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[MO]NEY AND ITS SUBSTITUTES.

[C]OMMERCE AND ITS INSTRUMENTS OF ADJUSTMENT.

BY HENRY CAREY BAIRD.

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MONEY AND ITS SUBSTITUTES.

COMMERCE AND ITS INSTRUMENTS OF ADJUSTMENT.

THERE being no single doctrine in regard to money and its substitutes which is so universally settled upon as to be entitled to claim to be established as a principle, it is much to be desired that the discussion of the entire subject should be approached in a liberal spirit. Such, however, is far from being the mode in which it is usually approached; dogmatism taking the place of argument, and authority the place of reason. Thus do opposing teachers stand arrayed against each other, agreeing upon nothing, and bewildering the student by their discords at the very threshold of his investigations. So wholly unsettled are the theories that the student needs to be cautioned at once against the authority of great names,—no teacher being entitled to speak on any part of this subject *ex cathedra.*

To us, much of the difficulty seems due to the fact that most writers have signally erred in exalting the importance of the agent above the principal, the subordinate above the master. Commerce is to be performed; its adjustments are to be made by the parties to it, and the requisite machinery for those adjustments should be forthcoming, whether it be in the form of money, of checks, of bills of exchange, of promissory notes, or of clearing-houses. Very many writers have advocated the placing of an arbitrary limit upon the volume of money,[1] either that of the quantity of gold or silver which can be retained in a country, or of a fixed amount of circulating notes; but none with whom we are acquainted have proposed to limit in such manner any other of the means of payment. Why do this? Why not apply this legislative interference to all of the forms of the machinery, and extend it to checks, bank loans and deposits, promissory notes, bills of exchange, and clearing-houses? Commerce being the principal, and it being thought desirable to place a clog upon it, why not logically and consistently place that clog in operation throughout? It is believed impossible to assign any reason for this discrimination against money, and in favor of the other appliances for settlement, which has its foundation in any sound principle: but that it is the mere outgrowth of the selfishness of the few who have so long governed the many, either through legislation in which those many have had no voice, or by the creation of a public opinion in which the voice of the people has been made to go against their own best interests. Limiting the machinery for making the adjustments of the great and powerful would not for one moment be tolerated by those who hold the power; while to limit that of the many who are weak is to retain and consolidate the power of those who are already strong, is of course easy, and is defended as not only right but beneficent.[2] In the discussion, as well as in the legislation which follows it, commerce,

[1] Authorities disagree widely as to what things are and what are not money. We define money to be the currency of the realm or of the country; the standard of payment, whether it be of coins, circulating notes, or any other commodity. Anything which freely circulates from hand to hand, as a common, acceptable medium of exchange in any country, is in such country money, even though it cease to be so, or to possess any value, in passing into another country. In a word, an article is determined to be money by reason of the performance by it of certain functions, without regard to its form or substance. In this broad sense shall we here use the word money.

[2] In 1775 the Parliament of Great Britain actually passed an act providing that "all promissory or other notes, bills of exchange, or drafts, or undertakings in writing, being negotiable or transferable, for the payment of any sum or sums of money less than the sum of twenty shillings, in the whole, . . . shall be, and the same are hereby declared to be absolutely void and of no effect," etc. Two years thereafter this was followed by an act extending these provisions to all sums under five pounds. To us this now appears to be an act of flagrant tyranny on the part of the strong against the weak; but is it really more flagrant than the laws which still hamper the commerce of the great body of the people

and especially that among the great body of the people, — really the great commerce, — is overlooked and ignored; empirical legislation is applied to the popular instrument of this commerce, and as a consequence poison is absorbed at the very roots. We have, therefore, as one of the results, in every so-called civilized country, an abnormal condition of society, showing millionaires on the one hand and paupers on the other, — the richer the millionaires, the poorer and the greater the number of the paupers.[1]

The failure to apprehend the true mode of investigating this subject arises, to a great extent, from entire ignorance of money of account, and the important part which it plays in commerce. Hundreds of volumes have been written about money, in which not a word has been said about money of account, and hence it is that coins have become the great idols of most writers on finance, and the objective point of most legislators on the subject. The office of coins has thus become magnified far beyond its importance — far beyond the commerce of which they are but one of the less important classes of handmaidens.

A money of account is an absolute necessity to man, growing out of the imperfection of his nature, the limited capacity of his powers. When any coin or weight of gold or silver, or any other article of value or of general acceptability, has for a considerable time been used as an equivalent or in payment for things purchased, the people using it assume the value of the article in question as the unit of a money of account, and employ it to express prices. By incessant use it is impressed upon and becomes familiar to the mind, is "committed to the memories of a whole nation," and "performs the same office with regard to the value of things as degrees, minutes, seconds, etc., do with regard to angles, or as scales do to geographical maps or plans of any kind." It becomes, in fact, "an arbitrary scale of equal parts, invented for measuring the respective values of things vendible," as well as of incomes, expenditures, debts, wealth, etc. The use of a money of account is in no respect a mechanical process, by which other articles are compared by weight or bulk with gold or silver; but it is an arithmetical one, by which they are compared with a unit of value, that has had its origin in some coin or other commodity possessing the quality of acceptability for the payment of debts and the purchase of commodities and services. Hence it is that a money of account, having been so long in use as to become a part of the modes of thought of a people, often survives the existence of the coin or other commodity upon which it was based. The money of account of the Bank of Venice, undisturbed for five hundred years, had no coins to correspond with it, and the value of all coins was expressed in it. A money of account is a language in which all values or prices may be expressed, and by means of which the relative values of commodities may be stated. It is something which each and every one carries in his mind as he does his knowledge of words or of arithmetic, and in so doing he is quite independent of any thought of coinage or of circulating notes. Failing to recognize the office of money of account, most writers on finance have treated coins as standards of value and measures of value, when they are merely standards of payment. While in the words of Colwell[2] money of account is "the popular expression of value; coinage furnishes the legal equivalent." And as he adds, though Great Britain were "flooded with all the coins of the world," the

by placing an arbitrary limit upon the volume of money, while allowing entire freedom to the commerce of the few in the manufacture and use of bank credit? For these Acts of Parliament see Cobbett's Paper against Gold, American edition, 1834, pages 214, 215.

