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RAILWAY MONEY AND UNEMPLOYMENT (1)

ANGLO-JEWRY AND THE HEBREW UNIVERSITY

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1 - Present Position

The German Reich Railway has been seriously affected by the trade depression. Its revenues shrink. And its orders for materials, etc., have had to be reduced in proportion. This, in turn, aggravates the existing depression and the railway revenues consequently drop still lower.

At the same time the Railway is in an anomalous position. In view of its importance in the country's economic life, it is expected to adopt far-reaching measures to reduce unemployment, such as placing huge orders so as to revive industry. The Railway, however, can only fulfil these expectations to a modest degree because it is doubtful whether its future revenues would suffice for meeting its obligations as regards those orders. Prudence counsels circumspection. Hence the Railway Management inclines to shift the risk involved in placing substantial orders onto the shoulders of the Central Notes Institute (2) or, what is today its practical equivalent, the State. However, this bank of issue can only, in conformity with the law and with the demands of a sound currency policy, undertake the financing of any schemes when they are covered by short-term obligations. The Railway is only partly in a position to comply with this condition. Hence the Central Bank is generally obliged to refuse. In fact, the Railway cannot make itself responsible at present for placing big orders. It can therefore do little to augment employment.

(1) Readers of the *Annals of Collective Economy* will be interested in this paper. Within a limited field and quite independently, Dr. Zander urges a similar point of view to that which inspired Professor Milhaud's plan submitted recently in the *Annals of Collective Economy* (January-May 1932 and June-November 1933). Dr. Zander's paper appeared in the first instance in *Deutsches Volksrecht* (1-5 July 1933) and later in pamphlet form under the title *Eisenbahngeld and Arbeitslosigkeit* (Railway Money and Unemployment), published by the Sparerbund (League of Investors), Berlin W 8, Jaegerstr. 59-60. An outline of his plan, appeared already in *Deutsches Volksrecht,* of 17 May 1933.

(2) See the article in the Berliner *Börsen-Courier* of 11 June 1933. "The Reich Railway and Employment ". There it is stated : "The magnitude of the orders to be placed will depend entirely on the decision of the Reichsbank President in view of their being re-financed by our Central Notes Institute".

II - The Plan Outlined

The Railway is justified in proceeding warily. Cash purchases are out of the question in present circumstances. On the other hand, the promise to pay at a future date signifies the sale of means of payment on terms, [(1)] for the Railway undertakes to deliver something at a fixed date which at the time of the promise it only hopes to possess. Whether its hope will materialise, is uncertain. The undertaking to pay at maturity contains therefore a speculative element, which is particularly hazardous in times of depression. It is therefore obvious that the Railway must be extremely circumspect in making credit purchases, i.e. in promising to pay at a later date with resources which have yet to be secured.

But the Railway may promise something else, namely, to transport commodities and persons - that is, to fulfil its function as a Railway. There is nothing speculative about that. The means required for this, rolling stock and other plant, are available. This is therefore fundamentally different from a promise to pay at a future date, for in the latter case the means of payment have yet to be secured and this by having transported passengers and goods. The capacity of the Railway to act as a carrier is at any rate unquestionable.

Such is the starting point of the plan. *The Railway places orders to be paid for not in legal tender (Central Bank notes), but in transport certificates which the Railway booking offices accept as cash payment*. The Railway thus pays its contractors with warrants entitling the contractors to equivalent railway services. The certificates are made out to bearer and are issued in denominations convenient for free circulation.

Of course, no one would be legally bound to accept such certificates in payment. They are only legal tender against the Railway which issued them. Nor have they any legal value, for they do not represent a forced currency. The market rate is an open one, but the Railway has to accept the certificates at their nominal value, regardless of the market rate.

III - Historical Precedents

Railway money is not a new thing in Germany, When Friedrich List, just a century ago, constructed the Leipsig-Dresden Railway, he was authorised to issue 500,000 thaler - one-third of the Company's capital - in the form of "railway money certificates, subject to the provision that no obligation would arise therefrom to the State". These certificates remained in circulation for about forty years and fully attained their object. Only after the formation of the Reich, were they, as a result of certain financial reforms, replaced by Reich treasury notes.

During the inflation period, the German Reich Railway issued its own money, some of which was on a gold standard basis and retained its value. These were the so-called Oeser notes, of which, according to the *Statistisches Jahrbuch* for 1924/1925 (p.313), there were in circulation on 31 December 1923, 141.9 million gold marks.

(1) On this subject, consult Henry Meulen, *Industrial Justice through Banking Reform* (London, 1917, p. 16 ff).

In the plan here submitted, these historical precedents have been further elaborated.

It may be mentioned, finally, in this connection that whilst these lines were being written, the Italian State Railway floated a lottery loan, including among the prizes 1.000 first class monthly season tickets. The issue proved a great success and was at once over-subscribed. It will be evident to the reader that the offer of free season tickets accords with the spirit of the present plan.

IV - Circulation of the Railway Money

The extent of the circulation of the railway money will depend on its utility. The starting point is the contractor who received the certificates from the Railway. To the degree that he can profitably utilise the services of the Railway himself, - that is, by having persons and goods to send by rail, - the certificates manifestly have value for him. This value is equivalent to the payments he would have to make for despatching those persons and goods. If, for instance, his monthly expenses for freights and passenger tickets averaged 1,000 marks, he could utilise transport certificates to that value as if they were cash. So far the certificates have par value for him. If a large-scale contracting firm were involved, such as the Electro Trust, it would be able to make considerable use of the certificates.

