

# Cost and Price

OR THE

# Product and the Market

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AN ANALYSIS OF THE NATURE OF COSTS AND AN IN-  
QUIRY INTO THE ORIGIN OF PURCHASING POWER  
AND CREDITS SHOWING THEIR LIMIT IN PAY-  
ING THE PRICE OF PRODUCTS AND THE  
EVER INCREASING NECESSITY FOR MUNIC-  
IPAL AND INDUSTRIAL BOND ISSUES



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## CHAPTER VII.

## ELASTIC CREDIT MONEY.

In considering an issue of "credit money," as much consideration and attention should be given to the nature of what creates the need for such issue of money as to the need itself; and a very careful consideration should also be given to the nature and origin of the security for such money issue, not so much to question its safety as a security but to determine whether its use as a basic security would not put a premium on the very condition which the money is intended to relieve,—the object of the money being, supposedly, to relieve the strain of maturing and overdue deferred payments.

To argue the "quantitative theory of money" would be idle in this connection, yet comparisons are appropriate. With a volume of business between 1885 and 1890 that showed a per capita increase, and with a circulating volume of money that showed a per capita decrease, there was a general decline both in prices and wages. Between 1900 and 1905, with an increase per capita both of volume of products and volume of circulating money, there was a nominal increase of both prices and wages. Each condition preceded a panic. In 1896, for campaign purposes, a western editor wrote a book in which he so ably argued the sufficiency of the money circulation at that time, that he was rewarded by a high position in the Treasury Department at Washington. Following the panic of 1907, in an interview given to James B. Morrow, who has a rare faculty of drawing out the weak and egotistic spots in our great men, this same editor said,

“Currency, and currency alone, could have prevented all the loss and trouble,”—plenty of currency when prices were falling, and a shortage of currency with nearly double the per capita circulation when prices were rising. In his last report as Secretary of the Treasury, Mr. Cortelyou tells of his efforts and success in inducing banks to take out currency to the limit of their bond privilege. This resulted in a currency expansion to the utmost limit before the panic of 1907 was reached, thus leaving no accommodating elasticity for a panic emergency.

With a volume of money in circulation which seemingly accommodated all business necessities, even to advancing prices and wages, what could have been the compelling contingency which demanded a sudden increase in the gradually increasing volume of currency? If the need for money is that of manufacturing and commerce, it does seem that a volume of currency which could sustain an increase of both volume and price should be sufficient to maintain both volume and price; yet, with a full volume of commerce and an apparent sufficiency of currency volume, there came a sudden change so that a month later, with the same volume of currency and nearly one-half less commerce, there seemed to be a necessity for doubling the volume of currency. Was this because of a shortage of currency, or because of an unnatural, artificial demand for currency, a demand impossible of satisfaction?

When one examines into the first starting of a financial panic, it will be found that it never starts in manufacturing and commerce, since they are generating a material increase of material funds which exchange and balance their obligations. Nor is it commercial accommodation loans that become the most pressing and worrisome to banking when the panic is on. Productive properties and interests are fairly certain to respond to their obligations, as their material increase generates funds. But, with speculative interests and investments there must be an

ever increasing price—or certain loss. Whenever manufacturing and commerce show healthy conditions, speculation reaches out in anticipation of increasing future needs.

Without any expectation of material increase from which to develop a profit margin, Mr. A makes a speculative investment in anticipation of higher prices on lands and stocks. Later, he realizes by selling to B at the anticipated higher price. Then B sells to C at a still higher price, and C may be fortunate enough to induce D to buy him out at a profit margin. By this time, the rest of the alphabet are sitting up and giving very close attention, recklessly willing to invest their last dollar as far as it will go and to give a mortgage for the balance. A and B and C have each cleaned up nice profit margins, and D goes in while all the rest are looking for "sure things" which will give them "something for nothing." Little do they realize that continued profits without material increase must be of increased price only, and ultimately impossible, with all loss falling on the last purchaser whose loss equals the subsequent profits. The last sellers take the last "rake-off." The last buyers, and those who loaned them money, are the ones who start the panic by trying to unload and save for themselves some remnant of their investment.

Higher prices, and higher prices alone, could have prevented all the loss and trouble in 1907. So, if "currency, and currency alone, could have prevented all the loss and trouble," it would have been necessary to expand in volume to supply the 100 per cent call loan demand, and then continue to expand indefinitely, at a ratio that would have equaled the advancing prices necessary to maintain profit margins on investments which had no material increase from which to draw profits. To relieve and indefinitely ward off a threatened panic—coming at the limit of speculative margins—by increasing the volume of currency, would soon have prices advancing at a rate that would

quickly require the expansion of money to be as rapid as Mark Twain's estimate of what was necessary to catch a coyote: "A long-winded streak of lightning."

