

# 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 VI.

## MONEY AND PANICS.

Before considering the cause of panics, first free the mind of the idea—all too common—that they are planned and brought about by some man or set of men who profit largely by business depressions and failures. That some do profit by financial panics is evident, but those men whose business interests are so great in their ramifications, and so far-reaching in their nature as to affect general conditions, have more to lose by panics than they can possibly gain by the failure of others. That some do gain by panics is largely accidental and not by design. But panics are not planned out, inasmuch as those interests which might combine to cause a panic have more to lose by property depreciation and loss of interest and rental income than can possibly be gained by sequestration, foreclosures and gain in purchasing power of their money. The control of money is obtained, not through the medium of loans, but by ownership and control of basic properties which command and compel incomes in money, and panics reduce these incomes and depreciate the properties more than can be gained by cornering all the money and what it would buy at the reduced prices. While the very men who are charged with planning and producing panics are the greatest losers by panics, the basic nature of their property leaves them in the best condition to recover after the panic has passed.

Panics do not come to the denizens of slums and alleys. Such are immune to panics. Nor do panics first come to the wage earners. They are employed and receiving their

usual pay envelopes, with no variations other than usual labor agitations. Nor yet do panics first come to the manufacturers, nor to the merchants, nor the railroads. The manufacturer is buying his supplies, making out his pay roll and shipping his products as usual. The merchant is ordering his usual stock, bargaining for lower and paying higher prices, while he is extending credit to his well-known customers and trying to gain on the delinquents. The railroads are threatening increased rates and charging the usual demurrage on cars before being placed for unloading, while shippers are doing their usual amount of kicking.

There may be more than the usual complaint of over-production, or there may be more than the usual demand for labor to get out rush orders, but the panic comes with little or no warning in the House of Money. The volume of money which was large enough yesterday to do its part in building and sustaining an increasing volume of business, and large enough to fill all pay envelopes and offer itself in loans and in new developments, seems today to break with a crash, and tomorrow—with half the business being done—there is a shortage in the volume of money. The panic seems to be in money and of money; its force increases with the demand for money and becomes still worse with the failure to get money.

The "money question?"—No, not that. If one could say something about money without disturbing the question, or could analyze the question without referring to money, some understanding might be reached. But, as money will not adjust itself to the question and as the question has never been adjusted to money, any reference to the compound is liable to run into prejudice engendered by bitter political strife.

Money will not conform to any analysis ever given of it. It stands both for and opposed to everything else in commerce. The nearest definition ever given to it is "a

medium of exchange." But it is more than that. It is not a measure of value, but rather a measure of price; since it does not always measure value the same, but does always express price. It is not a store of value, but rather a store of privilege. Since a unit of value can not be stored in two places at one and the same time, and since money renders no actual value except in the parting from it for what will render value, it is a store of privilege of universal recognition to its full face value. It is not a standard of value, since values can not be standardized.

Money is functional, not fundamental. While it is nothing within itself, it is representative of everything else that can have a value and be covered with a price. Any price (not sacrifice) can be expressed in terms of money; and any holding-owner of money possesses the privilege in store of obtaining of anything which may be offered for sale in amount equal to what the face value of his money will measure of the selling price.

Money does not transfer values, as some have asserted, but it does transfer the privilege of obtaining and owning values. The owner of money is the possessor of privilege which came to him with the money and leaves him when he parts from the money. Therefore, not to antagonize fixed ideas or set new marks, but to come to a better understanding, we will define money as A Medium of Privilege and A Measure of Price.

The object of this definition is to enable us to consider the cause and the workings of a panic entirely independent of the money question. To do this, it is only necessary to substitute largely the word privilege in the places where the word money is ordinarily used in discussing such subjects. The only difficulty to be encountered in this substitution is that privilege—real privilege—is greater and more far-reaching than is money, since privilege can create, command and retire money at will. Therefore, we

will make a distinction and say fundamental and functional privilege. Money can not create privilege, and—as a medium of privilege—it can only transfer such privilege as already exists. Privilege can set the price, while money can only measure the price and pay in proportion to the amount of privilege with which it is endowed or induced by privilege.