Insofar as the contractor has no use for the certificates, he will dispose of them otherwise. His sub-contractors come here into consideration in the first place. He will therefore, as far as possible, place his orders on the basis of payments to be made in transport certificates. Beyond this, he can have recourse to the free market. Inasmuch as practically everybody uses the railway, his prospects of disposing of them are decidedly encouraging. Hence not only firms come in question, but private persons who wish to travel or have goods to despatch by rail. Moreover, there is the probability that the manual and clerical workers of the contracting firms may agree to accept as part of their remuneration railway money. This they would make use of themselves (monthly season tickets and holiday travel) or dispose of in shops whose owners can utilise it or pass it on.

The value of the circulating certificates will be determined by the law of supply and demand. Should the market rate fall below the nominal value - say to 95 % thereof, - everybody who desires to travel or forward goods by rail would be eager to acquire certificates, for the Railway is obliged to accept the latter at their face value. The holder of the railway money (prospective passenger or forwarder) may thus save 5% of his railway expenses. The attractiveness of the certificates thus grows as their value drops and, accordingly, a fall in their value stimulates the demand for them. In turn, the growing demand will raise the market rate until the nominal value is again reached, when the demand will slacken. An open market for the railway money guarantees therefore its soundness.

Hence those who regularly use the railway, including more especially large firms, would instruct their bankers to purchase transport certificates as soon as they have fallen below par. At the stock exchange the railway money would be regularly dealt in and retail trading therein might be facilitated if in the immediate vicinity of the railway booking offices exchange bureaus sold railway money. The trade in transport certificates would be hence free and unlimited.

The Railway would naturally undertake not to raise its tariffs so long as the transport certificates remained in circulation, for otherwise it might depreciate the value of the certificates for its own benefit.

V - Importance for the Railway

The Railway would manifestly profit by such a plan, for it could freely place orders for any materials it might require. For this purpose, it would have no longer need of legal tender, which it lacks at present. *It could undertake to pay with a means completely at its disposal, namely transport services.* Thus the Railway would secure the materials it is short of, in the easiest and most natural manner. Instead of an empty sale of legal tender, there would be an exchange of existing values. The financial situation of the Railway would thus be greatly eased. Here is an advantage far greater than that involved in an ordinary credit transaction, for even if the date of payment for materials received should be very liberally conceived, the Railway would be eventually obliged to offer payment in banknotes, which it must first obtain. The plan here submitted would relieve the Railway altogether of the necessity to accumulate cash. The risk is passed on to the contractor who, on his part, is in a position to bear it, since he receives orders he would not otherwise obtain and since he can reimburse himself by bringing the certificates into circulation. The proposed, method of settlement would carry with it no dubious consequences for the Railway.

The Railway's sole obligation would be to undertake that all its booking offices should accept the transport certificates at their face value irrespective of their current market rate. The Railway would have only to place its services at the disposal of the certificate holders. It would be in no way bound to redeem the certificates in gold, in banknotes, or in any other way. The sole mode of redemption is their acceptance for services rendered. The issue of the transport certificates would involve therefore no risk whatever for the Railway. Even should there be grave mistrust of the Railway Management, no one could claim anything beyond the right to have persons or goods transported. The worst that could happen in the case of a heavy drop in the value of the certificates would be that the number of railway passengers and the quantity of goods forwarded would considerably increase. This could never imperil the Railway.

In these circumstances the placing of orders will be facilitated for the Railway. The country's productive activity would thus rise and with it the Railway's turnover. Incidentally, this might lead to a fall in costs and therefore to an increase in possible profits.

In order to strengthen its credit, the Railway would be in any case anxious to increase as far as possible the circulation of its own money. It would therefore bring pressure to bear on undertakings under its influence to accept the certificates in payment. In this category might be placed hotels, restaurants, workshops, canteens, ports, and ships owned by the Railway. That, for competitive reasons, would in turn lead to undertakings not controlled by the Railway, also to accept the certificates. There is hence every probability that railway money would not only be accepted in the refreshment rooms of railway stations, but in restaurants generally, so long as the possibility exists of making use of the certificates or of passing them on. The circulation of the certificates might therefore be a very wide one.

When the certificate issued by the Railway returns in the form of payments made for passenger tickets and freight costs, its mission would be at an end. The circle is closed. The Railway, having rendered in services an equivalent for the materials it had received, the transport certificate would be destroyed.

VI - No Deficiency in Cash Takings

It might be argued that the Railway would have to re-issue the certificates returned to it in order to meet its various obligations and that thereupon the price of the certificates would fall and their issue become purposeless as such. The objection is invalid. It is founded on a crass misapprehension. It overlooks the fact that the sequence of the contemplated financial operations is the opposite to that averred by the objectors. In issuing transport certificates, the Railway would have no intention of distributing them gratis, but would use them for covering necessary expenditure. For instance, with their aid it might purchase signal lamps. In this way it would come into possession of the signal lamps it required without having to tender currency notes. When the certificates had found their way back, the liability would have been discharged. The Railway would have the signal lamps and the contractor, having made use of the certificates, would have been paid. The transaction would be thus liquidated and the returned certificates consigned to destruction.

