State and of the municipalities, plus my share of the interest-tribute demanded by capitalists for the use of houses, plant, provisions, raw material, railways, canals, gas/water-works and so forth. As the rate of interest falls, everything becomes cheaper, and my saving power increases proportionally. My loss on the sums already saved will be compensated ten-fold by my increased savings. My house-rent, for example, amounts to 25% of my wages, two-thirds of which is interest on the building capital. As now the rate of interest falls from 4 to 3, 2, 1, and finally to 0%, I save from $\frac{1}{4}$ to $\frac{1}{2}$, to $\frac{3}{4}$ on my house-rent. That is 4% to 16% of my wages, pure interest on house-rent alone! But house capital is barely one fourth of all the capital on which I pay interest out of my wages.²⁶ If the rate of interest fell to zero I could therefore save $4 \times 16\% = 64\%$ of my wages. What do I care now about interest?

Formerly I could save 100 out of my income of 1 000. At 4% compound interest that sum would produce 1 236.72 in ten years. Since the elimination of interest my wages have doubled to 2 000, so instead of 100 I can now save 1 100 a year. This is a saving of 11 000 in ten years.²⁷

So far from injuring me, therefore, the complete elimination of interest would enormously enhance my saving. For example, if I work and economize for 20 years and then retire I shall possess:

| | |
|------------------------------|----------|
| With compound interest at 4% | 3 024.48 |
| With interest at 0% | 38 000 |

My income from the former sum with interest at 4% would have been 120 a year. If I exceeded this sum, biting into capital, an annual expenditure of 360 would exhaust my savings in ten years, whereas with 38 000 I can afford to spend 3 800 a year for ten years.

The old notion that gold and interest facilitated savings was a fraud. Interest renders saving impossible for most people; at 0% interest everyone will be able to save. Formerly, only exceptionally efficient workers or those possessing exceptional courage to face privations were able to practice this bourgeois virtue.

It is another story for the rentiers. At 0% their property no longer yields interest. As non-workers, they gain no advantage from the rise of wages resulting from the elimination of interest. They must therefore live off their capital until it is exhausted. The contrast between a saver and a rentier is great. The worker saves, and the interest comes out of his work. Savers and rentiers are not colleagues, but adversaries.

In return for the privilege of drawing interest on my 3 024.48 savings I must first pay 34 976 (or 38 000 – 3 024) interest to rentiers!

²⁶ Industrial, commercial and agricultural capital, national debt, capital sunk in means of transport.

²⁷ This is on the assumption that the prices of commodities are kept at the same level by the Currency Office. Eliminating the interest, which now goes towards inflating prices, will in this case result not in lower prices but in higher wages. On the opposite assumption, that the prices of goods fall with the rate of interest, wages would stay the same. Savings would then increase because of the fall in the cost of living. But the sum thus saved is not immediately comparable with the former savings, since commodity prices were then higher.

Rentiers may well deplore the decline of interest, but we savers or saving workers, on the contrary, have every reason to rejoice. We shall never be able to live on interest, but we can live comfortably to the end of our days on our savings. We shall bequeath to our heirs no perpetually welling source of income, but is it not provident enough to bequeath to them economic conditions securing the full proceeds of their labor? The Free-Land reform doubles the income of the worker, and Free-Money doubles it once again. Therefore by the mere act of voting for the introduction of these two reforms I have bequeathed to my descendants the equivalent of a capital equal to thrice my former wages.

Let us not forget that if saving is a virtue that should be preached unreservedly to all, it ought to be possible for all to practice this virtue without injury to anyone and without destroying the harmony of economic life as a whole.

In individual economic life, to save means to do much work, take to market the produce of labor for sale and buy less. The difference between the money received from selling one's produce and the money paid in purchasing the produce of others is taken to the savings bank.

But what must happen if everyone brought produce worth 100 to market, and bought produce for only 90 - that is, if everyone wished to save 10. How can this contradiction be resolved, how can all be enabled to save? Free Money has resolved the contradiction. Free-Money applies the Gospel maxim: whatsoever you wish that men should do to you, do you even so to them. It says: If you wish to sell your produce, buy the produce that your neighbor wishes to sell. If you sold for 100, buy for 100 in return. When everyone acts in this manner, everyone will be able to sell his whole produce and to save. Otherwise savers mutually deprive one another of the very possibility of saving.

H. The Member of the Consumers' Cooperative

Since the introduction of Free-Money the popularity of our movement has strikingly decreased. I hear almost daily of the winding up of consumers' co-operative societies. It is another unforeseen and surprising consequence of Free-Money. Nobody had thought about it. But in reality there is nothing to be surprised about. The consumer now buys for ready money, lays in stores and buys wholesale, receiving his goods by mail in the original packing. The merchant is no longer asked to sell on credit. He keeps no books, nor does he need a large warehouse, for goods are mostly delivered direct from the railway station.

The combined effect of all this is, of course, an extraordinary simplification of commerce. Formerly only the cleverest businessmen managed to escape the perils of buying and selling on credit, reserving for themselves the advantages of deferred payment; only the most capable, industrious, thrifty, orderly and active persons were fit for commerce. Now anyone of average intelligence can succeed. No warehouse, no scales, no errors, no bookkeeping, no estimates of future demand. Instead, cash down payments, ready money on delivery, no bills of exchange, no checks, no humbug! Not even invoices. Here is the package, the sack, and here is the money. The matter is settled and forgotten, and the merchant is free to look out for new business.

Any casual worker can do this kind of work; and the laws of competition see to it that the remuneration for it must fall to the level of a casual's wage.

So what is the use of the co-operative society? Its purpose, reducing the cost of commerce, has been attained by the money reform. Who is supposed to belong to our society from now on? It used to be composed of a consumers' elite, namely those able to pay cash and to purchase in quantities considerable enough to make it worth

their while coming to our depot. But because of the changed conditions of commerce such selection is no longer possible. Today every consumer possesses these qualities; they all pay cash and they all buy in large quantities. It would be as impossible as to form an association of black people in Africa, or of beer-drinkers in Munich. For the same reason the money reform has made consumers' cooperative societies redundant.

Nor is such disappearance a great loss. As a nursery for civic spirit they were a failure, because they necessarily opposed the rest of the people. Sooner or later they would have come into conflict with their natural counterpart, the societies of producers, and that would have created problems which, in theory and practice, could have been solved only by universal communism, by the abolition of every kind of private property. What price, for instance, would the Union of German Co-operative Societies have agreed to pay to the Union of German slipper manufacturers? Only the police could answer that question.

And could we really boast of our achievements? I feel ashamed every time I think how many small independent shopkeepers we deprived of their bread, and that we never ousted a single speculator in stocks or commodities. And where should we have displayed our strength? Just there, at the Stock Exchange!

Who could but remember here Richter's drawing "The cheese monger?"²⁸ Who would fail to curse a "public-spirited society" that displayed its power by striking only at the weak? I much prefer Free-Money. It also, indeed, ousts the small shopkeepers, but at the same time opposes as decisively the money magnates of the Stock Exchange.

Nor can it be denied that the co-operative movement was riddled with bribery and corruption. When the administration of the funds of a society cannot be efficiently controlled, the thief is sure to appear on the scene. And the members of the society cannot be expected to examine every invoice and to compare all the goods delivered with the samples. Nor is it possible to prevent private agreements to the detriment of the society, through bribing its officials. If the society dealt only in goods of uniform quality, such as money, an effective control of the officials would be possible; but is there any commodity, except money, in which quality and quantity must not be taken into consideration together?

On the one side there is communism and the abolition of private property; on the other, the general corruption of the body of officials. That is why I welcome the attainment of the object of the cooperative movement, the reduction of commercial costs, simply by a change in commercial practice resulting from Free-Money. Goods now pass once more from owner to owner; goods and property are inseparable. Practices like shady deals by middlemen on behalf of third parties, or the fixing of prices, do not lead to corruption; they are in themselves a corruption of the idea of commodity, of letting price be fixed by demand and supply.

And is it not strange that the natural aim of the co-operative movement, the association of all societies, should have been attained by dissolving them all? For the most efficient co-operative society is always the open market. There, owner deals with owner; the quality of the goods is estimated by those concerned personally; the buyer is not bound to certain shops, villages, towns; the tokens of society (money) are available throughout the country; distrust disappears and corruption is excluded; public control becomes superfluous, because no private persons with special interests act as agents to conclude the bargain on behalf of absentee principals. Provided of course, that the open market does not add to the cost of the goods more than does the

²⁸ [1803-1884. A Late Romantic artist, illustrator of Grimm's fables. "The cheesemonger" portrays an old woman selling cheese by the sliver to an assorted crowd of poor buyers. In the background stands a colossal statue of blindfolded Justice. The original is in Berlin.]

administration of the cooperative society! But this condition has been fulfilled by Free-Money. Commerce has been speeded up, secured and cheapened to such an extent that commercial profit can no longer be distinguished from a common wage. What would a co-operative society do in such a setup?

I. The Creditor

Nobody can possibly blame me for not saying anything good about Free-Money. This innovation has deprived me of quite a bit of interest, and threatens to do away with interest altogether if universally adopted. But I must confess that in some ways Free-Money has been, even to me, a relief from many worries. At least I can sleep in peace again.

What was, formerly, the "Mark, German Standard" which the State, the municipalities and private individuals owed me in the shape of Government securities, bills of exchange, mortgages or promissory notes? Nobody could tell, and neither could I if anyone asked me.

The State struck money out of gold as long as the parliamentary majority so desired. But one good day the State decided: we have abolished the right of free coinage of gold, which is now demonetized. It had already happened with silver, and now it's happened with gold, which has been replaced by Free-Money. They finally noticed that neither was the thaler a little heap of silver, nor was the mark a few grains of gold. They were both money, and following the abolition of the right of free coinage the State was bound to compensate or protect from loss the holders and creditors of money.

The State might have acted differently. It does not need gold; it withdrew gold merely to melt down the coins and sell the metal to the highest bidder for industrial uses. This sale, even though cautiously managed, brought the State far less paper money than what corresponded to the gold sold. The meaning of the operation, though, is not here, but in the acknowledgement that our claims for money (Government bonds, mortgages, bills of exchange, obligations and so forth), which are a hundred times greater than the whole amount of the gold money in circulation, and in many cases only fall due 100 years hence, are to be paid in paper-money to the last cent: one mark of Free-Money for one mark of gold.

So in this respect I am perfectly safe. Now I know what a "Mark, German Standard" is; the goods I get for a mark today I shall also get tomorrow and always. I receive indeed less interest than before, and perhaps later I shall receive no interest at all; but my property, at least, is safe. What is the use of interest when the principal is constantly at stake? The prices of industrial shares, as those of commodities, used to rise and fall, and it was a commonplace that a fortune was more easily made than kept. The great fortunes of speculators were built from the collected debris of other fortunes. We were also in danger from the discovery of new gold mines. One good day science might have discovered the pathway leading to the origin of all gold, and followed it. There was also talk of the unity of matter, and that gold is merely a special form of matter; so that it may become possible to convert any kind of matter into gold. Awkward business indeed! "Within 90 days pay to my order the sum of 1000 marks German Standard", was written on the bills of exchange in my portfolio.

"Wait," the debtor would say. "There are ashes in my stove. Let me bring you your 1 000 marks. All I have to do is push a button. Here it is. These are the 1 000 gold marks I owe you."

