

'MONEY MEANS NOT MONEY' – REFLECTIONS ON THE MEANING OF MONEY 1909–2009

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Hartley Withers' classic book, The Meaning of Money, sees its centenary this year. Although the financial landscape has substantially changed since 1909, Withers' book remains insightful, informative and readable. A symposium is being held in late 2009 to explore what echoes can be heard today.

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Preamble

Anniversaries prompt reflection, whether upon a significant event, a person's life or, as here, a topic of general interest. The subject of money is a perennial one, but the form it takes periodically changes.

Hartley Withers set himself the task of describing, in a clear and concise way, the workings of the City of London at the beginning of the twentieth century. His primary concern was not with what he called 'here and now' money, the stuff one finds in one's pocket and uses to make a purchase – for him that was a 'well worn story' – but with what he describes as the 'second sense of money', or 'loan of money'. He approaches his subject in what today might be called a phenomenological manner, which is to say that the meaning of money is illustrated best by staying close to what can actually be observed in practical life.

His efforts were well received, notwithstanding 'the difficulties of the subject [which were] very real to its writer', as Withers noted in his preface. How would one go about such a task today and what difficulties would be attendant upon an attempt to describe the meaning of *modern* money?

The author of this essay came across Withers' book in the course of research on money as a 'differentiated' phenomenon, following up indications from Rudolf Steiner¹ that 'money as such does not exist, only three kinds of money'. In 1919 Steiner spoke highly of Withers as a discriminating observer whose book was 'the best that had been written on

[the] subject and which [was] the outcome of real insight into social conditions' (Steiner, 1945, pp. 2–3).

As the twenty-first century gets into its stride, it is clear that were one now to attempt to convey the meaning of money, one could not begin with gold, as Withers did. Whether in phenomenological or analytic terms, to describe the workings of finance in an economy which has become global and closed, some other ground is needed.² The centenary of Hartley Withers' book provides an opportunity to survey the road that has been travelled since its publication and to mark the occasion with a symposium that draws together the perspectives of some of today's leading monetary economists and financial journalists.

Introduction

It was with the publication in 1909 of *The Meaning of Money* that Withers introduced to a lay audience a conception of money that would allow the reader 'to think the matter out' from the practical perspective of the workings of the money markets. The book received widespread acclaim and was described by *The Times* in 1950 as 'a great book, epochal in finance'. Withers was even compared with the great Bagehot, whose *Lombard Street* he wrote an introduction to. While Withers went on to write a further 20 books, it is likely that he will be remembered for *The Meaning of Money*; even if 'time has swept away not only some parts of the organisation he describes, but also the

practical foundation of some of his economic assumptions . . . his basic analysis is a permanent achievement, indispensable to anyone who has to construct, change, administer or criticise a financial organisation.³

Biography

Born in 1867, educated at Westminster School and Oxford University, Withers became one of the most eminent financial journalists of his day, 'raising the status and enlarging the scope of the profession'. According to his *Times* obituary, 'his active and powerful mind was accurate, realistic, sceptical and critical' and he learned 'what perhaps no one had ever clearly learned before, the true economic interaction of all the organs of finance – treasury, central bank, deposit banks, accepting houses, brokers and merchants'. The opportunity to see the whole from different perspectives is mirrored in his career as author of a guide to Canterbury Cathedral, a school-teacher, a clerk at the Stock Exchange, City Editor at *The Times* and *The Morning Post*, employee at Seligman Brothers Merchant Bankers, Director of Financial Inquiries at The Treasury and as the editor of *The Economist*. He lived until 1950 and published 21 books in total, remaining active as a writer and in public debates until World War II.

Book summary

The Meaning of Money sets out to make the City pages comprehensible to the casual readers that Withers imagines struggling to get to grips with their sense. It does this by elucidating, in clear language, to what each of the terms refers and gradually building up a complete picture of the interaction of the disparate parts of the whole 'machinery' of the City. In Withers' words, 'the object of this volume is to explain a matter of plain, positive, practical fact, which is very important, very dull and very little understood'. Without further ado he embarks upon a journey which takes the reader from the idea of 'the price of money', to an explanation of the Bank of England's balance sheet, to musings on London's role as a 'monetary physician who cannot afford, under any circumstances, to be sick'.

