

EXTRACTS.

THE HUMAN ELEMENT IN ECONOMICS.

By

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“ Nevertheless, it is open, I repeat, to serious question, which I leave to the reader's pondering, whether, among national manufactures, that of Souls of a good quality may not at last turn out a quite leadingly lucrative one ?

“ THERE IS NO WEALFH BUT LIFE. Life, including all its powers of love, of joy, and of admiration. That country is the richest which nourishes the greatest number of noble and happy human beings, that man is richest who, having perfected the functions of his own life to the utmost, has also the widest helpful influence, both personal, and by means of his possessions, over the lives of others.

“ A strange political economy; the only one, nevertheless, that ever was or can be: all political economy founded on self-interest being but the fulfilment of that which one brought schism into the Policy of angels, and ruin into the Economy of Heaven.”—RUSKIN.

MR. GANDHI has, very kindly, invited me to write “ a popular article, or a series, making banking easy for people to understand.”

I shall do my best to comply with his request.

The first thing to grasp firmly in the study of finance is, that men grow rice and wheat, spin and weave, build houses and ships, and that money does none of these things. In short, man makes everything and money makes nothing. A ten-year-old school-boy can understand this; but as it is too simple a truth for grown-ups, who have the idea that money makes all things, I here quote as my authority, the first twenty-five words of the world's greatest economic book, Adam Smith's *Wealth of Nations*.

“ The annual labour of every nation is the fund which originally supplies it with all the necessaries and conveniences of life which it annually consumes.”

Note the words "labour (not money) is *the fund* which supplies all the necessaries and conveniences of life." It is because the world has overlooked this simple truth, that money has been allowed to usurp the place of man, as the ruling power, and that finance has become so mystifying and difficult to understand.

Having shown, on the authority of the world's greatest economic teacher, that labour of an honest man is, therefore, a better monetary unit than a gold *mohur*, any intelligent school-boy can understand that the wealth of a nation will grow in exact ratio to the number of its people who are employed fully on the production of useful things such as rice, or wheat, or sugar, or clothing, or houses, or the construction of irrigation canals and wells, or roads. And the obverse is equally true that the poverty of a nation is in exact ratio to the number of its people who are not so employed.

In the modern world, however, the real money or labour of a country cannot be utilized without the help of what Adam Smith calls the nominal money, in the form of silver, or gold, or paper. The nominal money being the instrument for setting men to work, or for exchanging the products of their work, any school-boy can understand that, in order to reach its maximum of production, a country should have as many of the monetary instruments in active operation as will keep every able-bodied man employed fully on the product of what Adam Smith calls "the necessaries and conveniences of life."

How does India stand with regard to the number of these monetary instruments? She does not stand at all: she lies prostrate. She is the greatest real money power in the Empire, and after China the greatest real money power in the world, but for want of these monetary instruments which can be manufactured so cheaply from paper, the productive capital is hampered in its working; consequently, India is a land of poverty, instead of the land of plenty which she will be when her people are supplied with as many of these cheap monetary instruments as are required to keep them fully employed in growing rice, and wheat, and sugar, spinning and weaving, constructing irrigation canals, digging wells, making roads, building ships, etc.

Bankers tell us that paper money is not safe unless backed by ten or fifteen per cent of gold or silver. Even if that were so, Government currency notes are infinitely safer than bank notes, for they are backed for all time by all the gold and silver goods of the nation, whereas bank notes are backed only by the property of a few shareholders. And to use gold or silver when paper will do the same work quite as well, and so much more cheaply, is folly. A child can understand this if a banker cannot. Would a golden plough yield a larger crop than one made of iron? Would a silver *charka* spin more yarn than one made of wood?

Hard cash in the form of a gold *mohur* worth twenty rupees, will employ one man for two months in growing rice. Soft cash, in the form of Government currency notes, costing twenty rupees, will employ a man for nearly twenty years in growing rice. Which is the better currency, the gold or the paper?

Four hundred rupees will sink a well, and yield four hundred rupees worth of food every year. Four hundred rupees spent on the manufacture of paper currency will sink one hundred wells, yielding forty thousand rupees' worth of food every year. Which is the better currency, the silver or the paper? Such is the difference between hard cash and credit. The one starves a nation, because there is not enough to go round; and what there is, is in the wrong hands—the hands of the money-lender or the non-producer. The other feeds it, because it can be manufactured so cheaply, and issued in quantity sufficient to employ every man in productive or constructive work.