Our laws, which had not foreseen cases like the one described above, had let the popular representatives define the Mark German Standard. These popular representatives perhaps represented a majority of debtors.²⁹

My status as a creditor would be endangered much more by the possibility that the gold standard might be abolished by other countries but retained by ours, with its right of free minting. Suppose, for example, that the United States debated the contradictory issue whether silver or gold should be made legal tender. Suppose that the law, out of impartiality towards conflicting interests of debtors and creditors, decided to demonetize both metals. It would have been the most rational solution of American currency policy; the contradiction of the monetary system would be eliminated and the law could no longer be accused of partiality. But what would the result be? The masses of gold, now useless in America, would come to flood Germany, forcing up our prices perhaps by 50%, or even 100 or 200%. I would lose more from a general rise in prices than at present from the declining rate of interest.

Capital investments payable in marks, German standard, were obviously a risky investment. But now the danger has disappeared. It makes no difference to us whether the United States go over to a paper currency, or to bimetallism, whether the Bank of England puts its gold into circulation, or whether Japan and Russia retain the gold standard. What would be wrong with it?

Whether much or little gold is discovered, not a penny is added to or withdrawn from circulation; whether the existing stock of gold is, or is not, offered for exchange, what would the German monetary standard lose? Whatever happens, I shall get for one mark, German standard, as much merchandise as I had to sell to get it; for such is the conception of the "Mark, German Standard", legally and scientifically defined. And even should the majority of Parliament consist of debtors personally benefiting from a reduction in the purchasing power of the mark, they could not indulge their desires without committing theft in the open. "The average price of commodities is the fixed and unalterable standard of money. You have changed this standard, as everybody can test by measurement. You did so for your personal advantage, so as to return less than you borrowed. You are thieves, thieves!"

But nobody steals publicly in broad daylight. It is profitable to fish in troubled waters; and with the old currency the waters were troubled; it was a thief's paradise. But now the waters have cleared; the standard of money is something which everybody clearly understands.

J. The Debtor

One must be as thick skinned as a pachyderm to remain indifferent at the terms of abuse hurled at us landowners³⁰ in Parliament, in the Press and in daily life, for endeavoring to get rid of debt through legislation. We were dubbed bread-usurers, scoundrels, beggars!

That the working class should have attacked us for making their bread dearer is understandable. Towards them we played the part of the aggressor. They had done us no injury that could justify our inroads upon their meager income. But that other parties, which had so often injured us by legislation in order to enrich themselves, should have joined in the chorus of abuse, I find simply ludicrous. It shows that these parties have not yet learned the meaning of politics. Politics means power, and those

²⁹ All these possibilities are detailed in my essay *The Monopoly of the Swiss National Bank*, Berne 1901.

³⁰ The *Agrarier* were a powerful class of landlords that influenced legislation to get rid of their debts.

who have power exploit politics to their advantage. Formerly the liberal parties held that power; now it is our turn, hence the terms of abuse. The abuse rebounds on those who have wielded power in the past and those who will wield it in the future.

In this quarrel the liberals were decidedly the aggressors. They attacked us by introducing the gold standard; to defend ourselves we tried to restore bimetallism. But we did not succeed, so we opted for protective duties.

Why did our opponents deprive us of the bimetallism on which our mortgages were based? Why did they force us to repay more than we had received? Why did they falsify both the sense and the contents of our mortgages, so as to deprive us of the choice between gold and silver? Why did they deprive us of the possibility of paying our debts with the cheaper of the two metals? It obviously makes a great difference whether I am free to pay my debts with 1 000 kilograms of potatoes or 100 kilograms of cotton, or whether I am bound to pay in potatoes alone. We were denied the possibility of establishing the terms of our contracts without compensation of any kind. With a free choice, I could have paid either with 160 pounds of silver or with 10 pounds of gold, and I would have paid, of course, with the cheaper of the two metals, since when I borrowed the money I got the loan in the cheaper metal. How much gain this meant became apparent later, when we compared the price of silver with that of gold. The price of gold increased 50% in respect of silver, so instead of 100 000 marks my debts now amounted to 200 000 marks - not in nominal, but worse, in real terms. I have to sacrifice double the quantity of produce annually to pay interest on my debt. Instead of 50 tons of wheat, the bank now claims 100 tons annually. Had the silver currency not been abolished I could have employed the fifty additional tons to pay off my debt, and I should by now be clear.

Is not this treatment of debtors, touted by the liberals as a good thing, in reality a swindle?

If not all debtors protested as a body, but only landowners and other mortgage debtors, the explanation is that the remaining debtors, who had borrowed money without giving real estate as collateral, went bankrupt. Thus they got rid of their debts in the general collapse that followed the introduction of the gold standard. The matter no longer concerned them.

When we appealed, supporting our demand for a return to the silver standard by pointing out that after the introduction of the gold standard the price of wheat had fallen from 265 to 140 marks, and that we had received silver, not gold, for our mortgages, we were laughed at, and told that we did not know anything about monetary issues or about the requirements of commerce. The gold standard had functioned excellently (read: had caused a great crash and falling prices!) and could not be tampered with without unsettling the whole economic structure and the very idea of private property. If, despite the blessings of the gold standard, we fared badly, our antiquated methods were to blame; why did we not adopt modern machinery, why did we not use chemical fertilizers, why did we not grow the crops needed for industrial purposes, so as to reduce costs and produce more despite lower prices? Our argument was wrong; the "value" of gold was fixed, and the "value" of commodities had declined in consequence of the reduced cost of production! And since gold has a "fixed intrinsic value", price fluctuations were always due to commodities!

We tried to put this good advice into practice and worked with reduced costs. The State came to our aid with reduced freight rates and reduced fares for Polish laborers. And we did obtain better crops with the same amount of labor. But we did not obtain the expected advantage, for although our crops did increase, prices fell from 265 to 140 marks. We actually earned less for bigger crops. Money was what we needed, for it was money our creditors claimed, not potatoes or sugar beet! They held us to our bond, but twisted legislation fraudulently in their favor, and demanded gold!

The silver standard would have given us more and cheaper money. That being denied us, we tried other expedients to get more money for our produce, and we hit on protective duties. If we had not been cheated out of the silver standard, protective duties would have been unnecessary. We decline responsibility for the wheat duties, laying it precisely on those who call us bread-usurers, beggars and scoundrels; they are the ones who robbed us with their gold standard.

Such an odious episode in our economic and political history, which has caused so much strife and bitterness, could have easily been avoided by the elementary precaution of legally defining the terms "thaler" and "mark" in the proposed currency reform, and by unequivocally declaring in what circumstances the State was entitled to demonetize either silver or gold.

Given the enormous importance of the matter, it was criminal of both sides to use the thaler, and afterwards the mark, as a basis of their bid for power, and to answer the question: "What is a thaler, what is a mark?" as if it was a matter of party politics. But now I feel safe. The National Currency Office is on the watch and Free-Money enables it to maintain an equitable balance between the conflicting interests of debtors and creditors.

K. The Unemployment Insurance Office

Since the introduction of Free-Money, applications for unemployment benefits have suddenly ceased. My assistants and I have nothing to do. Money now goes in search of goods, and goods mean work, employment. Anyone with Free-Money invariably endeavors to get rid of it, either by purchasing goods, or by investing it in a new enterprise, or by lending it to others who personally need it. The difference is that this happens in all circumstances, without personal or political considerations. Neither a fall in the rate of interest, nor even the complete disappearance of interest and profits can hinder the supply of Free-Money. Even supposing a loss instead of a profit from sales, Free-Money is unaffected. Commodities are offered for sale even at a loss.

Anyone possessing Free-Money is forced to pass it on, no matter whether he loses or gains. Free-Money is in charge; it brooks no delay and breaks all fetters. It strikes down the speculator or financier who tries to attack it or defend himself against it by attempting to hinder its circulation. With explosive force it bursts open all strongboxes, it shatters the vaults of the great banks as much as the humble moneyboxes of stable boys, rushing to the market, free. Hence the name "Free-Money." Whoever sells goods for Free-Money must immediately purchase goods.

Purchase of goods means sales, and sales means work.

Free-Money is but embodied demand; demand is sales, and sales are work. The money reform automatically ensures work.

There is no more need of an official insurance force-fed by the employers. The natural insurance is intrinsic to the division of labor. For labor produces goods, and goods tend always to be exchanged for goods. With gold interfering, exchange was forced to pay a double tribute: to interest and to desire for profit. The exchange of goods became thus conditional upon interest and profit. If the exchange did not bring either interest, or profit, or both, it was blocked, since gold mediated between buyer and seller.

With Free-Money such conditions are utterly impossible. Free-Money is a hungry lion seeking whom it may devour; it pounces on the goods, and goods are employment, for it makes no difference whether I buy goods or give work to a laborer directly. The merchant from whom I buy the goods will seek to replenish his stock and get rid of the money by ordering new goods from the manufacturer.

What an absurdly simple insurance against unemployment, and absurdly simple labor bureau. Every piece of Free-Money put into circulation by the State replaces an application for employment: every thousand such notes are a substitute for a labor exchange. Anyone selling goods and receiving money in return immediately buys goods again, either for himself or through someone to whom he lends the money; so everyone buys the same quantity of goods that one sells, and everyone sells the same quantity of goods that one buys. There are no surpluses; the exact quantity of goods produced is sold. In such conditions how can slumps, overproduction and unemployment occur? Such phenomena are possible only when people, either for a time, or habitually, buy fewer goods than they themselves produce.

Free-Money, of course, does not guarantee the disposal of the individual seller's merchandise, but of the community as a whole. If someone produces poor goods, or asks exorbitant prices, or produces randomly without checking the needs of the market, Free-Money will not enable him to dispose of his produce. The term "unlimited sales", repeatedly used here, applies only to the community; after the introduction of Free-Money, neither the claims of interest nor the "tone of the market" can obstruct the disposal of goods. Everyone will be compelled to buy immediately exactly as much as he has sold; and when everyone is under such compulsion there can be no surplus. If anyone has no further need of goods he will either cease working or he will lend his money-surplus to others who require more goods than they themselves have sold at the moment. If competition in some commodity is too great (sugar-beet, pig-iron, dancing lessons) its price will fall; and if production at the reduced price does not pay, everyone will know what to do.

What used to happen before? The merchant had to pay interest for his money, so he purchased goods dependent on the exaction of interest. If the situation made it impossible for him to add the interest to the selling price of the goods, he stopped sales, ceased paying the workers and sent them on forced holidays. No interest, no money; no money, no exchange of goods; no exchange, no work.

Interest was the necessary condition for money to circulate, and employment depended on that very circulation. The Reichsbank itself never issued money without interest, even at times when by universal admission the market was short of money - and this despite the fact that according to its charter the main task of the Reichsbank was to adapt the monetary circulation to the needs of the market. (I do not blame the Reichsbank; not even a god could have done much with the garbled rules and regulations of its charter).

Today the circulation of money has ceased to be conditional. Money means sales of goods, no matter what. Money - sales of goods - employment - money. In all possible circumstances the circuit is closed.

