The Evolution of Creditory Structures and Controls
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The Evolution of Creditory Structures and Controls

Geoffrey W. Gardiner
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IT IS UNLIKELY that a day goes by without some new development in the credit systems of the world, and therefore a full analysis of all known creditary structures would be a very big project indeed. The guise and disguise of credit is affected by differing legal systems, and at times by the intervention of those with some religious objective. There is therefore an environment of law and religion to be taken into account with relation to what might otherwise be a straightforward matter of accountancy. We can touch upon only some of the issues which arise from the differing environmental backgrounds.

The ‘Evolution’ part of the present project is a summary of work done by associates and myself and published in other publications, the titles of which will be found in the bibliography. A key figure in these studies has been Professor Michael Hudson because of his expertise, not only in economics, but also in philology, anthropology and archaeology. Professor Hudson’s Institute for the Study of Long-term Economic Trends (ISLET) has done exemplary work, and I am very grateful to him for allowing me to take a part in it since we first made contact in 1996.

The ‘Controls’ part of the project is simpler but very controversial, as my analysis of the accountancy upon which much of the theory of the control of credit rests shows it to be of challengeable quality, including much in the category of just plain wrong.

The background
A total involvement in the wide world of financial services, plus practical experience in all industries, including farming, commerce and manufacturing, is the best qualification for a writer who is attempting to describe the evolution and use of creditary structures, and for analysing the effectiveness of proposed controls on the creation of credit. Such experience and knowledge I have either sought to acquire, or it has come unbidden into my life through a remarkably fortunate concatenation of
circumstances. Not least of these fortunate events was being born 50 metres from a factory employing 6,000 people at its peak, and all my large extended family and their friends worked at some time for the company that owned it at every level from factory cleaner to work's manager. From my earliest moments in life, the talk around me was of industry. I learned about the differentiation of labour not from the first chapter of Adam Smith’s *The Wealth of Nations*, but from being shown, at the age of only seven, how motor cycles were made on a slowly moving conveyor belt. In the 18th century Adam Smith himself studied the principles of mass production in a pin factory in the centre of Birmingham. My introduction to the advanced version, pioneered by Henry Ford, took place 3½ kilometres to the south west, in the 1,077,000 square foot factory of the Birmingham Small Arms Company Ltd (BSA) in Armoury Road, Birmingham.

In the age before television and with radio in its infancy, people who worked together also lived near each other, and were constantly socialising in each other’s houses. The talk, inevitably in such small houses with only one room normally heated, was always before the children, and if one was thought to be showing an intelligent interest, one was included. It was possible for a mere child to learn everything about what was going on in the factories around us in the veritable birthplace of the Industrial Revolution. Opportunities for reading were also easily available. Not only did we own several sets of encyclopaedias, but we also had superb local libraries, such as are unknown today. I could study any subject I fancied, and did, but when I first looked at a book on economics it seemed far too elementary compared with the reality around me. I therefore put that subject aside until I had to study it for a professional examination, and in the meantime I concentrated on law, history, archaeology, anthropology, taxation, accountancy, and the organisation and administration of industry, all of which are relevant to a thorough understanding of the present economic process.

In the long run, perhaps the most significant of the learning opportunities which fortune put my way was being allowed to spend three months in the Cost Office of BSA’s largest factory and other satellite plants. The Cost Office is the brain of an industrial empire and contains its cleverest staff. I was shown every detail of the processes of time and motion study, the calculations of the costs of every component and the difference between piece work and day work. Adam Smith saw 18 stages of production; I saw thousands, every one costed to a thousandth of a penny. As I had many relatives in the employ of the company, the workers treated me as one of their own who had to be given all possible help in
getting to know the functioning of the company, one which had employed 30,000 people at its wartime peak.

**More profound experience**

While at university I took a holiday job with the newly set up Ministry of National Insurance. It provided a wonderful opportunity to see how the Civil Service functioned, and functioned at a time of maximum stress, for the system of National Insurance came into being on one single day, the 5th July 1948. Every system was new. While I was there it was decided that we needed to know exactly what firms we had to deal with, and the manager of my office asked me to do a study of all the businesses in his patch, which included six of Birmingham’s postal districts, and covered the famous Jewellery Quarter, and the Gun Trade (shotguns, not military weapons). I found that there were 891 firms employing more than ten persons, and thousands more employing fewer people. The commonest industry in the zone was brassfounding.

Cost accounting was at that time unknown in the financial services industry, and when I joined the staff of Barclays Bank’s Trustee Department I came to the conclusion that I was the only one of the Bank’s staff who knew the principles of costing. Yet I found myself in an activity through which I could learn about every kind of business, besides everything about the tax system. Although solicitors do much probate work, they are not equipped to supervise businesses, so estates containing businesses are more likely to find themselves in the hands of professional executors, usually trust corporations like ours. If someone owning a business died, we had to take charge of it, and one could not confine oneself to just one business at a time. One person who trusted us to deal with his estate was himself a probate solicitor, and for a while, until I sold it, I had a solicitor’s practice on my hands. The biggest headache of all the businesses I had to look after was a glasshouse manufacturing company.