[1] This melancholy condition of things is explained by political economists by means of Ricardo's theory of rent and Malthus's law of population, two doctrines of the schools, acceptance of which, simply on the faith of authority, the student needs to be cautioned against, as much as against any of the theories in the so-called monetary science.

[2] The Ways and Means of Payment. By Stephen Colwell. 8vo. Philadelphia. Second edition, 1860. A volume to which the present writer with pleasure acknowledges his great indebtedness, and in which the subject of money of account will be found most fully and ably treated.

people of that country "would promptly and readily express the value of every coin in pounds, shillings, and pence. It is the money of account of England which at this moment performs the great function of expressing all prices there, whether of stocks, or coins, or bullion, or bank-notes, or merchandise. It is not the gold sovereign, nor the silver shilling, nor the copper penny, which is used to measure the values of these innumerable things; it is the scale of the money of account existing in all men's minds, and applicable to every article alike, which is employed to express every possible price and variation of price." As men buy, sell, adjust for settlement, and settle by denominations which have had their origin in coins, therefore, in taking a superficial view, and failing to analyze purchases, sales, and settlements, they assume that no proper settlement can be made without coins or something which is supposed to be interconvertible with coins. Thus they overlook the fact that commerce is the great thing, that it is really but an exchange of commodities, services, and ideas, and that all that is needed is a common medium which will enable each individual to command, in exchange, the particular commodities, services, and ideas which he needs. The offsetting of debts against each other, by the checks which pass through clearing-houses, and other expedients, when carefully examined, illustrate this with much clearness, showing the desirability of making the exchanges with as little expense or friction as possible.

To magnify the office of the machinery of commerce, and to belittle commerce itself, is to place one in the sure road to a belief in doctrines which will, if followed out, make commerce subservient to one of its instruments, instead of leaving all of its instruments subservient to it. Such action must of necessity limit production and consumption, and therefore the control of man over those material things which are the foundation and the source of the ameliorations in his condition and of the growth of wealth in a community or country. "From the indestructibility of matter as a physical premise," says Peshine Smith,[1] "it obviously follows that what we term production and consumption are mere transformations of substance. Whether fossil coal is converted into heat, smoke, and ashes, corn into hogs' flesh, turnips into mutton, corn, pork, turnips, and mutton into human muscle and brain; the uniform phenomenon is alteration of matter in its quality merely, without increase or diminution of its quantity. In every transition of matter from one condition to another, force is employed, or, as we say, *consumed*, and force is also evolved or *produced*. . . . The consumption of a product is nothing else than its passage from a state of inertness to one of activity, as from the inorganic or mineral region to the vegetable or vital. It is only through this transition, and at the moment of its occurrence, that a commodity becomes the *pabulum* to production, and that its utility, which was before latent and potential only, becomes manifest and efficient. . . . Between the production of any commodity whatsoever, and its consumption, the interval, long or short, is one of inertness. It stands the monument of human power and natural forces which, having expended themselves in bringing it into shape, slumber in suspended animation, communicating no impulse to the incessant activity which, from the vegetable to the social order, is the essential characteristic of vitality; but is itself a clog and obstruction involving a draft upon the vital force to put it in motion. It is like an inorganic body contained in and afflicting an organism. The space to overcome, and the time to intervene before it evolves utility by its consumption, becoming then an instrument and a force, are coefficients of its value, neutralizing in the same proportion the power of the community in which it rests paralyzed. The growth of wealth, therefore, depends upon the rapidity of circulation; not the rapidity with which products are transported in space, nor

[1] Quoted by Carey, The Unity of Law, Philadelphia, 1873, page 127, from an unpublished work by E. Peshine Smith.

the frequency of mere changes of ownership, but the continuity of transformations through the immediate succession of actual consumption to production."

Blindly to ignore the commerce which gives the impulse to the transformations in the forms of matter, and empirically to legislate as to one instrument necessary to this commerce, and to limit its volume, is either to limit the commerce or to force it to the use of some other instrument, or both. It is not only reasonable to expect, but it can be shown, that both of these things take place. While the commerce of the great body of the people cannot be conducted without money, that of the few powerful ones can, and is, as will more clearly appear by reference to British finance, in which an inflated credit system largely usurps the place which should be filled by "current money of the realm." The commerce of the great body of the people being the great commerce, the full national power is not brought out unless the people's instrument of payment be made subservient to the work which is needed to be performed, and commerce freed from subjection to its instrument. The experience of almost all governments of importance in modern times has taught them that in a great public emergency a full volume of money has enabled them to levy heavier taxes upon the people without distress than they could otherwise have done. Few of these governments, if any, seem, however, to have learned the true philosophy of this great fact, and hence they have failed to avail themselves of the lesson which it should have carried with it. The necessities of the state being imperative, the question of a volume of money becomes subservient to these necessities, and the people thereby gain the advantage of being enabled more and more to labor in the direction of a "continuity of transformations through the immediate succession of actual consumption to production." With each step the state, which can in no event manifest more power than the grand aggregate of that of the whole people, finds itself capable of efforts which had never, perhaps, before been deemed possible. Such were the results in Great Britain between 1797 and 1815, and in the United States between 1862 and 1865. But never were lessons more wholly lost upon two governments than these, and the policy which in each case saved a nation being reversed, the people were almost universally ruined, materially as well as morally, and thrown back half a century. Continuity of consumption with production largely fell off, because the indispensable instrument for the payment of labor was arbitrarily regulated in volume without regard to the work to be done, and immense capital was thereby wasted, —the power to labor being the one commodity which perishes if not consumed at the instant of production. Aside from the stupidity of such a course as these two governments have pursued, when the hours of their own necessities were past, it was positively selfish and cruel in them to allow to be developed, even for their own salvation, power which was to be crushed so soon as they themselves had no further use for it.

