

# SOME MORE LIGHT ON ASSET CURRENCY

The second of the series of articles relating to asset currency written for The Commoner by a gentleman who has made a careful study of finance and of the banking business generally is as follows:

During the months of November and December, 1905, the stock gamblers of Wall Street had to pay as high as 125 per cent for call loans, and they straightway made complaint about it. The bankers, too, raised a great howl about it, but for different reasons. Their supply of loanable funds being limited, and not being permitted by law to increase this supply by issuing credit bank notes based upon their assets, they were unable to loan as much to the gamblers at usurious rates as they would have liked to.

Mr. J. H. Schiff, head of the banking firm of Kuhn, Loeb & Co., in an address to the New York Chamber of Commerce on January 4, 1906, said that "we have witnessed during the last sixty days conditions in the New York money market which are nothing less than a disgrace to any civilized country. There must be a cause for such conditions. It can not be the condition of the country itself, for everywhere you look there is prosperity. \* \* \* The cause is the insufficient elasticity of our circulating medium."

The "disgrace" about the matter was that such gambling as is done on Wall Street is permitted. But these bankers see nothing wrong about the gambling. They only object to the conditions because of their inability to loan them more money. And to remedy this they propose that the national government shall authorize them to issue credit bank notes based upon assets, the government to guarantee the redemption of such issues and give them currency by government stamp and legal tender quality, or its equivalent, and for these privileges and favors they propose to pay the government a nominal tax.

The New York Chamber of Commerce appointed a committee to draft plans for an asset currency law and present it to Secretary Shaw. Under date of February 6, 1906, Secretary Shaw, in a letter to Mr. Schiff said that "the scarcity of money which called forth the reference of the question to the committee of the Chamber of Commerce was confined to New York City, and therefore local." Indeed there was no stringency even in New York City except in Wall Street. Legitimate business interests had no trouble in borrowing money at four and five per cent.

The agitation for an asset currency law is based entirely upon the occasional demands of the stock gamblers in Wall street and elsewhere, because it can be proven that there is abundant money now in circulation to meet the demands of commerce and to maintain the general price level. Even the committee appointed recently by the American Bankers' association to draft an asset currency bill for presentation to congress admitted this fact in its report. We quote:

"We are unanimously of the opinion that changes in the existing bank note system are imperatively required. We find that the present volume of bank notes is wholly unresponsive to the demands of commerce. It does not expand with the need for currency in the crop-moving period causing stringency, nor contract when the uses for currency are less extensive, causing redundancy."

The main complaint is that the volume is "unresponsive." That is to say, it does not expand and contract. If it would contract when the crop-moving period is over it would expand when the demand called for it. But it will do neither, and why? Because when the demand for money for legitimate purposes lessens and throws money out of employment and into the banks in the shape of deposits, the greed of the bankers assumes control of them and they ship it to New York and other gambling centers. The gamblers borrow it and become optimists—in other words "bulls." The prices of stocks are buoyed up and up far beyond their earning capacity. Then, a few regain their senses and prices are checked, then comes a slight reaction and a decline. The stock gambler, like all other gamblers, puts up his last cent. He has to do it to protect himself from immediate ruin and bankruptcy. He is absolutely certain that things will yet come his way, and that if he can only borrow enough money to protect his interests until the favorable turn of events, his fortune will be gained. The favorable turn does not come, but instead the decline goes on. Still certain of the future he borrows more and more. The banker, the modern Shylock, does not share the gambler's optimistic views and with each succeeding demand for more money, knowing that conditions are growing rapidly desperate,

demands a greater price for the increased risk. Finally the banker's supply of loanable funds is exhausted and notwithstanding the tempting offers of 100 and 125 per cent, is compelled to refuse further advances of cash, and then comes the crash which might have been avoided if the government would only lend its assistance by passing an asset currency law.

Because he is compelled to quit the game for lack of more money to loan, just when interest rates become most tempting, the banker becomes firmly convinced that the country is in dire need of an asset currency law to make the volume of circulating medium more "responsive" and more "elastic." But the innocent bystander, who has to give his note and protect it by a mortgage and pay five, six, seven and eight per cent, wonders why the banker does not in the same way raise more money to loan out at the juicy rate of 125 per cent. Why don't the banker use his credit the same as other people do to raise money? Well, the banker is a financier, and he knows that if he does issue his note and secure it by a mortgage on his property, he will have to pay the prevailing rate of interest, and then his note will not circulate from hand to hand except by individual indorsement and very slowly at that. If he can only get congress to have the note engraved at the government money shop, and enact a law that will make the note receivable by the treasury department for all public dues, and when so received may be paid out again by the government to its creditors, the banker's credit is, by this simple trick coined into money. Then, too, the government must guarantee the final redemption of the notes because it has agreed to receive them in payment of all public dues and to make its creditors, except the bondholders, take them. Then, too, the banker argues that because these notes are in theory based upon his assets, he should not be required to pay as much interest as he would to any other loaner of money. But here the innocent bystander butts in with some absurd questions. He wants to know why the government won't take his note and engrave it like money, give it currency by agreeing to receive it for all public dues and pay it out again to its creditors, and thus enable him to borrow money at a lower rate of interest? The banker gives him the laugh, calls him a "populist" and proceeds to explain the difference, thus: We bankers want the government to coin our credit into money to loan to other people, while you want the government to coin your credit into money for your own use. We can not afford to pay the government the prevailing rate of interest and then loan it to others at the same rate, for if we did we would make no profit. You want the government to loan money to you at the same rate it loans to us. That would never do; it would not be "conservative" for the government to do that.

