non serviam #11

A Critique of Communism
and
The Individualist Alternative

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Given the advantages of the division of labour, what is to be the method by which man exchanges his products? Primitive man devised the barter system for this purpose. But it wasn't long before the limitations of this system became apparent:

> "Let Peter own a horse; let James own a cow and a pig; let James's cow and pig, taken together, be worth precisely as much as Peter's horse; let Peter and James desire to make an exchange; now, what shall prevent them from making the exchange by direct barter? Again, let Peter own the horse; let James own the cow; and let John own the pig. Peter cannot exchange his horse for the cow, because he would lose by the transaction; neither –and for the same reason– can he exchange it for the pig. The division of the horse would result in the destruction of its value. The hide, it is true, possesses an intrinsic value; and a dead horse makes excellent manure for a grapevine; nevertheless, the division of a horse results in the destruction of its value as a living animal. But if Peter barters his horse with Paul for an equivalent in wheat, what shall prevent him from so dividing his wheat as to qualify himself to offer to James an equivalent for his cow and to John an equivalent for his pig? If Peter trades thus with James and John the transaction is still barter, though the wheat serves as currency and obviates the difficulty in making change." [101]

Thus currency (i.e, money) was born. Many things have served as money throughout the ages: slaves, gunpowder, and even human skulls, to name but a few. The New Hebrides used feathers for their money and in Ethiopia salt circulated as the currency for centuries. But by far the most popular medium of exchange became the precious metals, gold and silver. There were several reasons for this: (1) Unlike feathers or skulls, they have intrinsic value as metals. (2) They are sufficiently rare as to impose difficulty in producing them and sufficiently common as to make it not impossible to do so. (3) Their value fluctuates relatively little with the passing of time. Even large strikes –such as those in California and Alaska– failed to devalue gold to any appreciable extent. (4) They are particularly sturdy commodities, loosing relatively little due to the wear and tear of circulation. (5) They are easily divisible into fractional parts to facilitate small purchases. For these and other reasons, gold and silver became universally recognised as standards of value. Certain quantities of these metals became the units by which man measured the worth of an object. For example, the pound sterling, lira, and ruble were originally terms for metallic weight while the drachma means literally a handful.

As long as these metals served purely as just another commodity to be bartered – albeit a very useful commodity– there was no inherent advantage in possessing these metals as such. It was not until governments declared them the sole LEGAL medium of exchange that gold and silver became intrinsically oppressive. Governments, by □emonetize gold and silver automatically □emonetized every other item of capital.[1] It is this monopoly which has been the chief obstacle in preventing men from obtaining the product of their labour and which permitted the few men who controlled the money supply to roll up such large fortunes at the expense of labour.

As long as the monetary structure was directly tied to gold and silver, the volume of money was limited by the amount of gold and silver available for coinage. It is for this reason that paper money –backed by "hard money"– came into being. The paper money was simply a promise "to pay the bearer on demand" its equivalent in specie (i.e. gold or silver). Hence the words "note" and "bill," which imply debt. Governments were at first reluctant to issue paper money. But the scarcity of money in an increasingly commercial world soon forced them to recant. The men of wealth, well aware of the threat that "easy money" posed to their "hard money," insisted that such money be based solely on the wealth they already possessed. Governments readily fell into line. In the United States, from 1866, anyone issuing circulating notes was slapped with a tax of 10% until it was completely outlawed in 1936. The British government was even more severe; it gave the Bank of England monopoly rights to issue "bank notes" as early as 1844. [102]

When a man is forced to barter his products for money, in order to have money to barter for such other products that he might want, he is put at a disadvantage which the capitalist is all too ready to exploit. William B. Greene was one of the first to observe this fact:

> "Society established gold and silver as a circulating medium, in order that exchanges of commodities might be FACILITATED; but society made a mistake in so doing; for by this very act it gave to a certain class of men the power of saying what exchanges shall, and what exchanges shall not, be FACILITATED by means of this very circulating medium. The monopolisers of the precious metals have an undue power over the community; they can say whether money shall, or shall not, be permitted to exercise its legitimate functions. These men have a VETO on the action of money, and therefore on exchanges of commodity; and they will not take off their VETO until they have received usury, or, as it is more politely termed, interest on their money. Here is the great objection to the present currency. Behold the manner in which the absurdity inherent in a specie currency –or, what is still worse, in a currency of paper based upon specie– manifests itself in actual operation! The mediating value which society hoped would facilitate exchanges becomes an absolute marketable commodity, itself transcending all reach of mediation. The great natural difficulty which

[1] A natural question arises here: "That may have been true up until 40 years ago, but haven't governments since abandoned the gold standard?" The answer is no. As long as the United States government promises to buy and sell gold at $35 an ounce and as long as the International Monetary Fund (which stabilises the exchange rates) is based on gold and U.S. dollars, the world remains on the gold standard.