But it may be urged that however hard the action of the British and American governments may have been upon individuals, it was entirely justifiable, upon the ground that it was the abandonment of an unsound, unstable system for a sound and stable one. Let us therefore examine into the British system, as it has been reached and perfected by more than half a century of so-called "specie payments," and see what it really is. Of what, then, does the great instrument of payment in Great Britain consist? Has it, or has it not, intrinsic value? In London, the financial heart of the world, the proportion of the instrument having any intrinsic value, in use in large operations, is wonderfully small. Sir John Lubbock's oft-quoted analysis of a sum of £19,000,000 paid into his bank by customers shows that £18,395,000, or ninety-seven per cent., was in the form of checks and bills, £487,000, or not quite two and one half per cent., in Bank of England and country bank notes, and £118,000, or a little over one half of one per cent., in specie.

Let us trace out the mode of the creation and the nature of the instrument of payment by which these great sums were paid, and see if the baselessness of some of its pretensions cannot be exposed. A new bank is started in London, in which the stock subscribed for is paid in almost entirely by means of checks drawn against deposits in the Bank of England or other London banks, not actually representing money in hand of either gold, silver, or paper, but mere credits on the books of these banks. A new credit institution is thus created with a capital of perhaps £1,000,000 or £2,000,000. But no addition has been made to the gold or silver coin of the realm or even to the paper money. The operation is a mere transfer of the ownership of credits from individuals or corporations to the new bank, and these credits usually remain with the Bank of England while they continue to be the property of the new bank. Customers now come to the new bank and ask loans and discounts on stocks, bonds, promissory notes, and bills of exchange. Credits are carried to their respective accounts and are called *deposits*. These last-named transactions have been mere exchanges of credits between the bank and its customers. Some portions of these deposits are now transferred by means of checks to the creditors of these "depositors," and of these portions some may remain with the new bank to the credit of the new parties, while others are taken to other banks and are there deposited. The checks on the new bank are met at the clearing-house by checks which the new bank holds against other banks for a sum perhaps almost equal to, or in excess of, these checks. Only the balance, whatever it may be, is paid, and this is done by a check upon the Bank of England, where all of the other banks keep their accounts.[1] These transactions go on from day to day and from week to week. Very little money passes, but immense debts are effectually and completely paid by the mere assignment of the ownership of these bank credits, which are wholly without intrinsic value. These bank credits (deposits) perform for the rich and powerful all of the functions of money, and there is hardly any limit beyond which they may not be increased in a great city like London, where bank loans are wholly unrestricted by law, and where the use of checks and the clearing-house causes but slight demands upon the banks for money of any kind. On December 31, 1874, thirteen joint-stock banks in London, with a capital and surplus of £12,753,059, showed loans and discounts amounting to £100,504,385, and held deposits of £100,605,085. Four of these banks, the London and County, London and Westminster, London Joint-Stock, and Union, which in 1844 had held deposits amounting to £7,743,000, held in 1874 £84,557,167. These deposits are the creation of these four and other banks, a mere exchange of credits between the banks and their borrowers.

Such credits, in performing the functions of money, and in employing labor, undoubtedly add to the wealth of Great Britain by aiding in giving rapidity of circulation, and "continuity of transformations through immediate succession of consumption to production." In so far as they accomplish this end, they do good; but they also form an instrument which is used by forestallers and speculators to buy up and remove from the market commodities of prime necessity, and thereby to levy additional prices for these upon the poor and others who need to use them. They are an instrument generally for centralizing power in the hands of the few, to the detriment not only of the great body of the people of Great Britain, but also of the whole world. While the mass of the people of that empire are little better than the slaves of the few, they are also made by these few the instruments for reducing the people of other countries to slavery, by the destruction of their industries. Thus the freedom to create an unlimited volume of bank-credit currency to be used by means of checks, and an entire

[1] The average daily clearings of the London Clearing-House are equal to about $100,000,000, or $30 000 000,000 per annum; these payments being thus made without the intervention of so much as a single dollar of specie or even of bank-notes.

absence of freedom to create or have created by the state current money of the realm, increases the power of the few above its normal point, and depresses that of the many below its normal point.

The creation by the state of current money, while ameliorating the condition of the many, would add greater wealth to the whole country, for money would, much more than bank credit, directly serve to employ labor, the source of all wealth, giving greater rapidity of circulation, so that immediate succession of consumption to production would follow. But it may be urged that the credits exchanged between banks and their borrowers, while having no intrinsic value, at least "represent value," because some of the borrowers who caused the bank credits to be called into existence have given in exchange for them notes or acceptances received in the actual sale of merchandise. It often happens, however, that two, three, and even four sets of notes or acceptances are under discount at one time, the "value represented" in which is one and the same lot of merchandise, which has passed through two, three, or four sets of hands. But when a government issues its money in exchange for commodities or services received by it, this money as truly represents value as any personal note or acceptance ever issued, with the additional advantage that the value is represented by a volume of money only equal to itself. Value being a measure of the resistance to be overcome in getting possession of anything, the paper money issued by a responsible government, like that of the United States or Great Britain, for commodities or services received, would represent and indeed embody value in such an eminent degree, that it would closely approximate in this respect to money of inherent value equal to its face.