It will thus be seen that a bank or Government, which has the power to manufacture and issue paper currency, requires neither capital nor deposits. The capital is the living man who requires only the nominal money to turn his labour into profitable channels which will enrich himself and his country. Only two things are necessary. These are:—

1. Reliable men.
2. Government paper currency, or the instruments of credit, in quantity sufficient to turn the labour of every reliable man on the growing of food, the spinning and weaving of

cloth, the construction of irrigation canals, the digging of wells, the making of roads, and other useful purposes; and it must not be issued in excess of this, otherwise it will defraud the country, by giving men the power to purchase goods without producing or giving anything in exchange for such goods.

I place reliable men first; for the money can be issued and lent only to men who can be trusted to turn it to profitable use and return it, or to honest men who will construct and hand over one rupee's worth of road, in exchange for one rupee's worth of food which the money will enable them to buy. The manufacture of reliable men is, therefore, the first essential for the enrichment of a country, and the welfare of a nation. And may I here quote Ruskin's *Unto this last*? "*Nevertheless, it is open, I repeat, to serious question, which I leave to the reader's pondering, whether among national manufactures, that of Souls of a good quality may not at last turn out a quite leadingly lucrative one*"?

As it is a physical impossibility for a joint stock bank to reach, individually, the tens of millions of small men who are crying out for someone to save them from the money-lender, it is the imperative duty of Government, through its co-operative department to do so. The masses must be financed co-operatively in groups, or not at all. It is, therefore, the business of the co-operative department to manufacture the reliable men, who are the real foundation of every sound banking system, and to form them into groups who will stand shoulder to shoulder, to guarantee the return of the money borrowed by themselves and their neighbours. And it is the duty, as well as the business of Government, which holds the monopoly of the manufacture of the money, to print and issue as much as may be required for productive and constructive purpose; otherwise, so far as the great masses of the people are concerned, their life will remain the empty one it is to-day. And be it noted that the money so manufactured and issued is not Government money, but the money of the people; that is to say, their labour monetized and converted into solid assets.

The British Government, at the instigation of the bankers, has acted very unwisely of late in handing over

to the Bank of England the manufacture and issue of the £1 Treasury note, which is the people's own currency; for this means that the nation has to pay six per cent for the use of its own money; whereas, if the money came direct from the Treasury the people might have it at one per cent for the growing of corn, the building of houses, etc.—Government having no large dividends to pay to bank shareholders, and no interest to pay to bank depositors. The Government of India must make no such blunder, but retain the manufacture of currency in its own hands as a monopoly to be used freely for the benefit of the people and the development of the country.

The Retrenchment Committee which, to save a printer's bill abolished the one rupee note, struck a deadly blow at the development of India; for, without a credit system which can be expanded according to the needs of the people, India's only future will be one of stagnation and poverty. India's banking system must be framed to suit the people; the soul of a nation must not be dwarfed to suit the banking system. Better to curtail bank dividends than the life of 320 millions of people. A restricted supply of productive credit money means a restricted life, a shrivelled body, a shrunken soul. The people of Great Britain would have something to say if a Retrenchment Committee dared to tamper with its small paper currency.

The one rupee note must come back if India is to move forward; and the sooner it comes the sooner will India take her place among the nations. And the paper currency must be issued not only in exchange for silver received, but (as in Scotland) as capital for the growing of rice, and wheat, and sugar; and the more plentifully it is issued for these purposes the greater will be the inflow of gold and silver, and the firmer the foreign exchanges. India now imports every year sixteen crores' worth of sugar which a productive paper currency would enable her to grow within her own borders. If this were done, sixteen crores' worth of gold and silver would flow into India instead of sixteen crores worth of sugar. There would then be no fear of falling exchanges. To regulate the issue of credit money by the output of gold and silver mines situated at the other ends of the earth is sheer

stupidity and bad finance. To say that the people of India should stop growing rice because some wretched miners in South Africa stop raising gold is folly. To regulate the food supply of India by the silver output of Mexico would be a sign of senile decay in the finance department of Government. Even the simple mind of Mr. Gandhi can understand this.

It is because India is starving for the paper money called credit that the people are starving for more and better food, and good milch cows, and doctors and medicine and education, and all else to which every man willing to work is entitled, but which he cannot get while the false money dominates the true.

What then is the way out of the darkness into the light of a better day? The road lies by way of Scotland, where money was (until crippled by the English Gold Reserve Bank Act of 1844) the servant of man, not his master. The Scottish Credit System is explained thus in Mr. Dunning Macleod's *Elements of Banking*:

"We have now to describe a species of credit invented in Scotland, to which the marvellous progress and prosperity of that country is mainly due.