To continually develop profit margins on non-productive speculative investments is about as logically and physically possible as the exploit of the Chicago carpenter who, shingling a house one foggy morning, discovered after the fog cleared away that he had been laying shingles ten feet beyond the edge of the roof, out on the thick fog.

Since a large proportion of Wall Street's speculative investments are laid in the West, and are developing no material increase, how would it be to coin Chicago fogs into a currency for paying the profit margins, and thus prevent panics by such currency elasticity? It should prove sufficiently elastic. And it should tend to equalize the inter-local exchange of actual values and thus assist in balancing commercial banking, but it would be of no benefit to San Francisco.

In the last analysis, the demand for money—the acute demand which nothing else will supply—is to obtain of the only legalized substance that is recognized in the settlement of deferred payments—and deposits for gambling antes. And the necessity of the demand is the strain and stress of saving the property of the security and the "margin" deposit. So, in considering the necessity for this acute demand, it is more important to first consider what causes the acute necessity.

In analyzing debtor conditions, there will be found three debt creating forces, two being primary and one secondary. The primary forces are: first, the costs of production and exchange, including transportation; second, the cost of land in royalties and selling price. The secondary debt-creating force is interest on deferred payments caused by unbalanced dealings. In analyzing credits, there will be found but one debt-paying force—

the ultimate selling price of all products. Money, being but a medium between these opposing forces and being representative only, can — of itself — neither assist nor coerce; but, as a medium, it may itself be coerced and used to the advantage of the stronger of these opposing forces. Now, in comparing the relative extent and strength of the debt-creating forces and the debt-paying force, with the costs of production—including transportation and exchange—as a debit, and with the ultimate selling of the products as a credit, there must be an even balance between debit and credit, with no strain on money demand. So, with the costs of land added to the costs of production and commerce, there must be a combined debt-creating force far in excess of the single debt-paying force, thus leaving a balance of debit in excess of credit; this, being funded into interest-bearing securities, must fall due eventually with the added interest, and with a strain on money demand in proportion to the volume of these deferred payments falling due.

To view the matter from the point of a demand for money, it is very evident that more money is needed; for, with a volume of money which meets all the demands of commercial requirements, it must be that these deferred payments—being outside of commercial requirements—call for additional money volume. And this is more evident when it is considered that these deferred payments are the results of unbalanced dealings of the past and bear no relation to the dealings of the present—which, unbalancing within themselves, are passing deficits on into future deferred payments rather than paying those of the past. With speculation at the limit where profits are impossible and immediate sale necessary to prevent loss, with deferred payments due and overdue and a money demand pressing for settlements, there comes a demand for money which is entirely foreign to commercial needs and foreign to commercial banking accommodations. It is

a brokerage demand for a currency that will pay the shortage in the dealings of the past generation and at the same time make it possible to discount the future and cash in for present emoluments the estimated profits on the industry of the next generation. The debts of the past generation, falling due coincident with a concerted effort to discount and cash in the estimated profits of the future generation, must result in an increased demand for money, an emergency demand for money to assist the effort of accomplishing the impossible.

With the debt-creating forces exceeding the debt-paying force, there must be a deficit each season to be carried forward on such security as proves satisfactory to those to whom this deficit is legally due. And, as that which can produce a material increase is the only force which can pay debts, this security must rest on productive property and constitute a lien upon its products (income). This deficit, being of unbalanced dealings entered in debits and credits, in being passed on as a deferred payment loses all relationship to the past, since the past can not pay it, and gains no relationship with the future except as a burden demanding payment. This makes of it a matter of investment rather than of commerce, a matter of brokerage rather than of banking, since — being a funded deficit of *decrease* instead of a funded asset of *increase*—it can not be balanced by any commercial funds. Being extraneous in origin and becoming strenuous in its demands, it can be balanced against nothing except bankruptcy or its security,—against loss or foreclosure. Yet it is proposed to relieve this deficit and tendency by an elastic currency with the deficit for security—not actually, but in principle.

Security and availability are seemingly the chief requisites of a credit currency. But the nature of the security decides to what interest it is most available,—to speculation or to commerce, to brokerage or to banking. The se-

curity of its issue, and not the security on which it may be loaned, will control its circulation.