It may, however, be claimed that the deposits in the banks in Great Britain are payable on demand in gold, and therefore have intrinsic value at their back; and that a government money, such as the greenback, does not possess this. Let us then see how this theory will stand the test of facts. The bank loans in Great Britain are estimated by very high authority[1] at $8,500,000,000, while the deposits are placed at $3,840,000,000,[2] and the total amount of gold and silver at $600,000,000,[3] very considerably over $400,000,000 of which is permanently out in circulation among the people. The Bank of England, which holds the bankers' balances, and according to The London Economist, the highest English financial authority, has "the only reserve the nation possesses,"[4] held November 24, 1875, but $115,000,000 of this specie. Now while $115,000,000 to $200,000,000 of specie may serve to keep $3,840,000,000 of deposits and $200,000,000 of Bank of England and of country bank notes — the average amount of such notes actually out — at par with that specie *while the deposits and the notes are the principal instrument of payment*, and there is no extraordinary demand for the specie, let us not deceive ourselves by imagining that $115,000,000 or even $200,000,000 of specie is capable of paying over $4,000,000,000 of deposits and notes, or of giving $4,000,000,000 of value to such a volume of these bank credits. It is only because these bank credits, when moved at all, are used to pay debts and to purchase commodities and services with, and not for the purpose of demanding specie, that this huge superstructure is kept afloat at all. Were payments made in Great Britain by means of specie and bank-notes alone, the great bulk of these deposits could have no existence whatever. The trade of the country, too, would be

[1] See page 21 of The Banks of Issue Question. Memorial addressed to the Governor and Court of Directors of the Bank of England, and submitted to the Select Committee of the House of Commons of 1875. By Ernest Seyd. London: Edw. Stanford. 1875

[2] Banking and Currency. A Letter to Henry Hucks Gibbs, Esq., Governor of the Bank of England, etc. By Henry R. Grenfell, Director of the Bank of England. London: Effingham Wilson. 1875. See page 7. Also, Analysis of the Transactions of the Bank of England for the Years 1844–72 By R. H. Inglis Palgrave, F. S. S. London: Edw. Stanford. 1874. See page 42.

[3] See Westminster Review, October, 1873, p. 286, for Bank of England estimate of the gold circulation of Great Britain — £105,000,000.

[4] See Economist, February 27, 1875, page 243.

shrunk accordingly, unless the supply of specie and bank-notes was increased. If there were more specie and bank-notes, there would be less necessity for the use of bank loans and deposits, as in the case of France, where $1,250,000,000 of specie and $480,000,000 of Bank of France notes, or $1,730,000,000 of money in all, enables the people generally to pay cash as they go, and largely to dispense with bank loans and to prevent the creation of deposits.[1]

The great element of power in bank deposits in Great Britain consists in their quality of acceptability for the payment of debts and the purchase of commodities and services, which they acquire by reason of being supposed to be interconvertible with the legal tender of the realm, without any regard being paid to what they themselves and the legal tender are composed of. Commerce needs to be performed, they are an acceptable instrument wherewith to perform it, and hence their power. Just as a mower or a reaper which is capable of doing its appointed work well is acceptable to the farmer who has mowing or reaping to do, without any regard being had to the materials out of which it is constructed, so are bank deposits which will do their work, to men of commerce who have adjustments to make. Thus with the aid of money of account do men adjust and largely settle their balances merely by denominations, and without the intervention of anything having intrinsic value. The currency of the Bank of Venice was wholly without intrinsic value. The government took the coins received on deposit by the bank, and expended them, giving the depositors inscriptions on the books of the bank which bore interest. For over five hundred years the vast commercial operations of the Venetian republic were carried on in this currency. Coins were at twenty per cent. discount, compared with it, and it "fluctuated in amount according to the wants of the people, and not according to the wants of the public treasury."[2] This currency was not redeemable in coin, but the government from time to time purchased any amounts which seemed to be in excess of the public wants.

The almost entire freedom with which loans and deposits are by law allowed to be created, and the limit which is placed upon paper money, in Great Britain, is a good type of the legislative action of the governments of all civilized countries. In the United States there is no limit to the volume of deposits or loans of national banks, although there is a provision as to reserves to be held on account of these deposits. The volume of the current money of the realm, the greenback, is fixed with rigidity, at a certain arbitrary and empirical maximum limit. Additional bank circulation can, it is true, be issued, but eighty per cent. of legal tenders must be retired for all such circulation issued, and the retirement at any time of any bank circulation does not give the right to reissue greenbacks, or release the Treasury Department from the necessity of retiring eighty per cent. for any new bank circulation issued. Thus is the people's instrument of payment subjected to the most irrational and stupid interference, without regard being paid to the wants of commerce, when it should be wholly subject to the requirements of that commerce, — in a word, its servant and not its master.

We shall now, perhaps, be reminded for the ten thousandth time of Continental money. The reply is, The volume of this money was not regulated by the wants of commerce, but by the needs of a government; one too which was weak and without the power of levying a dollar of taxation which could give to that

[1] The avowed object of the Bank Act of 1844, and the one great guiding doctrine in all monetary legislation in Great Britain for more than half a century, has been "the convertibility of the bank-note." To secure and maintain this, ruin is brought upon the country at steadily decreasing intervals. There should really be some compensation for all this cost, beyond the mere keeping of gold and bank-notes at par with each other, but there is not. It has slight influence in restraining loans and speculation, which increase with an increased use of bank-checks throughout the realm. It does not limit the volume of the whole instrument of payment, but simply that of the great body of the people. It is mere class legislation for the few and against the many.