"The Bank of Scotland began to issue £1 notes about the beginning of the last century. In 1727 another bank was founded named the Royal Bank. In the very contracted sphere of Scottish commerce at the time, there were not sufficient commercial bills to exhaust the credit of the banks. They had, as it were, a superfluity of credit on hand, and the Royal Bank devised a new means of getting it into circulation.

"It agreed, on receiving sufficient guarantees, to open or create credits in favour of respectable and trustworthy persons.

"A cash credit is therefore simply a drawing account, created in favour of a customer, upon which he may operate in precisely the same manner as on a common drawing account. The only difference being that, instead of receiving interest upon the daily balance to his credit, as is very commonly the custom in Scotland, he pays interest on the

daily balance at his debit. It is thus an inverse drawing account.

“ All these advances are made exclusively in the Bank's own notes, and they are not made on the basis of any previous transaction.

“ Cash credits are applicable to a totally different class of transactions from those which give rise to bills of exchange, and we will now explain their nature more fully.

“ Almost every young man commencing business in Scotland does it by means of a cash credit. A young solicitor, for instance, in England must have a very considerable amount of ready money to begin business with any ease to himself, as he is expected to make disbursements from his clients. But in Scotland this is done by means of a cash credit which is guaranteed by his friends.

“ These credits are granted to all classes of society, to the poor as freely as to the rich. Everything depends upon character. Young men in the humblest walks of life inspire their friends with confidence in their steadiness and judgment, and they become sureties for them on a cash credit. This is exactly the same thing as money to them, and they then have the means placed within their reach of rising to any extent to which their abilities and industry permit them.

“ It was in this manner that the prodigious progress in agriculture was made in Scotland. There were immense quantities of reclaimable land, and abundance of unemployed people, but no capital or money to set their industry in motion. Seeing this state of matters the banks opened branches in numerous parts of the country, and set down boxes of £1 notes and granted cash credits to the farmers. These notes were universally received as readily as coin. The farmers made their purchases and paid wages with them, and immense tracts of barren land were changed into fertile cornfields. Now these £1 notes were not a substitute for any specie; they did not supersede or displace any previously existing money; they were a pure *addition* to the existing money; they were, in fact, exactly equivalent to the creation of so much gold.

“ Commerce and agriculture, therefore, received their prodigious stimulus from these cash credits. But they were of equal use in a public point of view. Almost all the great public works of every description were created by means of these cash credits. One witness stated that the Forth and Clyde Canal was executed by means of a cash credit of £40,000 granted by the Royal Bank. And in exactly a similar way, whenever any other great public works are to be done, such as roads, bridges, canals, railways, docks, etc., the invariable course is to obtain a large cash credit at one of the banks.

“ All these marvellous results, which have raised Scotland from the lowest state of barbarism up to her present proud position in the space of 150 years are the children of pure CREDIT. It is no exaggeration whatever, but a melancholy truth, that at the period of the Revolution 1688, and the establishment of the Bank of Scotland, that country, partly owing to such a series of disasters as cannot be paralleled in the history of any other independent nation, and partly owing to its position in the very outskirts of the civilized world, and far removed from the humanizing influence of commerce, divided in fact, into two nations, aliens in blood and language, was the most utterly barbarous, savage and lawless kingdom in Europe. And it is equally undeniable that the two great causes of her rapid rise in civilization and wealth have been her systems of national education and banking. Her system of banking has been of infinitely greater service to her than mines of gold and silver. Mines of the precious metals would probably have demoralized her people. But her banking system has tended immensely to call forth every manly virtue. In the character of her own people, in their steadiness, their integrity, their honour, Scotland has found wealth infinitely more beneficial to her than the mines of Mexico and Peru.

“ Now, we observe that these cash credits which have produced such marvellous results are not based upon any previous operations, nor upon the transfer of commodities already in existence. They are created for the express purpose of creating or forming future products, which would either have no existence at all but for them, or, at

all events, they would have been deferred for a very long period, until solid money could have been obtained to produce them. Thus we have an enormous mass of exchangeable property (the £1 notes) created by the mere will of the bank and its customers, which produces all the effects of solid gold and silver; and when it has done its work, it vanishes again into nothing, at the will of the same persons who called it into existence.

“Hence we see that the mere will of man has created vast masses of wealth out of nothing, and then DECREASED them into nothing, which, having served their purpose, after a time were

‘MELTED INTO AIR, INTO THIN AIR.’