Withers takes the trouble to give careful common-sense explanations of the development of the various commercial practices that have resulted in the City's core institutions. Thus Bills of Exchange, Cheque Paying Banks, Bill Brokers and Discount Houses, Accepting Houses and Foreign Banks are all treated consequentially with their own chapters. This process culminates in a description of the role of the Bank of England at the centre of the financial process.

Though the subject appears unpromising, and Withers modestly downplays its entertainment value, the narrative, interspersed throughout with humour and practical illustration, is anything but dry. A personality such as Withers could not be content to contain himself with mere technical elaboration of known facts; he must speculate as to future developments, muse upon the recent past and ponder the principle of comparative advantage that makes Italy a producer of cultural goods or England disadvantaged in manufacture.

Today's perspective

There is still much to be gleaned for today from Withers' book, both in the general terms of banking practice and specifically with regard to the deft handling of the American 1907 financial crisis, which was effectively managed so that it did not become a global crisis; there existed a community of men who supervised and felt responsible for the workings of the system, and these were not regulators but bankers themselves. In Withers' telling words:

' . . . good banking is produced, not by good laws, but by good bankers. Just as the most carefully planned constitution will inevitably break down if the men at the helm of government are incompetent or dishonest, so no skilfully devised banking system will make banking good, unless the banking is conducted by straight and able managers, or defend banking from suspicion by its customers, if other wheels in the financial machine have been proved to be unsound.'

(Withers, 1909, p. 79)

Just as one can argue that the 1907 crisis precipitated the creation of the Federal Reserve in 1913, so too today one can wonder what the effects of the 2007/08 crisis will be in terms of new institutional arrangements, as likely as not set in a global context.

Credit and inflation

Withers was among the first writers to describe openly 'The Manufacture of Money' (*ibid.*, p. 56), a process which is comprehensively set out with reference to a bank's balance sheet. He judiciously points out that:

' . . . it is a common popular mistake, when one is told that the banks of the United Kingdom hold over 900 millions of deposits, [. . . to think of the] huge amount of cash that has been saved by the community as a whole, and stored by them in the hands of the bankers, and to regard it as a tremendous evidence of wealth. But this is not quite the true view of the case. Most of the money that is stored by the community in the banks consists of book-keeping credits lent to it by its bankers. It is usually supposed that bankers take money from one set of customers and lend it to other customers; but in most cases, the money taken by one bank has been lent by another.'

(*ibid.*, pp. 57–58)

According to his obituary in *The Economist*, Withers had apparently 'shocked some orthodox bankers by the simple thesis that every loan creates a deposit'. Indeed it is this process, when liberated from the constraints placed upon it by the existence of a gold standard (or like discipline), that can foster one of the twin economic ailments of the modern age, namely inflation.

As late as 1917 (three years after the suspension of the gold standard) the term 'inflation' was, according to Withers, a 'somewhat obscure expression' (Edwards, 1995, p. 583). But it was 'inflation', by his own confession, that was to become the tree up which Withers barked (*ibid.*, p. 580). He pointed out that 'the financial achievements of our war Governments do not encourage us to increase official control of the money markets' (*ibid.*).

When in 1942 he wrote to *The Times* a letter of riposte to a monetary reformist who believed that 'our money must be created and issued on sound lines by the State and spent wisely into existence', he explains that 'when banks create money they do so by lending to business men whom they expect to be able to repay the advances. These advances can only be repaid if they are used profitably, that is by providing goods and services for which the consuming public will pay'. This might be felt to be too elementary a point to be worth mentioning, but one wonders what Withers would make of today's banking practice, a significant part of which lends not against the provision of goods and services but the collateralisation of assets.

Withers and his time

The period that Withers described, roughly speaking the last third of the nineteenth century, belonged to the classic era of the gold standard. London stood at the hub of world finance. The assurance that came from many years of practical experience gave its financial community the undisputed right and responsibility to superintend the working of the market machinery. This was largely a matter of refining and making conscious the principles upon which the years of practice were based. Few people, if any, could have anticipated the tumult that the twentieth century would wreak. There was no question but that gold would continue to provide the solid ground upon which the extension of credit could be built.