> originally stood in the way of exchanges is now the private property of a class, and this class cultivates this difficulty, and make money out of it, even as a farmer cultivates his farm and makes money by his labour. But there is a difference between the farmer and the usurer; for the farmer benefits the community as well as himself, while every dollar made by the usurer is a dollar taken from the pocket of some other individual, since the usurer cultivates nothing but an actual obstruction." [103]

The legitimate purpose of money is to facilitate exchange. As Greene shows, specie –or money based on specie– accomplishes this purpose, but only at a terrible price to the user. The solution to the problem is to devise a money which has no value as a COMMODITY, only as a circulating medium. This money should also be available in such quantity as not to hamper any exchanges which may be desired. The organ for creating such a currency Greene called a "mutual bank".[2]

Before considering the operations of a mutual bank, I'd like to look at how an ordinary bank functions. Let us say that Mr Brown, who owns a farm worth a few thousand pounds, needs 500 pounds to buy seed and equipment for the coming year. Not having that kind of money on hand, he goes to the bank to borrow it. The bank readily agrees - on the condition that at the end of the year Brown not only pays back the 500 pounds borrowed, but also 50 pounds which they call "interest." Farmer Brown has no choice; he needs MONEY because that is all the seed dealer will accept as "legal tender." So he agrees to the conditions set down by the bank. After a year of hard work, and with a bit of luck from the weather, he harvests his crops and exchanges (i.e. "sells") his produce - for money. He takes 550 pounds to the bank and cancels his debt. The net result of all this is that some banker is 50 pounds richer for doing a minimal amount of work (perhaps a few hours of bookkeeping) at no risk to himself (the farm was collateral), while Mr Brown is 50 pounds out of pocket.

Now let's see where Greene's idea leads us. A group of people get together and decide to set up a mutual bank. The bank will issue notes which all members of the bank agree to accept as "money." Taking the above example, Mr Brown could get five hundred of these notes by mortgaging his farm and discounting with the bank a mortgage note for that sum. With the notes, he buys his seed from Smith and some tools from Jones. Smith and Jones in turn exchange some of these newly acquired notes for some things they need. And so on until the end of the year when Brown exchanges his farm produce and receives for them - mutual bank notes. Does all this sound familiar? It should, for up until now, from all outward appearances, there has been no difference between our mutual bank and an ordinary specie bank. But it's here, however, that the change comes in. Mr Brown goes to the mutual bank with his notes and gives the bank 500 of them plus ONE OR TWO extra to help pay for the operating expenses of the bank over the past year. The bank cancels his mortgage and Mr Brown walks away thinking how nice it is to be a member of such a wonderful bank.

Now notice that it was never mentioned that Smith and Jones were members of the

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[2] Proudhon's bank, "la banque du peuple," is essentially the same. For a detailed account of the workings of each bank see Greene's "Mutual Banking" and Proudhon's "Solution of the Social Problem" and "Revolution in the Nineteenth Century."

bank. They may have been, but it wasn't necessary. Smith, the seed dealer, might not belong to the bank and yet be willing to accept its notes. He's in business, after all, and if the only money Brown has is mutual money, that's all right with him - as long as he can get rid of it when HE wants to buy something. And of course he can because he knows there are other members of the bank pledged to receiving these notes. Besides, Brown will need at least 500 of them eventually to pay off his mortgage. So Smith accepts the money, and he too profits from this novel scheme. In fact, the only one who seems to be any the worse is the poor usurous banker. But I'm afraid he will just have to find himself an honest job and work for his living like everyone else.

John Stuart Mill defined capital as "wealth appropriated to reproductive employment." In our example above, farmer Brown's 500 pounds is capital since he intends to use it for creating new wealth. But Mr Brown can use his capital in any number of ways: he may decide to use it to buy seeds for planting corn; or he may decide that his ground is better suited for growing wheat, or he may decide to invest in a new tractor. This 500 pounds, then, is liquid capital or, as Greene called it, disengaged capital. When Mr Brown buys his seeds and tools, these things are still designed for "reproductive employment," and are therefore still capital. But what kind of capital? Evidently, frozen or engaged capital. He then plants his seeds and harvests his crops with the aid of his new tractor. The produce he grows is no longer capital because it is no longer capable of being "appropriated to reproductive employment." What is it, then? Evidently, it is product. Mr Brown then takes his goods to town and sells them at market value for somewhat more than the 500 pounds he originally started out with. This "profit" is entirely due to his labour as a farmer (and perhaps to some extent his skill as a salesman). The money he receives for his goods become, once again, liquid capital. So we have came full circle: liquid capital becomes frozen capital; frozen capital becomes product; product becomes liquid capital. And the cycle starts all over again.

