Henry George Single Tax theory and extended among the most cultivated classes of the States of Sao Paulo, Minas Geraes, Rio de Janeiro and in the capital of the Republic bearing the same name.

The Prefect of the metropolis sent a message to the Board of Aldermen explaining in its general lines how the land tax could be gradually introduced, suppressing at the same time the obnoxious ones. There are many products that could have been exported long ago were it not for the absurd system of taxation.

SPAIN

El Impuesto Unico (Malaga) publishes in its December issue the third annual report of the Spanish League (Liga española para el Impuesto Unico). As in the case of our own Leagues, the work of our Spanish comrades has been greatly hindered by circumstances arising out of the war. But Señor Albendin notes that the Spanish Government is finding itself obliged to take note of the Land Question. "The Conservative Government of the past year, and the Liberal Government of the present, have put forward in their respective Budgets a tax on the so-called unearned increment (*plus-valia*), which is an indication that public opinion demands that something should be done. Now we have to enlighten opinion in order that it may not only demand that something be done, but also the direction in which it should be done. For this work we urgently need funds for a popular edition of the works of Henry George." (A subscription for this purpose now amounts to 619 pesetas.) Like the late Lewis H. Berens, Señor Albendin regards lectures, magazine articles, and other forms of propaganda merely as means to induce folk to read the more serious literature of our movement, and especially Henry George's books. The League's edition of Progress and Poverty is nearly out of print, but another edition, though not a cheap one, under the title of Progreso y Pobreza, has appeared in Spain. The Crime of Poverty has been translated, and a translation of A Perplexed Philosopher, by Francisco Amaya Rubio, is in preparation, thus completing the translation of George's books into Spanish. The most interesting publication of the year was the reprint, from a unique copy, of Centani's essay on taxation (1665-71), in which he proposed a single tax on land values a hundred years before the French Physiocrats. After taking note of the progress of the movement in South America and Australia, the report concludes by sending a cordial salutation to the other Single Tax Leagues and an enthusiastic appreciation of their continuance of the work with undiminished ardour in the difficult times we are now passing through. "Forward, then! and let us fulfill our motto 'Free exchange, free land, and free men' under the ægis of justice."

F. V.

An interesting account of the Irish Land Purchase Acts was given by Mr. G. F. Stewart in his presidential address to the Surveyors' Institute on 13th November, and is extensively reported in the Land Agents' Record of 18th November. What these Acts have done in merely transferring at enormous public expense land-owning privileges from one set of men to another is eloquently revealed in the remark, "The tenants have an absolute right of sale . . . forty years' purchase of the annuity is by no means uncommon, and many farms are changing hands." For the best commentary on the social and economic effects of the Irish land legislation—its robbery of the public and its failure to solve any roblem at all—we refer our readers to the articles in July and August (1908) Land Values from the pen of our late colleague, L. H. Berens.

CORRESPONDENCE

Money and the Cause of Increased Prices

(*To the Editor.*)

Sir,—There is no ground for the charge made by Mr. Cassels of bias in contesting the conception that a government can create wealth and enrich the nation by the legerdemain of printing the words "one pound" on bits of paper and ordering the citizens to accept the paper at that value. It is legerdemain to make people believe a thing is worth a pound when in fact its value is less than a penny. The test of the legerdemain is the multiplication of the bits of paper and their ultimate reduction to a zero value despite all government declarations. And whatever their quantity, if paper notes were destroyed, the community would be no poorer; its wealth would remain the same as before and the only effect would be the cancellation of a mass of debts.

It is undoubtedly a common assumption that the nation can be enriched or can in one way or another benefit itself if it issues paper money either in substitution of other money or as an addition to the currency. But Mr. Cassels does not specifically commit himself either way—either in favour of the assumption or against it. He refers you, without comment, to a passage from Ricardo which a student of that master's writings must always regard as strangely in conflict with his whole outlook on money questions and in particular with his constant support of the quantity theory of money, viz., that (other things being equal) an increase in currency diminishes the value of currency.