But let us see how the bankers will treat us if we hand over to them the whole power to expand and contract the currency. They have, in part, that power now, and have had it for forty-three years. The records show that they contract the money volume when it should be expanded and expand it when it should be contracted. If there ever was a time when the commercial interests of the country needed more money it was from 1884 to 1897. The present law entitled the national banks to issue \$597,720,000 in national bank currency on October 31, 1895. They issued and had in circulation on that date but \$213,887,630—less than half of the amount. Now, when the unprecedented gold production alone is expanding the volume of circulating medium more than the increase of population requires, the national banks have over \$500,000,000 of bond-secured notes out and are trying to make the people believe that they should be given the additional privilege of issuing bank notes based upon their assets.

Referring to Mr. Schiff's remarks the Globe-Democrat, a republican paper, points out in an editorial that the volume of money in circulation has increased from \$1,500,000,000 in 1896 to \$2,700,000,000 in 1906—from \$21.10 per capita in 1896 to \$31.88 per capita in 1906 and said that "with the rapid and continuous increase in the circulation which is under way, surpassing, as it does, the gain in population, it seems a little absurd for Mr. Schiff and the other inflationists to ask for more currency." Continuing the editor said that "Messrs. Peffer, Simpson, Allen, Butler and their associates of 1896 were far more reasonable in their demands than are those New York populists of 1906." Now that the American Bankers' association has gone over to the populists in a body, we will see whether the Globe-Democrat does not follow them.

Representative Prince of Illinois, second member of the house banking and currency committee, in an interview which appeared in the papers on January 8, 1906, said there was enough money in the country, and that with a gold output of \$400,000,000 a year in sight there is more likelihood of worry about getting too great a volume of the basic money metal than about adding to it by expanding national bank circulation. Mr. Prince was reported as disapproving the asset currency schemes and "maintained that if the government was going into the banking business, it would as well do it directly as by guaranteeing, in consideration of a small tax, an immense volume of bank credit notes."

But the issue of legal tender money does not pertain to banking as Mr. Prince seems to think, nor is the issue of asset currency by the banks, populism, as the Globe-Democrat says. If the issue of bank notes is a function for the banks to perform, why don't they issue them? There is no law to prevent the banks from using their credit by borrowing money on it. They have the same right to do that as any other corporation or individual. Their scheme involves more than the issuance of notes against their assets, otherwise it would not be necessary for them to ask congress. They want the government to surrender to them the power to give currency to their notes and guarantee their redemption. In addition to this they want the government to deposit with them all its revenues above a reasonable cash balance. This would make the various sub-treasuries scattered over the country useless. They would have nothing to do and would be abolished. The reasons which led to the foundation of the sub-treasury system were to compel the banks to do business on their own capital. The banks not only wish to do business on the government's credit, but they want the government to furnish the capital.

The asset currency scheme must be defeated. It is class legislation of the most vicious sort. It will give to the wealthy privileges and advantages which should not be in private hands. It will bring upon us a rule of tyranny and greed more rapacious than any industrial combination which now holds the nation by the throat. It will enable the banks to squeeze value out of property and into money when they want to do so. It will bring the banks into politics as they were before Jackson put an end to bank rule. The only good in the scheme is for the bankers. The democrats in congress should defeat it at any cost.

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## ROOT ON FUNDAMENTALS

Secretary of State Root made a speech at Rio de Janeiro which speech contains many good things. For instance, he says: "Yet no student of our times can fail to see that not America alone but the whole civilized world is swinging away from its old governmental moorings and entrusting the fate of its civilization to the capacity of the popular mass to govern. By this pathway mankind is to travel, whithersoever it leads. Upon the success of this our undertaking, the hope of humanity depends."

This is a correct description of present tendencies, and it is creditable to Secretary Root that he sees it and understands it.

In another part of the speech he says, speaking for the United States: "We wish for no victories but those of peace; for no territory except our own; for no sovereignty except the sovereignty over ourselves. We deem the independence and equal rights of the smallest and weakest member of the family of nations entitled to as much respect as those of the greatest empire, and we deem the observance of that respect the chief guaranty of the weak against the oppression of the strong. We neither claim nor desire any rights, or privileges, or powers that we do not freely concede to every American republic."

This is also sound doctrine, and it is well that it be kept before the world, although the speedy recognition of Panama may be recalled as inconsistent with it and our refusal to promise independence to the Filipinos may seem to contradict it, but the doctrine is good even if we have not always lived up to it, and we can rejoice that Secretary Root has taken occasion to give emphasis to the doctrine.

But Secretary Root did not confine himself to statements that are sound. He says: "Capacity for self-government does not come to man by nature. It is an art to be learned, and it is also an expression of character to be developed