It is a mistake to suppose that the Railway would be obliged to reissue the certificates for the purpose of purchasing signal lamps. On the contrary, the signal lamps would have been already acquired and paid for. The certificates *issued* by the Railway had been already *issued* and could not therefore be re-issued, for no one could make use of one and the same note twice over.

What of the present system ? Here the Railway has first to acquire bank notes by conveying passengers and goods. If it succeeds in this, it may purchase signal lamps with these bank notes. The process is therefore the reverse of that implied in the issue of railway money. This also holds where, as is customary, the signal lamps are obtained on a credit basis; for in this case, too, the Railway can only settle its account after having acquired bank notes in payment for transport services already rendered. Railway money dispenses with all this. The signal lamps are already paid for when the certificates have been returned to the Railway. A deficiency in cash takings, accordingly, does not take place, To assume the contrary, is to misapprehend the principles underlying the contemplated transactions.

In utilising its transport certificates, the Railway would have to allow for its general financial situation. It would therefore plan no purchases inconsistent with its financial soundness. On the contrary, it would concentrate to begin with on securing such materials as are indispensable for the efficient working of its system - *i.e*, coal, oil, other fuels, urgent replacements of coaches and engines, etc. Subsequently, less urgent needs would be satisfied. There would be also the possibility of avoiding the dismissal of workers and officials (or of reducing wages and salaries) by an arrangement with those affected, if legally admissible, to receive part of their remuneration in railway money.

Indeed, once that railway money freely circulated, the repeal of the recent reductions in wages and salaries and the return to the conditions prevailing in 1929, might become practicable. However, we are here primarily concerned not with the nature of railway money but with the uses to which it might be put. The Railway Management would be fully competent to deal with the latter point.

VII. - How much Railway Money should be Issued ?

For the value of the certificates, the amount issued is of decided importance. This aspect should be therefore closely examined. A legally fixed upper limit for the issue does not appear desirable. Such limits are necessary in the case of banknotes which are legal tender, for then there is nothing to indicate whether too many or too few banknotes are circulating. All is different, however, where there is an open market rate and therefore a criterion of value.

The fixing of an upper limit at any time should be hence left to the issuing office on whom the full responsibility should rest.

Still, estimates as to the maximum quantity that might be reasonably brought into circulation, are possible. The amount of the capital invested is no adequate measure, as List imagined. The general turnover would be a more accurate gauge. This alone can suggest the amount of railway money that might be profitably issued. It is evident that the number of the certificates should not be greater than can conveniently return to the Railway booking offices, for if the backward flowing current is interfered with, the value of the certificates would necessarily drop. Assuming an annual railway turnover of about 3.000 million marks - as during last year - , an issue of 1.000 million marks would not seem exaggerated. Naturally, the amount of the issue would be governed by the amount of the railway money that had streamed back, that is, it would be issued in successive parcels, in strict accordance with its actual employability. On the above assumption, 80 million marks, for instance, might be issued monthly. But the open market rate should govern every step taken. As soon as the market rate fell below a certain minimum value, say 95%, further issues would be immediately stopped, if only because of the difficulty of bringing fresh certificates into circulation. The stoppage would at once check the circulation. The certificates issued would stream back and the market rate, as a result of the increased demand and the suspension of issues, would return to par. Should it be deemed advisable to fix a legal upper limit, it might be arranged that the issue of fresh certificates should be suspended as soon as the market rate fell to the above-mentioned percentage.

The greatest stress should be laid on the returned certificates being immediately destroyed. On no account should they be brought again into circulation. As at the Bank of England, no note should be permitted to be issued more than once. If fresh parcels of notes are to be issued, the principles above enunciated would have to be respected and it would have to be made quite clear that it is a question of a new issue and not a matter of putting into circulation certificates previously issued. The notes would therefore be numbered consecutively and there would be daily reports of the numbers issued and of those destroyed.

If the notes keep circulating, it may be confidently assumed that a considerable proportion of them would continue to circulate and would therefore not return. The experience of the Saxon railway money makes this assumption feasible. But an alert management will not be tempted thereby to issue more notes than are likely to be returned and will thus avoid any possibility of the notes depreciating. However, even if the limit here set were overstepped, the Railway and not the public would suffer. The Railway would be in the position of a theatre which had sold its tickets at too low a price.

VIII - Face Value, Unit, and Stability of Value

Each certificate would have to state that at every railway booking office it will be accepted at its face value in payment.

Here the question arises how the face value is to be fixed. This involves a technical problem. The matter will, accordingly, depend on what monetary standard prevails in the country where the railway money is issued. A gold standard would be preferable. The railway money would in that case be based on, say, a gold mark or a gold pound. In this connection we ought to avoid confusing the bank notes of the bank of issue, with the currency unit. In principle, the note of the bank of issue, as for example the pound note, should be distinguished from the currency unit, the gold pound. If this difference is clearly recognised in a country, the railway money would be naturally also based on the gold unit. Thus the notes issued in 1923 by the German Reich Railway were based on a gold and not on a paper standard.

If the above distinction is not drawn and if it be impracticable to base the railway money on a truly stable currency unit, then it should be linked to the notes of the bank of issue. The notes would be, for instance, dollars and pounds, meaning by that paper dollars and paper pounds. In that case the value fluctuations of the bank of issue notes would manifestly be reflected in the railway money. Should, for example, the value of the pound note continue to fall, the value of English railway money based on the pound note, would correspondingly fall. The linkage with the notes of the bank of issue instead of with the currency unit itself would be specially appropriate where the Railway transacts its business on the basis of these notes.