The merchant had, of course, his profit in mind: the selling price had to exceed the purchase price. That was the natural, inevitable and above all fully justified condition for all commercial activity. And the price paid by the merchant or debited to his account was in every case a known and fixed quantity (except for sales by commission), whereas all he could show for the selling price was prospects, possibilities, hopes, in short probability calculus. Such price was always a lottery, and commerce as a whole resembled a gambling table at Monte Carlo. Anything could have happened between purchases and sales.

Before buying anything, the merchant took into consideration the state of the market, trade prospects and home and foreign policies. If he thought that others shared his belief that a general rise in prices was imminent, he hastened to buy, so as to share in the anticipated rise with as large a stock of goods as possible. If he was not mistaken, and in the company of many fellow believers, so that many did buy, that alone was reason enough for the expected to happen, as if it was a sort of divine

revelation: a general price increase. It is clear that if all believe in the coming of higher prices, everybody with money will buy, and when all money reserves are spent for purchases, prices do rise.

This case supplies proof of the doctrine that he who believes in and for himself shall be saved.

The reverse of course was true when everybody began to believe in a general fall in prices. When Müller believed that the merchant class believed that prices would fall, he tried to dispose of his stock of goods. Either he would force their sale, through a price reduction if need be, or he would delay his orders until a more favorable moment. But as his “fellow believers” acted in the same manner, this again was the sole reason for bringing about the very thing they feared. Their belief had bewitched them. For under the gold standard everything that people believed actually happened. Belief reigned supreme. The belief in the coming of higher or lower prices was quite sufficient to turn this belief into a reality!

Belief, mood, and weather reports determined whether money was or was not offered in exchange for goods, whether the workers were having a good time celebrating or whether they were on night-shifts and overtime. On belief! The offer of the whole monetary reserves depended on belief!

Free-Money has changed all this. Money now does not wait to inquire what his possessor believes, or what his mood is. It commands, placing orders of its own.

Having got rid of the belief factor from commerce, and since neither faith, nor hope, nor love of lucre have any effect on the circulation of money, demand is regular. Mercantile hopes and fears are now simply personal matters without any effect on the market. Labor and the demand for goods are no longer on tow of the money power; they are no longer subject to the will of the possessors of money. Money is now demand itself.

It used to be considered a matter of course that the worker should go out “to look for money,” i.e. look for work. Only exceptionally did money go out to look for work.

Money compelled goods, work, to come to it. Nobody protested against this breach of the principle of equal rights; everyone tolerated the privilege of money - probably because the privilege was supposed to be indissolubly bound up with the monetary system. While the worker and the possessor of goods incurred a heavy, daily increasing loss through postponed sales, money produced interest for the potential buyer. So it was natural, perfectly right and self-evident that if buyers tarried, sellers should set out to look for them, and personally urge them into buying!

This view is now no longer self-evident. For the possessor of money feels money burning in his pocket so much that he is compelled to exchange it, just as the worker is compelled by the perishable nature of his power of work (which cannot be stored) to find a buyer for it as speedily as possible. So the possessor of money no longer waits patiently for the possessor of goods (the worker) to seek him out. He rises early, looks about, and goes to meet the goods halfway.

If two people search for one another, they will meet sooner and more surely than when only one is on the lookout for the other. The animal kingdom would be in a sorry plight if the females tried to hide from the males. How would the toad in the pond find his mate if she did not crawl out of the mud at his call?

Formerly, the possessor of money did gain by hiding from the possessor of goods. The duration of the quest made the latter more pliable. He would wait in his dressing gown and bedroom slippers, so as to make it clear that the worker or seller of goods had disturbed him from his slumber and that he was not in a hurry. That is how the buyer met the seller!

Money now in all circumstances goes out to seek the commodities. Money has suddenly become hungry. Its slimming diet has made it nimble and sharpened its hunting instinct. It does not, indeed, have to run after the goods, for the goods do not slink out of sight; they cannot do so. The two meet halfway. But if money finds no goods to buy, it does not wait until chance throws what it wants at its feet; instead it tracks the article to its source: labor.

This is how Free-Money has replaced official insurance against unemployment with an automatic one. Free-Money has become an automatic labor bureau; my 76 000 officials and I have been turned out into the streets. What an irony of fate: the officials of the unemployment insurance office are the only unemployed in the whole Reich!

L. The Proudhonian³¹

With the introduction of Free-Money our entire program has been fulfilled. The goal towards which we had been inching forward has been reached. The perfect exchange of goods that we had hoped to attain by means of complicated, vaguely-conceived institutions such as exchange-banks and co-operative societies, has been attained most simply and easily through Free-Money. Proudhon said: -

In the social order, reciprocity is the formula for justice. Reciprocity is defined in the maxim: Do as you would be done by. Translated into the language of political economy, this means: exchange products for products, buy your products mutually from one another. The social sciences are simply the organizing of mutual relations. Give the social body a perfect circulation, i.e. an exact and regular exchange of products for products, and human solidarity is assured, labor is organized".³²

Proudhon was right, at least as regards the products of labor, though not those of the land. But how could such aim be attained? Proudhon's own proposal turned out to be impracticable. Even on a small scale, a goods bank as conceived by Proudhon was unworkable. How could the whole economy have been organized on these lines?

We should have asked first of all why we failed to buy each other's products, as complete and regular exchange demands. That was the question we should have answered before proposing remedies.

We knew, or suspected, that there was something wrong with metal money; not for nothing had Proudhon called gold "a barrier to the market, a sentinel guarding the gates of the market with orders to let no one pass".³³ But we did not know why things were like that, what was actually wrong with money, and did not investigate. But it was right there that we should have begun our research, with our feet on the ground. That failure led us astray. In raising labor, or its results, the commodities, to the level of cash (gold), Proudhon caught sight of what he thought the solution to the Social Question. But why was it necessary to "raise" goods to a higher level, what was there in gold (monetized at the time) that placed it above the level of labor?

Proudhon's error lay here, in the idea of raising goods to the level of gold. He should have inverted the reasoning and said: "We wish money and goods to circulate on the same level, so that money shall never be preferred to goods. Goods must become money and money goods. Let us therefore debase money to the level of goods."

³¹ [Disciple of Pierre Joseph Proudhon, 1809-1865. His slogan "Property is theft" refers to the property of those who live off the work of others, not to property in general.]

³² Diehl: Proudhon, pp. 43 and 90

³³ Mülberger: Proudhon, seine Werke und sein Leben.

We cannot alter the qualities of goods and endow them with the intrinsic advantages of gold as a commodity. We cannot make dynamite harmless, prevent glass from breaking, iron from rusting, or furs from being eaten by moths. Goods invariably have natural defects: they decay, they are subjected to the destructive agencies of nature. Gold alone is exempt. That is where gold gets the privilege of being money from, and, as money, of being universally acceptable; it could also be conveyed from one place to another without appreciable expense. How, then, could we possibly raise goods to the level of gold?

But we could have proceeded the other way and said: Money is adaptable; we can do with it as we please, since it is indispensable. Let us degrade it then to the level of goods, let us give it qualities that counterbalance the overall qualities of goods".

With the introduction of Free-Money this logical idea has now been put into practice. The result proves, to our joy and satisfaction, how much truth and just observation was contained in Proudhon's pithy phrases, and how narrowly he missed the solution of the problem.

With the money reform, money has been debased to the level of goods, and the result is that goods are in all circumstances equal to money. "Buy your products from one another", said Proudhon, "if you wish to find markets and employment". That is now done. Demand and supply have been welded into one by the new money, just as they were when exchanges were effected by barter; for everyone who in barter times brought goods to market took other goods home. So there was always as much produce going out as coming in. With Free-Money the purchaser's money is converted into goods by their sale: a supply of produce causes a demand for the same amount. The seller, who is pleased to be rid of what he has to dispose of, finds himself compelled by the nature of his money to put into circulation again the money yielded by his sale, either by purchasing commodities for his own consumption, or by building a house, or by giving a better education his children, by improving his livestock and so forth. If he is not attracted by any of these possibilities, he lends the money to others who need goods, but who have no money for the time being. Other expedients, such as hoarding the money; or making the loan of it dependent on interest; or purchasing goods only on condition that they yield a profit; or waiting for better prospects, are no longer feasible. Formerly you were compelled to sell by the nature of your products; now you are compelled to buy by the nature of your money; there is no alternative. In rapid succession, compulsorily, purchase now follows sale, and money passes from hand to hand. In good times and in bad, in victory and in defeat, money pursues its orbit through the market as steadily as the earth revolves around the Sun. Demand now appears as regularly in the market as labor in search of employment or goods in search of a buyer.

Buyers at first, indeed, complained about being compelled to get rid of their money. They called this compulsion a restriction of their liberty, an attack upon property. But everything depends on what you mean by money. The State decrees that money is a public means of commercial intercourse and manages it solely in the interest of the exchange of goods. Such interest demands that the sale of goods shall immediately be succeeded by an equivalent purchase of goods. But experience proved that the mere wish that everyone should, on personal initiative and for the benefit of all, at once put into circulation the money they received, was not enticing enough to ensure a regular monetary circulation, so it was necessary to compel money to circulate. This was done, and the goal attained.

Anyone unwilling to be deprived of the liberty of dealing with his property at his own leisure may, if he prefers, keep his produce, his undoubted property, at home, and sell it only when he needs to buy other products. If he prefers to keep hay, lime, trousers, tobacco-pipes, or whatever his produce may be, rather than to sell it in

advance for Free-Money, he is at liberty to do so; no one will prevent him, and nobody will complain. But if through the agency of money he has been relieved of the burden of his own goods, he must remember the duties he has assumed as a seller and as a possessor of money; he must allow others to benefit from the circulation of money. For the exchange of goods is based on reciprocity.

Money must not play the role of waiting room in the exchange of goods; its role is transitory. The State prints money at public expense and watches to prevent any abuse of this medium of exchange by others for purposes alien to the exchange of goods. Now it is not just that money should be circulated gratis by the State, for the cost has to be paid out of public funds, and many citizens make little use of money. That is why the State levies an annual duty of 5% on the use of money. In this manner the State ensures that money is not misused for speculation, exploitation, or as a medium of saving. Only those who really need money, the medium of exchange, namely those who produce goods and wish to exchange them for other goods, now make use of it. For all other purposes it has become too expensive. Above all the instrument of exchange is now rigorously separated from the instrument of saving.

What the money reform demands of the one who has sold his goods is mere justice: "Buy goods now, that others may get rid of theirs." This demand is not only cheap; it is also wise, for a man must sell his own goods to be able to buy other goods. Buy, therefore, that you may be able to sell all your own products. If I want to be a lord as a buyer, I must be a slave as a seller. Without purchase, there is no sale; and without sale, no purchase.

Buying and selling together make up the exchange of goods; they are, therefore, parts of a whole. With metal money, purchase and sale were often separated by a time lag; with Free-Money they coincide in time and space. Metal money used to separate goods by inserting between sale and purchase an interval of time, interested delay, greed for gain and a thousand other forces external to the exchange; Free-Money, on the contrary, brings goods together by making purchase follow close upon sale and by not allowing time or space for external forces to intervene. Metal money, according to Proudhon's dictum, repeatedly quoted in this book, was a barrier to the market; Free-Money is the key.

M. The Interest Theorist

Free-Money has destroyed my entire intellectual capital. My finest theories have been heaped in the junkyard by this hateful innovation. For behold interest, which since the dawn of history had always remained at the same level, has now, in utter disregard of all my theories, started on its plunge towards zero. And those interest-free loans, which had always appeared to me as mere utopian dreams, are now considered not only possible, but also probable. Interest-free loans! The end of capital! Money, machinery, housing, factories, goods, raw materials are no longer capital!

