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THE ROLE OF MONEY

What it should be, Contrasted
with What it has become

FREDERICK SODDY

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THE RÔLE OF MONEY

WHAT IT SHOULD BE,
CONTRASTED WITH WHAT IT HAS BECOME

By

FREDERICK SODDY

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Virtual Wealth, and Debt " ; " Money versus Man " ; etc.*

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PREFACE

This book attempts to clear up the mystery of money in its social aspect. With the monetary system of the whole world in chaos, this mystery has never been so carefully fostered as it is to-day. And this is all the more curious inasmuch as there is not the slightest reason for this mystery. This book will show what money now is, what it does, and what it should do. From this will emerge the recognition of what has always been the true rôle of money. The standpoint from which most books on modern money are written has been reversed. In this book the subject is not treated from the point of view of the bankers—as those are called who create by far the greater proportion of money—but from that of the PUBLIC, who at present have to give up valuable goods and services to the bankers in return for the money that they have so cleverly created and create. This, surely, is what the public really wants to know about money.

It was recognized in Athens and Sparta ten centuries before the birth of Christ that one of the most vital prerogatives of the State was the sole right to issue money. How curious that the unique quality of this prerogative is only now being re-discovered. The “ money-power ” which

has been able to overshadow ostensibly responsible government, is not the power of the merely ultra-rich, but is nothing more nor less than a new technique designed to create and destroy money by adding and withdrawing figures in bank ledgers, without the slightest concern for the interests of the community or the real rôle that money ought to perform therein.

The more profound students of money and, more recently, a very few historians have realized the enormous significance of this money power or technique, and its key position in shaping the course of world events through the ages. In this book the mode of approach and the philosophy of money is expounded in the light of a group of new doctrines, to which the name *ergosophy* is collectively given, which regard economics, sociology, and history with the eye of the engineer rather than with that of the humanist. It is concerned less with the details of particular schemes of monetary reform that have been advocated than with the general principles to which, in the author's opinion, every monetary system must at long last conform, if it is to fulfil its proper rôle as the distributive mechanism of society. To allow it to become a source of revenue to private issuers is to create, first, a secret and illicit arm of the government and, last, a rival power strong enough ultimately to overthrow all other forms of government.

THE RÔLE OF MONEY

CHAPTER I

THE PHILOSOPHICAL BACKGROUND.— ERGOSOPHY

THE Objective.—It is now some sixteen years since the close of the great event that displayed, for all to see, man and his would-be rulers and mentors powerless in the grip of the forces that their technologists had safely chained but that war had let loose. There is a distinct understanding in the general consciousness that this generation is witnessing the veritable birth-throes of a new era dictated by the progress of physical science, rather than owing anything to those who have hitherto been most vocal in debate or most prominent in the attempted direction of affairs. There is a growing exasperation that an age so splendid and full of the noblest promise of generous life should be in such ill-informed and incompetent hands.

The Monetary System Obsolete.—Everywhere now there is the dawning consciousness among thoughtful minds that this age contains elements not understood or contained within the working rules of the older systems of government, economics, sociology, or even religion, and that it

is due to new principles that have to be introduced into the base and can in no wise be met by a change in the superstructure of society. Even more remarkable, almost incredibly so to those who have been hitherto lost voices crying in the wilderness, is the swiftly growing volume of agreement that it is the obsolete and dangerous monetary system that, primarily, is at fault. It is this entirely empirical and defeatist body of rules and conventions, that has grown up along with the scientific expansion of the means of life, that is responsible not only for the present paralysis but also for the Great War itself. All are agreed that here at least change is inevitable, the only doubt indeed now being whether any part of the system, which through a lack of imagination as to what might have been is still apt to be described as having "worked well in the past", can survive into the future.

The present book as dealing with the rôle of money cannot fail therefore to be of fundamental importance, if it succeeds at all in filling its place in the New World Series, which is nothing less than to be a guide and a lamp to those whom fate shall select to be the new leaders of the great, though not of necessity violent, changes that are close upon us. When the War forced upon everybody's attention the grave dangers surrounding a scientific civilization through the very immensity of the destructive powers that science has put into the hands of nations

still thinking only in terms of brute strength, the writer undertook an original examination into the real physical foundations of the conventions and half-truths that pass for economics, and particularly into those underlying the mechanism of distribution, which is, in a monetary civilization, the money system. His most significant conclusion, from which subsequent events have given him no reason to recede,—indeed it is now a truism—was that nothing useful can be done unless and until a scientific money system takes the place of the one now always breaking down.

