

Inflation — By Breeder Reactor

IN these Keynesian days, when the subject of inflation is the most popular "whodunit" of the age, books about money are almost as plentiful as Bank of England promises to pay it. For the price of admission to a public library, the student can choose from a bibliography that grows with the regularity of increases in the fiduciary issue. But Mr. George Winder need make no apologies for adding yet another volume to this heavily-laden shelf. For, besides being interesting and informative to the layman, his "A Short History of Money" introduces new angles and argument that will provoke considerable thought and discussion among students of economics.

It is along a familiar trail that Mr. Winder carries us in his earlier chapters. He takes us through the evolution of money from its earliest and most primitive forms, through the goldsmith's note and the commercial bank-note, to their modern counterparts in currency notes, cheque-books, bank credit and the fiduciary issue.

This, however, is no dull, desiccated chronicle of the money metamorphosis. Along with his monetary signposts Mr. Winder points a large number of lessons and also draws a few morals. Graham Hutton has called his book "the plain man's guide to currency and inflation" and it is, in fact, a painstaking study of the background to the relentless emaciation of the pound sterling that has bedevilled the British economy since 1914. A great deal of the book is devoted to the question "Do banks create money?"

This is an important question. If the banks can create money at the stroke of the pen, then those who insist that the Government could stop inflation by scrapping its note-printing presses may be tilting at the wrong windmill. If the banks can inflate the currency at will, then the credit squeeze was justified and pleas for less Government interference with banks and their activities are voices in the wilderness. In fact, full government control of all banks can hardly be far away.

Those who believe that banks, for all their mystic machinations, bear no responsibility for the inflation of our currency can take considerable heart from Mr. Winder's analysis. True, the white sheet in which he stands the Banking Institution lacks its final Omo brightness, but for all practical purposes the blame for inflation is placed fairly and squarely on the shoulders of the Government. The only possible ways, he says, in which the banks can contribute to the inflationary process are, firstly, by making ill-judged loans which are not repaid (a practice of which banks can hardly afford to be guilty very often) and secondly, and far more important, by making long-term loans to the Government under "force majeure".

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That the banks play an important role — in fact the major role—in providing money for the use of industry and commerce, Mr. Winder does not deny. Of all the money under the control of the banks only 8 per cent is in the form of hard cash or currency notes. The rest is "credit-money"—a commodity manufactured by the bankers themselves from a mixture of pen and ink and hard business sense. For credit-money is sheer abstraction; mere promises to pay, holding no greater evidence of their existence than ciphers in the ledgers of the banks that made them.

But, like the Iron Curtain, what counts with credit-money is not what it is but *what lies behind it*. Credit, as Mr. Winder explains in an outstandingly lucid way, is not what a bank gives a man but what he already has. A farmer's credit lies in his neat hedges, his efficient equipment—and his growing corn. An industrialist holds his credit in his ability and enterprise, his reputation for producing the goods—and the goods in course of production. Just as, in the past, the owner of gold took it to the Mint to have it converted into money so to-day, says Mr. Winder, the owner of credit can take it to the bank and have it converted—or monetised—into credit-money.

At the present time there is over £2,300 million in cash and currency in circulation. A sizeable sum, but it is dwarfed by the huge skyscraper of bank credit which to-day stands at over £6,600 million. Everyone knows that the former represents pure inflation—an extraction of goods from the national pool and their replacement with worthless paper. But what of the latter? How does Mr. Winder justify his assertion that this does not represent an even greater dilution of this currency?

The answer is that the normal bank loan is created for the very short term. It is made in the expectation that within a matter of weeks or months the borrower will have produced and sold something of real wealth (or have received money from someone who has) and will have repaid the loan in hard cash. His ration of credit-money will then be automatically cancelled. The creation of credit-money enables the borrower to reverse the normal case. A person must produce wealth and exchange it for money (*i.e.* the function of supply) before he can make purchases (the function of demand). The creation of a bank loan enables him to exert the demand first, evening up matters afterwards by putting his goods into supply and repaying his loan. When both functions have been completed and the loan cancelled the value of money will be as unaffected as if the credit-money had never been created.

To the extent, therefore, that credit-money is used for short-term loans, it is in the nature not of a permanent addition to the money supply but of a continually growing and collapsing catalyst. Though it may have all the

appearance of permanence, it yet waxes and wanes in the pattern of a pulsating electric current.