I must confess that everything swims before my eyes!

The convincing "theory of utility", the attractive "theory of fructification", the inflammatory "exploitation theory", the petty bourgeois, but popular "abstinence theory",³⁴ and whatever else I used to call them, have all, but all, been shattered by the advent of Free-Money.

³⁴ This terminology is from Boehm-Bawerk's treatise on interest. Irving Fisher's "Impatience Theory" belongs to the abstinence theories of interest.

It seemed natural, obvious, and indeed inevitable, that the lender of an instrument of production should be able to secure interest for this "service". Yet interest is falling to zero, and capitalists (if they may still be so called) are delighted when anybody consents to borrow their money with no other condition than simply returning the sum borrowed. They say that competition has increased to such an extent that it is more advantageous for them to lend the money in this way than to keep it at home as a reserve for future use. For at home part of the money would annually be lost through depreciation. It is much better therefore to lend it even at no interest, on a mortgage or a bill of exchange convertible into ready money again, by selling or discounting, whenever anyone requires ready money. One gets no interest, true, but neither does one lose from depreciation.

Interest-free loans are now an advantage not only to the borrower, but also to the lender. Who ever imagined such a possibility? Yet now it has come true, for what is the saver to do? A man saves for the future, for old age, for a pilgrimage to Jerusalem, for hard times, for marriage, for illness, for his children and so forth. But what is he to do with his savings in the meantime, until he needs them?

If he buys cloth, foodstuffs, wood, etc., and stores them, he is no better off than if he keeps Free-Money, for all such stores are subjected to rust, rot and decay. It may here be objected that gold and precious stones may be kept indefinitely without deterioration, but what would happen if this form of saving became general? How high would the price of these things soar in good years, when everybody saves; how low would it drop when, after bad harvests or in wartime, the savings (that is, gold and precious stones) were brought to market in large quantities? Precious stones are the thing that people buy last and sell first. The experiment would not be repeated; this form of saving would be a deplorable failure. (The same is true of wine, which is said to become better and more valuable the longer it is kept).

It is surely more advantageous to invest one's savings in bonds. Government securities, bills of exchange and so forth now yield no interest, but are always convertible into ready cash without loss.

It may be asked, why not build houses instead, or buy industrial shares? And people do buy and build houses, although houses have also ceased to yield interest. They are satisfied with the sums written off annually for depreciation, which tenants pay as rent. This form of investment is sometimes even more advantageous than the purchase of Government securities, as it gives a regular return keeping pace with the depreciation of the house (factory, machinery, ship, etc.), yet leaves the piece of property in the lender's hands. That is why so much building is taking place despite the fact that rents are only just sufficient to pay for repairs, depreciation, taxes and fire-insurance. And that is why houses are considered a good way of saving!

I must confess that I feel the ground shake under my feet. I cannot grasp that one can still build houses to let, though expecting to obtain as rent merely the repayment of amortization. For it used to be considered a scientifically established fact that money bore interest only because the means of production bore interest, that the interest-bearing power of money was fundamentally a transferred, or borrowed, power. And it now seems that the reverse is true, for how else could a monetary reform have influenced interest?

As a matter of fact it was more than rash to say that money yielded interest because it could be used to buy instruments of production that yielded interest. This failed to explain why instruments of production yielding interest are sold for money declared to be barren. Does an ox give milk when you barter it for a cow?

Catchwords were evident substitutes for clear thinking. It is nonsense to talk of "transferred" and "borrowed" qualities; such transfer of qualities and forces is just

as impossible in economics as in chemistry. If money had no intrinsic power to levy interest, where did the revenue derived from the issue of paper money come from?

If money was unable by its own power to levy interest, interest-bearing instruments of production and barren money would be incommensurable quantities, things not admitting of comparison and therefore not exchangeable. There are many things that cannot be bought with money.

And what price was paid for a piece of land yielding a rent of 1 000? The calculation was that if 100 bore 5 interest, the price of the land was as many times 100 as 5 is contained into 1000. But how did this 5% come into being? Here is the catch!

There can be no question of a transferred power; the interest-bearing power of money must have been an intrinsic property of it. But where was this property hidden? Formerly it would have been difficult to discover, but with Free-Money as an object of comparison the difficulty disappears. Since Free-Money has manifestly lost its interest-bearing property, we need only investigate wherein the two forms of money differ in order to lay bare the source of interest. Free-Money differs from the traditional form of money in being subject to an intrinsic compulsion to be offered in exchange for goods, whereas the traditional form of money was under no such compulsion. Here then, in the absolute liberty of the possessor of metal money to offer his property for exchange whenever he pleased, in the arbitrary power of capitalists and savers who controlled the supply of money, we have to look for the ultimate source of interest.

And in truth, we don't have to look further.

Money is admittedly indispensable for commerce, for the exchange of the products of the division of labor. What do the manufacturers do when they cannot sell their products for money? Does the cabinet-maker sleep in his coffins, or the farmer eat all his potatoes? Not at all; they try to sell by reducing their prices, they all try to attract money by lowering their claims. When capitalists and savers withdraw money from circulation and return it only if promised interest, they obviously find the ground well prepared: the possessors of goods are ready to surrender part of their produce in exchange for money. "You want money for the mutual exchange of your products, but this money is locked up in our safes. If you are willing to pay us something for its use (interest), 4% annually, you may have it, otherwise we shall turn the key and you must make do without it. Interest is our condition. Think about it; we can wait, we are not compelled by the nature of our money to use it."

Clearly it depends on the owners of money whether commerce is to carry on with or without money. At the same time the State makes the use of money inevitable by levying taxes in it. Hence the owners of money can always extort interest. A parallel would be a bridge over a river cutting the market into two, and guarded by a toll gate keeper. Because the bridge is indispensable for traffic between the two halves of the market, and because the toll gate keeper can close or open it, he is in a position to levy a toll on all the goods in the market.

Interest was a toll that the makers of goods were forced to pay to the owners of money for the use of the means of exchange. No interest = no money; no money = no exchange of goods; no exchange = no work; no work = hunger. Rather than starve, the producers of goods paid interest.

The interest-bearing power of money was not a "borrowed" or "transferred" power. It was a quality of metal money due, ultimately, to the fact that to manufacture money a material had been chosen that held a privileged place over the other products of the earth, since it may be kept indefinitely without injury and without expense, whereas all the other products of human industry deteriorate, become antiquated and expensive to store.

This explains why people exchanged a field for a sum of money; both the field and the money, each by its own power, yield rent. In order to establish the exchange rate of the two, it was only necessary to calculate the sum of money that would produce interest equal to the rent of the field. The field and the money were perfectly commensurable objects. There was no question that money should have a "borrowed" or "transferred" power to exact interest; equally there was no question that land should have a "borrowed" or "transferred" power to exact rent.

That hackneyed and meaningless phrase about "transferred power" of money had played a bad trick on me; an empty phrase, so often repeated in place of a clear idea, was leading me around like a bull led by a ring on his nose.

Money, the medium of exchange, functioned as capital!

Let us briefly consider what must happen if we elevate a species of capital to be the means of exchange for all commodities.

1. Money can function as capital only at the expense of commodities, for money levies the toll that allows it to function as capital only on the commodities.
2. If commodities have to pay interest, they cannot possibly be capital themselves, for if both commodities and money were capital, they could not do so reciprocally. At least in their mutual relation they could not be capital.
3. If commodities seem to us capital in commerce, it is because their selling price, besides the cost price and commercial profit, includes interest on capital. The explanation is that the merchant has already deducted this interest either from the producer's or the worker's remuneration, and added it to the selling price. The commodities here merely play the part of bank messengers for money capital. If the selling price is 10, commercial profit 3, and interest 1, the producer receives 6.

From this it follows that if the medium of exchange, money, was not itself a form of capital, the whole exchange of goods would be transacted without any interest. That is what Proudhon always maintained, and it seems that he was right.

Let us now consider the effect of a medium of exchange, itself capital, upon the creation of the instruments of production.

How did the means of production (machinery, ships, raw materials and so forth) come into existence? Does a man still make his own means of production out of raw materials found on his land? That may happen exceptionally every now and then, but the general rule is that instruments of production have to be bought and paid for with sums of money. The foundation capital, for all enterprises of any magnitude, is a sum of money entered on the first page of the ledger. Now if this money, used to buy instruments of production, is itself capital, if the owners of the money, by merely locking it up, can prevent the creation of an enterprise, it is clear that they will not advance any money for enterprises that yield no interest. If I can obtain 5% on my money from the purchase and sale of commodities, I am obviously not going to be satisfied with any less in their manufacture. If I can collect ore at the surface I shall not sink a pit shaft.

It follows that the number of houses built is limited by the fact that rents must stay high enough to include interest—the tribute that money can exact. If houses were to be built in excess of demand, rents would fall and the houses would not yield the interest required. Whereupon workers in the building trade are sacked, and house building is suspended, until an increase in population raises the demand for houses to the point where rents again yield the full interest demanded by money. Only then can the building trade make a fresh start.

It is exactly the same with industry. When plants have become so many that the demand for labor they incorporate forces up wages to a point at which the employer is no longer able to squeeze capital-interest out of the sale of the product, the founding of new enterprises is interrupted - until the increase in the supply of workers, and therefore of labor, reduces wages and allows for the levying of interest.

The means of production appear to us as capital simply because they are created by money capital, and because money capital artificially limits their creation so as to privilege them in respect of the workers. There are always fewer instruments of production than workers, and the surplus of workers resulting from the shortage of factories depresses wages below the full fruits of labor.

The picture becomes still clearer if we take the employer merely to be a pawnbroker advancing the necessary money to the worker for machinery and raw materials and being repaid by the worker's produce.

Money, formerly, absolutely controlled the exchange of goods and the making of the means of production. Everything paid tribute to it. It wedged itself between consumer and producer, between workman and employer, separating those naturally called to stay united, and exploited the resulting embarrassment. Its booty was called interest.

Now I understand clearly why with Free-Money the rate of interest is falling and it is about to approach zero.

Money can no longer be withheld from the market. Regardless of interest it must be put into circulation, either directly in exchange for goods, or indirectly as a loan. It cannot wedge itself between producers and separate them. Without regard for individual wishes and despite its predatory nature, it is forced to carry out its function and act as the medium for the exchange of goods. Money no longer acts as a robber baron³⁵ lording it over the exchange of commodities; it now serves exchange as its unpaid servant.

Commodities are now no longer excluded from the market and workers sacked as soon as the rate of interest falls; the exchange of goods proceeds unhampered, regardless of interest.

Where work proceeds regularly, people save. Immense sums are saved and carried to the banks to be offered as loans. And this continues year after year, since no economic crisis forces workers to live off their savings. Time must come when there is no more demand for the money offered for loan by the savings banks. Borrowers will say: "We have built so many houses that we cannot find tenants for them; we have built so many factories that we cannot find workmen for them. Why continue to build when even now we find it hard to pay interest?"