But what does Mr. Cassels mean to convey in his criticism of the "Notes" on this subject in your October issue, if Ricardo was right in stating that the substitution of paper for gold in a country is a means by which "both its wealth and its enjoyments are increased" and by which "an expedition would be fitted out without any charge to the people"? Mr. Cassels goes on to say "the need for gold being evident in the present condition of international trade, the Government took over the gold and replaced it with paper. So far as there was only replacement there can be no question of increasing prices in this way." The construction I put on this latter sentence is that the Government purchased imports with the gold and obtained in this way a net addition of wealth to the nation, the people being affected in no other way since they got, as a substitute for gold, paper money equally serviceable in all commercial transactions. Apparently after all, Mr. Cassels does entertain the "idle supposition" that miracles can be performed surpassing anything ever devised by Maskelyne and Cooke.

Mr. Cassels omits to follow the gold in its course abroad and the effect of its increased supply there, by increasing one form of money, to diminish the value of all things used as money and to increase prices. That is a view held emphatically by Ricardo himself, not to speak of most economists; and even if the contention is disputable or even quite wrong, it demands attention when the passage quoted by Mr. Cassels is offered as the opinion of an authority deserving our respect.

The fact is that, in the home and foreign markets taken together, recent monetary changes in this country have added, to money in the form of gold, a sum of 138 millions of money in the form of paper. One country makes an economic unit with all countries with which it trades, and it is no contribution to the argument to assert that here within our own geographical boundaries paper has simply replaced, without any issue in excess, the gold formerly in circulation. The replacement, considered alone, may or may not have been an exact equivalent; there is much good evidence to show that, in comparison with the 138 millions of paper now in circulation, there were 78 millions of gold in use as money in this country before the war—in fact that is the highest estimate. If these figures are correct there has been, in the internal market, an inflation of 60 millions; and whether so much more money is required because prices are high or prices have been increased by that additional money being used to make purchases I can only leave your readers to judge. It is impossible for me to elucidate the point any better than was done in the reply to Miss Lindsay's letter in your November issue, and if the argument (extended as it was and must be to both home and foreign markets) will not convince either of your correspondents, I should welcome some disproof that will meet it, instead of assertions that other factors provide a sufficient explanation of the state of affairs we are discussing.

To return to the Ricardian illustration about the use of gold to buy imports, the true answer seems to me to be this. Ricardo on the face of it admits that gold is complete and adequate payment (is not a mere promise to pay); could serve the purpose of individuals at any time to buy imports, which paper will not do; and that people in some other country are prepared to accept the gold as wealth, whatever they may intend to do with it—their usual practice is to sell it to their Treasury and to the Banks and it finds its way into the currency of that country. But how would this assumed admirable scheme of procuring imports (without cost) work if other countries were to do the same thing at the same time, or if for any reason they all substituted paper for gold, exported it, and sought in that way also to get commodities from abroad without cost? How would the scheme have worked in the present circumstances if the United States, Scandinavia, Holland, &c., had all determined (while we were exporting gold) to get rid of their own gold and to substitute paper just as this country has done? Manifestly all countries could not get rid of gold and accept it at the same time. The magic would not work. Nor does it work now when one country alone tries it. True, it gets commodities for gold and the Government provides paper to perform the functions of a medium of exchange, but the community pays for the experiment ultimately and indirectly in the higher prices of everything it must buy.

The terms supply and demand are often bandied about in economic discussion without, I am afraid, a due regard to their significance. Mr. Cassels would take us through a list of commodities to show that "the conditions of supply and demand, that is the conditions of production," amply account for the increase in prices. Supply of and demand for what? What is supplied and what do the suppliers receive from those who make the demand? It will I am sure be granted that all exchange is barter of commodities for commodities and money is only the medium of exchange —that is to say that before the barter is completed, money in one form or another or paper acknowledgments are the means by which demand is immediately expressed. Mr. Cassels analyses his own proposition no further than to take the illustration of sugar, which has increased in price, of potatoes, and of "products one by one." He does not contend that sugar is now more valuable than potatoes, or that potatoes are more valuable than sugar, or that the relative value of any one commodity to any other commodity is to any material extent greater than it was before. The real ultimate standard of value is labour, says Miss Lindsay, and Mr. Cassels agrees. Goods that require a given exertion to produce them will exchange for goods that require equivalent exertion for their production. Neither the war nor monetary changes have altered that, if we take "products one by one." One day's labour still exchanges for one day's labour but at a different figure or in a different language of figures. The products have, in fact, all gone up *in price*, that is, in the amount of money required to buy them. If conditions of supply and demand account for this new language (since they certainly have not altered the relative values of goods) it must be because the supply of goods has decreased in comparison with the supply of that which is used as the medium of exchange, or that the supply of the medium of exchange has increased relatively to the supply of goods being bought, or that both things have happened at the same time.