From physical to fiscal money

From today's perspective however, though one can argue that humanity has not quite found the courage to attribute to gold a purely ornamental and industrial role, the metal has effectively been demonetised. What then has taken the place of gold in providing the basis upon which credit can be extended? What constitutes money today? It would appear that humanity has travelled from a physical idea of money to a fiscal one – today's money is effectively 'backed' by future tax revenues and state guarantees. But does this mark the end of the journey or just a staging post along the way? The confidence instilled by gold derives from its tangible nature, the confidence instilled by promissory notes issued by states derives from the authority (or power) to collect tax revenue. For this reason perhaps, banknotes in the UK have only recently, since 1960, begun to bear the image of the monarch, as if they need to carry a form of dignified assurance in their worth. Legally enforceable guarantee is not the same as confidence. One could also imagine a money based on the confidence in the issuer's promise that the money is redeemable, which is to say that it will buy economic goods.

Withers holds back from any speculation of this kind, preferring to describe instead the arrangements which tradition had established:

'It is doubtless a mere convention that gives gold its commanding position, and it may be contended that it would be much simpler, cheaper and more civilized to conduct exchanges by means of paper secured on national property . . . or to abolish all need for mediums of exchange and help ourselves to whatever we want, rendering honest

service in exchange by the mere impulse of our own consciences. But we are not concerned at present with any theoretical questions of an ideal currency or absence of currency.'

(Withers, 1909, p. 16)

Were Withers writing today, how would he identify what, in place of gold, occupies the 'commanding position' of modern times? Would it be the fiat paper and coin currency that forms part of the transactional stock of money? Or would he talk in terms of bank deposits, backed by government guarantees? Or would he base his analysis on so-called high-powered money within the Bank of England, issued against government securities? Withers himself, writing at a time when gold provided at least some consensus on these matters, nevertheless alludes to the 'wavy and very ill-defined line that separates cash from credit' (ibid., p. 30) and the fact that 'these monetary matters are all so inextricably entangled that it is almost impossible to mark them off logically and deal with them one by one' (ibid., p. 21). What would he make of the more complex situation today?

Metallism and chartalism – an unresolved question

In a sense, Withers stood midway between two epochs. Intellectually and practically, the basis upon which finance was built consisted of the solid physical reality of gold. In such a world gold and its proxies are money and everything else constitutes a kind of credit. Yet it is primarily with the operation of the everything else that Withers is concerned: '... everybody understands money in the sense of pounds, shillings and pence that we pay in the shape of coin, notes or cheques for everyday wants. But the other most common use of the word leads to a complication, because in its second sense *money means not money*, but loan of money.' As long as gold is held to constitute the essential form of money, the clear distinction between money and credit can be maintained. Withers describes the workings of a creditary system linked to gold, but not only has the tangible consensus offered by gold been left behind in today's world, but also the whole financial environment has been brought within a legislative framework.⁴

Without any great fanfare, metallism has ceded place to chartalism – the state theory of money. Chartalism⁵ is perhaps a convincing analysis for a world in which individuals identify their common interest with the state: the wise man from Whitehall relieves the individual citizen of his burden of responsibility for wider matters and the bureaucrat becomes sovereign. But whether such an understanding of money is the end of a long journey or merely a resting place on the way awaits the circumstances to prove the case. In this author's view, an understanding of money based neither on gold nor on the power of the state is to be found when money comes to be seen as nothing but the world's bookkeeping.

Conclusion

Withers convincingly described the phenomenon of money to his generation, who inhabited the pre-World War I stability of the Gold Standard, when London was the linchpin of global finance. However if, as economists such as John Hicks

suppose, the form of money is in a process of evolution, then surely a description of its contemporary form is needed today, one that is not reliant on bygone assumptions, practices and terminological categories.

Just as Withers stood between two monetary conceptions, one physical the other fiscal, might we too be standing before an unrecognised next step in the unfolding story of money? It goes beyond this essay to set out the case for 'money as accounting', but events such as the Withers centenary seminar offer an opportunity not just to look back but also to think ahead.

1. The distinction that Withers makes between 'here and now money' for purchases and 'loan of money' is perhaps related to Steiner's categories of 'purchase money' and 'loan money'.
2. The author follows up Steiner's indication that money, an articulated phenomenon, is the world's bookkeeping.
3. *The Times*, 22 March 1950, p. 9.

4. In the background, setting the stage for and giving shape to economic events, one finds the economic state, whether through direct involvement or through regulatory and legislative agencies.
5. The State Theory of Money is known as 'chartalism'; it identifies the state as arbiter of 'moneyness'. The acceptability of a medium of exchange is held to derive from the authority of the state in specifying a unit of account and demanding tax payment in that medium.

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