There remains, lastly, the possibility of basing the nominal value neither on the currency unit nor on bank notes, but on transport mileage. If this be granted, the railway tariff would needs have to be on the same basis, This mode of calculation would correspond to the “rye mark” and the “book mark” of the inflation period.

In every case where the nominal value cannot be determined in gold, a fixed minimum of transport mileage will have to be guaranteed. This would afford effective protection against depreciation.

The denominations of the railway money should be of convenient magnitude. They should be therefore as small as possible and the same as those of the legal currency. If necessary, small change might be issued by the Railway. In this connection every customary precaution would have to be adopted to provide against forgeries. Legislative protection might be reasonably invoked in this matter.

Finally, steps would require to be taken to introduce dealings in railway money on all official exchanges.

IX - The Bond between Exchange of Commodities and Means of Payment

The realisation of the plan here proposed would enable the Railway to place more and larger orders than heretofore, for the Railway would be no longer dependent on the amount of legal tender it has at its disposal. Indeed, the orders it might place would be only limited by the passengers and freights it could transport. The exchange of services would become to that extent independent of the note monopoly of the bank of issue. It is as when a medical man who is short of money undertakes to treat a sick tailor, similarly situated, in exchange for an overcoat. Legal tender is not affected thereby. It is rather that an exchange of commodities and means of payment, which has because of money shortage, no such exchange could have been contemplated. The indissoluble bond subsisting between exchange of commodities and means of payment, which has in the last few years been seriously misconceived, - think in this respect of the international debts! - becomes obvious here. Money proves to be what it really is, not a self-contained something, but a *means* of payment - that is, a means for facilitating the exchange of goods and personal services. To which should be added that the money issued by the Railway would necessarily return to it - in other words, would increase the Railway’s turnover to the same extent as it furthered the general exchange of services by the orders placed by its means.

X - The Nature of Railway Money

Railway money would serve the same object as paper money and bank notes generally. That does not involve that a paper certificate must be eventually redeemed in gold or silver, as has often been contended. In our day when the greater number of the world’s paper currencies are *de facto or de jure* inconvertible, no one will seriously reason that the value of the notes depends on their convertibility into metallic currencies, for in that case those notes would be void of value. Their value, in fact, lies in their utility. In the last resort it rests on the fact that the issuing agencies are always prepared to accept them in payment at their face value. Hence every one who owes the bank of issue anything, can liquidate his debt with notes issued by this bank This is the sole basis for the value of inconvertible bank notes.

We ought not to be deceived by the fact that today most bank notes are guaranteed as to their value because Governments accept them at their face value in payment of taxes ("Steuerfundation"). The decisive mark, however, is their return to the issuing agency. This return current is the final guarantee of the utility and therefore of their value.

If the principles of a correct issuing procedure are respected, there must always be someone who wants the bank notes, be it for liquidating a discounted bill or, as in the present case, for the payment of services rendered by the railway. The principle of utility has become more widely acknowledged in our day. Thus the German Reich is not bound to redeem in cash the tax certificates created in 1932. Their value rests, according to the plain text of the Act, solely on the provision that the tax authorities must accept them in payment of taxes.

If the Railway issued notes in payment for its orders, this means that, in return, it would be ready to take them in payment for railway services rendered. The contractor passes on the certificates he receives until they reach those who can utilise them in payment for the conveyance of passengers or freights by rail. When the intending traveller pays for his ticket with the certificate issued by the railway, he liquidates part of the transaction concluded at an earlier stage between the Railway and the contractor. The circulating railway notes prove therefore to be portions of the claims of the contractors in payment of the goods they delivered, and it is therefore natural that the Railway, as recipient of the goods, should accept them at their face value in payment of services it can render in return. All this brings out clearly the fact, also inherent in every bank note, that liquidation of a transaction is the primary object of paper currencies.

In this sense we may say that the Railway would pay its debts with its own money. The more it succeeded in doing this, the more profitable would be the transaction - that is, the more the Railway would prosper. If we think only of the logic of the case and assume that the Railway covered all its expenditure with its own money, it would not need to trouble about securing bank notes and it could in this way reach a height of prosperity only circumscribed by the services it could render.

XI - The Railway's Independence of the Central Bank of Issue and of its Gold Reserves

To the degree that the Railway issued its own money, it would become independent of the bank of issue. This is not only of importance in view of the considerable difficulties which most banks of issue have to face. It is desirable in and of itself, for there are decided advantages in being independent of an undertaking not subject to our control.

There is another view, however. According to present-day legislative provisions the amount issued in bank notes partly depends on the gold reserves held by the bank of issue. That means that fresh monetary transactions cannot be undertaken if they should entail an increase of the minimum legal cover. This relation to the gold reserve of the bank of issue ceases to exist when enterprises, such as the Railway, may conclude transactions which are neither directly nor indirectly financed by the bank of issue. Given inconvertible notes and the amount of the Central Bank's gold reserve is irrelevant. Where there is an exchange of services, there, as has been shown, the question of convertibility does not arise. The Railway can pay for materials by corresponding services, without the need of moving hither and thither a single piece of gold. This holds even when the value of rail services - whether material or personal - are measured in gold, *i.e.*, where there is a gold standard.