The effect of credit on prices, or in better language, the effect of being allowed to incur debt, is not touched on by Mr. Cassels, and I am not called on to say more on the subject. But craving your indulgence I would point out that the practice of getting credit, or of incurring a debt to purchase goods, did not originate with the war. Bank credits were mentioned specially in the "Notes," and the pledging of Government scrip as security, the result being an increase in purchasing power. I am assured that Bank loans have been a common occurrence for centuries on all kinds of security as have other loans, with effects on prices that such writers as John Stuart Mill have made perfectly clear. Banks certainly, as a rule, require security to be lodged against loans, but the point is that the lodging of securites, which themselves are not easy to present and have accepted by manufacturers, shopkeepers and sellers generally, as a payment, is a facile means of getting a credit at a bank and of procuring those instruments called cheques, which *are* easy to present and have accepted. There is, of course, a limit to this kind of transaction, and the limit is conditioned by the circumstances of the time and of the case. The mortgagor must have the encouragement before him to trade on the loan at a greater profit than the interest he loses in mortgaging his loan, and he takes the risk in prosperous times or while prices are increasing; the security must be good, and in this line Government scrip can scarcely be improved on; and the banks must watch their reserves of legal tender and be able to increase them while they are increasing their self-made liabilities to honour the cheques drawn upon them. Is this thing going on or is it not? Has there been an increase in legal tender which would justify banks increasing their liabilities in proportion? Is there any other explanation of the astounding phenomenon that with the thousands of millions lent to the Government, private "deposits" (*i.e.*, credit accounts) in only *some* of the banks have increased by 240 millions since the war commenced? That, as Miss Lindsay and Mr. J. A. Hobson (whom she quotes) admit, the "evil effect of Government borrowing is that the well-to-do are not discouraged from spending?" How are they able to lend purchasing power and have it at the same time?

The length of this letter must be my excuse for not discussing other equally important issues as fully as I should have liked to do. I can only refer to some and make a comment. There is the confounding of bank-note issues with Treasury note issues; the one is a purely private responsibility, the other is a responsibility undertaken by or in behalf of the whole community. There is the idea that the money value of all commodities can increase, with the sole exception of that of one commodity—viz., gold—which remarkably enough remains stationary. That willingness to redeem paper money with gold is necessarily the same as ability to do so without loss, if there is loss; and the thing is not inconceivable when the evils of depreciation are at stake—it may be easily disguised in public accounts and simply swell a Budget deficit. Finally there is the suggestion that current coin in gold owes its value to the stamp upon it, and is in that respect similar to a paper pound-note. The stamp on these particular coins is not an arbitrary declaration of value as it is on the silver, bronze, and paper money now in use. The stamp on the sovereign is a Government certificate of the weight and fineness of the substance of which the coin is made.

Of Mr. Cassels I might ask whether, if the Government stamped the bronze which now constitutes a penny with the words "one pound," and the gold which now constitutes a sovereign with the words "one penny," would the coins for any length of time exchange in these ratios of declared values? And of Miss Lindsay I might ask how she reconciles her dictum about a sovereign being a stamped "promise to pay" with her subsequent assertion that if the Government repudiated its debts, a sovereign in her possession would be worth more than many Treasury notes?

Yours, etc.,
A. W. Madsen.

14th December, 1916.
3, London Street,
Edinburgh.