The savings banks will answer: We cannot leave our money idle and we cannot store it. Free-Money forces us to get rid of it. We do not insist on 5, 4, or 3 %. We can negotiate. If we let you have the money at 2, 1 or even 0%, you can reduce your rents accordingly, so that those who were satisfied with one room will rent two, and those who rented five will want ten. You will then be able to build more houses. There is real need of houses; it is only a matter of price. So take the money at 2% if 3% is now more than you can pay. Build away, reduce your rents; you cannot suffer any loss, for we shall provide you with correspondingly cheaper loans. There is no fear that either you or we shall ever be short of money, for the more we reduce the rate of interest and you reduce the rents, the larger will be the sums that the savers will put by and pass on to us. Nor is there any fear that this great quantity of money

³⁵ [The robber barons made use of their castles as centres of power from where they preyed on traders passing near their domains. The coming of artillery (with Isabel of Spain and Rudolf of Absburg) put an end to their robberies by destroying their castles.]

will force up prices, for every penny of it has previously been withdrawn from circulation; the volume of money has remained unchanged. Those who save have produced more, while they buy only what they need; therefore there is a surplus of goods corresponding to the sums we lend you.

Take the money, therefore, without anxiety. If the interest yielded by your houses falls, we shall follow suit with our money interest, even if interest should be thereby depressed to zero. We must lend money even at 0% interest. Understand: we must!³⁶

But we are not alone in finding ourselves under compulsion; you are too. For if you attempt to raise the rent of the existing houses, and reject our offer, we shall point out to you that there are other builders without houses who are not bound by such considerations. We shall lend them the money for building, and new houses will be built, whether you like it or not.

It is the same with industry. With money at 0%, no employer can extract interest from his enterprise, either by reducing wages or by increasing prices. For such is the law of competition.³⁷

N. The Crisis Theorist

Free-Money has injured me quite as much as it injured my colleague, the interest theorist; it has reduced my whole gamut of theories to waste paper.

It seemed so plausible that a period of growth should be succeeded by a period of decay. It is so in nature, and it must be so in economic life, since man and everything he makes are part of nature. The anthill and the hive are products of nature, so the economic system of men and nations must be the same. Man grows and passes away; why should not economic life, after a period of growth, end in dissolution? Ruin overtook the Roman Empire; therefore ruin must overtake the economic life of all other nations periodically every couple of years in the form of a great crisis. Just as winter succeeds summer, so a crash must succeed a boom.

Wasn't it a beautiful theory, worth a poem? How simple it was to explain the intricate problem of unemployment! And a theory must be simple; all the light of our science must be focused on one single point, for it to break through the thick smoke of tobacco and the fumes of beer. Small children need no theories, only lullabies.

The theory of crises served us well: following "speculative buying" prices increased, the economy reached "white heat" in all fields; overtime and nightshifts took care of the increased demand; and wages rapidly rose. Naturally it was an "unhealthy greenhouse growth," which sooner or later had to end in a crash. And the crash, and with it the crisis, came. Naturally, demand fell short of such enormous output; and with demand failing, prices fell. Prices fell without exception for the products of industry, agriculture, mining and forestry. The whole structure of speculation came down with a crash. The greedy workers with their overtime had absorbed the whole "Wage-Fund." That's why there was no more work, and why workers went cold and hungry next to mountains of bread and clothes!

How convincing the classical Malthusian theory of crisis sounded; not for nothing it had found so many enthusiastic followers! "The only use you could make of prosperity was to get married; you increased your miserable race beyond the limits

³⁶ [Such huge sums of money, diverted to public offices, could finance first class public works beyond number.]

³⁷ The reader will find the theory of interest more fully presented in the last part of this book.)

of decency. Wherever one looks, one sees baby linen, nappies and cradles. The streets swarm with your children; schools look like rabbit warrens. Now your own children have grown up to crowd you out of your jobs and reduce your wages. Lower wages mean falling prices; falling prices turn businesses into losing ventures and nip the spirit of enterprise in the bud.

Procreation is a sin as such, it is the forbidden fruit; it is blotted with original sin, but it is doubly sinful for you poor devils.

Abstain then, leave breeding to the heathen, send your daughters to nunneries, and we shall no longer have excess workers to take on the available work.³⁸ With wages rising, prices will also rise and stimulate enterprise. Be moderate in all things, my friends, in producing goods as well as in producing children, otherwise we shall have overproduction of both goods and consumers!"

Then there was the newest theory, my one show-piece. Consumption falls short of production because wealth accumulates in comparatively few hands, so that there is a disproportion between purchasing and producing power. The result is a glut of unsealable goods in the market, a fall in prices, unemployment, depression and crisis. The rich are unable to consume the whole of their income, and the workers have no income to consume. Were incomes equitably distributed, consumption would keep pace with production, thus averting crises.

How plausible all of this sounded! It went very well with sound, noise and smoke. It is useless to appeal to the intelligence of a crowd bottle-fed with adulterated food and beer and crushed by so many cares. They could not absorb the shock.

And so I had a theory of crisis for every level of society and every taste. If, occasionally, I ran into serious objections, I had recourse to my reserve theory connecting crises with the currency. It was enough to say "currency" to silence the objectors.

"Enough, enough," they cried, "We know what Bamberger says, that next to love the money question causes most people to go mad, and we have no wish to risk a dangerous overburdening of our brains for the sake of a theory of economic crises!"

Yet this was comparatively the simplest and soundest of all my theories. Commodities, I argued, are almost exclusively disposed of by way of commerce and merchants. But merchants do not buy commodities unless they expect to sell them at a profit. The prospective selling price must be higher than the purchase price asked by the worker or manufacturer. So if prices tend to fall, the merchant is unable to estimate how much he ought to pay, while the manufacturer cannot, short of incurring an actual loss, reduce his offer below cost price. With the consumer the case is different. He buys, paying the asking price. He rejoices when prices fall and is chagrined when they rise; his income is the only limit to what he can afford. The merchant, on the contrary, must sell at a price above the purchase price. He does not know whether he can get it. His selling price is uncertain, whereas the purchase price is a definite quantity at the striking of the bargain.

When prices are generally stable, or better, rising, all is well. Sales will in all probability cover and exceed the outlay. The merchant is safe in placing orders. But when prices fall, and keep on falling, 1, 2, 5, 10, 20, or 30%, as we often observe, the merchant has no foothold, so the only reasonable thing to do, as a prudent man, is to wait. For the merchant cannot calculate his selling price on the basis of his outlay; he has to make an estimate of the price he hopes to get. And if prices fall between purchase and sale, he is forced to reduce his selling price and incur a loss. The safest

³⁸ [In 1729, 70 years before Malthus' famous essay, Jonathan Swift had published his heavily ironical *Modest Proposal*: solve the problem of Irish "overpopulation" by serving the babies of the poor as dainties at the table of the rich.]

thing to do in times of falling prices is to postpone orders. Let us not forget that the merchant's motive power is not the need for commodities but the hope of profit.

Postponing the merchant's usual orders means stopping the manufacturer's sales. But manufacturers are, as a rule, dependent on the regular disposal of their output. They could not store bulky or perishable goods. The stopping of sales compelled them, therefore, to sack workers.

With employment and wages failing, the workers in turn were unable to buy, and prices fell still lower. The initial decline of prices had created a vicious circle.

The moral of the story was that we must prevent prices from falling by issuing more money. Thus there will always be sufficient money to buy commodities, and merchants, aware of the large cash reserves of banks and private individuals, will never be alarmed at the prospect of a shortage of money and a slump in prices.

That meant either a bimetallic standard, or paper money.

At bottom none of these theories satisfied me. The first, which looks upon the crisis as a kind of natural phenomenon, is too crude to need refutation. The second, making speculation responsible for the crisis, does not investigate whether the hoards of money by private individuals and professional speculators, without which speculation is impossible, are not the real cause of the crisis. What is the use of setting up a Central Bank of Issue and granting it a monopoly of the issue of banknotes for the purpose of "adapting the monetary circulation to the needs of the market", if despite the bank and its monopoly "speculation" can decide to force up prices whenever it pleases? And as this theory overlooks that aspect of the question, it falls into the error of expressing pious wishes instead of serious arguments. All it has to recommend, as protection against crises, is to exhort speculators to abstain from speculating.

This same theory does not, moreover, consider the real motive behind "feverish activity, overtime and night shifts". For without this speeding up of labor all speculation would be doomed to failure. Why should a manufacturer propose overtime to his workers if they replied that they didn't need it? So if, at present, the workers are willing to enter into "feverish activity", it is because they have urgent wants, which they expect to satisfy with overtime wages. And if demand is as keen as supply, how can a crisis occur? Speculation, which induces money reserves to seek a market, accounts only for the general rise in prices, but does not explain why consumption fails to keep pace with production, or why sales should fall off with dramatic suddenness.

Failure to explain why consumption and production do not, as a rule, balance out, is the weak point common to all my theories; but the question that cries loudest for an answer is that of the third theory, over-population. That overproduction should result from over-population, advanced as the cause of the crisis, is like saying that excessively large loaves of bread cause excessive hunger!³⁹ The absurdity of such an argument becomes apparent if we keep in mind that commodities are produced for exchange, and that the hungry workers are both willing and able to give their products in exchange for the ones they need. If it were merely a question of over-production of some special kind of goods, say coffins, no explanation would be necessary; but there is too much of all products, agricultural as well as industrial.

The theory that attributes the crisis to deficient consumption resulting from an unequal distribution of income is also unsatisfactory, for it fails to explain why sales go sky-high at one moment and then drop to earth the next; or why a constant and latent cause (in our case unequal distribution of incomes) should have such an acute

³⁹ [It would be interesting to know why this theory is still palmed off to African peoples in the 21st century.]

and sudden effect (boom and slump). Had the uneven distribution of income been the cause, the crisis must necessarily have manifested itself as an uninterrupted, latent condition, as a constant, unchanging surplus of labor; but that is the direct opposite of what one observes.

Even the assumption that the incomes of the wealthy classes generally exceeded their personal wants is erroneous, as was proved by the debts of landowners great and small, and their clamor for State protection. Wants have no limit; they are infinite. The wants of the weavers in the Eulengebirge⁴⁰ were surely not satisfied with the potato parings that fell to their lot, just as the American kings⁴¹ were not satisfied with the ducal dignities they bought for their daughters for billions.

They reached out for the German imperial crown, piling million upon million, toiling day and night, reducing their own standard of living, not to mention their workers', to obtain it. Had they obtained it, a small, black priest would have appeared telling them that earthly crowns are perishable that they must still toil and save, to bequeath billions to the Church so as to be assured of entry in God's kingdom.

Between potato parings and the church treasury there extends an ocean of wants large enough to engulf the maximum that humankind can produce. No man is so rich as not to be bent on growing still richer. On the contrary, the greed for gain develops with every successful gain. The mighty fortunes of our epoch could never have been formed if after reaching the first million their possessors had said: "We have enough, let others now have a chance." No rich man ever allowed his surplus to lie idle as long as there was a prospect of a profitable investment. Interest, no doubt, was the essential condition for the lending of the capitalist's money, but in this respect the richest in the land acted no differently from the meanest saver of pennies. No interest, no money, was the watchword all down the line. All of them made the lending of money dependent on interest. Had we even leveled all incomes, it would not have altered the fact that the money-saver, the man who produced and sold more goods than he consumed, would not have put his money surplus into circulation until he was assured of interest. Thus the activity of the savers necessarily brought about an excess of commodities, stagnation of the markets and unemployment as soon as commerce and industry ceased to yield interest. The cause of the crisis lay in the fact that capitalists refused to invest their money unless they obtained interest, and that when the supply of houses, industrial plant and other instruments of production passed a certain limit, the rate of interest fell below the minimum yield necessary to pay interest on the money invested in them. (Competition among house-owners in respect of tenants has the same effect as competition among the owners of industrial enterprises in respect of workers: it reduces the rate of interest. In the one case it diminishes rent, in the other it raises wages). As soon as this point was reached employers were no longer able to pay the interest demanded of them, and capitalists had no motive to lend their money free of charge.