Here are some other pertinent observations. The complete centralisation of currency matters in banks of issue has not fulfilled expectations, especially in Germany after the creation of the Reich. At all events nobody believes that centralisation could have averted trade depressions. On the contrary, the grave economic crisis of today has developed under the aegis of the centralised system and the suspicion cannot be avoided that its intensity is bound up with that system. There is therefore a growing clamour in favour of a return to decentralisation. Nor is this a problem to be dealt with regionally. More important than that would be systematic decentralisation, such as would be involved in the creation of railway money. Serious dangers are undoubtedly inherent in a monetary monopoly. It confers a rarity value on currency, and it would be therefore advisable to make an attempt to limit this monopoly at least in one direction by empowering the issue of railway money,

In this connection it is significant that the Communist Manifesto of 1847 regarded the complete centralisation of the issue of notes as an effective means of expropriating the middle class and for this very reason favoured centralisation. Here is the passage: -

> "The proletariat will use its political supremacy, to wrest, by degrees, all capital from the bourgeoisie, to centralise all instruments of production in the hands of the State, i.e., of the proletariat organised as the ruling class; and to increase the total of productive forces as rapidly as possible.
>
> "Of course, in the beginning, this cannot be effected except by means of despotic inroads on the rights of property, and on the conditions of bourgeois production; by means of measures, therefore, which appear economically insufficient and untenable, but which, in the course of the development, outstrip themselves, necessitate further inroads upon the old social order, and are unavoidable as a means of entirely revolutionising the mode of production.
>
> "These measures will of course be different in different countries.
>
> "Nevertheless in the most advanced countries, the following will be pretty generally applicable:-
>
> "...5. Centralisation of credits in the hands of the State, by means of a national bank with State capital and an exclusive monopoly."

In 1848, this demand was expressed even more clearly in a leaflet issued by the Communist Party; "10. The private banks will be replaced by a State Bank whose notes will be legal tender."

This demand of the Communist Manifesto has since become law. Central banks of issue have been established and the notes emitted by them, as Marx and Engels desired, are alone legal tender. If to that be added that the middle class, in agreement again with the Communist Manifesto, has been to a large extent expropriated by the trade depression, then the maintenance of the monopoly in a deliberately anti-communist commonwealth appears decidedly anomalous. Concerning this, it is of the utmost interest that Bismarck's official financial adviser, Dr. Michaelis, was a declared opponent of the note monopoly and jestingly referred to the "State Bank theologians for whom the bank note is the symbol of an allwise Providence and an impartial justice" (Michaelis, *Volkswirtschaftliche Schriften* (Economic Works), Berlin, 1873 vol. 2, p.272, "On Paper Currency".) Thus the idea whereon the plan here submitted is based is by no means new and it is highly suggestive to learn to what extent Michaelis already expressed similar views. Thus he, too, disagreed with forced currencies and explicitly stated that the convertibility of paper money is not in any way connected with its function as a medium of exchange. He writes: -

> "To escape mystification, let us divest paper money of all the adventitious attributes which have obscured its nature, First, we most certainly dismiss the idea of it as a forced currency, next is exchangeability as well as its alleged peculiarity that somewhere someone must deliver gold for it. For, since it is to act as a means of payment in the exchange of every kind of commodity, its intrinsic nature does not necessarily imply that somebody is obliged to furnish in return for it a certain quantity of silver or gold."

Indeed, Michaelis goes further and explains that the value of paper notes lies in the obligation of the issuing agency to accept them in payment at their face value. He writes:-

> "What is left, therefore, is a piece of paper which may be made use of in the place of cash when making purchases or settling accounts. And the question is: what ought to be the nature of this piece of paper if it is to circulate without impropriety where gold and silver are the ruling medium of exchange and control prices?"

And he concludes : -

> "We must take refuge, then, in a final declaration to be found on every paper thaler... This declaration is to the effect that the paper thaler will be accepted by the Treasury for payments of the value of one thaler."

> "Thus the paper thaler is a receipt for services rendered, for which the counter service has yet to be offered - a true medium of exchange."

The classical English science of finance also accords with our conception of railway money. It may suffice here to quote Macleod who, in his *Elements of Banking* (London, 1897, p.110), states: -

> "All credit is a promise to pay something in future. And that 'something', whatever it may be, is

> the value of the promise. That something need not be money. It .may be something else... It maybe a promise to do anything. As an example of this we may take a postage stamp, which is a promise by the State to carry a letter. And this service is the value of the stamp. Now everyone knows that a postage stamp is a valuable thing. It passes currently as small change, People take postage stamps as equivalent to pence because they often wish to send letters by post. Postage stamps are credit."

Railway money would contribute to restore the natural relationship, where exchange of services is primary and bank notes are secondary. On the contrary, not infrequently today desirable transactions remain in abeyance, mainly because there is a lack of currency notes and the central bank of issue cannot augment the supply. In reality, the medium of exchange should be governed by possible turnover and not vice versa.

XII - No Inflation possible without a Forced Currency

The question may be raised whether the issue of railway money might lead to inflation.