The corollary, however, is never likely to be popular with our professional politicians at least. It was that, if such a thing were done, little else in the way of arbitrary interference with and government control over the essential activities of men in the pursuit of their livelihood would be required. Indeed, just as now not one in a thousand understands why the existing money system has such power to hurt him, so, if it were corrected as here outlined, not one in a thousand would need to know or, indeed, would know, except by the consequences, either that it had been rectified or how it had been rectified. For the aim of the present book is to show how the money system may be reduced to one of exactly the same character as that of our standard weights and measures.

The Community Standpoint.—It will be

necessary to go more fully into the combination of circumstances which make these matters at once so vital to the social and economic health of the community and so completely outside the ways of thought that appertain to the individual and guide him in his own private affairs. Much of the difficulty is of course the deliberate use hitherto of common terms in senses entirely novel and often the opposite of those normally meant, as for example *cash* and *credit*. Much also is due to misconception as to what undoubtedly constitutes wealth to an individual, when not the individual but the community is in question. Because of this, the technical study of money calls in a peculiar way for powers of generalization, and often, indeed, the complete inversion of ideas as they appertain to the individual. These factors have unfortunately been completely absent not only from so-called monetary science but to an equal and even more important extent from the fundamental systems of orthodox economics to which monetary science belongs.

Now, born of the troubled times in which we live, there has been growing up from a number of independent and at first sight quite unconnected roots a group of doctrines which may be broadly described as the application of the principles of the sciences of the material world, physics and chemistry, to economics and sociology. They have a common feature in that they are all due to the original thought of scientific men—

mainly engineers and physical scientists—more interested in and accustomed to think in terms of physical realities than in those of social or legal conventions, and concerned hardly at all with the problems and controversies of individual or class economics, but with the significance of broad general and completely inescapable principles, in particular the principles of energetics, in regard to welfare of whole communities as affected by the production and distribution of wealth.

Social Importance of Energetics.—In the author's opinion, at least, this new development promises to be of far more ultimate and permanent importance to the science of human welfare than the earlier incursion of biology in the last century which led to the doctrine of evolution. This is because it imposes a rigid framework of the fundamental physical laws, applying equally to men as to machines, in which there is really nothing controversial at all. The stock criticism of such a mode of approach into sociological questions would have been that men are not machines, and that in economics, as in its subdivision, money, psychological factors and considerations are at least of equal importance to, if indeed they are not of greater importance than, the purely physical factors.

But that argument, unless it frankly postulates a belief in physical miracles—in the power of the human mind to make, if it so will, $2 + 2 = 5$

—whatever it may once have been, is now largely out of date through the extension of the exact sciences into these fields. There is not, never has been, and perhaps never will be any sort of equality at all in importance between the physical and psychological. In the sphere of distribution, for example, or of money as the distributory mechanism, all that psychology can do—and the same is equally true of “banking” as it has become—is to rob Peter to pay Paul.

Energy Theory of Wealth.—One of the main contributions of these doctrines is a consistent energy theory of wealth and the sharp distinction that results between wealth and the ownership of a debt. This reveals much that is incontrovertible regarding the threatened collapse of the modern scientific civilization, to give it its proper name, though it is usually miscalled the capitalistic civilization. True, “Capital,” in its proper physical sense, is its most distinctive superficial feature. But in that sense Capital is the unconsumable product of the irrevocable consumption or expenditure of wealth necessary to prepare for and make possible the new methods of production. Owing to modern methods of power production, much more of it is necessary than with the old methods. Moreover, it may be *exchangeable* for fresh wealth, but it is not *changeable* into it. From the community’s standpoint capital appears as debt rather than wealth.

Orthodox economics has never yet been anything but the class economics of the owners of debts. If its writers ever attempted any wider social applications, they made themselves simply ridiculous, as when one solemnly looked forward to the millennium arriving through the accumulation of so much capital that everyone would be well off and comfortable, presumably by living on the interest of their mutual indebtednesses. Whilst in the sphere of international trade, till long after the War, the dictum that a continued favourable balance of trade was essential for the existence of the strong nations implied the continuation of unfavourable balances for the weak. It was stated that this country was threatened with disaster unless it contrived to maintain the previous rate of foreign investments—returning abroad all that it received in the way of interest and sinking funds in respect of past investments, and if possible more than this. These are good illustrations of the debt-view of wealth and the substitution of social and legal conventions for physical reality.

