CHAPTER II.

OF CURRENT CREDIT-FORMS.

They (governments) determined to try whether they could not * * * make a piece of paper issued by them pass for a pound, by merely calling it a pound, and consenting to receive it in payment of taxes. And such is the influence of almost all established governments, that they have generally succeeded in attaining this object: I believe I might say they have always succeeded for a time, and the power has only been lost to them after they had compromised it by the most flagrant abuse. *John Stuart Mill.*

Bank paper must be suppressed, and the circulating medium must be restored to the nation, to which it belongs.

Treasury bills, bottomed on taxes, * * * thrown into circulation, will take the place of so much gold and silver.

Thomas Jefferson.

During the first year of the Civil War the United States government issued "demand notes," afterwards known as greenbacks, to the amount of approximately $60,000,000, as unlimited legal tender for all debts public and private.* These notes were intended to circulate as money and were issued in denominations of convenient size for this purpose. The notes stated upon their face that the United States of America promised to pay the bearer, on demand, the sum of ten dollars, or whatever the sum indicated by the denomination of the several notes might be. Neither

*Issues of July 17. 1861, February 12, 1862, and March 17, 1862.

the laws authorizing their issue nor the notes themselves stated in what they were payable, but the government announced, through its Secretary of the Treasury, that they were payable in coin.

Beginning with an issue of $150,000,000, authorized in February, 1862, other greenbacks were authorized during the war until the total issues reached the sum of $450,000,000. But none of these notes, except the $60,000,000 above mentioned, were full legal tender for all debts public and private. All subsequent issues contained a clause which made them legal tender for all debts except *duties on imports* and interest on the public debt. That is to say, the government issued these subsequent notes in payment of all of its current expenses (not including interest on its bonds), but it would not receive them in payment of duties on imports which constituted a chief source of its revenue.

Of the $60,000,000 of demand notes referred to $50,000,000 were taken up by the government and a like amount of the subsequent notes of limited legal tender were issued in their stead. But $10,000,000 of the original unlimited tender notes remained in circulation throughout the war.

In the latter part of December, 1861, the banks of the United States, by concerted action, suspended specie payments; that is, they ceased to pay out gold and silver, and began to transact all business upon a paper money basis. The government also ceased to pay out specie except as interest upon the public debt. The result of this was that all demand notes, or greenbacks, of the government of the limited legal tender issues began to depreciate in value, and continued to do so until in July, 1864, it required $2.85 of such currency to purchase $1.00 in gold. In the language of the market, however, instead of regarding greenbacks as at a discount, gold was said to be at a premium, and in July, 1864, gold was quoted at 285.

At no time during the war were any of the unlimited legal tender greenbacks worth less than gold. The $10,-000,000 referred to were outstanding during all that time and passed current as the equivalent of gold, being accepted in payment of duties on imports, but not being, in fact, redeemable in coin either at the banks or at the government treasury after the suspension of specie payments. The reason that these demand notes remained at par with gold could not, therefore, have been because they were payable in coin as is generally supposed. The sole reason was that they were receivable at the custom houses in payment of duties due to the government. If at any time they had been deprived of this quality, they would at once have depreciated to the level of the greenbacks of the limited legal tender variety.

The reason of all this, in the light of our previous discussion, is plain. All of these demand notes purported to be government promises to pay, and so were current debit-forms. But those of the $60,000,000 first referred to contained an implied promise by the government to receive them in payment of taxes at the custom houses, and so they became *de facto* current credit-forms.

If, instead of reading "On demand, the United States of America promises to pay the bearer Ten dollars," with the endorsement of the unlimited legal tender clause thereon, one of these notes had read: "On presentation hereof the United States of America will receive this certificate in lieu of ten dollars in payment of any indebtedness due to the United States as duties on imports or otherwise," such certificate would have passed current with gold at its face value for the reason above stated. But in that case the true reason would have been apparent, instead of being obscured by the fiction of redeemability in coin at a time when for many years specie payments were suspended and redemption in coin impossible.