No intricate explanations are necessary here, Every student is aware that an inflation presupposes a forced currency and that without the latter the former is impossible.[1] The standard of value, the alteration of which is the principal sign of an inflation. remains entirely unchanged where the notes are governed by free market rates. The value is determined legislatively according to the unit of value, that is, at the present moment according to the price of gold. At the most, the value of the railway notes with open market rates would be modifiable. At the worst, when, contrary to the principles enunciated in this paper, more notes are issued than can conveniently flow back to the booking offices, the notes would depreciate in value. But the standard of value, that is, the Reichsmark as the price of a legislatively fixed weight of gold, would not be affected thereby. That the issue of railway money should be forthwith suspended when there is a fall in its market rate, has been already stressed. However, with the suspension of the issue, the circulation would drop and the railway money would thus prove its capacity to regain its balance.

Nor would average prices be raised by the issue of railway money, for there would be no fear of a unilateral or intentional multiplication of notes. On the contrary, each transport certificate would be a receipt for an actual, but incompleted business transaction. By means of the money it issued, the Railway would convert the contractor's claim into a readily utilisable medium of exchange and would replace an inconvenient by a convenient medium.

(1) See Rittershausen, *Das andere System* (The Other System), 1932, p. 12 ff. ; Zander, *Der Kampf der Wertpapierbesitzer* (The Battle of the Owners of Securities), Berlin, 1933, as well as the same author in *Vier Gesetzentwürfe fur Bekampfung der Deflation, Verhinderung der Inflation* and *Senkung des Zinses* (Four Legislative Drafts for Combating Deflation, Preventing Inflation, and Lowering the Interest Rate), 1932; and Best, *Ueber die Vier Gesetzentwürfe* (Concerning the Four Legislative Drafts), Berlin, 1933, p. 13.

Indeed, it may even be anticipated that the increase in the exchange of services would lead to a drop in average prices. Moreover, there would be no longer any so-called forced sales, that is, sales due to a deficiency in the means of payment and yielding an unjustifiably low return.

XIII - Other Fields of Application

The adoption of the present plan would tend to raise the country's wealth through intensifying the exchange of goods and personal services and through assuring other advantages, by the introduction of a free market rate for money. It would benefit both the business man and the investor and substantially contribute to the stability of the currency. It is manifest that the principle here advocated need not be confined to the Railway. It might feasibly be made to comprise also other leading undertakings (navigation companies, general transport companies, electricity companies, etc.). It could possibly even be extended to the introduction of a general State paper money to be accepted at all Governmental revenue centres, this naturally without entailing compulsory acceptance or a forced currency like the old Prussian "Kassenanweisungen". The transformation of the tax certificates along these lines has already been proposed; but that may be left to a later date. To start with, it might suffice to apply the principle within a restricted field, as we have done.

(Translated by G.Spiller, London.)

FURTHER REMARKS CONCERNING RAILWAY MONEY

WITH SPECIAL REFERENCE TO THE POSITION OF THE AMERICAN RAILWAYS

By Dr Walter Zander, Berlin

I . The Significance of Exchange Certificates for Facilitating the Exchange of Services.

Division of labour is the foundation of the modern economic system. This division presupposes an exchange of services among those concerned, if serious business disturbances are to be avoided. That exchange, however, is today gravely impeded. Exchangeable values and mutual wants abound, but actual exchange meets with decided obstacles.

In a primitive economy, existing values are directly exchanged. In our modern economy money serves as the medium of exchange. But the notes of the central banks are not designed to facilitate exchanges to the degree demanded by the requirements and productivity of the present day. This results from their very nature. According to the prevailing conception, a banknote is a substitute for metallic money (gold). Its value is said to reside in the fact that the central bank redeems it or buys it at a standard rate. Hence the quantity of notes that may be issued is limited by the metallic store at the disposal of the central bank. Add to which, that in most countries banknotes are legal tender, that is, that they also represent the measure of value. Hence any multiplication of notes which might lead to depreciation, jeopardises the whole monetary system of a country. Accordingly, no responsible director of a central bank would agree to fresh note issues for which there is no cover.

It is quite possible that, regarded from the standpoint of convertibility, the existing means of payment suffice, but that, from the standpoint of the exchange of services, they are wholly inadequate. The reverse may also occur. Thus the gold reserve of the Bank of France, for instance, would be far too large to serve as a basis for the exchange of services in a village. There is therefore no necessary parity between bank cover and economic requirements.

In our modern economy, not even the largest gold reserve would suffice to satisfy all exchange demands. Indeed, the world's aggregate stock of gold would probably be insufficient to transact all the exchanges of services of a moderately large country. Hence the mass of business is transacted not through the medium of gold or banknotes, but by other means of payment, such as bills, cheques, transfers, and, above all, by mutual clearing. However, all these credit adjuncts are convertible into legal tender and are therefore ultimately anchored in the convertible notes of the central bank and in the idea of convertibility. In and of itself the exchange of goods is nevertheless independent of the magnitude of the central bank's gold reserves. It can and must take place even when there is no cover at the bank or when the central bank is paralysed by war, revolution, or the illiquidity of its assets. Exchange transactions create their own means of payment, provided that legal measures or currency monopolies, like in bolshevist Russia where these are highly developed (as they are indeed to some degree in every country today), do not prevent this.