“But their solid results have by no means faded like the baseless fabric of a vision, leaving not a rack behind. On the contrary, their solid results have been her far-famed agriculture; the manufactures of Glasgow and Paisley; the unrivalled steamships of the Clyde; great public works of all sorts—canals, railways, roads, bridges; and poor young men converted into princely merchants.”

Like the Scotland of 150 years ago, India is starving for money, but she need starve no longer. If the poor Scottish banks of those days, with the assets of only a few shareholders behind them, could manufacture all the money required to regenerate Scotland, the Government of India with the entire property of 320 millions of people behind it, can manufacture all the money required to send India on her way rejoicing. Let me repeat, however, that it is not money which regenerates a nation but the labour of men's souls and bodies, their hand and heads: this is the real working capital of all nations, and “the fund” of Adam Smith, which supplies all the necessaries and conveniences of life. Money is only the instrument which sets the man agoing, the real capital being the man himself. A bank does not create credit; it only monetizes the credit or trust and labour which live in the man who borrows. Money is merely the instrument for switching on the productive power—the real capital which enriches a nation—Man himself.

As Mr. Gandhi, like myself, is deeply interested in the preservation of village life and the handloom, he may

be interested in hearing how the development of the linen handloom industry led to the development of banking throughout Great Britain. The story here given is taken from Graham's History of the £1 note.

“ So deep had been the poverty of Scotland during the first half of the eighteenth century, and so small the amount of accumulated wealth, that even their proverbial honesty could scarcely have ameliorated the condition of our ancestors, had the note issue not stepped in to occupy the place of capital. Ignorant as they may have been of the modern philosophy of paper money, the Scotsmen of the eighteenth century keenly appreciated the opportunities which their banks placed in their way. Their credits through their notes were to them capital, not currency merely, but a fund of capital with which they could buy and sell and realize a profit on their transactions. Conveniently enough, notes did serve as a currency, but their primary nature, in the opinion of the time, was that of capital.

“ With the battle of Culloden, the hopes of the Jacobites were crushed for ever. Immediately afterwards, the King was approached by the Dukes of Queensberry and Argyle, the Earls of Lauderdale and Glencairn, Lord Provost John Coutts, the banker, and other notables, for the purpose of obtaining a charter for a new company, to be established for the encouragement of the linen trade. The time was thought opportune, as ‘it was considered to be of much importance, with a view to tranquilize the country, and call forth its resources, that the attention of the Scottish people should be directed to the advantages to be derived from trading and manufacturing enterprise.’ It was anticipated that, ‘by affording the direct encouragement of a Government institution to the linen manufacture, it would become the great staple manufacture of Scotland, and would provide ample employment for the population; while extensive markets for the produce of this labour would be found within the United Kingdom and in the Colonies then chiefly supplied with linen from Germany.

“ A charter was granted, dated 5th July, 1746, in which the capital was stated at £100,000, of which only £50,000 was to be subscribed for; the company having power in addition to dealing directly in linen, to do everything that might conduce to the British Linen Company.

“The new bank began business in Tweeddale Court, in the High Street, and its first years and its manner of business are deeply interesting, for in them was laid that widespread system of branches which has given such an impulse to banking in Scotland. It is largely owing to the branch system that the poverty-stricken Scotland of 1700 has now £100,000,000 lodged in her banks, and it was by means of the note issue,—the one pound note issue—that these branches were established and maintained. How often it is that the greatest advances in human knowledge are made by outsiders, who have not been trained in, nor had connection with, the particular profession which their genius has advanced. The sudden burst of discovery and invention that marked the period 1750 to 1800 witnessed many examples of this fact. The spinning frame was invented in 1767 by Richard Arkwright, a poor barber. In 1760, James Watt, a maker of mathematical instruments, was beginning those experiments with steam which have revolutionized the world; and the originators of the plan whereby note issues, deposits and cash credits were to receive the widest extension were the partners of a linen company. Before any idea of banking was entertained, extensive correspondence was held throughout Scotland with the weaving industries. Weaving was then chiefly carried on by the lower orders, who having little or no capital, were only too glad to work for the new company. In a very short time accounts were opened by men in every portion of the land from Shetland to London. Material was supplied to the workmen, who were paid for their labour on returning the manufactured goods. In this way the need of small amounts of capital by a vast number of individuals was satisfactorily met. Gradually, as industries gave hopes of success, new agencies were opened. By these means the Bank laid its foundations broadly and securely in such a manner that temporary pressure at one point might be relieved by support given at others. By its branch system the British Linen Company attained a circulation of its notes unknown to any of the other banks, a position which in 1845 gave it the advantage of having the largest authorized circulation of any bank in Scotland, at which time £1 notes formed 73 per cent of the entire issue of £3,000,000.”