In 1875 congress passed an act which provided that on January 1, 1879, specie payments should be resumed at the United States treasury. By virtue of this act demand notes which had exchanged for gold at the ratio of $2.85 for $1.00 in 1864 were exchanged at the treasury at par with gold in 1879. In common speech these greenbacks were said to have been made redeemable in gold on and after January 1, 1879. But in fact, if congress had simply enacted that on and after said date greenbacks should be received at par in payment of taxes due the United States, the effect would have been just the same. From this discussion it may be seen that by a simple change in the wording of its greenback currency a paper money based upon the gold dollar as a standard could be utilized by the United States up to the amount of the average annual expenses of the government,* exclusive of its obligations

* About $550,000,000 for the year ending July 1, 1903. During this year about $343,000,000 of greenbacks were in circulation.

now payable in gold. But in order to put the finances of the nation upon an economic basis the true standard of value should displace the present gold standard, and the dailor should be made to supplant the dollar as the practical unit of exchange.

A **Dailor** is a current credit-form, representing the value of one day's common labor on the economic margin, issued by the State in payment for services and satisforms, and redeemable by the State in receipt for taxes.

In case this plan were adopted the dailor would read substantially as follows:

On presentation of this certificate the United States of America will receive the same in lieu of one day's common labor, or the value thereof, in payment of any taxes or other indebtedness due to the national government.

These credit-forms would be issued in denominations of one, two, five, ten, twenty, fifty, one hundred, and one thousand dailors in like manner as our present national currency. They would be paid out to all persons furnishing labor-forms, labor, or services to the general government. If these persons owed the government any thing in taxes or otherwise, their credit-forms could be utilized in canceling such indebtedness. If not, such credit-forms could be passed at their full value to others who did owe taxes, and in their hands could be used in payment of such taxes and so be redeemed. Such credit-forms would thus pass current and would perform all of the characteristic functions of a medium of exchange.

It is claimed by the advocates of metallic money that the thing chosen to circulate as a medium of exchange must have a high degree of utility for some other purpose. This is necessarily true of a medium of exchange which is developed directly from a system of barter. Historically it is true that all money-forms which have been used not only as a medium of exchange, but as a standard of value, have had a marked utility for some other purpose. But this is only because all monetary standards hitherto used have developed directly from barter without any reference to the function of the State in relation to the market. If the State, practically without cost, can furnish something highly useful as a medium of exchange and not useful for any other purpose, surely this is a direct economic gain. The utility of gold and silver for other purposes will not be affected, and the supply of these metals for use in other ways will be greatly increased; while at the same time the new medium of exchange will not detract from the supply of any other useful article.

A money-form which is widely used for other purposes is susceptible to all the fluctuations of value which result from such use. This is a thing to be avoided, and it can only be avoided by adopting as a medium of exchange something which has practically no other utility. In this view the current credit-form is the most desirable of all money-forms.

It is next urged that in order to be a medium for the exchange of values, a thing must itself be of value. This is true. And since the values of all labor-forms are created by labor-power, what is more valuable than labor-power itself? And in what form can the value of labor-power be manifested better than in a certificate attested by the government that certain labor has been performed, and that the laborer is entitled to his reward? This is the real gist of the certificate which we have called a dailor.*

The third requisite of a money-form, as usually stated, is that it must not only have value, but it must also be a measure of value. We have gone farther than this and have shown in a former chapter that it must be a measure of all of the three distinctive forms of value, viz., labor value, capital value, and land value. The current credit-forms which we advocate for use as money represent a given kind of labor-power—common labor—exerted for a specified time—one day—at a given place—the economic margin. This furnishes us not only with a measure for all forms of value, but with a unit or standard of measurement—the dailor. Under this system every man who performs common labor for the public will receive one dailor a day. In the interchange of the market his wages will purchase the economic equivalent of the return to the self-employed worker upon the economic margin. For, if one of these should fare perceptibly better than the other, there would result a shifting of occupation which would soon equalize the current returns of these two classes of common laborers. Common laborers everywhere would necessarily receive one dailor a day, or its equivalent, as the return for their labor, and the wages of the common laborers would become the basis for the payment of all other wages and

* We use the term *dailor* for convenience in this discussion. If the doctrines of this chapter were adopted the word *dollar* could well be retained.

for the measurement of all industrial returns. In this way the prosperity not only of the government employes, but of all persons performing labor or services or engaging in productive enterprises, would directly depend upon the status of the man at the margin.