Exchange certificates, the nature of which we describe in the next paragraph, constitute such a medium of exchange. They are independent of the central bank and its reserves. Their object is to facilitate exchanges. Naturally, no one is bound to accept them nor have they a legally settled value. Only the parties responsible for their issue, are obliged to redeem them. They are therefore nothing but a medium of payment and exercise no influence on the legally fixed standard of value. Hence the amount of exchange money current is nowise dependent on its convertibility into gold or banknotes, but exclusively on the magnitude of the actual exchange transactions. Accordingly, exchange money is able to satisfy the immense demand for a medium capable of facilitating exchanges, - *i.e.*, for means of payment - without thereby in any way affecting the standard of value.

If, consequently, exchange transactions as such are independent of a gold reserve, then there is no necessary correlation between banknotes and exchanges. Banknotes facilitate exchange transactions to the extent that they are a substitute for gold, for gold is the commodity for which all other commodities may be exchanged. The exchange certificate, on the other hand, is no substitute for gold. Its relation to exchange transactions is hence of a different nature. The exchange certificate represents an acknowledgment of services rendered to the party issuing it and entitles therefore its holder to corresponding counter-services. It expresses the essence of an exchange relation and has no other function than to facilitate exchanges.

Herein lies the crucial difference between exchange certificates and the notes of the central bank: the banknotes *may* and the certificates *must* produce exchanges, whence the superiority of the latter.

The objection that banknotes standardise the modes of settlement and are therefore preferable to certificates, is not convincing, for the objection is only partly valid, inasmuch as the standard of value remains also the same with certificates. In fact, the exchange certificates of all countries might be based on the same standard of value, e.g., on a certain quantity of fine gold (e.g. 1 or 10 grammes), In this way international monetary settlements might be made uniform and placed on a fixed value basis. Moreover, such certificates would not need to be subject to legislation relating to foreign exchanges, for not being convertible into gold, they could not result in gold shipments. It should be finally observed that by far the largest and most important part of all means of payment, *viz*., bills, cheques, and clearing transactions, are even today still unsocialised and unstandardised, and are therefore, like exchange certificates, subject to fluctuations according to prevailing circumstances.

II Extension of the Exchange Certificate System to Long-Term Credits.

In its application, the certificate system is by no means restricted to short-term credits, for there is the possibility of applying it to medium and long-term credits. Thus railway companies might issue annuities or bonds, redeemable or yielding interest not in legal tender, but through being accepted in payment at the railway booking offices. These securities would closely resemble the tax certificates of the German Reich. The holders of railway money might be also entitled to convert it into railway annuities. Thus there would be established an organisation for collecting the railway money and facilities would be created for obtaining long-term credits.

III The Exchange Certificate System and the Present American Railway Crisis.

The American railways have been hard hit by the depression. In December 1932, they addressed an appeal to the American people and its governments, wherein they made clear the hopelessness of their situation. According to that appeal, 30% of their staffs had been dismissed since 1929 and the wages of those who remained severely cut. Some 4,000 factories employing about 150,000 workers were entirely or almost closed owing to reduced railway orders. Thousands of smaller towns were prejudicially affected by this and altogether some 14 million inhabitants of the United States directly or indirectly suffered through the railway depression. Nor has the situation much improved since. (1)

The alleviating measures proposed appear to be inadequate. It is not enough to encourage railway travel by offering more comfortably furnished coaches. Traffic receipts fell, not because railway coaches were not luxuriously fitted, but because the public was short of money. The taxing of the railways may aggravate their financial situation, but this will not be a decisive factor. The same holds true of competition with other forms of transport, for it may be safely assumed that the railways have still an important part to play in the economic life of the United States. Nor is the nationalisation of the railways likely to increase the goods traffic, as the experience of bolshevist Russia amply proves.

All these proposals ignore the problem of the medium of payment and yet without solving this problem, that of an unimpeded exchange of goods is insoluble.

Hence our suggestion to consider the issue of railway money with a view of thereby solving the grave problem facing the railways. The possibilities would be great for the United States in this respect.

The depreciation of dollar notes is here of special significance. It would be advisable that

(1) See January Report (1934) of the National City Bank of New York.

the railway money issued should be based on some permanent standard of value, preferably the gold dollar. [1] As a minimum, a guarantee of a certain freight-mileage should form the basis. After last year's events, public opinion in the United States will appreciate and rally to an unfluctating medium of payment. The issue of unfluctuating railway annuities, embodying a freight-mileage guarantee, might be also recommended. If one of the American railway companies had carried out such a plan a year ago, an extraordinary demand would have arisen for its certificates and it could have thus floated a big loan bearing no interest.

Nor should it be forgotten that America, too, has known railway money. Thus in 1835, the Georgia Railroad Company brought into circulation more than its total capital in railway notes and the Baltimore and Ohio Railroad Company issued notes which could be converted into the municipal loans of Baltimore. These experiments were, however, not successful, and accordingly in 1845 the State of Maryland prohibited the issue of railway money altogether. But these failures are easily explained. At the time of issue, the Railways in question were not yet constructed, at all events not yet operating. By means of this money, it was hoped to build the railways. Hence our fundamental pre-supposition for the issue of exchange certificates was lacking, namely the possibility of tendering the railway money at the railway booking offices. There was no return current and the depreciation of the money followed therefore as a matter of course. The money issued in those circumstances has consequently scarcely more than the name in common with the money here proposed. In this connection it is interesting to note that in the case of the Leipsic-Dresden Railway, the Saxon Government, which was intimately conversant with the peculiarities of paper money, only granted permission to issue railway money after the railway was running.