In the last analysis, security must be actual value, and actual value is the product and not the tools and means of production. The value of farms and factories depends wholly upon the value of their products. The value of railroads depends upon these same products, as well as do the profits of commerce. Without these products, all values fail. So, with bonds based on mortgages which are based on property values, dependent upon product values, to use such bonds for currency security would be to use as security that which is removed to the second degree from the actual value, to promote which should be the prime object of currency. Products and the management of the means of production lie within the realm of commerce and banking, while the bonds—based upon the value of the products—lie within the realm of investment and brokerage. Commerce and banking depend on quick action and the elimination of costs for profits, while investment and brokerage depend on delays and added costs for their profits. So, with a currency based on industrial bonds, the result would be that the currency would be issued and controlled by brokerage rather than by banking; and in times of business depression and panics it could and would be used in the support of speculative investments rather than in support of manufacturing and commerce in their time of need.

Another angle of view may make this more plain. With industrial stocks and bonds, the different ownership of the stocks and bonds constitutes a joint ownership, one representing the title and the other a conditional title, yet the title carries the responsibility of management with the privilege of profit and the burden of loss, while the conditional title carries no responsibility,—its only interest being security and investment margin. So, while the ownership is joint and the interests mutual, the bonds be-

come a burden to the stocks and to the management at times of business depression when the demand of the bonds for interest margins results in loss to stocks by compelling margin payments on one part of the capitalized investment when there are no margins being developed on any part of the investment.

This makes the stocks and bonds antagonistic in their economic relation in profit and loss, the value of the bonds being maintained at a loss to the stocks. In relation to the stocks, the bonds become a deficit. It is at such times that the need for credit currency is the most pressing—a need for the free exchange of product values, that they may be better supported between producer and consumer and thus sustain the value of both stocks and bonds. Yet the use of bonds as the security for the currency would not only enhance their value relative to the stocks and in increased income, but would add to the deficit burden resting on the stocks and on the management by all that the bonds might gain. It would be using a deficit for the security of a currency intended to relieve the deficit. If the bonds were bearing 4 per cent and were used as security for an issue of 50 per cent of their value in currency, with the currency supplying a commercial demand at 8 per cent there would be an increase of 100 per cent in the value of the bonds at a time when the associated stocks were depressed and with an added burden on the products which are generating wages and the value of both bonds and stocks. It would be a gain to investments and brokerage and a loss to production and commercial banking. Brokerage banking would be the real gainer with manufacturing and commerce the real losers. It would increase the debt-creating forces and diminish the debt-paying force. It would result simply in an increase of deferred payments which must ultimately be balanced in bankruptcy or by foreclosure.

It is not wholly due to ignorance that the writer uses the term "brokerage" differently, and with a different meaning, from the common use which should be the recognized authority. But, there being a clear difference between commercial interests and investment interests, distinctions must be made wherever there is clearly a difference, and—as banking has developed from commerce, and brokerage from loans and investments—the distinction made here should be permissible. Then, too, for commission merchants and manufacturers' agents to be classed and class themselves as brokers does not take their business out of commerce any more than calling a pawnbroker a banker would convert his business into banking.

Investments are as distinct from commerce as is the farmer's bin of wheat distinct from the field from which it was harvested. If there be a mortgage on the farm, it represents the price of the privilege of raising wheat and bears no relation to the wheat, for the farm can raise wheat as well without as with a mortgage. A note in bank or an account at a general store may be related to the bin of wheat if what was received was used in assisting to produce the wheat. The note in the bank and the account at the store are commercially related to the wheat and become liquidated and balanced by the sale of the wheat. They form a commercial association, while the price of the farm and the mortgage are of an investment association. If the mortgage was incurred in assisting wheat production, it would be related to the wheat that it assisted to produce; but the mortgage would stand as a deficit in wheat production if the wheat failed in paying for the assistance, and as a deficit it would stand—as a cost lien on future crops—and so become a burden instead of a help to production. The mortgage would be no less in security as a lien on future wheat crops than if paid from the present, but it would be shifted from commerce to investments and thus change from a commercial asset to a collateral security—

a matter of brokerage rather than banking. While the security of the mortgage would depend upon the certainty of future wheat crops, therefore upon wheat, to use the mortgage as a bank collateral security on which to base a currency would be but an indirect security based on wheat with the profits on the currency issue resulting to the benefit of the mortgage investment rather than to wheat production. Instead of a currency based on mortgage security, based on farm values, based on crops of wheat, why not base the currency directly on the wheat? Then apply the same principle to factory products and thus reduce the costs of production and the profits on obstruction.