[2] Colwell, The Ways and Means of Payment page 7.

money redemption and protect it against issue above and beyond the power of commerce to keep it at par. Few taxes were levied for the use of that government by the colonies or States before 1778, and Continental money alone enabled Congress to prolong the contest through the first three years; and to it do these United States to-day stand indebted for independence, snatched too from the unwilling grasp of one of the then most powerful nations of the earth. Yet the total amount of this money was not more than $241,000,000, a sum not greatly in excess of the liabilities of those persons who became bankrupts under the credit system in Great Britain, during the last seven months of 1875.

But further, in pleading for the right of commerce to regulate the volume of money, and against that of money to regulate the volume of commerce, we shall be warned that there will be great "inflation of prices."[1] Why more so than under the British credit system, where some $115,000,000, or a little over, of specie is made to serve as a so-called "basis" for $4,000,000,000 of bank circulation and deposits? The difference lies more, we may suggest, in the class of people to be "inflated" than in the inflation itself. The demands of commerce being permitted to be responded to by an adequate supply of bank credits for wholesale men and their great transactions, upon what plea can its equally imperative demands for money, for small transactions among the great body of the people, be denied? Upon none that is based upon those eternal principles of right and justice in which our free government is supposed to be grounded. Should wages rise under this sound principle of a money regulated by the wants of commerce, and the power of the people over the accumulations of the past thus increase and steadily grow, would not that fact tend to furnish conclusive evidence that freedom to create bank credit for the few, accompanied by the placing of fetters upon money for the many, had given too much power to these few?

Let us here pause and look into this question of prices, for there is no branch of our subject which needs more discrimination in the handling. Advance in the rate of wages, in any country, is an infallible sign of advancing civilization. In countries where there is but little diversification in the industries, there is but feeble power of association, and as a consequence but little demand for labor. There land, labor, and all raw materials are low, and finished commodities are high. Just in proportion as men are enabled to combine their efforts, in that proportion will finished commodities, which can be produced by the aid of steam and machinery, tend to fall,[1] and in the same ratio will raw materials, including land and labor, rise. Value being found, in the cost of reproduction, every improvement in machinery and processes tends to decrease the value of all existing commodities which can be produced by such machinery. With these improvements, raw materials, including land and labor, acquire a higher utility, and the greater this utility the higher becomes the value of man; every reduction in the value of existing capital being so much added to the value of man. Association with his fellows is the first and greatest need of man. Money is the instrument of this association, and the more nearly the supply of this instrument approximates to the demands for it by commerce, the greater the power of man to associate and combine his efforts, the less the waste of labor, the greater "the continuity of transformation through consumption to production," and consequently the more rapid the increase of wealth, with a nearer approach of the prices for raw ma-

[1] Three tons of coal represent the labor power of a man for his lifetime. In 1870 one mill in Philadelphia manufactured, in every day of ten hours, 33,000 *miles* of cotton thread, obtaining from *seven tons* of coal the necessary power. Supposing it possible for such quality of thread to be made by hand, it would require the labor of 70,000 women to accomplish this work. In that year but 137,876 men women, and children were employed in the productive industries of that city; the products of which were of the value of $334,852,458. Thus did this one cotton mill represent one half the mere physical power of those who produced this great body of commodities.

terials and for finished commodities, and the greater the advance of man towards freedom and towards becoming master of nature and of himself. That an increased volume of money does accompany this desirable state of things is proved by the fact that while France and Belgium have for several decades steadily increased their stocks of gold and silver, and the wages of labor have increased, their diversified industries have as steadily advanced, and their exports of finished commodities and imports of raw materials have both as steadily augmented, showing that the finished commodities are lower in price and the raw material higher than in other countries with which they trade. The truth is that the movement of the precious metals is *from* those communities and countries which are without diversified industries, and are poor, *to* those which have these industries, and are rich.

To the people of these United States especially, there is a very important element in the question as to commerce and its machinery which is somewhat peculiar to their country, and very vital, and needs to be examined closely and pondered well. It is this: bank loans and the resulting deposits accumulate in business centres in proportion to the ability or the willingness of those centres to work bank credits through checks and clearing-houses, without demanding circulating notes or specie. In small towns doing business with rural populations, they do not accumulate largely because a demand for circulating notes or specie, almost the only circulating mediums there used, soon follows loans, and draws upon the actual resources of the banks. In other words, these rural banks bank mainly upon their real resources, and not upon their credit, as city banks so largely do. In France these loans and deposits do not accumulate because the people generally use money, and not checks, in their business affairs.[1] The private deposits in the Bank of France, including its branches in the various provinces, November 25, 1875, were but $55,000,000, while the deposits in the banks of New York city, December 4, 1875, nearly all private, were $206,966,900. The private loans and discounts of the Bank of France, November 25, 1875, were but $126,000,000, while those of the banks of New York city, December 4, 1875, were $269,390,400. Our country, being one of vast area — 3,603,884 square miles for an area of 121,547 square miles for Great Britain — compared with its population, cannot build up and work a general system of inflated bank credit like that of Great Britain, and must therefore, if for no other reason, have a full volume of current money of the realm, as France has, or stagnate and annually waste labor power worth thousands of millions of dollars, being at the same time dependent upon foreign countries for loans.