It is much the same as with the two men on the island: Jack was possessed of a privilege in the form of recognized money; J. Tom was possessed of a privilege in the recognized ownership of the island. These privileges being duly recognized became rights—not human rights as recognized by savages, but property rights as recognized and enforced by the legalized customs of organized society in higher civilizations. As civilized men, recognizing the privileges legalized by organized society in the higher civilizations, Jack was possessed of the privilege of paying for what would supply his needs, while J. Tom was possessed with the privilege of setting the price and making the collection. The privilege possessed by J. Tom was fundamental; the privilege possessed by Jack was functional; for the one was unlimited in its increase and ability to set price, while the other was limited in its increase and ability to measure and pay the price. Therefore, the fundamental privilege which controlled and limited the supply could also control and limit the functional privilege which could only be a medium of privilege and measure the price of the supply. The \$1,000,000 of privilege medium, which Jack accepted as his share in the division of property rights, conveyed the recognized privilege to obtain food. After the division, with the inurement of the island to J. Tom as a privilege right, to obtain food became a privilege; so the \$1,000,000 in gold was the medium which conveyed Jack's privilege to J. Tom in exchange for food. The fundamental privilege furnished the supply, set the price and remained intact and unchanged in ownership, while

the functional privilege measured the price and changed its ownership. Fundamental privilege then fixed the price of labor at \$1,000,000 per day in gold and the price of food at \$1,000,000 for three meals, and functional privilege measured the price and shifted alternately, conveying to Jack the privileged right to three meals upon completion of his effort in production and delivering nine meals; then it reverted to J. Tom in payment for the three meals.

Functional privilege, being but an emanation from fundamental privilege, must be reciprocal to give it use, and must be refluxent or tend to refluxency to give it security. That is, the functional privilege of exchange must emanate or issue from security, be respected by the power of that security and ultimately return and be liquidated by the security which gave it origin. This is as true of the privilege value of gold coin as a purchasing medium as it is true of the privilege value of secured notes in the same use.

For instance, the gold miner, on the recognized value of gold, is privileged by legalized customs to transmute his produce into a circulating medium of purchasing power. All fundamental privileges recognize this special privilege of the miner by accepting the functional privilege of the gold coin in exchange for any temporary privilege which may emanate from the foundation of privileges—or, rather, natural resources. Now, as gold mining is a process of production which must be fed and supplied by other forms of production, it follows that the miner must pay for his supplies with the functional privilege of his product. From this exchange for finished products, it passes on from retailer to wholesaler and to ultimate manufacturer, thence to the manufacturers of partly-finished products and to the producers of raw material—where it is ultimately absorbed as partial payment on royalty costs. In this last exchange, the conditions and nature of what enters into the exchange are such as to

resolve it into an exchange of privilege for privilege, wherein the superior power of fundamental privilege absorbs the functional privilege of the gold coin by receiving it in exchange for a special privilege which has emanated from the fundamental—or natural resource.

While gold is our basic privilege, as a medium of purchasing power it is not fundamental but, rather, organic,—since, as a product, it has been separated from the fundamental base and becomes still further removed by its special functional privilege of being our medium of purchasing power. It thus becomes an organic privilege, second only to fundamental privilege. And as fundamental privilege consists solely in the legalized right to set a price and make collection where there is no human cost, it naturally follows that the organic nature of the functional privilege of gold coin renders it the only element recognized as a fit payment for fundamental privilege. And, there being no human cost in fundamental privilege (price on royalties), there is no commercial need that the gold coin so received ever again be paid out to liquidate costs. Being an exchange in final balance of privilege for privilege, the organic privilege is absorbed by the fundamental privilege—from which it really emanated. It becomes much as—

“—Such a tide as moving seems asleep,  
 Too full for sound or foam,  
 When that which drew from out the boundless deep  
 Turns again home.”

Since royalty on raw materials has no human cost, it has no expense which requires feeding; therefore, fundamental privilege can afford to keep all that it obtains; and, as depletion follows the prying loose of these principles in Nature, the gold coin—with its functional privilege—becomes substituted, in a sense, to fill the vacuity in the estate of fundamental privilege caused by such depletion. That is, the hole in the estate of fundamental privilege, caused

by depleting use of raw materials, is filled by gold coin value to the extent of the royalty prices. Thus the organic, functional privilege of gold coin becomes owned by and intermixed with fundamental privilege in the capitalized principal of the land value estate.