The indirect way of doing things is always the most expensive and leads to the most trouble. A small rural inhabitant was seen at dusk over in a neighborhood away from his home. On being asked his name and where he was going, he replied that he was looking for his father.

"Is your pa over this way somewhere?" he was asked.

"No, but he will be, after he's looked everywhere else for me."

Some proposed methods of supplying a currency for commercial needs are as indirect as was the little fellow in finding his pa. They would compel production and commerce to hunt for and pay the expense of finding the currency instead of having the currency associated with the products.

It is a notorious fact that the brokerage control of loanable funds now exacts higher rates on the best commercial paper than on speculative investment loans. The reverse of this is true with English and German banking.

Farms, factories and railroads are not articles of commerce, nor should their indirect values—resulting from products and services and indirectly represented by securities—be used as a basis for a credit currency; currency so secured would be absolutely controlled by in-

vestment manipulation and through brokerage loans instead of being controlled by production and commerce through commercial accommodations. The use of railroad bonds for currency security would remove the control of the currency further away from productive interests than would the use of farm and factory securities, as, in the case of railroads, both bonds and stocks are a matter of speculative investments, and the manipulators of these investments would have absolute control of all currency issued on what they own and control. It would be equivalent to presenting them with that much money to be loaned to commerce or used in their own interests,—which latter would be the case in every business depression when production and commerce most needed money.

In English and German banking, such paper as most nearly represents actual value in staple products, in storage or transit, constitutes the most desirable of commercial securities, since they are the most certain in liquidation and in banking balances. Therefore, commercial loans are made at lower rates than are investment loans, since active products have proved more reliable than idle investments. But there is one important difference between English banking and the banking of the United States which should not be overlooked whenever the two are compared. This difference is more nearly fundamental in the nature of what the banks are called upon to do than any law or lack of law, intended to control and regulate banking in either country.

Banking evolves from commerce, develops with commerce, assists commerce and, wherever commerce may go, banking will follow; but banking must develop along the lines of commerce and adjust itself to such funds as commerce may develop in equalizing the distribution of various products.

English commerce—like the commerce of earlier New England—developed along the lines of necessity. The re-

sources of the country being unbalanced, the balance had to be gained through commerce with other countries which had an abundance of what was lacking, or too high priced, for home use in supplying necessities. As earlier English—and New England—commerce required a shipload to be sent out for sale or barter, and required an intervening space of time—possibly two or three years—for the supercargo to sell or barter the load of goods, it often required the combined resources of a community to finance one shipload. In the earlier days, it was not at all uncommon for an interior village to charter, or even buy, a ship and combine their entire resources—representing one or two years of labor and self-denial—that the ship might be loaded and sent out to bring back that which meant comfort and wealth to the whole community. One of the most prominent and trusted of the village inhabitants would go out with the load as supercargo, or business manager, and months would grow into years before the ship would return laden with the profits on all the toil and waiting. On presentation of the bill of lading, Lloyds would insure the cargo, and if the local community became too hard pressed for sustenance, London banking would make a loan on the bill of lading and the insurance—the insurance being based on the value of the goods, its rate varying with the probability of loss by wrecks, pirates or war. As commerce developed, there grew up great mercantile houses that assumed the responsibility of foreign trade by buying or making advances on products designed for such trade, thus relieving the smaller communities of the shipload strain which necessitated months and years of toil and destitution while awaiting the returns of their products. And the word “returns” had a real meaning in the earlier days of commerce.

As production and commerce developed, banking also developed along the lines of commercial needs, handling the funds developed by commerce and combining the com-

munity of commercial interests so as to render them more liquid and available to points of greatest need in floating products until returns were realized. Products from home resources, when exchanged for the products of foreign resources, resulted in a balanced economic condition of home requirements and employment to labor. The products, therefore, were the prime and the ultimate object in both commerce and banking. The element of speculative investments was practically naught, as England's lands were being rented instead of being sold,—which left land value development a negligible quantity. With the welfare of a whole nation depending upon her products and her commerce, the substance of commerce obtained and held the first and highest consideration in its demands for the use of funds. The products and the commerce gave all else its value.

