

CHAPTER XI

THE MONEY QUESTION

Contrary to the popular impression, there is no direct or legal privilege in the control of money and credit, but it is doubtless true that the beneficiaries of the privileges which are herein discussed have acquired a dominating position in the control of money and credit in this country, which makes it difficult to secure capital to enter into competition with any trust controlled business.

As is always the case in times of depression the fiat money idea turns up in some form or other. At the moment it is being considered in Congress at the instance of some western Senators, and will probably take the form of some effort to have silver authorized to be coined at a ratio other than the market ratio. This is one of the familiar fallacies, like protection, which never die. Nothing can be done by the government in reference to money except to recognize as the standard of value that element which is used as the yardstick or measure of value among the business men of the world, and that is and always has been gold. Where silver is used, whether coined by the government, or, as in China, issued by trading concerns, the standard by which such silver is valued is gold. It is

the best measure of value yet developed in civilization. To tamper with this yardstick is merely a device by which money or property is transferred from one class to another class. Inflation of the currency means the issuing of paper money beyond what the credit of the government will maintain at par in gold. This means in the end a depreciated currency.

Cheap Money No Help to Masses

By this system in Germany after the war the government money became valueless except that it could be used to pay debts, and therefore the debtor was able to pay in scraps of worthless paper debts incurred under another standard, the effect of which was to transfer enormous quantities of real estate from one class to another class. The same was true in France when the franc fell from 19 cents to 3 cents, and both Germany and France were enabled to pay public debts for a trifle of their face value. The mass are never helped by any such performance.

If silver is to be brought into circulation there are two ways in which this can be done. The government can be authorized to coin silver at the market rate of the day. This of course will not help the silver people. The government can coin silver at an artificial ratio and the silver mine owners and possessors of silver can take it to the mint and have it coined at the new ratio, which of course means that the government has undertaken to give a fictitious value to silver. The government can do this to the limit of its credit, but in the end it will destroy the credit of any government, and while it lasts and before it has destroyed the credit of

the government it is nothing but a bounty out of the government treasury primarily to the mine owners, and secondarily to all speculators in silver. It might bring temporary prosperity to some silver mine owners, but at a cost in the end which must come out of the public and which will exceed many times over any possible benefits.

Federal Reserve Tool of Special Privilege

There is however a well grounded distrust in the public mind as to the way our banking institutions are administered under the Federal Reserve system. This system is entirely unnecessary, extremely expensive, and vests in the hands of a few people enormous power over the money and credit. Its essence was the idea of the late Senator Aldrich* who represented better than any other man in our history the privileged interests, and his idea was to center the control of money and credit in the hands of a few plutocrats to be used for the benefit of plutocracy and privilege. Democrats under Wilson fell into this trap and put some fancy trimmings on the idea and called it the Federal Reserve System. The capital put in the control of the administrators of this system all came out of the banks and was an entirely needless expense imposed upon credit, and therefore upon the business of the country. Lincoln said that no man is good enough to own another man. It is equally true that no such vast power as exists in the Federal Reserve System should be entrusted to any group of men, to say nothing of a group of men representing the privileged interests of this country.

*Republican United States Senator from Rhode Island.

The panic showed that this system did not operate at all as was expected. We have had seven or eight thousand bank failures in the last few years. There has only been one bank failure in Canada, and Canada has no Federal Reserve System at all.

The Federal Reserve System was put over upon the argument that we had an inelastic currency system which required banks to put up government bonds before they could issue bank notes, and thus tie up a lot of bank capital, and resulted in a rigid and inelastic currency system. This was a legitimate argument against the old system, but its remedy did not require any such elaborate and dangerous institution as the Federal Reserve System.

A Better Currency Plan

The following is submitted as a plan which would accomplish an elastic currency without any Federal Reserve System, and without any additional burden upon banking or industry or credit, but which would cheapen and make more available credit by dispensing with the necessity of the gold reserve which entails great economic waste.