When the fundamental privilege of owning the natural resource and of setting the price—as with J. Tom—had absorbed the functional privilege of the gold coin in paying the price, there was evidence of a debtor condition which compelled Jack to produce more than could be consumed. He was compelled to produce all that the market would consume and an additional amount equal to the privilege of producing. This brought on a panic in six days, during the highest of prosperity. Had there been an elasticity of credit consumption by the issue of municipal and industrial bonds, had there been an outlet by defaulted payments and bankruptcy relief, the panic might have been postponed, but the seed was sown and the crop had to be gathered. Yet, even without credit, the panic seemed to be either a lack of money or the lack of elasticity in the money.

But, to end this jumble and state the case more plainly, regardless of the prejudice of those who may believe money to be sacred or a device of the devil, we will call everything money—even to bank drafts; or we can limit it to gold coin;—the result is the same.

In short, a panic is an acute demand for money, superinduced by a break in credits resulting from an overdue debtor condition, caused by consuming on credit necessitated by the shortage in purchasing power with which to pay for products and to pay the additional cost of land values. There being no funds generated by productive increase and human costs in excess of the price of the output of productive force, and as the demand for money must equal the selling price of the total product and also the price of all land sales, a shortage must naturally fol-

low. And as this shortage is funded into secured money obligations which must fall due with no possible means of making payments, it naturally must follow that the ever-increasing volume of this shortage will inevitably reach a condition wherein renewal is financially unsafe and collections must be forced;—then comes the panic.

A panic is an explosion in finance, not in productive business; but the resulting concussion will disturb and may disrupt productive business. Whether the explosion is by spontaneous combustion or by accidental ignition, the requisite conditions and material for the explosion are not of instantaneous and accidental amalgamation. Even coincidence requires pre-existent incidentals. Fruit does not fall naturally before fully ripened; and, as the time of a panic is always at full tide in production and commerce, it can not be for need of productive force or for lack in volume of values, but the result of a ripened condition of long growth. As fruit must fall at full maturity, so must a panic come at the full maturity of an accumulation of over-due deferred payments. The necessity of employment at interest for idle funds, the fallibility of human judgment in estimating securities, the tendency of promoters toward misrepresentation and of fund holders toward speculation, together with general economic changes and calamitous exigencies,—these are all causes which are constantly weakening the securities of loans and of deferred payments of long standing.

The narrowness of margins on strictly high-class securities, and their scarcity compared with the funds seeking investment in securities, forms a constant inducement toward speculation by those holding funds in trust. The magnificence of the prospect, the trend of population in some one direction, the completion of a railroad and of the foundations of factories,—all are so alluring in possibility and so promising of large margins that trust funds are poured in at a time when promoters are taking

profits, and the glittering prospect is postponed until after business again revives. Funds generated in the credit period of productive increase—generated by the increase and needed in final sales—are drawn away from the products which gave them being, and are used in speculative promotion to an extent which renders realization on all such investments an impossibility, even though each has merit based upon natural resources of high future value. Since time is necessary to the development of actual values, and since trust funds must bear interest and have absolute security, many sound investments may fail from lack of time necessary in maturing and from the interest cost of feeding the investment, even though the depositor of the funds does not become uneasy and demand a withdrawal at an inopportune time.

The real beginning—the fundamental causes—of a panic may be laid in the numerous impossible contracts entered into on the revival of business following a receding panic. They are “impossible contracts” because they call for and promise and attempt to secure impossible payments in impossible money at an impossible time far removed from the possibilities and conditions prevailing and balancing at the time of entering into the contract. These contracts are rendered impossible by being made payable in money where no money was received; payable in money by people who have no way of creating money and payable to people who will ultimately accept in payment nothing but money, since they have no possible need for the products which must be produced with the intent of exchanging for the money. The simple fact that they who enter into these contracts to pay this money can only obtain money from the sale of their products, and that they who are to receive the money have no need for the product, is the fact of a contract condition wherein the demand for products is less than the actual demand for money which can be obtained only from the sale of pro-

ducts. The simple fact that their productive force—as productive force, and as a whole, including commerce—can not obtain of money in excess of what they can sell of goods, limits their use of money—use without deficit—to the production and sale of goods.

Therefore, since price must cover cost, there must be goods sold in volume of value equal to all costs covered in the price of the goods,—or a deficit must result; so, if any part of the cost of production lies in deferred payments calling for money delivery in excess of what those to whom it is due will buy and consume of products, then a demand for money must exist in excess of all money which can be obtained from the sale of products. This condition of money demand bears no relation to the volume of money in circulation, but is caused by a cost in production which can not be paid by a portion of the product. It is a condition which results in an unbalanced market wherein productive force is compelled to produce more in order to pay certain costs in production than the volume of products which can be sold for that which can make the payment. This market condition is called “overproduction.”