Then came the development of foreign investment values. At first, the returns on these values resulted to the general benefit of all of England's productive and commercial interests by (1) giving English interests a control of foreign resources, and (2) by developing English-owned funds in foreign localities to finance the foreign end of commerce in each foreign locality where these investments were developing funds. At first, the profits on these investments strengthened and assisted the home industry by placing funds at the far end of the exchange, thus relieving the home capital of part of the burden by shortening the time over which it was compelled to sustain the unbalanced exchange.

Where formerly the shipload had been sent out to seek a market and barter for a return cargo, the profit funds on the investments would now be able to take over the shipload from home and re-load it for home, with a great saving of time between the outbound sailing and the return. But, with further development of these investment profits, a change came in English commerce. To main-

tain the value of these foreign investments, more goods had to be imported than the value of those exported, thus supplying a part of the inhabitants with foreign goods obtained with these profits, to the detriment of English wage earners who should have been allowed to produce in equal ratio to home consumption. While this feature of English commerce has been mentioned in another connection, it is here mentioned to show how English investment interests are made secondary to commercial interests.

The fundamental nature of English commerce, with the banking funds evolved from its good will and the products being exchanged, compels that investments be second to production and commerce. The reason for this is that, until quite recently, practically all of English speculative investments were foreign, with profit margins being collected and returned to England through commercial dealings. To collect in international money (gold) would unbalance a world's money distribution and thus unbalance commerce, with the result of destroying the profit margins. So, to collect these foreign profit margins, it became necessary to convert them into marketable products such as the foreign country produced, and exchange them in any market of the world until converted into such commodities as the English home market can assimilate, thus delivering the foreign investment profit through the home market. This necessity for converting investment profit margins into marketable products places a premium on insured bills of lading as banking assets. And, too, the foreign local needs are compelled to finance these speculative investments in connection with their own industry and development, thus relieving London banking from the necessity of financing anything but commerce. Yet, in collecting these profit funds, London banking is compelled at times to finance foreign commerce of other countries which is in open competition with English products,

Since the passing of the earlier days of New England and Atlantic coast commerce, before inland resources were opened, the commerce and banking of the United States has developed in association with speculative investments. Seemingly, our greatest burden was unowned resources, and our greatest hobby their development. We have been more anxious to develop new states than to develop commerce between localities. In every instance, whatever has been done in dredging rivers, digging canals and constructing railroads in our sparsely settled sections, while in the name of commerce, was always in the interests of settlement development with the profits coming from land speculation instead of from commerce. To raise the selling price of land before the settler came on, and leave to the settlement the burden of developing a commerce to pay the price, has always been our commercial policy. While the ostensible purpose of municipal booms and bonus funds are for factory and railroad inducements in the development of commerce, yet the most active workers in these booms are the real estate owners and dealers with the motive of land sales and higher rents. The selling price of land develops funds by the mere sale on partial payment and mortgage security.

Such funds have formed the basis of much of our banking. Production and commerce always have and always must furnish us with active, debt-paying funds, yet the price of land and the value of franchises have always furnished our basic funds. So with bonds and mortgages—representatives of dormant land and franchise values—as a basis for banking, whenever a depression comes in commercial activity, that which constitutes our basic funds requires more active financial attention than does commerce, because the products of commerce are available in the present while the value of land and of franchises are but liens upon future products.

Since the fundamental difference between English banking funds and those of the United States lies in the difference between the dormant funds of mortgage and bond securities and the active funds of commercial products, it may be well to re-state a previous analysis:

The selling price of land, while estimated on present production and conditions, is wholly a matter of the future so far as realizing from its use is concerned. Even if now put to its best use, the income from its use—only a small per cent of selling price, either in rents or products—is all that is available for the present or near future if not yet due. The selling price of land being but an estimate of its future producing force, it must be evident that it is wholly a matter of the future which has been discounted in the present; therefore, a mortgage based on the selling price and representing a part of it, can be nothing but a lien on the products which are estimated will be taken from the land in the future. Even a foreclosure and the taking over of the land would not be a realization on the terms of the mortgage. So, while land may be the most substantial of all securities, yet it can not be depended upon to relieve a financial condition demanding quick action in saving values. A mortgage bearing 6 per cent interest and secured by productive real estate of three times its face value should be considered a high class investment but dangerous as an asset in commercial banking, since, in an emergency, only \$60 in each \$1,000 would be available in a whole year without unusual action involving loss to banking,—and then only by shifting available funds from one point to another without any increase in such funds. If liquid funds were available to relieve the dormant value of the mortgage security, then they would be equally as available independent of the mortgage security.