They preferred to wait for the crisis, which could be counted on to "ease" the situation and to restore the normal rate of interest. They found it advantageous to give up all interest for a short time in order to make sure of a higher rate, rather than immobilize their money in a long-term investment at a low rate. A certain minimum rate could always be extorted merely by waiting.

So neither the disproportion between the income and consumption of the wealthy classes, nor that between the purchasing power and the producing power of the workers can be regarded as the true cause of industrial crises.

⁴⁰ [Region of the Rhine-Palatinate, between Bonn and Coblenz.]

⁴¹ [American multimillionaires were dubbed "kings" in Gesell's time. The terminology is out of fashion.]

The last theory, connecting the crisis with the currency, came closest to the truth.

It is obvious that as long as prices fall and goods can be sold only at a loss, no one thinks of creating new enterprises or enlarging existing ones; no merchant places orders if forced to sell below cost; and that in these circumstances a crisis is unavoidable. But this theory answered the question with new questions. It was right in stating that a crisis is equivalent to a general fall in prices, but it failed to provide a satisfactory answer to the question why prices fell. It did indeed trace the fall of prices to a shortage of money, and hence proposed as remedy an increased issue of money (bimetallic or paper-money); but proof was lacking that with, or after, the increase of the stock of money, the supply of this money would adapt itself to the supply of goods, and more specially that money would be supplied to the market without sufficient interest. And that, when all is said and done, is the issue.

This point was not altogether overlooked; it was proposed to dissociate the currency from any metal by abolishing the right of free coinage of silver and gold, so that the issue of money (not its supply) might be regulated; more money being issued when prices fell and less when prices rose. It was supposed that by this simple method the supply of money could always match the demand.

Luckily for us this proposal was not put into practice, for it would have proved a failure. Its authors mistook a stock of money for its supply, believing, as they did, that because a large stock of potatoes means an equally large supply of potatoes, it must be the same with money. But that is by no means true. The supply of potatoes or any other commodity corresponds exactly to its quantity, because of the heavy storage costs. Had the traditional form of money resembled the general run of commodities, had it not been possible to hoard metal money at no cost, the supply of money might reasonably have been estimated by its stock. But that, as we know, was not so. The supply of money depended absolutely on the will of its owners. Not one pfennig was put in circulation commercially or financially as long as no interest could be obtained. No interest, no money, even with a stock of it 100 times greater.

Now suppose that such reform, i.e. issuing paper money, had achieved its purpose, namely preventing crises, chronic or acute.

The building of housing, of industrial plant, etc., would have reached such a high pitch, that such things would have failed to yield the customary interest. Whereupon the old merry-go-round would have started again; money savers and capitalists would have opposed a reduction of the rate of interest, and employers of labor would have been unable to pay the old rate. Thousands of years of experience have taught the owners of money that their money will fetch 3 - 4 or 5%, according to the investment, and that to obtain this rate of interest all they need to do is wait. So they would have waited.

But as the owners of money waited, demand for goods would fail, and prices fall. This in turn would have alarmed commerce, which, uncertain about the future, would cancel orders.

And so we would have faced slump, unemployment and crisis once more, despite the increased quantity of money.

It was indeed proposed that in such cases the State should intervene by lending money to employers at a lower rate or, if need be, interest-free. Thus the State would have replaced the money withdrawn from circulation by savers and capitalists. But what would this have led to? On the one hand, to the capitalists' useless heaps of paper-money, and on the other, corresponding heaps, in the national treasuries, of long-term bills of exchange, and of non-redeemable bonds. Just what the entrepreneurs needed!

The hoards of paper money by private individuals (all private fortunes finally assuming that form) might any day have been set in motion by some trivial event, and this money, being only redeemable in the market in exchange for goods, would suddenly have become a demand of enormous proportion, with the State powerless to control it with its bonds and long-term bills. Inflation would have soared sky-high.⁴²

Fortunately we escaped this peril by introducing Free-Money, for the disastrous failure of the partial reform would of course have been used as an argument against paper-money, and we should have relapsed, perhaps for centuries, into the barbarity of metal money.⁴³

Free-Money makes the supply of money independent of all conditions; the exact quantity of money issued by the State is supplied to the market. What was always believed, namely that the supply of money, like the supply of potatoes, must always be equal to the stock, has for the first time become reality. The supply of money no longer runs an independent course; it has ceased to be an arbitrary act; it is no longer influenced by human wishes or volition. The quantity theory now holds good, even in its crudest form.

How can a crisis occur in such circumstances? Even if the rate of interest fell below zero, money would go on being supplied; and should prices tend to fall, the State would raise them again simply by increasing the stock of money. The supply of money will in all circumstances balance the supply of goods.

Now if Free-Money does indeed prevent crises, we shall pinpoint the cause of the crisis by taking a look at the difference between the old form of money and Free-Money. The point lies in the difference between the motives controlling the supply of money now, and the motives controlling it formerly.

Interest was formerly the essential and obvious condition for money to circulate; money is now supplied at no interest.

Formerly a general fall in prices, set in motion by lack of circulating medium, led to the withdrawal of money from the market, since no one bought, or could buy, without loss. Thus a general fall in prices frequently developed into a frantic universal scramble for ready money, which inevitably precipitated prices down to the lowest level. Today money is supplied regardless of circumstances.

With a general rise in prices, following an abundance of money, all private reserves of money sought a market, because everyone was anxious to participate in the generally expected further rise with as large as possible a stock of goods or of industrial shares. This made the expected rise inevitable, forcing up prices to the very highest level attainable by the unleashing of all private hoards of money. Today prices cannot rise at all, because private money hoards no longer exist.

Guesswork, public opinion, rumor, true or tendentiously false news, very often merely the frown or smile of a sovereign, determined how much money should be supplied to the market and whether a capitalist should or should not buy commodities. If good weather coincided with the good digestion of the "leading" stockjobbers and with some well palmed-off rumors, the "tone" of the market changed, and yesterday's sellers became today's buyers. The supply of money was a straw blown by the wind. And consider the haphazard fashion of how money was produced! If the diggers found gold, fine; if they didn't, we had to do without. Throughout the Middle Ages down to the discovery of America, European commerce had to be conducted with the

⁴² [This is exactly what has happened since Bretton Woods. Keynes recommended precisely this wrong solution, and it was accepted. The result is a financial bubble of 150 trillion dollars, which could trigger the scenario described by Gesell any day.]

⁴³ [The article cited in Note 1, the mountains of gold ingots in bank vaults, the feverish quest for gold mines, and the siren song of the World Gold Council make one suspect that we are headed precisely in this wrong direction. We shall see.]

stock of gold and silver inherited from the Romans, because all the mines then known were exhausted. Trade and traffic shrank to a minimum, since the dearth of medium of exchange did not permit the division of labor. Since that time much gold and silver have been discovered; but what irregular discoveries! There were "finds" in the fullest sense of the term.

Added to these fluctuating discoveries of gold were fluctuations in the currency policies of various countries, which at times introduced the gold standard by borrowing foreign gold (Italy, Russia, Japan), thus withdrawing immense quantities of gold from the markets, and at times reverted to a paper standard thrusting their gold back onto foreign markets.

The supply of money was thus the shuttlecock of the most varied and conflicting circumstances. That was the difference between the former monetary system and Free-Money. The cause of economic crises is to be sought in this difference.

O. The Value Theorist

This section, which in Part Three takes a good number of pages, I have sacrificed to the altar of lack of space. I am relieved to think that such theory is no longer held by anyone, that it has been declared dead and buried.⁴⁴ It is now time to build. We had let ourselves be fooled by a false economic theory, until finding the right one. The theory of value stands no longer in the way. It wanders aimlessly in the cemetery of human errors: an exceedingly strange object for economic historians, and a heap of rubble and refuse for the builders of the State of the future. – The Author.

P. The Wage Theorist

Now that railways, steam navigation and the right of laborers to free movement have placed vast tracts of fertile soil in America, Asia, Africa and Australia at their disposal; now that the growth of personal credit (result of higher moral and educational standards and enlightened commercial legislation) has made capital accessible to the workers, the "iron law" of wages no longer holds good.⁴⁵

The laborer is no longer delivered over to the tender mercy of the landowner; he can break away from serfdom and shake the dust of his native land from his feet. The land monopoly has been broken. Millions of workers have sought freedom by emigration, and the landowners are compelled to treat those who remain as free men. The possibility of migrating has set them all free.

I was forced to abandon the iron law of wages. The facts disproved me. According to Moleschott⁴⁶ and Liebig⁴⁷ the quantities of nitrates and carbohydrates necessary for a man working twelve hours a day are contained in half a liter of fish-oil and four kilograms of broad beans. These substances cost together 17 pfennig. Adding

⁴⁴ [What would Gesell have said on reading the article of 28th February 2004 in *The Economist*?]

⁴⁵ [Gesell could not have imagined the restrictions of personal freedom following the two world wars. One example will be enough: in 1912-13 it was possible for a Russian university student to enrol in the faculties of medicine of Moscow and of Edinburgh at one and the same time. One university accepted the results of the other as a matter of routine.]

⁴⁶ [Jacob, 1822-1893. Physiologist and philosopher. He taught at the University of Rome in 1879-1893. He held that phosphorus stimulates thinking.]

⁴⁷ [Justus von, 1803-1873. We owe him the theory and practice of the artificial fertilizers, and the accompanying tastelessness of agricultural produce, to say nothing of food deficiencies.]

three pfennig for potato parings, clothing, housing and religious needs, the total comes to 20 pfennig. This, then, was the iron limit above which wages could not rise. But wages were higher, so the law of the iron wage was a fallacy.

I tried to evade this difficulty. I said: the iron wage is the minimum required for the worker to live and procreate at the level of his cultural standard (minimum cultural standard of existence). But this generalization was meaningless, and did not carry me far. How could a worker fed on pork stew and broad beans attain a cultural standard at all? How could the rogue escape from his well-guarded compound? And further, what is culture, what is a minimum standard of existence? Fish-oil and broad beans are a Christmas treat for the Eulengebirge weavers. Such elastic terminology is scientifically useless. According to many people (nature lovers, cynics and so forth) a life without material needs is a sign of the highest culture, so that the standard of living corresponding to the iron wage should diminish with increasing culture. Are the weavers in the Eulengebirge less cultured than the obese people who begin their day with a morning drink and look more like pigs than human beings? If not, it is not true that wages rise with the number of tankards or the quality of tobacco.