A panic is a demand for money which is really supervenient and extraneous to the demand for money in commercial use; a demand so extraneous from commercial use as really to cause a withdrawal of money from commercial use. A panic is an acute demand for money by the custodians of trust funds whose envionred duties compel a discrimination in favor of depositors and regardless of the value of the security which stands pledged for money payment. Money being the contract substance of the deferred payment, and the payment falling due at a time far removed from the commercial conditions and relations which necessitated the unbalanced dealings which call for a future payment, and as productive force and commerce do not create money, the payment when due must be entirely foreign to the business being done when payment must be made.

A contract between two or more parties, the terms of which are a pledge and an agreement to pay a sum of money at some future time, is a matter not wholly private in its nature. If the debtor party should contract and pledge security for the delivery at some future time of a given quantity and value of his own products, then it would be a private matter; but, when he contracts to deliver that which he does not produce and which is not produced by any party with whom he has exchange dealings, then it becomes more than a private matter, since he must unload more upon the market than he takes of products from the market,—thus unbalancing market conditions in order to balance a deferred private deficit. The simple fact that, by mutual agreement, the deferred payment—or borrowed assistance—is of long standing must be evidence that what falls due does not fall due to active business, but falls due to a funded estate which must hold the money for loans instead of using it for buying products. Thus, while active business is called upon in the usual business way to assume and absorb a quantity of desirable products and to make payment from the volume of circulating money, the money so paid must—to satisfy the term of an old contract covering an old private deficit—be drawn from circulation and placed where it can circulate only on “call” loans or be re-loaned on long time security,—provided you have the security.

It is not one case of this nature, it is the multiplicity of such cases that results in a panic. Nor it is the drawing of money from circulation to make these deferred payments which brings the panic, but rather the business strain of a multiplicity of deficits all trying to sell and obtain money at the same time. The strain caused by maturing and overdue deficits all falls upon credits because they are all payable in money and due ultimately to funded estates which have no need for the products which must be sold to obtain money. Therefore, while productive force

can pay its obligation only by creating a product, the obligations are payable not in products but in money which is not a product,—thus throwing the strain of a money demand upon credits which must make good or break, and the break is the panic.

But the break in credits does not come to the open market of commerce, nor to the owners of the funded estates. Productive force has its capital intact and its surplus products as assets, while the owners of the funded estates have no immediate use for the money. But the break comes in the hands of the custodians of the funds—the banks and the trust companies—for they are responsible for the credits. The panic is theirs, since as intermediaries they are agents of both creditors and debtors.

And it may be as well right here to correct the very common error in the minds of many, that banks are the owners of money. They are the custodians of money and of funds on a commission basis, but they are no more the source of the money supply than is a department store the source of supply of the goods which it sells. In fact, with all of its hoarded money, the bank in a sense is the weakest of all business institutions, for it is the only business institution which can be forced into liquidation when it is entirely solvent. The reason for this condition of weakness is that, to be profitable, the bank must accept deposits and make loans, and its entire capital and surplus stands as a pledge that it will pay out on short notice all its money deposits while its loans are outstanding on time. And the capital of a bank may largely consist of the title to the building in which it makes its home, but which—while valuable as a security—can not be drawn upon to make immediate payment to depositors. The Treasury Report on Banking and Currency, for September, 1911, gives the capital and surplus of national banks as being, in round number, \$1,688,000,000. Deposits are given as being \$6,600,000,000 and loans and discounts were \$5,600,000,000.

This is not half the real total banking of the country, since national, state, savings and private banks and trust companies have a combined capital and surplus of \$3,500,000,000 and deposits of \$16,000,000,000.

But our subejet matter is deficits and panics, and not banking capital with loans and deposits, although there is a relation between the two—since the panic always comes to the bank and it is the enormous responsibility of the bank that is exposed to the panic. With \$3,500,000,000 of capital and surplus and with \$16,000,000,000 of responsibility—responsibility of balancing a nation's commerce and filling pay envelopes—it must be evident that an accumulation of overdue deferred payments will rest as uneasily on a bank's books as will sweet milk and cucumbers on a man's stomach. No matter what the value of the securities or the prominence of the underwriter, any paper promising money payment must lose a degree of standing if renewal is necessary where payment is expected. The same conditions which compel long-time money contracts and deferred payments do not abate, but rather increase, with the increase of products which are intended to be sold for money with which to make the payments. The growing accumulation of deferred payments results eventually in banking dyspepsia; and an acute attack of banking indigestion is a panic.