Ergosophy.—It is convenient to give a name to the group of interconnected but more or less independent doctrines comprised under such terms as Cartesian, Physical or New Economics, Social Energetics, the Age of Plenty, and Technocracy, including the implications of these doctrines, in regard to the problems of distribution and the new philosophy of money, with which this book

is more particularly concerned. A new word *Ergosophy* will be employed for this purpose. It means the wisdom of work, energy, or power, in the purely physical sense. Mental or intellectual activities, to which these three terms are often loosely applied, are better referred to, rather, as effort, diligence, or attention.

There are many reasons that render such a new word or term desirable. So far there has been no real social philosophy arising wholly out of the universally obeyed laws of the physical world. On the other hand, from the remotest times, technology has been too apt to be considered merely a sort of slave or menial servant to verbose, pretentious, and impressionistic humane philosophies and religions. Indeed it would hardly be a caricature of civilization, as it has evolved up to now, to describe it as having been attempting to compound for the injustice of ascribing unto God the things that are of Science by rendering unto Cæsar the things that are of God. Technocracy, in one at least of its sources of inspiration, the suggestion of Thorstein Veblen for the establishment of a Soviet of technicians to take over the control of the world, is probably one of the first collective dawnings of this malversation. So long as we have simple folk displaying a pathetic acquiescence in the piety that renders thanks for all the good things of life and ascribes them to the bounty of Providence, along with anything but simple folk who

totally disbelieve anything of the kind but nevertheless do still believe implicitly in practising much more forceful methods of obtaining them, so long will civilization be a happy hunting ground for the predatory and acquisitive and a wilderness for the original and creative. The new philosophy, by claiming for mechanical science its rightful position as an equal in the trinity of wisdom, should make it easier to render unto Cæsar the things that are of Cæsar and to God the things that are of God.

Wealth and Calories.—In the first place ergosophy rehabilitates with a precise meaning that old-fashioned and indispensable word *Wealth*, which the orthodox economist, knowing even less of the alleged subject-matter of his studies than the original founders of the subject, the French Physiocrats, took too much for granted. Originating, to him, ultimately somehow through divine agency, he came to regard the acquisition of wealth as tantamount to its creation. He became obsessed with commerce and mercantile exchange to the neglect of the technical principles underlying all new production of wealth. To this day we are in the grip of a mercantile system that fritters away in distribution most of the advantage gained in lightening the labour of producing wealth. Involved in a mass of obvious inconsistencies, he seemed to resent the use of the term wealth at all by those unlearned in his sophistications. Even the orthodox are to-day

exceedingly sparing in the use of the word. The discussion that has lately been greatly in evidence in the papers as to the income necessary to purchase, among other things, sufficient food to support a family in health and work possesses a significance that may perhaps have been missed. The whole question centred round the number of calories of energy contained in the food itself, this to be proved, if necessary, by burning it in a calorimeter. This *is* economics, even if it is not yet recognized as such.

Marxism Obsolete.—It ought never to be forgotten that Victorian economics was essentially class economics, in which only gradually and tardily the actual producers of wealth as distinct from employers and property owners were considered at all. But we find things worse and not better among the accepted doctrines of left-wing and revolutionary movements. With a clearer recognition of the social implications of energy our political controversies appear mainly as due to economic confusions. In an age when men are more and more being displaced from their function as physical labourers by purely inanimate sources of power, and are in danger of being largely by-passed out of the cycle of production and distribution by automatic mechanisms, it would be incredible, if it were not true, that so large a part of the world should be misrepresented as dominated by the doctrines of Karl Marx as to wealth originating in *human*

labour. Every artisan must know that this is not now true. The views of Marx on money were even more out of date, relatively to his age, than his views on wealth, and it was significant in the evidence before the Macmillan Committee that Marxists seem to have been the last to abandon their primitive belief in gold as a currency medium and in the gold standard.

Relations between Peoples and Governments.—If, as appears to be happening, these obsolete ideas and the doctrinaires who exploit them are rapidly losing their hold on the public, and if an increasing body of people of all shades of political opinion are wakening to the more fundamental revolutions rendered inescapable by the progress of science, it is possible to anticipate for this and other countries not yet overtaken by revolution a very different and more reasonable, if more prosaic, course of events. For it is no progress, having absolved the Deity from the function of universal provider, to set up the Government in His place. Veblen was much nearer the reality in substituting the technologist. In the economic affairs of the nation, at least, it would seem no bad thing if the ordinary practical rules of business were followed, success and honesty being encouraged by promotion, and incompetence and corruption entailing dismissal much as with any other paid officials.

Physical Interpretation of History.—Nor does history seem able to escape from much the same