The Minister of Commerce Möller in the Prussian Diet stated that the average wages of the miners in the Ruhr district were as follows:

(Marks) 1900: 4.80
1901: 4.07
1902: 3.82
1903: 3.88
1904: 3.91

Wages fell by 25% within three years! Did the needs of the miners also fall by 25% in this short period?⁴⁸ Or did they lapse into the barbarity of teetotalism? Teetotalers manage with less money, which would be an excellent reason for further reducing the minimum wage to the level of the cultural standard of total abstinence. But here the question arises why our rulers do not support the abstinence movement more than they do. Were it possible by means of total abstinence to reduce wages in favor of rentiers, the manufacture and sale of alcoholic drinks would be quickly prohibited! But our rulers know better: Beware of abstainers! Without intoxicants a people cannot be "governed".⁴⁹

In a word, the minimum cultural standard of existence is humbug, as is the iron law of wages. Wage movements take no heed of the standard of civilization. The increase in wages, which the workers imagine they have "wrested" for good from their employer is lost again tomorrow the moment business takes an unfavorable turn. If, on the other hand, the market improves, the increase in wages will automatically go to their lot without a struggle and even without their demanding it, just as a higher price for wheat goes to the farmer without a struggle at the news of a poor American harvest.

What is, after all, a wage? It is the price paid by the buyer (employer, merchant, manufacturer) for the goods supplied him by the producer (worker). This price, like that of any commodity, is determined by the prospective selling price. The selling price minus rent on land and interest on capital is the so-called wage. It follows that the law of wages is contained in the law of rent on land and the law of

⁴⁸ We assume that the real wage fluctuated with the money wage. Otherwise the so-called "German Currency Standard" is simply a fraud.

⁴⁹ Today, 15th September 1918, is a milestone in the history of humankind. President Wilson has just forbidden the production, commerce and importation of alcoholic drinks. May his will be done in the US as in the rest of the world!

interest on capital. The commodity, minus rent and interest, is the wage. There is, then, no special law of wages. The word "wage" is a superfluous term in economic science, for wage and price are one and the same. If I know what determines the price of commodities, I also know what the worker obtains for his labor.⁵⁰

Free-Money has opened my eyes to all that; it has liberated me from illusions about the so-called "value", since the very existence of Free-Money is a tangible refutation of all theories of value and of the very belief in value. And after disposing of the belief in value, we have also jettisoned that of "labor", which is wholly superfluous for economic analysis. What is "labor?" It cannot be measured by the movements of the arms, or by the degree of tiredness, but solely by what it produces. James Watt works more today in his grave than all the horses alive. It is not work that matters, but its result or product. The product is the thing bought and paid for, as is clearly demonstrated for piecework. And at bottom all work is piecework.

But to buy commodities is to exchange them. Economic life therefore resolves itself into a series of exchange-transactions, so that terms like "wages", "value", "labor" are superfluous circumlocutions for the two basic concepts "commodity" and "exchange".

Q. The Banker

I have always asked myself what would happen to foreign trade if conducted exclusively with paper money. It is astonishing to see how deeply ignorant people are on this issue. Yet it is a simple, clear process.

Do you see those lemons in the greengrocer's shop? They come from Malaga. And those cases being wheeled to the station come from the Finsterburger Parasol factory and go to Seville. Is it possible to conclude the transaction exclusively with German and Spanish currency, without using gold?

If the same dealer imported lemons from Spain and exported parasols there, there would be obviously no problem. He would sell the parasols for Spanish paper money in Seville, go to Malaga and buy there the lemons to send to Hamburg. There he would sell them for German paper money and pay for the parasols. In practice he would pay for the parasols with lemons. He could repeat the operation as often as desired. The fact that Spanish money is not legal tender in Germany would have no effect on his business. Spanish paper money, which he gets for the parasols, he spends in Spain for lemons, and German paper money, which he gets out of the sale of lemons, he spends on parasols. His capital constantly switches: today is lemons, tomorrow German marks, next day parasols and finally Spanish pesetas.

The trader's only worry is his profit, the surplus that permits the constant switching of capital. And what guarantees that surplus is not money but the laws of competition.

Only exceptionally, however, import and export take place at the hand of the same trader. As a rule, the division of labor acts here too, and to understand it we must carefully follow the pattern of payments. But even here paper money is no obstacle. What happens is as follows: importers and exporters who live in the same town meet together at the Exchange. There, the parasol exporter sells to the lemon importer the claim issued at Seville against German money (we shall see how the exchange rate affects such transaction). The German importer sends this instrument of exchange to Malaga in payment of the lemons received. The wording of the bill reads:

⁵⁰ In the last part of this book I shall show that the owner of the means of production (manufacturers) are simply pawnbrokers - a fact now indeed, generally admitted.

Within 30 days of receipt, pay to the order of Hamburger Zitronen-Zentrale the sum of 1 000 pesetas, value received (our invoice of 1st August).
Finsterburger Parasols Co. Hamburg

To Mr Manuel Sanchez, Seville

The sale of the exchange instrument through the company exporting parasols to the one importing lemons is authenticated by the text written on the instrument drafted on behalf of Zitronen-Zentrale. The further sale to the Malaga exporting company is annotated on the back of the same instrument. It says:

Pay on our behalf to the Company Cervantes y Saavedra of Malaga. Hamburger Zitronen-Zentrale.

From Malaga, the document is sent to a bank in Seville, and the parasol merchant Manuel Sanchez cashes it there.

The transaction parasols-lemons takes place in four directions. The Hamburg parasol-exporting and the Malaga lemon-exporting companies have been paid; the Hamburg lemon-importing and the Seville parasol-importing companies have paid their bills. All the money used in the transaction has been Spanish and German paper money exclusively. Despite the four-party involvement, German goods were paid for with Spanish goods.

Almost the same thing happens when the transaction, instead of taking place between importing and exporting companies directly, takes place through a bank. As a rule this happens when exporters and importers do not live in the same town. It would take us too far to explain the details, but there are no essential differences.

An important question remains to be answered: what determines the exchange rate of the peseta credit instrument in Hamburg, i.e. what is the price that the Hamburg importer has to pay, in German money, for an instrument of credit denominated in foreign currency?

Let us answer. The price of an instrument of credit is determined, like the price of potatoes and lemons, and without exception, by demand and supply.

Many potatoes and many instruments of credit mean a low price for potatoes and instruments of credit. Many such instruments denominated in peseta will be offered in Germany if many German products are exported to Spain; on the contrary, a low demand of peseta instruments in Hamburg means fewer imports from Spain. The exchange rate of the peseta drops, to rise again when the tide turns.

For as long as imports and exports remain stable, the supply of instruments of credit matches their demand. But if for whatever reason the price level changes either in Spain or in Germany, there is an immediate repercussion on the quantity of instruments of credit. If prices rise in Spain, because comparatively more paper money has been printed there than it has in Germany, these higher prices will attract more foreign commodities, at the same time making the export of Spanish goods less profitable or altogether unprofitable. Imports into Spain therefore increase, while exports decrease. The supply of peseta instruments of exchange in Hamburg correspondingly increases, while demand remains low. But supply and demand determine the market price of the peseta, which instead of standing at 0.80, will be quoted in Hamburg at 0.75, 0.70 or less. The parasol-exporting firm will no longer receive, in German paper money, the same sum as it used to for its instrument of credit in Seville. The higher price it got there by selling at an inflated price will lose in Germany as a consequence of the drop in the exchange rate of the peseta. Conversely, the Hamburg Zitronen-Zentrale firm will recover the higher price paid in Malaga for its lemons in terms of the cheaper instrument of credit in Hamburg.

This play of forces lasts until the high price of Spanish products caused by Spanish paper money policy is compensated by the fall in the exchange rate of the peseta, and the stimulus to increase exports and decrease exports disappears. The equilibrium between imports and exports is automatically restored. Therefore there is no need of a special fund to cover a hypothetical imbalance between the two countries, since with paper money there can be no such imbalance.⁵¹

We need hardly add that if prices rise in Germany and remain stable in Spain, things will be reversed: the export of parasols becomes unprofitable, while imports into Germany from the countries with which Germany normally competes in the world market become increasingly profitable. Fewer foreign bills of exchange are then offered for sale in Germany, whereas there is a brisk demand for them; this means higher prices (in German paper money) for foreign bills, and the rising price (the rate of exchange) of these bills automatically restores the equilibrium between imports and exports.

Undoubtedly here (and also with paper money with a double function),⁵² fluctuations in the rate of exchange one moment favor and the next injure exporters or importers, thus adding greatly to the risks of commerce. Between two countries with different paper currencies there is evidently no limit to fluctuating rates of exchange, for they depend simply on their internal currency policies. But does not the fact that it is possible through currency policy to cause arbitrary and unlimited fluctuations of the rates of exchange prove that it is also possible through suitable currency policy to stabilize the rates of exchange by fixing them arbitrarily? If the equilibrium of exports and imports can be disturbed by currency policy, it must be possible, by currency policy, to forestall the fluctuations of imports and exports, even those due to natural causes such as failure or unusual abundance of harvests. All that is necessary is that the countries concerned adopt a uniform currency policy. If we in Germany and the Spaniards in Spain maintain a stable price level by suitable regulation of the currency, the ratio of exports and imports will also remain stable. The ratio of demand and supply of bills of exchange and, finally, the rate of exchange of the two currencies, will also be stabilized. For a solution of this problem we only need an agreement between the two countries and concerted action.

What we demand of the currency administration was realized, to a certain extent automatically, by the international gold standard. When the currency (gold and banknotes) in a country became over-abundant and prices consequently rose above their natural level in the world market, what happened was exactly what happens now in a country with a paper standard when money circulation increases. The bills drawn on the country with rising prices had a falling rate of exchange. If in Spain, for example, the rate of exchange of the peseta in Hamburg fell from 80 to 79 or 78 pfennigs, it continued to fall until the seller of such "gold" peseta bills (like the exporter of parasols) wrote to his correspondent in Seville: "I find it difficult to sell the bills drawn on you for the parasols supplied. I am offered only 78 pfennigs instead of 80 for a peseta. I therefore cancel the bill and request you to remit the amount of my invoice in gold coins of your country". Our parasol exporter has now of course to pay the expense of this shipment of gold, so he will not have recourse to this expedient unless the loss on the rate of exchange exceeds the expense of shipping the gold. The Spanish gold coins are delivered to the Reichsbank, which converts them

⁵¹ ["The IMF was set up by the Bretton Woods Agreement of 1944 [...] to encourage international cooperation in the monetary field and the removal of foreign exchange restrictions, to stabilize exchange rates and to facilitate a multilateral payments system between member countries." So says the Penguin Dictionary of Economics. The Fund owes its existence precisely to this phantom "imbalance of payments," on the assumption no doubt that world trade rests on the ultimate use of gold.]

⁵² [Gesell means "store of value" and "medium of exchange".]

free of charge into German currency for the parasol exporter, or else exchanges them for banknotes at the fixed rate of 2 790 marks for a kilogram of fine gold.

Now what happens here and in Spain because of such business custom? In Spain the currency diminished by the amount of the gold shipment from Seville. If the gold was withdrawn from the Spanish Central Bank of Issue, this bank was obliged to withdraw from circulation three times the amount in banknotes, in accordance with the law that the notes issued must be covered up to one-third of their value in gold. In Germany, on the contrary, the circulation of money increased by three times the amount of the shipment of gold from Spain. The effect was that prices in Spain fell and prices in Germany rose, and this continued until equilibrium was restored.