For illustration: A, B, C and D have, by the legalized customs of organized society, become possessed of recognized titles to the natural resources of the country. Whether they have obtained these titles by government grants in consideration for something they have done or promised to do, is immaterial so long as the title is recognized. That these titles do not represent a moneyed cost is evident, for these parties had no money for such investments at the time the titles were granted; but they did have enough income to enable them to live without selling or using the properties. As these properties had practically no selling

value at the time the grants and titles were obtained, and as the acquiring owners had their living from some other source, it is evident that these properties bore no relation to the productive and commercial business of the country at that time, and that all prospective value must be of prospective estates, awaiting the increase of population and the development of industry to give them value.

Now, all the rest of the alphabet—from E down—represents the productive force of the country, which is developing the resources and creating values as population increases. But we will set X aside as the intermediary of business exchange and to represent the unknown quantity of banking. As the industrial force of the alphabet develops an industrial increase, and as population continues to increase, it is only a matter of time and development until the smaller and more accessible stores of natural resources are so nearly exhausted that a demand falls upon the larger resources which have been acquired by A, B, C and D—who are now becoming extremely wealthy, not by their own products, but through the increasing value of their landed estates. The industrial condition now becomes such that where the natural resources were formerly practically free they now command a price which must be added to the cost of production and be covered in the selling price of the product. Where Nature was formerly free we now find it covered by legalized titles and converted into private estates. And, in the cost necessary to pay this new price, we find the material for a panic.

In the natural course of industrial events, the increasing demands of a larger population must require a larger supply of land space for various purposes and a larger supply of raw materials for industrial development; and, the only available supply having been absorbed into private estates, a price is asked and a contract entered into to pay the price in money. Now, as productive force in the evolution of its output must span a credit period, by start-

ing its increase with credit assets, it is always in need of funds to assist in carrying the growing costs until the ultimate product reaches realization in ultimate exchange sale.

This evolutionary period of floating in transition being a natural credit period, any added cost at the beginning of this period would be almost prohibitive if payment were forced at this time; but, as the financial condition of the owners of these natural resources was such that it enabled them to withhold the resources from use, it will now enable them to convert the price into a loanable fund to be paid at the ultimate completion and sale of the products. As this added cost to production does not demand immediate payment, it forms no barrier to the evolutionary process of generating the product; and, by being converted into a fund, it even takes on the semblance of assistance, since it appears as a loan to productive force and gives the infant product a higher price as a credit asset in the primary and secondary stages of evolutionary development. Thus we have the paradoxical condition of a cost, which demands payment, being converted into a fund which seems to meet the demand and provide for the payment. But the final reckoning comes in settlement at the ultimate sale of the product.

A, B, C and D, now having recognized titles to the resources of Nature, are possessed of the fundamental privilege of setting the price and making collections as conditions will permit. Whether they join in forming a trust or act as individuals in their separate interests, the privilege of the price is theirs and the privilege of withholding from use is theirs. The simple fact, that they have held for years without use, is sufficient evidence that they have incomes from other sources sufficient for usual needs. To be able to own and control the resources of Nature places them in the position of Divine Providence, and they feel the importance of the part. Their price is

a cost which the rest of the alphabet must pay, although it may be funded and postponed to an indefinite date. X becomes the custodian of the funds and assumes a large degree of responsibility.

Capital—the tools of production—can provide for all costs of production, but royalty costs of raw material are costs *to* production and not costs *of* production; therefore, royalty costs must be funded and borrowed to float their own costs until final exchange sales. The very nature of obtaining title to and of holding these landed properties until a growing condition causes a demand for what they contain, makes of them landed estates, while to sell a part of their acreage or a part of their contents of raw material is to deplete the estate, unless the price obtained from the sale is funded and added to the estate.

Therefore, when the productive force of the alphabet draws upon the landed estates of A, B, C and D, for their raw material, they meet with no more embarrassment—except interest on the funds—than they would if the raw material were free. But, as the royalty cost must be covered in the selling price, and as the funded cost is a part of an estate, it must be evident that—while this funded royalty cost can accompany and support the product through the credit period of floating in transition—it can not enter the market in ultimate exchange buying—excepting in credit consumption by bond issues.