In the fourth place it is claimed that the basic money-form in any country should be made of such material as will cause it to pass current anywhere in the world at substantially the same value. This sounds well, but it is a mere matter of sentiment. There is no more reason why the people of the United States should not transact all domestic business with current credit-forms issued by the government than why they should not use checks, which are negotiable only where the maker is known. Wherever the credit and stability of the government are recognized, its credit-forms will pass current just as its debit-forms—greenbacks and treasury notes—pass current in foreign countries at present. And then as now, gold and silver may still be coined, the stamp of the government certifying to their weight and fineness. Such coins will pass current then, as at present, at their bullion values in foreign markets and in settling the balances of international trade.

In the fifth place it is a prime requisite that a basic money-form should furnish the best available standard for deferred payments. In the last chapter we learned that in present conditions a debt contracted now and payable twenty years hence may require twice as much labor to repay it at maturity as at present. And on the other hand, the creditor might receive the labor products of only half as many days as were represented by his money-forms when loaned. But by the substitution of the economic standard of value for the present standard. and the dailor for the dollar as the unit of payment, the same number of days' labor would be returned as was borrowed, let the loan run as long as it may. The dailor furnishes the only fit standard for the making of deferred payments.

In the sixth place a monetary system must readily accommodate itself to the varying demands of trade. We hear a great deal nowadays about the necessity for an elastic currency. In normal conditions, such as would prevail under bisocialism, the demands of trade would be much more uniform than at present, and such fluctuations as would exist from time to time would have economic and easily ascertained causes. Such fluctuations could readily be anticipated and provision could be made against them. No man or set of men, for financial gain, could in any way manipulate the supply of currency as at present. For this reason one of the most prolific causes of financial stress would be eliminated. Bisocialism could have no Black Fridays. Arbitrary expansion and contraction of the currency would be unknown.

Again, under bisocialism the most prolific and persistent of all causes of periodical and general financial depressions would be removed. In the established order the private appropriation and absolute control of land-forms and the consequent artificial lowering of the economic margin gives to the category of ground rent a flagrantly excessive share of the net values of production. The more prosperous the times the higher the ground rents; the greater the struggle for advantageous land-forms, the more these are taken up in advance of actual need and held out of use for a price which finally becomes prohibitive. The increase of rent swallows all the measurable gains of advancing civilization, and the tribute finally becomes more than production can bear. Business men begin to fail, and every failure embarrasses many who are already on the verge of collapse. Loss begets loss, private credits become strained, financial accommodations are withdrawn, and ruin becomes widespread. Finally ground rents are lowered, business enterprises tend to recover, make gains, and finally prosper openly. Then again the rent line is lowered, ground rents rise and encroach upon the earnings of labor and capital, and the same catastrophe is repeated, but with ruin more widespread than before.

Under bisocialism, therefore, with a currency governed by the needs of the nation and not by the rapacity of the so-called "monied interest," and with healthful production based upon a normal economic margin, violent financial fluctuations could have no place. Gold and silver would not be eliminated as money-forms. Their use would not be confined to foreign trade. The government would always receive them at their actual value in payment of taxes. The dailor and the dollar would circulate together, the former being the standard and regulating the value of the latter in common with all other labor-forms. Any approach to stringency in the money market would readily call into circulation all the gold and silver which might be required for domestic trade. An unusual demand for these metals for monetary purposes would tend to raise their values and would quickly cause them to be withdrawn to some extent from other uses. Stability is a great deal better quality in a monetary system than elasticity. In securing both of these in adequate degree nothing can be so efficacious as normal economic conditions. The elasticity of the currency, whether it be great or small, must be a natural elasticity, and not in any manner or degree subject to manipulation by any man or class of men. Otherwise it were better to have no elasticity at all.

We have now shown that the current credit-form represented by the dailor has the requisite utility and the necessary value of a medium of exchange; that it furnishes both a measure and a unit for the measurement of value; that it will pass current without question at home and may, if necessary, be supplemented by the use of metallic money both at home and abroad; and that it furnishes the stability required by an ideal standard for deferred payments. These constitute the prime requisites of a medium of exchange. Subsidiary to these the following requisites are usually mentioned in treatises on the subject of money.