The foundation of such a system would be that which prevailed in Scotland for one hundred and twenty years, and is now the main characteristic of the Canadian banking system, and was attended by a minimum of failures. The Scottish banks issued currency exactly as our banks issue checks, without being compelled to put up anywhere any security. Each bank note was a pledge of the bank to redeem the note in a specified quantity of gold. There would be no legitimate ob-

jection to allowing the bank to issue a note promising redemption in a specified quantity of silver, iron, or any other substitute, for the reason that in the absence of legal tender laws, which should be repealed, no such currency would circulate unless it performed a useful service. These notes were made redeemable on demand, and the average time that the notes were outstanding in the one hundred and twenty years of this plan was eighteen days, at the expiration of which time on the average the notes were presented for redemption, redeemed and withdrawn from circulation, until new demands were presented to the bank for the issuing of additional currency. This is the substance of the Canadian system although Canada issues its own money, and maintains legal tender laws, which no government ever should do.

**Government Should Supervise Banks
and Print All Money**

The government supervision of banks seems to be justified for the protection of depositors. All bankers are familiar with the actual quantity of notes which the needs of trade demand in proportion to the deposits of the bank, which we will say is 30 percent. The minute a bank exceeds that proportion in the issuing of currency the banking department is put upon notice that the bank is in an unsound condition. A system embodying these principles could be adopted in this country upon the following basis:

The government should print in the name of each bank and distribute to the banks upon their requisitions all paper money, but the banks should issue it and not the government. Each note should pledge the

issuing bank to pay to the bearer a certain number of dollars in gold, specifying the gold content of a dollar, either on demand or, at the option of the issuing bank, in U. S. gold notes, which in turn would be redeemable within thirty days after demand by the government in the specified quantity of gold. This would dispense with the necessity of the bank or the government holding any gold reserve. In case of a run on the bank the bank would have in its possession U. S. gold notes, previously furnished by the government, and would pay them out, if it could not mobilize its assets quickly enough to meet the run on the bank. Those who presented bank notes under any panicky impulse would receive U. S. gold notes, and that would reassure every noteholder because none of them want the gold. They only want to be assured that the gold is obtainable within a limited time, not necessarily on demand, or that the government is behind the note. After the run was over the bank could redeem these U. S. gold notes at its leisure, and if it could not, then the bank would have to go into the hands of a receiver, and the government would have to redeem its own notes advanced to the bank. The government need not keep any amount of gold on hand, because the thirty day limit would prevent any run upon the government, and as a matter of fact everybody is satisfied with a government note so long as its credit is good, and there would be no actual demand for any gold at all. But if there was, there would be thirty days' notice during which time the government could easily secure either here or abroad the necessary gold to meet this demand.

Substitute for Gold Reserve

To protect the government against any loss the government would demand and collect annually an assessment of a certain percentage of the amount of gold notes delivered, and this would be collected from all note-issuing banks. This would constitute a revolving fund, the amount of which would be fixed from time to time as the actual losses determined the percentage. It would be a trifling tax paid by all of the banks, and would reimburse the government for any losses in the case of an individual insolvent bank. This would dispense with the costly expense of maintaining gold reserves, and would establish a flexible currency which would expand and contract with the needs of trade, and which would be absolutely safe in the hands of the holder, and prevent any danger of any run upon any bank.

If it was necessary to have a large amount of money or credit in any particular section of the country at a particular time, such as the crop-moving season, the individual banks of the locality would easily be able to obtain such credit from the great banks in the cities of which they were the correspondents. There is never any difficulty about obtaining money under such a system to meet the seasonal demands of business in any part of the country. No laws are needed for that purpose.

No sound objection can be made to this theory of issuing currency. It is safe, economical and efficient, and its basic principle has behind it the experience of Scotland and Canada. The government should guarantee all deposits in national banks, collecting annually

an assessment from all such banks sufficient to meet all losses of deposits. This would also prevent runs upon banks in hard times.