Thus we find a force accompanying production which compels a debtor condition and deferred payments, even when it finds an outlet in bond and mortgage security. While this force which compels added costs to production (by higher priced raw materials and higher rentals to wage earners) in no way retards the earlier or primary stages of production, yet—in the ultimate object of production, in the final sales—it gives no assistance in buying for consumption and relieving the market of products without leaving a deficit in payments. Being cost, it must be

covered in the selling price; and, as productive force has no way whatever of paying costs other than from receipts from the sale of products, it must naturally follow that increasing costs calls for a corresponding increase of products which must be sold in order to pay the increased costs. And as these increased costs—which are swelling the selling price—are of capitalized and funded estates, it must be evident that it would be depletion to these estates if their portion of the product, as measured by their portion of costs in the product, should be purchased by them and consumed.

And this brings us to another condition of the industrial situation which, being oppressive, may well be called a diseased condition. It not only produces dyspepsia and acute indigestion in banking by causing deficits and deferred payments, but among manufacturers there is a new disease which for lack of scientific knowledge may be termed *Necessarius Industrialis Elephantinus* — a necessity for factory expansion. This disease compels the enlargement of a complete and well founded manufacturing plant in order that it may have a larger product from which to pay the higher costs of production. A plant which has been developed out of the profits on its output finds itself in a position where it seems necessary to sell stock and issue bonds for expansion—to reduce “overhead” expenses by an increased output that will enable it to meet, with less loss, the “underground” expenses of higher royalties on raw material.

Since manufacturers can make final payments on all costs only with the funds which they receive from the sale of their products, it follows naturally that any increase in the costs of production must call for an increase of products on which other costs may be minimized and for which a larger fund may be obtained for use in final cost payments. This not only compels expansion of factory units in order to maintain trade and profits, but it compels

crowding the market with products in excess of any increased market demand for products, thus increasing selling difficulties and selling costs. The increase in royalty costs of raw materials, by compelling an increase of finished products to meet the higher costs, tends to induce credit consumption and deferred payments with correspondingly increasing strain on bank credits. But the funding of these royalty costs supplies the funds necessary for long-time deferred payments, where satisfactory security can be given. Thus the ever increasing volume of industrial and municipal bonds, together with building loans, furnishes an outlet for the increase in production with payments made from borrowed funds—funds generated by land value and royalty costs.

But all contracts, all bonds and mortgages, all orders for goods, all deferred payments, all deficits, and all interest, accrued and accruing, are made payable in money; and in last analysis of agreement they are all payable in gold coin. And yet, in the last analysis of commercial exchange—buying and selling being but relative terms—to buy is to sell and to sell is to buy—there is real demand for money only where exchange fails to balance. The real demand for money, the acute demand, the demand which results in banking dyspepsia, is an unbalanced trade condition—usually between commercial sections of the country or between different countries—which resists all efforts to realize on either credits or security. Banks and trust companies being custodians of funds, and necessarily becoming responsible in a large measure for the funds entrusted to their care, are more sensitive to trade balances than is mercantile and manufacturing capital,—since merchants and manufacturers are dealing in their own capital and with present business conditions, while in handling trust funds, banks and trust companies must deal to a certain extent with unknown future conditions. A few years of poor crops, a “hold up” in rail-

road extension or a change of drift in population may postpone a certain development which gave more than fair prospect of large and quick returns. While the bank may hold security on half the natural wealth of a new state, yet—if development is delayed—the security becomes worthless as a bank asset or even as collateral, since with the bank it becomes more a matter of realization than a matter of actual values.

For instance, a man entered into a contract with a certain state to construct about fifty miles of "state roads" through a part of its unsettled territory. The consideration of payment was one section of "state swamp land" for each mile of road constructed. This man, whom we will call G, made arrangements with a national bank for funds, assigning his contract to the cashier—H—as security and giving ninety-day notes as money was drawn and renewals when notes fell due. But development in the value of these lands proved more backward than was anticipated, since their value was more in timber than for farm purposes, so the new highways did not attract settlers. G could not realize on his investment and the bank could not realize on the security; so when the panic of '73 struck the business of the country, H—to save the bank—assumed all responsibility and practically became a bankrupt by placing all of his property at the disposal of the bank, on condition that he retain his position and salary. H later made a settlement with G, by taking a large part of the land as payment; but for years he was unable to raise enough money to pay the small tax levy on his land. About 1885, a change came in the demand for timber and H paid up his back taxes, turned lumberman and, by the depletion of his natural resources, he funded their value and turned his funds into government bonds and quadrupled the capital of the bank which he came so near wrecking. Time proved the correctness of his judgment concerning the value of the security; but the principle involved in the

nature of the loan of the bank funds—and of thousands of other such loans at the same time—resulted in an unbalanced trade condition with a deficit falling on banking with a strain on credits which money only could relieve.