A money-form must have in marked degree the quality of convenience. The experience of the present day shows that in this respect paper currency has a great advantage over coin and especially over gold. In current transactions coin is but little used except for change and the payment of small sums of money. Under the system of credit-forms above proposed it would doubtless meet the convenience of the people to coin the dailor from aluminum—a metal of little weight and now of trifling value in itself—

and to have subsidiary coins of the usual denominations made from aluminum, nickel and copper.

The quality of durability was formerly insisted upon as chief among the subsidiary qualities of money. But under a system of current credit-forms this quality would become one of least importance. In the usual course a credit-form would be issued for current expense and redeemed in receipt for current taxes. The life of the average credit-form would not exceed one year. Whether a given credit-form when received by the government should be re-issued or canceled is a matter of administrative detail which we need not now determine. Theoretically it would become a new credit-form, even if re-issued.

Akin to the foregoing is the demand usually made that the ordinary medium of exchange should furnish an indestructible storehouse, as it were, for the preservation of values while in transit and in hoarding for long spaces of time. Gold possesses this quality in high degree, and for this reason it is urged that gold is the material most fit for a circulating medium and for the standard of value. But under the economic standard of value and a system utilizing credit-forms as currency, gold would be just as available for the safe transportation and storage of values as ever. If the reasoning of the standard economists upon this point were true, diamonds would make even a better standard of value and medium of exchange than gold. Their argument, if it proves anything, proves too much.

Portability is another of the standard demands of a circulating medium. In this respect paper currency of large denominations has every advantage over coin. The bulk need not be great and the weight, even of a large sum, is insignificant.

It is also said that the material used as a medium of exchange should be susceptible of adequate divisibility, and that the different divisions should be readily cognizable by their sizes or by their respective appearances. A paper currency yields readily to this demand in so far as it properly extends. Experience has shown that there is no necessity whatever for making a ten dollar bill one-half the size of a twenty dollar bill, and so on throughout the different denominations. By a difference of coloring and engraving bills of the different denominations are now readily cognizable and distinguishable, and this is all that is required. In respect to the subsidiary coins, the present differences of size may be adhered to when silver is changed to aluminum, which resembles it in appearance save for the lack of luster.

Lastly, it is claimed in favor of a metallic standard that silver and gold coins may be reduced to bullion substantially without loss, and bullion may be converted into coins substantially without expense. In this way it is claimed that the supply of money may be regulated and, in fact, tends to regulate itself, since as the bullion value of these metals rises coins will be melted for use as bullion, and as bullion values fall the metals will be more extensively coined. But under a system of current credit-forms limited to the expenses of the government and fully redeemed in receipt of its income, the supply of money will also automatically regulate itself. And if the revenue of the government be confined to the absorption into the public treasury of all ground values, there will at all times be a definite and normal relation between the amount of money outstanding and the volume of business currently transacted in the entire country. For it is the demands of business and the condition of trade in any community which determine the ground values of that community; and when these ground values are all absorbed in taxes and a corresponding amount of credit-forms are issued, the same relation between the currency and current business will prevail as between current business and ground values.

This is indeed one of the great factors in the economic demand for the adoption of credit-forms as currency, and the economic standard as the standard of value. Normal conditions will then at all times prevail in what we call the money market, and the supply of money will always be entirely independent of the manipulations of private persons or corporations. Banks will be relegated to their normal functions of making loans and exchanges and will cease to be an overshadowing power in the financial polity of the nation. The issuing of bank notes to circulate as money will be abolished along with all other differential privileges now created and enforced by law. The banking business will not be destroyed, nor its normal functions interfered with, but rather promoted. For in present conditions not only do banks have differential privileges, but these privileges are of greater benefit to some banks than others—to the great centralized institutions rather than the smaller banks away from the money centers.

The present tendency is for those great banking institutions specially favored by the government to make financial adjuncts of the smaller and more remote banks, and to appropriate unto themselves, as it were, the cream of all the banking business. The thing that will be most advantageous to the ordinary banker is a return by all bankers to their normal functions under conditions which will bring greater prosperity to their respective communities at large. A legitimate banking business prospers as the community about it prospers, and not otherwise. The prosperity of the community at large, in normal conditions, is based directly upon the prosperity of its marginal producer. The dailor, not the dollar, is the true harbinger and measure of his prosperity. The current credit-form is the only medium of exchange having a complete economic basis.