We were in charge for over five years. It was difficult not only because it was under-capitalised, as is often true with private business, but the state wanted 40 per cent of what capital it did have in Estate Duty. Eventually a take-over fight by two major companies took the problem off our hands at a very favourable price.

I had a ringside seat for over 30 years at the destruction of British private industry by badly focused taxation, the slaughter being actively encouraged by academic economists whose inspiration was no longer Adam Smith, but the philosophers of National Socialism and Communism.
One feature of our work which for a while worried me was having to get to grips with agriculture, something which had not been a major part of my family’s experience for a couple of generations. My first big farming case was the estate of the tenant of a 200 hectare farm belonging to a member of a very famous landed family. Luckily for me I discovered that the adviser to the owner had misunderstood the advice of Counsel on the interpretation of the Agricultural Holdings Act of 1948, and we got a very good deal for the widow. Never again did I wholly trust the advice of any professional without satisfying myself that the advice was right.

When my employers moved me to the Cambridge office of the Trustee Department in 1964, the Fellows of Christ’s College welcomed me to their lunch table, along with other former members of the College who were businessmen in Cambridge. A small after-lunch discussion group formed, consisting of those with an interest in economics. Brian Tennet, a contemporary as a student, was a bank manager who had read economics. Charles Phillips, a barrister who had spent five years with the Public Trustee, had been deputy treasurer of the University, and was the bursar of the College. His business skills were superb. Of the academic economists in the group, the famous one was Professor James Meade, an Oxford graduate in Classics who had turned to economics, had been a close ally of Lord Keynes during the late war. A decade later he was awarded the Nobel Prize for Economics. The group discussed mainly two topics, firstly the controls the government was operating to fight inflation, and secondly the changes it was making in taxation. The first enabled me to expound the bookkeeping principles which the controls flouted, and the second enabled me to analyse in depth the unintended knock-on effects of the new taxes introduced. I like to think that the latter developed Meade’s interest in taxation and that he found them useful when he later chaired the Meade Committee appointed by the Institute of Fiscal Studies in the late nineteen-seventies to study the system of direct taxation in Britain. By that time we had lost touch, but it seemed to me that in many important details the report of his Committee reflected my analyses of some technicalities.

Residence in Cambridge made it easy to attend such events as Professor Nicholas Kaldor’s inaugural lecture, and when I was asked in 1971 to write on an economic topic for the Journal of the Institute of Chartered Secretaries and Administrators, I chose as my subject the errors in Kaldor’s lecture, the least of which was an error in applying a principle of elementary arithmetic. Two years later I was chosen by members of the Institute to represent them on its governing body, and my workload henceforward included the study of every discussion paper on matters
concerning financial services which came from either the British Government or the European Commission. Probably the most technically difficult thing we had to do was to advise on the technique of inflation accounting, following the release of the Sandilands Report.

By then my seniors in Barclays had come the conclusion that I was a good economist, and I was occasionally asked to represent the Bank at conferences which involved economics as well as law, the field in which I had more obvious qualifications. The most interesting was a week-long conference at the Civil Service College, Sunningdale, on The Problem of the Control of Inflation. Barclays put no restrictions upon me, merely requiring me to report back to the General Managers. The discussion sessions were led by the most important economists in Britain at that time (1973).

**Origins of this study**

Because of time constraints I have had to construct this book from existing writings which were not composed originally to illustrate the title I have now given it. The conversion process may not have been as seamless as one would wish. Some chapters stem from articles written for fellow members of the Institute of Chartered Secretaries and Administrators. Some owe their origin to an unpublished book entitled *How to Wreck the Economy*. The arguments about interest rates and inflation first appeared in a long report to the Forum of Private Business. I was urged to publish that report, and with massive help from Christopher Meakin, it was adapted to appear as *Towards True Monetarism*, and published by his Dulwich Press in 1993. The target readership was businessmen, not academics, in the hope that those who employed economists could be persuaded to display some concern about the errors in monetary theory which were emanating from universities. Three professors of economics, Hudson, Wray, and Arestis, recently insisted that the book be revised and published properly. At the instigation of Professor Arestis I submitted a proposal to Palgrave, and this book is the result.

*Towards True Monetarism* was based on the credit theory of money. It provoked research into the possibility of other earlier work on the credit basis of money. Professor L. Randall Wray found that there had been serious discussion of the nature of money in the years just before the outbreak of the 1914–18 war, and that John Maynard Keynes had been involved. Sadly the advent of war seems to have brought the discussions to a premature end. They had been precipitated by two articles which appeared in 1913 and 1914 in the *Bankers Law Journal* of New York, of
which the author was a British diplomat named Alfred Mitchell Innes. Mitchell Innes appears to have been a polymath, though how he acquired his education is a mystery as he is described as ‘privately educated’. Whatever that meant, there is no doubt that Mitchell Innes’ scholarship was of the very highest quality and breadth, and Professor Wray saw that it was important that the two papers should be made available to modern scholars. They were therefore re-published in 2004 in a book edited by Professor Wray and entitled *The Credit and State Theories of Money*. Professor Wray and four other authors provided chapters which discussed the relevance of Mitchell Innes’ views. Your present author contributed one of the chapters under the heading *The Primacy of Trade Debts in the Development of Money*. In this present book I acknowledge that I am making use of Mitchell Innes’ research and also of the contents of two more of the chapters in the book, *The Archaeology of Money: Debt Versus Barter Theories of Money’s Origins*, by Professor Michael Hudson, and *The Emergence of Capitalist Credit Money* by Dr. Geoffrey Ingham. Dr. Ingham has also published an excellent book of his own, *The Nature of Money*.