A society is prosperous when money flows freely - that is when each man is able to easily convert his product into liquid capital. A society is unprosperous when money is tight - that is, when exchange is difficult to effect. Mutual banking makes as much money available as is necessary. When a man needs money he simply goes to his friendly mutual bank, mortgages some property, and receives the notes of the bank in return. What this system does is to allow a man to circulate his CREDIT. Whoever goes to a mutual bank and mortgages some of his property will always receive money, for a mutual bank can issue money to any extent. This money will always be good because it is all based on actual property which, if necessary, could be sold to pay off bad debts. The mutual bank, of course, would never give PERSONAL credit, for to do so would give the notes an element of risk and render them unstable. But what about the man with no property to pledge? Greene answered this question as follows:

> "If we knew of a plan whereby, through an act of the legislature, every member of the community might be made rich, we would destroy this petition and draw up another embodying that plan. Meanwhile, we affirm that no system was ever devised so beneficial to the poor as the system of mutual banking; for if a man having nothing to offer in pledge, has a friend who is a property holder and that friend is willing to furnish security for him, he can borrow money at the mutual bank at a rate of 1% interest a

year; whereas, if he should borrow at the existing banks, he would be obliged to pay 6%. Again as mutual banking will make money exceedingly plenty, it will cause a rise in the rate of wages, thus benefiting the man who has no property but his bodily strength; and it will not cause a proportionate increase in the price of the necessaries of life: for the price of provisions, etc., depends on supply and demand; and mutual banking operates, not directly on supply and demand, but to the diminution of the rate of interest on the medium of exchange. But certain mechanics and farmers say, `We borrow no money, and therefore pay no interest. How, then does this thing concern us?' Harken, my friends! let us reason together. I have an impression on my mind that it is precisely the class who have no dealings with the banks, and derive no advantages from them, that ultimately pay all the interest money that is paid. When a manufacturer borrows money to carry on his business, he counts the interest he pays as a part of his expenses, and therefore adds the amount of interest to the price of his goods. The consumer who buys the goods pays the interest when he pays for the goods; and who is the consumer, if not the mechanic and the farmer? If a manufacturer could borrow money at 1%, he could afford to undersell all his competitors, to the manifest advantage of the farmer and mechanic. The manufacturer would neither gain nor lose; the farmer and mechanic, who have no dealings with the bank, would gain the whole difference; and the bank –which, were it not for the competition of the mutual bank, would have loaned the money at 6% interest– would lose the whole difference. It is the indirect relation of the bank to the farmer and mechanic, and not its direct relation to the manufacturer and merchant, that enables it to make money." [104]

Mutual banking, by broadening the currency base, makes money plentiful. The resulting stimulus to business would create an unprecedented demand for labour - a demand which would always be in excess of the supply. Then, as Benjamin Tucker observed:

> "When two labourers are after one employer, wages fall, but when two employers are after one labourer, wages rise. Labour will then be in a position to dictate its wages, and will thus secure its natural wage, its entire product. Thus the same blow that strikes interest down will send wages up. But this is not all. Down will go profits also. For merchants, instead of buying at high prices on credit, will borrow money of the banks at less than one percent, buy at low prices for cash, and correspondingly reduce the prices of their goods to their customers. And with the rest will go house-rent. For no one who can borrow capital at one percent with which to build a house of his own will consent to pay rent to a landlord at a higher rate than that." [105]

Unlike the "boom and bust" cycles we now experience under the present system, mutualism would know nothing but "boom." For the present "busts" come when the economy is "overheated" and when there is so-called "overproduction." As long as most of humanity lead lives of abject poverty, we can never speak realistically of "over-production." And as long as each hungry belly comes with a pair of hands, mutualism will be there to give those hands work to fill that belly.

REFERENCES

[101] William B. Greene, "Mutual Banking," from Proudhon's "Solution of the Social Problem," ed. Henry Cohen (New York: Vanguard Press, 1927), p. 177.
[102] "Money," "Encyclopaedia Britannica," 1965, vol. XV, p. 703.
[103] Greene, op. cit., p. 180.
[104] Ibid., pp. 196-7.
[105] Tucker, "Instead of a Book" p. 12, Reprinted from "Liberty," March 10, 1888.

It is a vulgar mistake to think that most people in Eastern Europe are miserable.

–Paul Samuelson in 1987,
Nobel Laureate in Economics