We have already seen that thirteen joint-stock banks in London, with a capital and surplus of £12,753,059, had, on December 31, 1874, loaned £100,504,385, and held deposits to the amount of £100,605,085, and that the deposits in all the banks in Great Britain are estimated at £768,000,000 ($3,840,000,000), while their loans are estimated at £700,000,000 ($3,500,000,000). The loans and deposits of the London banks referred to are each nearly eight times the amount of their capital and surplus. On the other hand, while, October 1, 1875, all the national banks in the United States had

Capital	$504,829,769
Surplus	134,356,076
	$639,185,845

their loans and discounts were but $980,222,951, or but about fifty-three per cent. in excess of capital and surplus. This too is in spite of the fact that the loans of the banks in the large cities, which are included in this "return," are far above this average. Thus while we have a vol-

[1] M. Pinard, manager of the Comptoir d'Escompte, of Paris, testified before the French Commission of Inquiry, 1865–68, that the greatest efforts had been made by that institution to induce French merchants and shopkeepers to adopt English habits in respect to the use of checks and the keeping of bank accounts, but in vain; their prejudices were invincible; "it was no use reasoning with them, they would not do it because they would not." See page 60, Example of France. From the French of M. Victor Bonnet, by Geo. Walker. New York. 1875.

ume of money which is not allowed to be regulated by its master, commerce, and are unable, on account of our population being scattered over a wide extent of territory, to work bank credits through checks and clearing-houses, as is done in Great Britain, our industries languish for the want of the machinery necessary to their mobilization, the charge for the use of this machinery throughout a large part of our country is as high as it was in the days of ancient Greece and Rome, and we appear to be poor in comparison with Great Britain, and never cease to borrow from her until our credit is exhausted. But does she lend us money? Let facts speak! When $15,500,000 of indemnity under the Geneva award was to be paid by her, she for prudential reasons effected the transfer of the credits to this country gradually, by means of bills of exchange and securities, and not by money, the thing which was to be paid; and when, some years since, Mr. Boutwell had sold in the London market United States bonds to the amount of $21,000,000, he was notified by the Bank of England that if he attempted to remove such a sum of money from England, the bank would break up his combinations and contracts, and defeat his plans. The article that that great capitalist country pays loans, indemnities, and other debts in and with is almost wholly merchandise, not money. The bill of exchange drawn against the merchandise goes to the party who is to receive the payment, but it is paid ultimately in the country receiving the merchandise. The money or bank credit paid for United States, state, local, or railroad bonds sold abroad, for many years past, *has been paid by our own people, and the country has received nothing but merchandise for this vast load of debt*, some of which will be a financial burden upon our shoulders for generations, while the remainder will be repudiated. France has since the treaty of 1871 paid to Germany $1,100,000,000, the amount of the war fine, but it has been almost wholly paid in merchandise. To the close of 1874 France had sustained a loss of less than $140,000,000 in gold and silver in her direct intercourse with Germany since the war, while Great Britain, which temporarily took some of the French loan, since absorbed by France, had in her intercourse with Germany from January, 1871, to September 30, 1875, sustained a net loss of but $110,000,000, these two amounts aggregating $250,000,000. On the other hand, Germany had from January 1, 1870, to December 31, 1874, imported merchandise of the value of $1,132,000,000 more than she had exported. The people of Germany thought the country was to receive gold and silver for the war fine, and that for once the instrument of payment would become the servant and not be the master of commerce; so they engaged in great enterprises, which would have added wealth to the land and given increased prosperity to the people. The government also believed that gold and silver were to be received. So it locked up the money, which mainly came from its own people, in the imperial treasury for a time, demonetized silver, retired all bank-notes under the denomination of one hundred marks, equal to twenty dollars, and otherwise contracted the currency, degraded commerce to the position of the servant, brought on a crisis, and filled the land with misery and discontent. If it persist in this policy long enough, it will break up the empire, and France will peacefully repossess herself of Alsace and Lorraine, unless she too degrade commerce to the position of the servant of money.

In commerce, the real end is an exchange of commodities and services against commodities and services, unless there be a remainder of debt upon one side, be the medium of exchange gold, silver, paper money, or bank credits. Must we then for another century be condemned to the direful consequences of closing our eyes to this great fact, and exhaust our politico-economic philosophy and legislation upon the medium, the mere instrument, and thus by hampering and ruining commerce find ourselves always hereafter, as heretofore, in our dealings with the world the debtor? Or, recognizing commerce as the great thing, and its instruments as only its subordinates and servants, shall we have such a monetary system as is adapted to the requirements of 45,000,000 people scattered over 3,600,000 square miles of territory? If we do but once rise high enough to give this proper recognition to commerce, we shall then have such a volume of current money of the realm as will, by setting all of our people to work, gather up billions of millions of minutes which would otherwise be lost, and give us such a succession of actual consumption to production as will enable us to add to our production of commodities, in a single year, an amount greater in value than all we have borrowed from Great Britain in half a century. Steadily holding to the recognition of the claims of commerce, we shall in a few years cease to be the great borrower of all time, and become one of the greatest of lenders. But we shall accomplish far more than this. We shall do equal and exact justice to all of our people, great and small alike; save from extinction our middle class, the bulwark and defense of a free government; have assurance that the six millions of children who are now being educated at the public expense shall have a fair field for the honest employment of their cultivated faculties, and not be forced to become new recruits in our great and growing army of "scallawags;" and finally, we shall rescue from destruction our free government, which now threatens to become an insupportable tyranny in the hands of "rings" of bad men, backed up by a hungry crowd of pauperized and demoralized pensioners upon the public treasuries, ever ready to support their masters, the dispensers of the people's taxes, in any fresh iniquity.

But how is the volume of the current money of the realm to be made to respond to the demands of commerce, and in no wise to hamper and overmaster that commerce or to be in excess of its wants? By having hereafter *money*, *the quality of money in which cannot be destroyed without a total destruction of its value*, it being essential when governments issue money that that quality in it shall be preserved until by concurrent action of the government and the people it is deemed proper to retire it from circulation;[1] and by making that money interconvertible, at the pleasure of the holder, with the national bonds bearing a low rate of interest. Such money will be inexportable, and in its ebb and flow entirely under the control of the people and the government. Luckily we have not far to seek to find such a money. Nearly if not quite all civilized peoples, and ourselves above almost all others, are heavily burdened with the interest upon their public debts, while at the same time paying to banks annually immense sums for the use of the paper money of these banks. For ourselves, let our national debt be turned to a useful account; let the interest to banks paid for all paper money cease; let us have none but current money of the realm, wholly of paper and based on the entire wealth of the nation, whether it be of houses, lands, mines, mills, factories, farm implements or products, iron, copper, lead, silver, or gold.