The panic was the result of an unbalanced trade condition which called for money with which to pay overdue balances. The unbalanced trade condition was the result of withdrawing the purchasing power—which had been generated by productive force—from the support of the products in final sale and then investing, in land speculation, that which should have paid for the product. With productive force generating a purchasing power equal to the value of its products it becomes an easy matter, by consuming on credit, to segregate a portion of this purchasing power for speculative investment; but the profits on the speculation, being of advance price only, do not contain—nor generate—any material increase of products which can balance the trade condition and make payments. Therefore, a deficit is created.

This being an abstract proposition based on the physical law that something never comes out of nothing, it must be evident that a mere increase of price is not a material production of value. Therefore, if A withdraws \$1,000 from the commercial market and invests in land speculation and later sells to B at 50 per cent profit, it is evident that—while there has been no material increase from which to draw profits—he can return the \$1,000 to the market and retain a margin of \$500. But, from what source did B obtain the \$1,500? Purchasing power is not spontaneous; it is like the electric current which can produce light or power, but must return through some conductor to the source of its origin. A creates a deficit in the commercial balance by withdrawing \$1,000 and balances again with a \$500 margin, when B creates a deficit of \$1,500 and, if B sells to C so as to double his money and balances his deficit, then C must create a deficit of \$3,000. The deficit,

instead of being balanced, is only passed on and increased by each sale in the amount of the profit margin. But back in commercial product distribution there is a growing deficit which is straining credits,—and, as deficits once started are eternal and at interest, a break must come sooner or later.

“But,” you may argue, “if any speculative prospect can show such margins of profit; it must have an actual value and be put to productive use and generate an increase of material value which can sell and pay all costs.” In a way, this is true. But a future increase of products can not be applied to balance a past deficit resulting from an unbalanced exchange of past products. The deficit, being but unbalanced exchange, calls for money,—which was the terms of the contract; while to sell present or future products for money and apply the money to balance a past deficit is but to create another unbalanced condition for the present or future, since money obtained from the sale of products of the season must be applied in buying products of the same season to have exchange balance without deficit or surplus. One debtor condition being created to balance another debtor condition, not only does not make payments, but must increase by the margin of commercial interest on the deferred payments.

Equal unto the day is the purchasing power thereof. Purchasing power—being generated by productive increase—can not exceed in any season the selling price of the products of that season; therefore, if there is any available surplus in any one season, it will be a surplus of products which have failed in assimilation rather than a surplus of available money which can be applied in reducing a past deficit. A sinking fund can be provided only by unbalancing present exchange and by postponing some present payment and creating a present deficit. Under normal conditions, as time payments fall due there can be no reasonable excuse given why they should not be renewed

on the same security and with an increase of loans on the security developed by the use of the maturing loan. The loan having paid well for its use in assisting in developing values, has been profitable to the borrower; but developing values is not always a conversion into form for payments, since the real value of what is developed may lie in its ability to increase the costs of production with no actual benefits rendered, as with an advance in royalties and rentals. Even in the case of the state road land grants, the object—it will be observed—was to develop land value and create deferred payments rather than to assist in the payment of those already contracted. And, even when H realized on this object, it will be observed that—while he paid off a past deficit—his success was due to an increased cost to production by higher priced lumber, and that—while he had placed upon the market a large quantity of new products—he had not balanced the market by buying in like quantity of other products. He had converted the price value of a natural resource—which formed added costs to production—into loanable funds which productive force must borrow in order to carry the surplus products which this process of conversion had left on the market unbalanced.