There had been cross-fertilisation of ideas between these published authors and myself. Another leading participant in the discussions is Christopher Meakin, the editor and publisher of *Towards True Monetarism*. He has lectured about the credit theory of money to great acclaim, but the book version of his lecture is still awaited. Indeed it was his first lecture at a conference at the British Museum in 1996 which led to the formation of an international Internet discussion group on what he decided should be called ‘Creditary Economics.’ He and I had made contact in 1988 as a result of letters by both of us in the Financial Times, and we had been joined by an American resident, IMF staffer Gunnar Tómasson, an Icelander by origin and possessor of outstanding intellectual gifts. A regular correspondence, initially by ‘snail-mail’ commenced.

Christopher studied Politics, Philosophy and Economics at Oxford, and then became a financial journalist, commencing on the Financial Times. In the mid 1990s he became interested in the extensive accounting records which survive from ancient Babylonia, and his thought processes followed the same course that had been pioneered, unknown to him, by Mitchell Innes in 1913. Christopher saw their great significance for the understanding of money and credit. The result was an interdisciplinary conference at the British Museum in September 1996 for lawyers, accountants, economists, and assyriologists. My Internet report on the conference (which was not formally reported) came to the notice of Professor Michael Hudson within 24 hours of being issued, and
he wrote to me. We immediately discovered that we had similar views on
topics of great controversy, and we formed a discussion group consisting
of his associates and mine. As there were originally eight members it was
called Gang 8, and it was moderated by the Norwegian economist, Arno
Mong Daastøl. The Group is a closed one, but non-members can be
permitted to access the Group's Internet discussions, and its archive is
public. The membership of the group has changed with time, and there
was an influx of new members from the Post-Keynesian Thought group
run from Colorado University. I acknowledge with enthusiasm and
gratitude the great help I have received from all the members of the
Group. To be able to hone one's ideas by discussion with scholars of such
high ability is a priceless privilege.

I must also express my deepest thanks for the guidance and help I have
received during 38 years from one who is not an economist but an
internationally respected physical-chemist, Dr. Jitendra N. Mehrishi. He
was the first to insist that I should publish my ideas, and his latest help
has been to show me the solution of the problem of finding a title for this
book.

Support has been generous from the committee of the Economic
Research Council, including Chairman Damon de Laszlo, John Mills, and
James Bourlet. Finally there has been invaluable support from Dr. Michael Moore without whose insistence I might never have read
Maynard Keynes' *The Economic Consequences of Mr. Churchill*, Keynes'
greatest polemic.

I should like to express my appreciation of the fine work of the
members of the International Scholars Conference on Ancient Near
Eastern Economies. The membership has varied from time to time, but
the participants who have been of particular help in improving my
understanding of the history of finance are as follows:- Robert Englund,
William Hallo, Michael Jursa, Carl Lamberg-Karlovsky, Marc Van De
Mieroop, Thomas Palaima, Johannes Renger, Eleanor Robson, Piotr
Steinkeller, Christopher Walker, Cornelia Wunsch, Carlo Zaccagnini.

The Institute of Financial Services has been very helpful, and as owner
of the former Bankers' Magazine provided copies of A. H. Gibson's papers
and permission to make use of them.

The earlier version of this book was dedicated 'with deepest sympathy to
all those people throughout the world who have suffered from the folly of high
interest rates. Their suffering was quite needless. Sadly they may be the largest
group of people ever to receive a dedication.' This time I should like to
commemorate a single individual, one of the most important scientists
of the 20th century, Professor Sir Frank Engledow CMG FRS (1890–1985),
onetime Drapers Professor of Agriculture in the University of Cambridge. Sir Frank’s name is known now to few, yet in the years 1912–14, he improved the yield of wheat so much that the present population of the world can more than survive. He also masterminded the food policy of Britain from 1940. For that he made use of the research into nutrition done by two other great Cambridge scientists, Professor Robert McCance and Dr. Elsie Widdowson. It is now known that as a result of their decisions the British nation has never been fitter than it was during the Second World War. The significance of Sir Frank Engledow for economists is that the sophisticated statistical techniques created by Professor Ronald Aylmer Fisher for him to use in plant breeding are the ones which econometricians now abuse so freely. I quote Sir Frank: ‘Economists use multi-linear regressions every parameter in which is an assumption.’ The written word cannot convey the passion and contempt with which those words were spoken.

Geoffrey W. Gardiner, 
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geoffrey.gardiner@btinternet.com