In contrast with mortgages and bonds as a basis for banking funds, compare active and actual values in staple products:

Suppose a manufacturer sells to a dealer, say \$5,000 market value of staple goods on sixty days time, draft or note. If draft, the manufacturer draws on the dealer on shipment of goods and the dealer writes "accepted" across its face with date of payment and his signature. If note, the dealer sends note according to terms and the manufacturer endorses it for bank deposit. In either case, the worth of both manufacturer and dealer—one at each end of the deal—is backing the value of the paper, while between the two is the actual value of the goods at wholesale price to develop into retail price with a consuming public backing the whole,—four securities on sixty days time, retail price covering all costs, public demand insuring sales. That is the security of commercial banking paper. Thirty, sixty, and ninety day accommodations give an average of sixty days for banks to realize on such assets.

Now, suppose that in a time of business depression the bank could realize only 75 per cent on this asset, or \$4,000 within the sixty days, the balance being renewed. This would mean a realization of \$4,000 in sixty days on a \$5,000 asset, while with 4 per cent bonds as assets it would require one year to realize \$4,000 on \$100,000 of assets without any renewals. This is really the difference in the fundamental nature of English and German banking funds as compared with those of the United States. Their banking assets are the values of staple products; ours are dormant land values. While we may have a slight advantage in point of actual security, they have a 2,000 per cent advantage in point of actual liquidation. They can safely do business on a waning volume of currency while we are constantly in need of an expanding volume.

This must not be taken too literally,—but, rather, relatively and proportionally. Yet, in another way, our banking is called upon to balance and assimilate more of dormant funds than is the case with European banking. To a much greater extent in the United States than in

Europe, land is subject to sale,—though not as commercial commodities, since the selling price of land does not balance the selling price of other lands, as is the case of products in commerce. With commerce fairly balancing and production consequently active, a large sale in lands will unbalance banking funds and thus unbalance commerce. In the United States, it is a common matter for the full selling price of lands to be drawn from local banking funds and sent to another locality, while in Europe it is rare for more than annual rental value to become a matter of banking. While our speculations and commerce are indiscriminately mixed in banking, English speculation is foreign and becomes liquidated by foreign banking before being handled in English banking. There is another use of funds in the United States, not so common in Europe, which tends to increase strain on banking at times of business depression. This is the creation and use of what, for lack of any other name, may be termed *superstructive* funds; that is, funds consisting of bonds, the sole security of which is the name of the underwriter. While the name of the underwriter may be sufficient as security, with such security resting on other bonds—which depend for value upon the salable products of mortgaged property—the funds are really superstructive or epiphytical in their origin.

For instance, a party possesses a valuable patent or water-power right or public franchise, but is lacking in the necessary capital for building plant and carrying on development. Taking the matter before some responsible brokerage bond house, an arrangement is made for the sale of bonds, issued against baseless stock, underwritten by the bond house. Whatever may be the terms, the value of these bonds are based upon whatever other bonds and stocks are owned by the underwriters, and is so considered by those who may buy them as investments. But, in constructing the new plant, a foundation is de-

veloped under these epiphytic funds and, the new industry paying dividends, they come to rest on their own base. Bonds representing such funds are too common in general development for special notice, yet—in times of extreme business depressions—they are a source of great danger to commercial banking, for their weakness or failure may cause a hold-up or failure in large quantities of construction materials and supplies on which accommodations have been granted. Then also, next to speculative investments in dormant values, these immatured funds have the greatest need for an issue of elastic credit money at such times. So it can be readily conceived how great would be the advantage to a brokerage bond house to lay its foundation in the highest class of bonds, then use these bonds for the basis of their underwriting security and also for an issue of elastic currency. And all this to be based on the value of products yet to be produced. With all values based on salable products of the present and future, one might work out a rigmarole as interesting as the old story of "The House That Jack Built."

Here is the product yet to be produced. Here is the road to carry the product yet to be produced. Here is the value of the road based on the profits of shipping the product yet to be produced. Here is the bond on the value of the road which is based on the profits of shipping the product which is yet to be produced. Here is the currency secured by the bond which is based on the value of the road which is based on the profits of shipping the product yet to be produced.—And so on through the process of superstructural funds with margins on underwriting, interest on the bonds, interest on the currency, foreclosure on the property, and the redemption of the currency.

But make a distinction between banking and brokerage, and in considering a credit currency, estimate the difference between the debt-creating forces and the debt-paying force, also which should be most encouraged.