But we shall be told that however well it may do to have bank credits which are without intrinsic value in use for currency, still the standard of payment, the current money of the realm, the legal tender with which these bank credits are (presumed to be) redeemable, should at least be genuine, good, and honest, and that to be so it must have actual, intrinsic value.

In reply we would say that it is not intrinsic value which is most highly prized in money, but that quality which flows from its being either a legal tender or supposed to be interconvertible with a legal tender. *The quality of acceptability for the payment of debts and the purchase of commodities and services is the great element of power in money.* If intrinsic value be what men most regard in money, why is it that lands are not

[1] A large portion of the work of the mints of the world is the melting and recoining of gold and silver which have already been coined by one or another of these mints, thus destroying money which has been made by other realms.

prized above greenbacks? Because, in spite of intrinsic value, lands are neither a legal tender nor convertible into one. What would be thought of the government of the United States if it should undertake to force the holders of greenbacks to take lands in exchange for them, at $1.25 per acre? Such a proceeding would most justly be denounced as repudiation, unless these lands were made a legal tender at or above $1.25 per acre, when the ownership in them would pass from hand to hand as money, as it did in Rome and ancient Britain.[1]

The world has been led by the teachings of a false philosophy into a belief that it is the purely intrinsic value of gold and silver which gives to these metals such almost universal acceptability throughout the world. The truth is, however, that this latter comes from the fact that so many governments have adopted one or the other of them as the material out of which their legal tender is made. At small expense they can, therefore, by coinage, in almost every country be made to take a form which gives them throughout that country universal acceptability for the payment of debts and the purchase of commodities and services.[2] Let all civilized countries discard these metals as the materials for money, as eventually they will, and so large a part of their intrinsic value will immediately thereafter vanish by reason of decreased use for them, that it can be restored only by largely decreased production or increased utility. The action of the German government alone, in determining to demonetize silver except for subsidiary purposes, has robbed the silver thaler of from seven to eight per cent. of its old intrinsic value, although it is still for a time to be allowed to circulate at that value. It needs but the concurrent action of two or three more equally important governments to convert this depreciation of from seven to eight per cent. into one of twenty-five per cent.[3]

Perhaps it may further be objected that the proposed permanent paper money will be a depreciated one. Depreciated as compared with what? Is the greenback to-day a depreciated money? No; not at all! Man's standards are all arbitrary in their origin, and the very fact of his needing to set up standards is evidence conclusive of the limited and imperfect nature of his capacity and powers.[4] For centuries in England silver was the standard, and it is so in India and China to-day; in France and Italy paper, and in Belgium and Switzerland gold and silver are such. Until recently silver was a standard in Germany; on the 1st of January, 1876, gold alone became such. While until 1875 silver was the only standard in Holland, now, both gold and silver are. Up to 1853 the United States had the double standard. From that date to 1862 it

[1] Any scheme which looks to robbing the greenback of its legal-tender quality, or of forcing the holders of it to take from the government in exchange for it anything which is neither a legal tender nor convertible into one, is a scheme for repudiation pure and simple, be it disguised as it may.

[2] On the testimony of Thomas Baring we are assured that it was found impossible, during the crisis of 1847 in London, to raise any money whatever on a sum of £60,000 in silver. During a similar crisis in Calcutta in 1864 it was equally impossible to raise even a rupee of paper money on £20,000 of gold. The silver in London was not a legal tender above forty shillings, while the gold in Calcutta was not so for any sum whatever.

[3] The Director of the United States Mint, foreseeing the result here indicated, in his report of December, 1875, calls for the protection of the silver interest in the following words: —

"The trade-dollar coinage should be continued if for no other purpose than to make a local market for the silver. Ultimately, China must have a national coinage of silver, and in the mean time a more extensive use of the silver coins of other countries will be found useful, not only to the Chinese, but likewise to foreign residents at the different ports. The American trade-dollar has been well received in that empire, and if authority were given to coin at our Western mints five, ten, twenty, and fifty cent pieces of the same standard, they would no doubt find a ready market at the different commercial ports, and gradually work their way into the interior of the empire. If this trade coinage should incidentally afford protection to our mining interests, which have already been injuriously affected by the fall in the value of silver, it could hardly be regarded otherwise than as sound national policy."

[4] For instance, the same degree of temperature is expressed by a thermometer in the United States by Fah. 82°, in France by Cent. 28°, and in Germany by Réau. 23°. The decision in any discussion as to which is the proper degree of heat, when merely the degree is named, imperatively demands that the country in which the discussion takes place be first known, that we may know its *standard*.

had gold alone. As soon as the greenback was issued in 1862, and made non-convertible with gold, it ceased to fluctuate in value with gold, and became the standard of payment of which the money of account dating from that time is the expression. It is to-day the standard, and in its money of account are expressed the prices of gold as well as silver coins and bullion, as every dealer knows, and as his books of account completely demonstrate. How can the thing be depreciated in comparison with itself? Gold is at a premium; the greenback is not at a discount, because it is itself the standard. Almost the entire premium on gold to-day is owing to the fact that the legal-tender act, as it passed the House of Representatives, in February, 1862, making the greenback a full legal tender, covering all debts both public and private, was so amended in the Senate that gold became the only legal tender for duties on imports and interest on the public debt. Subsequent action of the Treasury Department and of Congress has made it the only legal tender for the payment of the principal of almost the entire funded debt of the United States. Hence, while gold is not the standard of payment, and has not established the existing money of account of the people and the country, it has by legal enactment become the one and only thing which when coined has the quality of acceptability for the payment of all debts, public and private, and the purchase of all commodities and services. Hence it is at a large premium over the greenback, while in France gold and silver are at no premium whatever over the Bank of France notes, the issue of which is largely in excess of that of greenbacks. But the Bank of France note, while not payable in gold or silver, is a full legal tender. The fact that France has a large supply of gold and silver, which is being steadily augmented, of course exerts its influence, but as the Bank of France note is a full legal tender, there are few uses for gold and silver which cannot be equally well fulfilled by this note, and to this is mainly due the absence of all premium on gold and silver.

