HOW GUERNSEY BEAT THE BANKERS

The story of how the Island of Guernsey created its own money, without cost to the taxpayer, and established a prosperous community free of debt

by

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ONE SHILLING

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INTRODUCTION

The announcement by the Chancellor of the Exchequer in his budget speech that he intends to set up a committee to inquire into monetary and credit policy is bound to focus attention on the workings of our financial system. Over the years there have been many interesting monetary experiments undertaken in various parts of the world.

These have mainly taken place in small communities, but they are none-the-less of interest. For example, there was the experiment in the island of Guernsey in the period following the Napoleonic wars. There were also experiments in the towns of Swanenkirchen in Bavaria and Wörgl in the Austrian Tyrol, which took place in the years of depression following the 1914-18 war. Another interesting example is the amazing development which took place in the island of Gosaba, off the coast of India. These, and similar experiments had one factor in common. A depressed and unproductive community was changed in a comparatively short while into an active, prosperous and happy community.

The story of the island of Guernsey is particularly interesting from our point of view, for it is a relatively easy matter to see for oneself the actual buildings which were created—as a result of these experiments. For example, the Market House, and Elizabeth College were two examples of the result of the sensible money policy adopted by the island Parliament in the early part of last century. Other improvements included better roads, a modern sewage system, all of which were constructed without a debt being incurred by the community.

These experiments have a considerable bearing upon our present monetary policy, which, as is being increasingly realised, is in need of considerable revision. We make no apology therefore, for re-telling the story of the successful monetary experiment in Guernsey.

THE GUERNSEY MARKET SCHEME

Our story opens in the year 1815. It was a year of considerable difficulty for the people of Britain, but the people of the little island of Guernsey were particularly hard hit. The effects of the Napoleonic wars had resulted in a state of despair on the part of the island community, due to the acute economic distress then prevailing. The following extract from a document presented by the States (as the island Parliament is called) to the Privy Council speaks very eloquently on the state of affairs :

> "In this island, eminently favoured by nature, nothing has been done by art or science towards the least improvement ; nothing for the display or enjoyment of local beauties and advantages ; not a road, not even an approach to the town, where a horse and cart could pass abreast ; and the deep roads only four feet six inches wide, with a footway of two or three feet, from which nothing but the steep banks on each side can be seen, appeared solely calculated for drains to the waters which running over them, rendered them ever yet deeper and narrower. Not a vehicle, hardly a horse kept for hire ; no four-wheeled carriage existed of any kind, and the traveller landed in a town of lofty houses, confined and miserably-paved streets, from which he could only penetrate into the country by worse roads, left the island in haste and under the most unfavourable impressions.
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> In 1813, the sea, which had in former times swallowed up large tracts, threatened, from the defective state of its banks, to overflow a great extent of land. The sum required to avert the danger was estimated at more than £10,000, which the adjoining parishes subject to this charge were not in a condition to raise. The state of the finance was not consolatory ; with a debt of £19,137 and an annual charge for interest of £2,390, the revenue of £3,000 left only £600 for unforeseen expenses and improvements. Thus, at the peace, this island found itself with little or no trade, little or no disposable revenue, no inducement for the affluent to continue their abode, and no prospect of employment for the poor."

What a tale of woe. Small wonder that the people were depressed and any that could were making their way to the mainland. As often happens in communities when there are major difficulties, a committee was appointed in 1815 to consider in particular the overcrowded state of the market, of which it was said that "humanity cries out against the crush which it is difficult to get out of ; and against the lack of shelter for the people who, often arriving wet or heated, remained exposed for whole hours to wind and rain, to the severity of the cold and the heat of the sun."

The committee examined the situation, and came to the conclusion that further taxation was impossible. The alternative was to try and borrow money from the banks. But this entailed the payment of a high rate of interest, which they could not afford, particularly in view of the fact that these interest payments would continue for years and would eventually mean that, although the original sum had been repaid in interest charges, the capital sum would remain as a debt.

Fortunately for the people of Guernsey, they had at that time among their leaders some honest men of keen intellect, who put forward the revolutionary suggestion that the States should take advantage of their ancient prerogative and produce their own notes to finance the re-building of the market. At first this proposal was turned down. But later in the same year the proposal to issue State notes was agreed to, for a different purpose. The finance committee reported that £5,000 was wanted for roads and a monument to the late Governor, while they had only £1,000 in hand. It was agreed that the remaining £4,000 should be raised by the issue of State £1 notes, 1,500 of which should be payable in April 1817, 1,250 in October the same year, and 1,250 in April 1818. "In this manner" they said, "WITHOUT INCREASING THE DEBT OF THE STATES, we can easily succeed in finishing the works undertaken, leaving moreover in the coffers sufficient money for the other needs of the States."

A SUCCESSFUL VENTURE

How wise they were is proved by the event. The success of this first creation of State money was so great that it was rapidly followed by others. In June 1819 the question of the market became ever more acute, and it was agreed to finance the rebuilding of it, not in the orthodox manner by raising a loan, but by the State creating the necessary notes "interest free."

The following comment made by the finance committee at a later date shows how successful the venture had become. It was at the time when a further issue of notes was made to diminish the interest-bearing debt to the States. The finance committee declared: "The States could increase the number of notes in circulation without danger up to 10,000 in payment of the debt, and the committee recommends this course as most advantageous to the States' finance, as well as to the public, who, far from making the slightest difficulty in taking them, look for them with eagerness."