If the general rise of prices causing the fluctuation in the rate of exchange had occurred in Germany instead of Spain, the lemon importer in Hamburg would have acted like the parasol exporter. He would have written to his Malaga correspondent that on account of the high rate of the peseta in Hamburg he was sending German gold coins, instead of making the customary remittance by bill of exchange in payment for the lemons he had received. The receiver would have had the coins transformed into Spanish currency.

As gold shipments of this kind were frequent, it was generally believed that reserves of gold were needed for this purpose, but that was a misconception. Equilibrium would have been restored automatically without such gold shipments, through the obstacles, or facilities, resulting from fluctuating rates of exchange in the way of imports or exports. The effect of the shipments of gold, and of the gold reserves that rendered them possible, was not due to the shipping of the gold itself, but to the influence of the gold shipments on commodity prices. It was the change of prices and not the gold shipments that restored equilibrium. If the currency administration in countries with rising rates of foreign exchange (for example in Germany when peseta bills fetched a high price in marks) had reduced the circulation of currency by withdrawing banknotes from circulation, the consequent fall of prices would immediately have restored the equilibrium of exports and imports, and the rate of exchange would have returned to par. A very simple action, namely an increase of the rate of discount for bills of exchange by the Bank of Issue, would have rendered superfluous both gold shipments and gold-reserves destined for them.

A conscious action must be substituted for a dead mass of gold, since the monetary standard cannot be conceived as a substance, but only as an action, as an administrative measure.⁵³

But this has never been understood, and probably is still not understood today.

With the gold standard, fluctuations in the rate of exchange could never exceed the cost of shipping gold. From a cultural point of view, in a State from which nothing good or reasonable can be expected, such automatic currency compensation would have certain advantages. But to retain the gold standard only for this reason is an insult to the intelligence of the national administrations.

A machine can be regulated automatically without human intervention. But monetary policy cannot be compared to a machine. Monetary regulation under the gold standard was moreover automatic only in a restricted sense. The shipments of gold were not automatic, for the gold had to be counted, packed, shipped, insured and re-coined. The withdrawal of an equal sum of money from circulation as an administrative measure by the Bank of Issue would have had the same effect, with less effort and no expense whatever.

Let us further keep in mind that under the gold standard, fluctuating rates of exchange between distant countries, allowing for interest, may amount to 4% or more.

⁵³ See also: Frankfurth und Gesell: Aktive Währungspolitik.

The expense of a shipment of gold from Europe to Australia amounts at least to 2%. It consists of the interest lost during the voyage, freight, insurance, packing and brokerage. Furthermore, the rate of exchange between Europe and Australia may fluctuate above or below par by another 2 %, so in this case the margin may exceed 4%. That is what was called a standard, and a golden one at that!

The automatic mechanism of the gold standard does not prevent fluctuations; it begins to act only when such fluctuations have reached the maximum, at the so-called gold point (the cost of gold shipments mentioned above), or in other words, with the import and export of gold. When the fluctuating rates of exchange have done all the damage they can, and not till then, does the remedy begin to operate. With paper money, on the other hand, if the statistical service of the currency administration is reasonably efficient, the remedial measures make themselves felt in real time, at the first signs of a disturbance in the equilibrium. The gold standard might indeed prevent, or even forestall, fluctuations, and the Reichsbank asserts that its officials are not mere automata. But if the gold standard has to be assisted by conscious intervention, what remains of the so-called automatic self-regulation?

What has been said here applies to ordinary paper money. With Free-Money, compelled to circulate, the measures of the monetary administration take effect immediately, and the claim that no reserves of any kind are necessary to maintain stable rates of exchange becomes doubly true.

R. Acting on the International Exchange

a) The Facts

1. Silver five-franc pieces circulated freely before the war in the countries of the Latin Currency Union (France, Italy, Switzerland, Belgium and Greece).⁵⁴ These five-franc pieces freely passed from any of these countries to another; they were legal tender, and circulated at par with the national currencies.
2. Yet these five-franc pieces were "fiduciary" money. There was a time when they were "covered" up to 50% by their silver content: they could buy double their weight of silver. Hence one of two such coins could be regarded as pure "fiduciary" money. Whoever melted them down lost half their nominal value.
3. Because of their freedom of circulation, these coins had a regulatory effect on the international exchanges. They acted as an automatic arbitrage mechanism, bringing prices to a similar level in the different countries.
4. The balances of trade and of payments were regulated by this automatic arbitrage mechanism.
5. If country A of the Latin Currency Union increased the quantity or the rate of circulation of its currency out of proportion to countries B and C, A's general price level rose above B's and C's. Hence imports into that country increased, its exports decreased, and its balance of trade and payments closed with a deficit, which had to be made good by exporting five-franc pieces.
6. The export of five-franc pieces from A towards B and C lowered prices in country A while raising them in B and C. Note that the five-franc pieces were considered legal tender like notes, so that, if exported, the Bank of Issue had to withdraw double the quantity of notes from circulation. The effect of exporting five-franc pieces was usually, therefore, double their nominal value.

⁵⁴ [The Union was founded in 1873-74. The Great War caused it to collapse.]

The export of five-franc pieces lasted until the balance of prices, of import-export, and of the balance of trade and payments were reestablished.

7. If the issue of notes continued in country A until the country was completely drained of five-franc pieces, it could no longer make up the deficit by exporting them. The automatic arbitrage mechanism ceased working. A surcharge took its place.
8. If country A wished to get rid of the surcharge, it had to withdraw notes from circulation. Prices then fell, imports decreased, exports increased, the deficit in the balance of trade and payments gradually decreased and eventually became a surplus. The five-franc pieces, which had been driven away by the increased issue of notes, then began to flow back and conditions were reversed until a general equilibrium was reached. The five-franc pieces leveled prices in the different countries acting like water in a system of communicating vessels.
9. If all the countries of the Latin Currency Union had been guided, when issuing notes, by the danger signals described in paragraphs 7 and 8, the their exchanges would have fluctuated within the cost of transporting five-franc pieces from one country to another.
10. The stability of exchanges among the countries of the Latin Currency Union was guaranteed not by internationalizing their currencies, but by declaring one single class of coins international medium of payment.

This was not, of course, the original purpose of the Union. Its founders could not have foreseen that silver coins should act as "fiduciary" money. Their regulating effect upon the exchanges can only be explained by the theory of paper money.

b) Inferences from these facts.

1. The play of forces described above is in accordance with the quantity theory of money, and it is proof of its correctness.
2. The results would have been the same with five-franc paper notes instead of silver five-franc pieces. They acted as international medium of payment because of an international agreement, not because of the silver content.
3. International paper money, issued in one single denomination (say 5 francs) under the supervision of the countries concerned, and for the sole purpose of reestablishing the balance of trade and of payments, ought to circulate freely like the old five-franc pieces. It would thus regulate imports and exports, and keep the exchanges in equilibrium.
4. An unusual influx of these international five-franc notes would be proof that insufficient national currency was in circulation. An unusual efflux of the international notes would prove that the national currency was over-abundant.
5. The complete disappearance of the international notes, and the resulting surcharge, would be a warning signal that the country in question should proceed to drain the market of national notes until the surcharge disappeared and international notes began to flow back into circulation.
6. Too large an influx of international notes would mean that insufficient national currency was in circulation - unless all other countries were marginalizing international notes by issuing too much national currency. The latter assumption leads to the true monetary question, which must not be confused with the question of the exchanges.

Next follows a summary of a proposed international union for regulating both the currency standard and the exchanges: The International Valuta Association.

Chapter 6.

INTERNATIONAL VALUTA ASSOCIATION

1. Countries desiring to join the International Currency Association adopt the "IVA" unit of currency standard.
2. This new unit does not depend on the static characteristics of a substance like gold, but on dynamic characteristics like a steady policy of the member States. The unit remains stable for as long as that policy so decides.
3. The currency policy of the IVA countries is based upon the stability of the currency unit.⁵⁵
4. The statistics of prices required for a policy of stabilization are recorded in a uniform manner by all the countries of the Association.
5. An active currency policy with stabilization as its aim depends upon the quantity theory of money. When the general level of prices fluctuates, it can in all circumstances be brought back to its starting point by increasing or decreasing the monetary circulation. This can happen also in wartime.
6. The national currencies of the IVA countries stay as they are. Their monetary policy, however, functions on unified principles, valid in all circumstances and levels of development.
7. The unified national currency policies remove the chief cause of disturbance in the balance of trade and of the resulting fluctuating exchanges.
8. Small disturbances in the balance of trade caused, for example, by the effect of the seasons on the harvests, are still possible.
9. To eliminate the effect of these disturbances upon the exchanges completely, a special form of international paper-money is issued, imported and exported without hindrance by all the countries of the Association and recognized by them as legal tender at par with the national currency.
10. This international paper money is issued by the IVA Office, say at Berne, to the countries of the Association and under their supervision. IVA notes are issued free of charge, except for printing and clerical costs.
11. The quantity of IVA notes is determined solely by their regulatory effect upon the exchanges. The required proportion does not exceed 20% of national money.
12. For the amount of IVA notes issued to each country, the IVA office at Berne receives a bill of exchange payable only when a mismanaging of the national currency in a given country results in a permanent balance of payment deficit in its balance of trade. The IVA units have all been exported and a surcharge must be paid to obtain them back. From the date of such occurrence the bill of exchange bears interest.
13. The IVA note will be issued in one denomination, especially suitable for retail trade. Scarcity or superfluity of such notes is therefore felt immediately. Monetary policy falls under public scrutiny at once.
14. It is in the interest of the countries of the Association that they take the necessary steps for keeping the IVA notes at par with the national currency.
15. For this purpose extra national notes are issued when there is a glut of IVA notes, and national notes are withdrawn following a dearth of IVA notes.

⁵⁵ By currency stabilisation is meant the equilibrium between the supply of money and the supply of goods - the fixed general price level - resulting from an active currency policy with this aim in mind.

16. If the policy here proposed, undertaken in the interest of the IVA currency, leads to an appreciable and lasting discrepancy conflicting with currency stabilization, The Berne IVA office will launch an international investigation to discover the cause of the disturbance and issue instructions to the signatories towards eliminating it.
17. To exclude the influence of the cost of transport (import and export) of IVA notes upon the exchanges, this expense is borne by the IVA Office.
18. Clerical costs are shared among the member countries in proportion to the amount of IVA notes issued to them.
19. Any country, even non-European, that undertakes to observe paragraphs 1 and 9 of the present document, can join the Association without more ado, and will then receive the usual amount of IVA notes (20% of the national issue) from the Berne office.
20. A country can leave the Association at any time by redeeming the bill of exchange mentioned in paragraph 12 from the Berne office.
21. The Association may be dissolved by paying off the bills of exchange deposited in the central office, which would thereupon destroy the IVA notes thus recalled.

In a system of communicating vessels the water level restores itself after any disturbance. Similarly, States that link their national currencies by means of IVA notes enjoy stable prices, or prices return to the former level, provided that national monetary policy is managed in function of the absolute currency.

If a State contravenes the principles of absolute currency and fails to pay sufficient attention to the warning signals (excess/defect of IVA notes), that State gets either inundated by such notes, or completely drained of them. No State would find it advantageous to have IVA notes in excess, since it would forego interest on its own notes; it would be even less advantageous to be completely drained of them, because the surcharge to be paid would have negative consequences on its foreign trade.