In view of the numerous railway companies in the United States, it would be, to begin with, preferable for one company only to apply our proposal. If the experiment succeeded, the companies might form themselves into large groups and organise a clearing house bank for the issue of railway certificates.

There is also the following possibility. According to press reports, the American Government is not averse to assisting the railways financially. That assistance might consist in the Government agreeing to accept railway money in tax payments. This would facilitate matters for the Administration and would provide another important use for the railway money. About a century ago the State of New York proceeded once in a similar manner as regards the payment of canal dues.

(Translated by G.Spiller, London.)

(1) This equally applies now that the dollar has been re-stabilised, for it is inherently desirable to have a unit of computation which is independent of the political exigencies of the day.

A SUGGESTION FOR LIBERATING FOREIGN FROZEN CREDITS BY THE INTRODUCTION OF CLEARING CERTIFICATES.

In its no. 35 of 1933, the "Deutsche Sparer-Zeitung" (German Investors' News) publishes a suggestive article by Dr. Walter Zander, of Berlin, on "What Demands may the German Creditors make in view of the Rumanian Transfer Moratorium?" which we take the liberty of reproducing here.

As reported in the press, [1] the Rumanian Government has issued a decree to the effect that from 15 August 1933 the interest and amortisation payments in connection with the external State debt and the debts of public bodies may no longer be remitted abroad and that the counter-value is to be paid in lei into a blocked account at the National Bank. The decree relates especially to the two loans raised abroad by the Monopoly Office.

The reasons for this step are evident. The gold wherewith to amortise the external debt is not available. The Rumanian Finance Minister has, moreover, stated that his country's total export surplus dropped to 13 million marks during the first six months of 1933, as against 50 million marks during the corresponding period of 1932. Accordingly, there is a shortage of foreign bills required for the debt service. On reflection, the creditors will not be able to gainsay this, and to that extent no reasonable objection could be advanced to the embargo on payments.

But it is an altogether different thing to ask the creditors to be satisfied with payments into a blocked account. Everybody is aware that the restriction of the right of disposal over blocked accounts leads to an extraordinary drop in their value and there is no cogent economic reason why creditors should be exposed to such loss.

The creditors should be therefore at least able to exercise their right - even though the contractually agreed payment in foreign exchange be suspended - to have their claims satisfied in full *within Rumania itself*, that is, in the form of goods. It would be difficult, however, to arrange for payment in free lei, since in Rumania, as in most other countries where there is State control of external payments, the export of internal means of payment and payments to foreign nationals are prohibited. In the last resort, that is based on the at least theoretically recognised obligation to redeem banknotes. In this direction creditors are unlikely to be accommodated.

But there is a way out. The creditors might demand clearing certificates of their debtors. These certificates would be inconvertible, but would be accepted in payment at face value by

(1) See *Deuische Sparer-Zeitung*, no. 34.

the cash departments of their debtors. Since an obligation to redeem them in gold, in other precious metals, or even in lei notes would be out of the question, the circulation of these certificates would leave foreign exchange unaffected. In fact, they would greatly relieve the Rumanian Central Bank. On the other hand, it should be remembered that the value of the clearing certificates depends by no means on their convertibility. What matters is that the certificates should be utilisable on a gold basis. In a time when the world over virtually all banknotes are theoretically or actually inconvertible, there can be no doubt on this point. It might suffice, however, to mention that the tax payment certificates (*Stenergutscheine*) introduced in 1932 in Germany are governed by the same considerations. These certificates, too, are not redeemed by the Reich in cash, but are accepted in payment at its pay offices at a pre-determined value, that is, independently of the market rate. They are hence also clearing certificates.

In the present case the clearing certificates would have to be issued in smaller denominations than the German tax certificates, in order to enhance their utility for the German creditor. In this respect they might be modelled on the scrip introduced a few days ago by the German Conversion Office.

What is indispensable is that the clearing certificates should be invariably accepted at their face value at the pay offices of the Rumanian State, including its monopoly undertakings. Every one therefore who owes the State anything (in taxes, dues, loans, etc.) or otherwise has to tender payments to State undertakings, would be able to discharge his liabilities - like the German tax debtor through the delivery of tax payment certificates by means of these clearing certificates. If, as proposed, the certificates were to be in denominations corresponding to those of the banknotes, they could circulate within Rumania as means of payment having full value. The foreign creditor would be thus at least in a position to order freely every kind of commodity.

This would not involve the Rumanian State in any currency loss, for the counter-value is already deposited in a blocked account at the National Bank. Hence this value actually exists and may, inasmuch as the creditors have been paid in clearing certificates, be used for State purposes generally, for in the instance given it is only a question of a transfer problem.

When the clearing certificates return in due course to the pay offices of the State, they will be cancelled, just as are in similar circumstances the German tax payment certificates and the notes of the Bank of England. Thus any possibility of an inflation would be excluded.

Finally, it is of particular importance to note that in view of their inconvertibility, the clearing certificates can be exempted from all State control of foreign exchange. They would consequently represent a highly popular method of settlement in international trading with Rumania. Beyond this, they may mean the beginning of the solution of the problem of international trade settlements, by calling attention to the barter aspect of all trade payments.

(Translated by G.Spiller, London.)