Unfortunately for the state of sterling, not all bank loans conform to this ideal pattern, although of Mr. Winder's two exceptions we can surely ignore the loan to the defaulter. It would be a happy-go-lucky banker who did not insist on some security for a loan, and dis-traint on such security would extinguish the loan as effectively as if the borrower had repaid it.

But loans to the Government are a horse of a very different colour. Though the money be lent on the short-term security of Treasury Bills, and though the Govern-ment formally makes redemption, each repayment usually involves a little more borrowing. The total debt—now becoming a long-term debt—increases. The money created continues to circulate in the credit accounts of the citizens with whom the Government spends it. And although such money has all the appear-ance of "genuine credit money" it is, says Mr. Winder, as false as any forgery from a counterfeiter's press.

But this is not all. Inevitably, under the pressure of deficit Budgets, such loans begin to snowball. The Gov-ernment, its flanks covered by its power to increase the fiduciary issue and print notes, finances itself through the Bank of England where the balances of the com-mercial banks rise in consequence. This adds to the cash base, with the result that more credit-money, in the pro-portion of 12½ : 1, can be created. To the extent that this, also, is drawn into the maw of Government borrow-ing, the result is to install a breeder reactor in the mech-anism of inflation.

This is the primary message conveyed by Mr. Winder's book. It is a deadly indictment of deficit-financing gov-ernments. Forthright and unequivocal, it condemns infla-tion as a fraud practiced by governments on their peoples. A fraud which engages all the hidden forces of economic law on the side of destruction.

This is essentially a "short history", but it is, perhaps, disappointing that Mr. Winder does not explain more fully the mechanics of the long-term lending freely undertaken by the banks. Nor, perhaps, does he drive home sufficiently strongly the fact that a transfer to a fully-fledged gold sandard would put paid, not only to the printing-press element of inflation but to the bank-borrowing element as well. And it is regrettable that, in describing the expansion of the Victorian era, he throws overboard his own convincing argument and congrat-ulates the banks for preventing, by their creation of credit-money, a steady fall in prices. For some reason which he does not explain, at this stage of our monetary development credit-money was commendably infla-tionary.

But it is in his relating of monetary affairs to unem-ployment that we find his most irritating shortcoming. Like the Keynesian economists (for whom, however, he displays little sympathy) he places upon money the re-sponsibility of uniting the factors of production, ignoring

the fact that money is merely the medium through which the fruits of production are exchanged. He attributes the great unemployment between the wars to "inflexible forces" in the economy, particularly the political impos-sibility of reducing wages, arising from the failure to return to a full gold standard in 1925.

As a full diagnosis of the Great Depression this does not carry conviction. Experience in many countries with the soundest of currencies has shown that, at times of gold outflow and falling prices (*i.e.* after the periodical boom) labour has been prepared to accept a smaller return. But this has not applied to the second primary factor in production—land. Unemployment has spread like bubonic plague as landowners have preferred to put their land into cold storage rather than accept the lower return that market forces demand. Mr. Winder is cor-rect to refer to "inflexible forces in the economy" but the ability of the land owner to hold natural resources out of use is one "inflexibility" that only a tax on land values can overcome.

In "A Short History of Money", Mr. Winder has given us a book that will clear much of the fog from the vexed subject of inflation. We must hope that, one day in the not-too-distant future, he will apply his undoubted gifts to considering the basic causes of poverty and unemployment — maladies for which infla-tion is merely the current, fashionable quack remedy.

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little short of miraculous. A roundtable of experts studied the idea for *House and Home* magazine a year ago and concluded:

'If you increase the tax load on land and lighten the tax load on improvements, you could, at one stroke: (a) help deflate the bootleg value of slum property by making the slumlords pay more taxes and so make less profits; (b) help harness the profit motive to slum improvement for you would, in effect, be giv-ing partial tax exemption to any money spent modern-ising or rebuilding the slums.'

"Within a proper planning, zoning and public-facility framework, land-value taxation (or an approach to it) might mean the difference between progress and inaction. For if the public must continue to write down the high-cost of slums with vast outlays of Federal and local tax monies, the whole renewal programme may founder.

"The assessment studies made for the Federal City Council's recent downtown survey, made public last week, show that the greater opportunity — but not the only one—for moving towards land-value taxation prob-ably lies in residential rather than commercial slums. City-wide, improvements on taxable property are assessed at about twice the land assessment. But in the central business area, land is assessed at slightly more than the buildings. (The same tax rate applies to both land and improvements) . . ."