Further, it may be urged that our government is unfit to be entrusted with the issue of money, even though we start with the provision and the precaution that it shall be done only in response to the wants of commerce, and in exchange for another form of existing public debt, the bonds of the government. The only reply which need be made to this is that then our government is not fit to preside over the destinies, to hold control of the lives, the happiness, the fortunes, the morals, of 45,000,000 people, and that it should, at the earliest practicable moment, be exchanged for some other form of government capable of issuing the current money of the realm in response to the wants of commerce, and not to those of the state or its corrupt officials. But commerce being restored to its proper place, the prosperity of the people would add to the honesty and ability with which the government would be administered, and that government would then become worthy of ruling over the nation.

The practical question in connection with this subject of a current money of the realm which shall in its movements prove wholly subservient to commerce, is: How, at this moment, in the present condition of the public debt and with the dead-lock in the commerce of the people, is such a money to be gotten out into circulation? Ten years of mismanagement on the part of our finance ministers and legislators render this task a difficult one. They have exerted all the power they possessed in the direction of exalting the servant money above the master commerce, and as a legitimate consequence have paralyzed our productive forces and caused the continuity of transformations through actual consumption to production to be arrested; and not only railroad, municipal, and state, but also national bonds to be forced abroad in exchange for products which we should either have produced ourselves, or paid for with those we did produce. But the more difficult the task, the greater the necessity for addressing ourselves to it vigorously and at once, and of arresting the further progress of the evil.

In order to obtain immediate relief by

inspiring immediate confidence, let Congress pass a law providing for the issue of bonds bearing not over 3.65 per cent. interest in lawful money, and made interchangeable, at the pleasure of the holder, with lawful money. Permit the national banks to count any of these bonds held by them as "lawful reserve," if the government still persist in the folly of troubling itself about the reserves of these banks. This would at once make a demand for $42,000,000 of these bonds by the conversion of this amount of greenbacks now deposited in the treasury of the United States, and of use to neither government nor banks, but upon which certificates have been issued for clearing-house purposes. Prohibit the sale of any more gold by the Secretary of the Treasury, but oblige him to apply all not needed for balance in the treasury to the payment of interest and the calling of gold bonds; take all moneys received for the new interconvertible bonds, except such as are needed for balance and for current expenses, for the purchase of gold to be applied exclusively to the calling of gold bonds, thus as rapidly as possible stopping the interest on them and withdrawing them from the market, and from the danger of being transferred to Europe when not already there.

The $42,000,000 of greenbacks now lying dead in the treasury would at once be converted, and there is not a well-ordered savings-bank in the land which would not immediately, as a measure of proper safety in time of a crisis, invest some portion of its means in these bonds; besides which, capitalists having balances which they wished from time to time to use would gladly invest in a bond convertible into legal tender on demand. Moreover, the people, sorely tried by fraudulent and ill-managed savings-banks, would regard them as a favorable security, and purchase them largely. The conversion of legal tenders into these bonds would from time to time place the Secretary of the Treasury more and more in funds wherewith to purchase gold and to call gold bonds, until by 1881 the whole of the public debt except the currency 6's loaned to Pacific railroads, and the new 5's, might be held by our own people in current money of the realm, — the servant, not the master, of commerce, — and 3.65 currency bonds, interconvertible with each other at the pleasure of the holder.

In order not violently or abruptly to disturb the national-bank circulation, which must finally give place to "current money of the realm," let the order in which gold bonds shall be called for redemption be provided by law; and when any bonds so called are held by the government as security for any national bank-note circulation, let the government on paying off the bonds to the bank have power to require payment from the bank, in lawful money, of a sum equal to the circulation so secured. Then let an equal amount of the circulation of said bank be retired by and at the expense of the government so soon as it shall come into the treasury for any purpose whatsoever. Let it also be enacted that no new bank-notes shall be thereafter issued except in exchange for those torn and defaced ones, or others which come into the treasury for redemption, and are not liable to retirement as above provided.

Let these things be done, and the exercise of its prerogative of control over the current money of the realm will quietly be restored to the government; the interest on the public debt, now averaging 4.50 per cent. in gold, will be reduced; dismay and doubt will be replaced by confidence, because commerce will have again taken its proper place in its relation to money, that of master and not of servant; and it will by us be demonstrated to the nations that there is perfect harmony between justice and economic wisdom, in allowing equal freedom to commerce to decide as to the volume of current money of the realm which she will use, as there is in that which has been granted to her to decide precisely how much bank credit she will have and make use of.

By maintaining in practice, by freedom, the true, natural, and sound relation between current money and bank credit, a stable commercial and finan-

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cial system can be established, and only by these means. Under such a system in practice with us, those financial or rather credit crises which rob the poor of the ability to sell their power to labor, and interrupt the continuity of transformations through the immediate succession of actual consumption to production, would be at an end. The steady growth of wealth would enable us rapidly to discharge our indebtedness to Europe, to develop our great natural resources, and finally to become not only prosperous throughout the entire realm and among all classes, but with that prosperity to become happy, contented, and virtuous; and while removing the necessity for the corrupt practices of needy men, would restore our government to that position of love and respect which it once held, but, unhappily, holds no more.

Henry Carey Baird.

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