And so the story went on. On 29th March, 1826, a further issue was authorized to re-build Elizabeth College, which had been founded in 1563 by Queen Elizabeth, and some parochial schools. The Bailiff of that time—Daniel de Lisle Brock—in his address to the States Assembly expressed his belief that the creation of this new money was of great benefit to the States, and caused no inconvenience because of the great care with which it was issued.

Various other creations of new money took place for projects of re-building, widening the streets of St. Peter Port, reconstructing some of its buildings, making new roads and public works of many kinds. The experiments continued over a period of 20 years, by which time the people of Guernsey had developed from a depressed unhappy state to a position of prosperity and happiness. The following brief quotation shows how improved was the situation as a direct result of the wise and statesmanlike action of the Island Parliament. Daniel de Lisle Brock, to whom, it seems, much of the credit must go, said in 1827:

> "To bring about the improvements which are the admiration of visitors and which contribute so much to the joy, the health, and well-being of the inhabitants, the States have been obliged to issue notes amounting to £55,000. If it had been necessary, and if it were still necessary, to pay interest on this sum, it would be so much taken from the fund earmarked to pay for the improvements made and to carry out new ones."

To talk of joy, health and well-being is a very different story from the position in 1815, when it was "little or no trade, little or no disposable revenue, and no prospect of employment for the poor." But this happy state of affairs was not to the liking of everyone, and opposition to the idea of the Island States creating their own "debt-free" money had been growing over the years, particularly among the banking interests on the island. A new bank, called the Commercial Bank was founded in 1830. This institution, together with the old bank, failing to prevent the growing prosperity of the islanders, began to issue notes at its own discretion, flooding the island with paper money. Reference has already been made to the care exercised in deciding the quantity of money to be issued by the States, and now Daniel de Lisle Brock sought to restrain the private banks from this anti-social activity.

There remains on record his spirited speech to the States' meeting held in September 1836 on this subject, and the following two extracts are of particular interest.

> "No one has a right to arrogate to himself the power of circulating a private coinage on which he imprints for his own profit an arbitrary value."

> "With these facts before our eyes we must realise the necessity of limiting the issue of paper money to the needs and customs, and the benefit, of the community in general. Permission cannot be granted to certain individuals to play with the wealth and prosperity of society."

In spite of all, however, the banks finally won the day. Despite a careful search of the records, no explanation of what actually happened can be found—merely an exchange of letters between representatives of the banks and the Bailiff of the Island. In this, the former suggested that the States should cease to make further issue, should withdraw £1,500 from circulation, and have no more than £40,000 in circulation. To this proposal the Bailiff agreed. Having read the account of his fighting speech to the States, it is difficult to understand what combination of forces caused him to give way. But at least it can be said that the inhabitants of the island benefitted materially from the monetary experiment which took place, when the island Parliament created its own money—'interest-free' over 150 years ago.

POSTSCRIPT

Although the original experiment came to an abrupt end in 1836, there was a further development in 1914, just after the outbreak of the first world war. The demand for an increase in the supply of money was then so great that the Royal Court passed an Ordinance making State notes and those issued by the Banks legal tender. But the Banks were prohibited from increasing their note issue, and all additional notes were issued by the States.

There was a great demand for these States notes, and they first had to be printed locally by two firms in the island, the Star Company and the Guernsey Press Company, who were able to provide what proved to be very serviceable five shilling and ten shilling notes. These were later replaced by notes printed on proper bank-note paper with the customary watermark. The local banks have now been absorbed by the Big Five, so that there is no other local note issue, other than that of States' notes, which circulate alongside the more familiar Bank of England notes.

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INTEREST FREE MONEY

Is there, in 1958, a lesson we can learn from the experiment carried out in Guernsey over a century ago ? In Britain today, the State does issue its own notes, through the medium of the nationalised Bank of England, but by far the greater part of our money supply is 'credit money,' and this is created by the Joint Stock Banks when making loans, granting overdrafts or purchasing securities.

Since it is now established beyond doubt that banks create this credit money, the question arises, should the State have to 'borrow' this credit money from the banking system and pay interest thereon, or, alternatively, should the banks act as agents for the government and be paid for the useful service they render ?

The importance of this question is underlined by the recent increase in the Bank Rate to 7%, for as a result of this, there is a big increase in interest charges on the national debt, a very large part of which goes to the banks. Perhaps we ought to take to heart the words of Daniel de Lisle Brock who said in 1836—

> "No one has a right to arrogate to himself the power of circulating a private coinage on which he imprints for his own profit an arbitrary value."

Readers who would be interested to follow up the ideas contained in this pamphlet are recommended the following publications :

"Inflation—is there a cure ?" by Edward Holloway. 1/3 post free.

"Expansion or Explosion," by Antony Vickers. The Bodley Head. 6/6 post free.

"Economic Tribulation," by Vincent Vickers (one-time Director of the Bank of England). The Bodley Head. 5/6 post free.

"Great Britain & World Trade," edited by Edward Holloway. 2/6 post free.

All the above are obtainable from the Economic Reform Club & Institute, 2a, Queen's Parade, London, N.10.

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