(*To the Editor*)

Sir,—I am inclined to think that Mr. William Cassels's definition of money in December Land Values is imperfectly stated. The two considerations which he thinks explain the only necessary functions of money are (1) That it will pass as medium of exchange, and (2) that it is an absolute payment for indebtedness. With his first I think we can all agree, but why should he rule out cheques, drafts, bills, &c., from the category of money? They are credit documents used for the exchange of commodities and for the payment of monopoly charges, just in the same way as gold, silver, copper, or paper currency is used. Lord Rosebery's cheque would be accepted as readily as his gold in payment of his taxes. His drafts on London and his gold might go round the world side by side and buy him commodities all the way, but, as money, neither would be considered as an absolute payment for indebtedness. The draft would still have to do service in at least one other exchange transaction before its usefulness as a credit document was exhausted, and it is on this service that the receiver of the draft from Lord Rosebery would rely in accepting it. That is to say, indebtedness *for* goods is economically discharged by payment *in* goods or services. The same thing happens in the case of the shopkeeper and his customer. If the shop-keeper thinks, like Mr. Cassels, that money is absolute payment for the indebtedness of his customer, he does so only because he knows that money is a credit document. It would not absolve his customer from his debt unless it were so. The fact that the trader's private money, *i.e.*, cheques, drafts, &c., go out of circulation when the exchange of goods to which they relate is completed, while the public money goes on circulating continuously, does not vitiate the argument that both are equally money. It only qualifies the nature of the money, and shows that the trader's services and money are ephemeral, while, in comparison, the public services and money are perpetual. There is this distinction also, namely, that the trader's services and money can only be *offered* to the community, while the public services and money can be *forced* on the community.

Then Mr. Cassels goes on to disparage the idea that the present issue of paper money has done a great deal to increase prices. He admits that the shortage of labour and the restriction of imports have caused an increase in prices, and that this increase involves a considerable addition to the currency. I should rather point out that decreased production, relative to a currency calculated to exchange a much greater amount of produce, is bound to increase prices. Thus a failure of the harvest—a decrease in the normal production of food—must raise the price of food. And, if at the time of reduced production from any cause, we have to reckon with an abnormal issue of money, we have at once before us the two prevailing factors which now co-operate to raise prices to the abnormal height we observe to-day. Taking it, as, at least, approximately true, that "The love of money is the root of all evil." I fear that the currency question has a great deal more to do with the rise in prices than Mr. Cassels seems to perceive.

Mr. Cassels further says that "Prices were rising before the war started, and in the main for the same reason—the hindering of production. . . . The owners of the world are the great hindrance to the lowering of the prices." Quite so, but if the production of wealth were ever so great, and the production of credit documents could be increased, as we see it can be increased, without respect to the amount of wealth produced and to be exchanged, then just as money increased beyond the scope of its true function, namely, the exchange of actual commodities and services, so would prices increase. Single Taxers do not need to be told that landownership raises prices, nor that it does so for the reason that with his credit document—his legal payment of ownership—the landowner has the power of producing money by the simple presentation of a demand for rent, without his having to produce a single pennyworth of wealth in exchange. Now, on the top of all this we have the Government not only increasing the currency, but also producing public credit documents which are being exchanged for private loans of money to be expended in the purchase of goods and the payment of labour required by the war and consumed in the war. These public credit documents do not really represent wealth in existence, although they can be exchanged for wealth; their face value merely represents approximately the arithmetically capitalised rate of interest fixed by the Government upon the loans, and they in no way differ in their financial effect from the private credit document of the landowner, above referred to. Both taken together raise prices against the owners of both, and naturally also against everybody else. Obviously, however, the landowner has the advantage over the holder of Government bonds, because he can rack-rent, while the other cannot increase the interest rate on his bond.

With regard to the question of gold money, I am of the opinion that money, properly understood and properly used, does not require to be in itself a collateral security for its face value by virtue of its material composition, and I venture to say, that if gold money were as unprofitable to the financiers as it is to the general public, it would soon disappear altogether. And I also think that the true standard of exchange values is not to be found in the material gold stored away anywhere, but in the spiritual gold hidden away in the heart of every God-fearing, honest, kindly man.

I agree with Mr. Cassels that the present rise in prices is amply accounted for by the conditions of supply and demand, but he does not explain, as I have here tried to do, that the high prices are chiefly caused by a demand set up by the issue of forced credit documents and operating in presence of a relatively and absolutely reduced supply of wealth.

Matthew Gemmell.

Glasgow, December 5th, 1916.