The assertion that to convert the price of natural resources (land values) into loanable funds is but to create an unbalanced market or commercial condition, is based upon the deduction that all values depend upon *productive increase*;—not an increase in volume of production, but that increase which human cost applied to natural resources generated for the sustenance of life in its various degrees of comfort and luxury. This is the increase which constitutes the yearly yield of those necessities, comforts, conveniences and luxuries which can only be obtained by applying human costs (brain and muscle) to those resources which Nature has provided for the sustenance of all the children of Mother Earth. The deduction is that all actual

value is in and of this *increase*, and that whatsoever will not produce or assist in producing that which will give satisfaction to civilization can have no recognized value.

Therefore, all actual value being in the product and not in the process nor in the privilege to produce, it logically follows that to exchange and distribute products is the ultimate function in commerce, and—being the ultimate—the products constitute the purchasing power which pays for the products in exchange balance. And, therefore, the purchasing power just equaling the selling price of the product can only buy and pay for the product, thus leaving no available fund which can buy and pay for land—which is not a product.

The primary cause of deferred payments being the absolute necessity for access to natural resources by those who must produce in order to live, it becomes a compelling force which compels an excess of products over market demand equal to the debtor condition caused by the price of the opportunity to produce. As these forced debtor obligations fall due, and being renewed fall due again with others which have the same origin, there is a growing strain on commercial conditions which makes itself manifest in a demand for money; not in the needs of commerce, but a demand on commerce for money with which to pay deferred obligations contracted in first costs—royalties and purchases of land.

As this demand becomes more acute, the manufacturer feels the necessity of increasing his output so increased volume and sales may relieve him of his pressing obligations; the speculator feels that it is about time for him to realize on the increased value of his investment; the merchant feels the necessity of shortening orders for goods and of pressing collections. There comes a general effort to sell and realize; the very necessity for realization may cause a temporary business boom in the effort to produce and acquire something that will bring in the necessary

money. The feverish condition of shifting and swapping for that which men who are cornered may believe more available in relieving their stress, with an increasing demand for money loans and with rising margins on call loans, may really appear as active business instead of a seeking of shelter from a storm. This demand for money seems like a shortage in the volume of money, as does gasping for breath seem like a lack of air to one with weakened heart beats. There comes a demand for free sales and free loans.

In the expression of free sales and free loans, a distinction is made only between long time payments and cash sales, and between commercial accommodations in banking and money loans where the security only is considered. As banking is sensitive even to atmospheric changes in commerce, the purpose for which the loan is to be used must—at times—form the decision of whether it will be granted. As the demand for money becomes more pressing among delinquents, it is felt in the bank by requests for renewals on deferred payments and for free loans that will permit of the removal of the funds from the bank and even from the state or country. This strain upon business compels banks to call in their time loans on speculative investments and to confine new loans and renewals strictly to pay roll needs and the merchants' supplies. And, as the demand becomes more acute, it is necessary for the bank to strengthen its reserves as a safety precaution against deposit withdrawals—real manifestation of a money panic.

If the bank is free from speculative entanglements it should be able to weather the storm; but it may fail, not from lack of security, but from being unable to realize at the moment on the best of security. The acute demand is for money—money which can save property from the terms of impossible contracts which can only be paid by the literal coining of factory and farm products into legal

tender money. Were the contracts payable in products, there could never be a panic.

Nor can borrowed money in any volume do more than postpone the inevitable, since to borrow money with which to meet a maturing obligation is only to shift the obligation and postpone a payment which will call for an increased amount of money when it again falls due. However, an emergency currency which might be issued by banks on high-class security and under rigid regulations, would prove of immense benefit in protecting banks from the insane rush of panic-stricken depositors, thus preventing the sudden shock of business suspension, but it would only be a change in general results from sudden death to lingering consumption. This applies to the general debtor condition and not to the individual case which might unload upon others and save itself if time and money were temporarily available.

An overdue debtor condition may be possessed of immense values in the form of productive capital and stored products, but these are not legal tender. The maturing and overdue contracts call for money where no money ever entered into the compelling condition which made the debtor condition a necessity. When money becomes the one thing necessary in meeting overdue obligations, the only way of obtaining it is by the sale of products; and, it must be observed, those to whom the money is due are one and the same with those who own and control the money, and to them would fall the privilege of issuing the elastic credit money. While holding the only legalized substance which can make the payment, they have no need for the only things which the debtor condition has to offer in exchange for this all-important substance. While holding both ends of the bag, they are a smiling supply of the resources of Nature and of the only substance which they will recognize in payment of their price. Where is the fund which can make the payment?

But do not condemn the banks; they are only commission agents.