The British Linen Company is, to-day, one of the strongest of the Scottish banks; and it owes its strength to the development of its branch system and its manufacture of £1 notes which were issued to the poor handloom

linen weavers of Scotland. The one rupee note, harnessed to the raiyats and the handloom weavers of India, by the opening of co-operative bank branches throughout the length and breadth of the land, will do for India what the £1 note, based not on gold or silver but on the labour of poor reliable working men, did for Scotland.

Let India beware of Reserve Bank Acts, and gold exchange standards, and central gold reserves. The gold mines of the world are dying assets, and to claim young India to a dying gold mine would be like marrying a girl bride to a dying man.

Western financiers do not like India's power of absorbing gold: it weakens their so-called gold base: and for this reason they would like India to join their gold ring. But one of the greatest services which India can render to the world is, so to organize her own people and develop her own strength and resources that she will draw every gold bar eastwards in payment of her increased exports. For, in so doing she will teach the world that its welfare, as well as its credit, rests not on gold, but on hard work and the assets which only hard work can create.

"For God, work hard", was the advice given to the Scottish students by Livingstone, the great explorer. These four words are the only sound base of credit, and the only strong foundation for a healthy progressive State. The land will still be fertile when all the good mines of the world have closed down, and India will still grow rice when the Mexican mines have yielded up their last ounce of silver. It is not by gold or silver that men live, but by labour and bread, and the word of God. Give India a banking system based not on gold or silver, or tinsel and sham, but on living men and the solid assets which their labour will create, and she will lead the world in the paths of peace and prosperity.

That a money system based on gold is "satanic" in its origin, is shown clearly in Milton's *Paradise Lost*.

Let India, therefore, beware of ribs or bars of gold, as a base of credit, lest she too lose her Paradise.

GANDHIPUR.

An ounce of practice is worth a ton of theory; and, as an object lesson in sound currency and "heavenly" finance, which Sir Bhupendra Nath Mitra and Mr. Gandhi will have no difficulty in understanding, I put forward the following proposal for the favourable consideration of Government.

If Government will provide a square mile of suitable land, and if Mr. Gandhi will provide one hundred reliable cultivators, and if Government will manufacture and lend me fifty thousand rupees in ten and one rupee notes, costing only a few rupees to manufacture, I shall hand over to Government, in exchange, a zamindari which will yield half-a-lakh's worth of crops every year, besides clothing for the people—the currency to be paid out by Government as the work progresses, so that neither the Government nor the country would run the slightest risk of the money not being made good in solid assets.

A zamindari which would provide homes for a hundred families, and half-a-lakh's worth of crops, *plus* clothing every year, in exchange for the loan of some scraps of paper costing only a few rupees, would be a good bargain both for Government and people.

The money would be returned at the rate of six per cent every year, one per cent of which would pay for the manufacture of the money and the accounting; the remaining five per cent would go towards repayment of the loan. The money would thus all return to Government, and disappear; but the zamindari yielding half-a-lakh's worth of crops every year, *plus* clothing, would remain to enrich the nation. Its name would be Gandhipur.

CLEANINGS.

A series of feeding trials was conducted at the Roseworthy Agricultural College, South Australia. The object was to determine the best economic ration for calves. Whole milk, skim milk and linseed meal, skim milk and 'Faterine' were compared with each other. The results, show that although whole milk is the natural food for calves the expense is far too great to use it as a ration when supplements to skim milk are available.

The calves fed with 'Faterine' showed no digestive troubles which was the case with the lot fed with linseed meal and it appeared an effective means of substituting butter fat removed from milk by the separator.

Ehrharta Villosa var Maxima:—(South African Pyp. grass) has been reported to have established itself in Australia as an excellent sand binder in regions with an annual rainfall of 16 inches and over. It is propagated by cuttings. It is a fairly good fodder. It has a decided advantage, as it ceases to continue to spread when it reaches heavy soil.

A deficiency of *manganese* in the soil has been determined by G. Samuel and C. S. Piper as the cause of a disease in oats in South Australia which was characterised by the dying of the tissue in the middle of the leaves.

'Rains' of fishes are not a figment of imagination as some way opine but the explanation given has not satisfied scientists. After a study of 75 records from 15 countries encircling the globe, E. W. Grudger believes that the explanation of the waterspout is the only one tenable.
