MORE MONEY IS NEEDED

The New York Sun of March 9 contains an article on the financial situation written by Daniel F. Kellogg, admitting all that The Commoner has said in regard to the scarcity of money. He points out that the financial situation is anything but satisfactory. The following quotations present the salient points:

"But it would be idle to deny that in a broader sense the money situation is causing some serious reflection. Apart from routine business matters it is the chief topic of discussion in all the great banking and commission houses down-town, the query taking this general form: 'Have we, as a matter of fact, enough money with which to conduct the financial operations of the country at their present rate and volume?' Those raising the question admit and lay great stress upon the sound and substantial nature of all legitimate business conditions—the vast development of the iron and steel business, the tremendous railway traffic, the huge purchase of commodities of all sorts by the once poverty-stricken dwellers on the western prairies, and the fact, attested in every way, that, despite all its great strides, production in our country has still not kept pace with consumption. But what is troubling these observers is what they declare to be the continual indications that the mere mechanical operation of financing all this prosperity is becoming difficult, that the money supply of the country is, in plain words, inadequate to the demands made upon it. They say that no sooner is one period of financial stress, owing to tight money, at an end, and money rates once more approximate their customary ease, than one corporation after another so swoops down upon the money market with requirements for cash for extensive improvements, new construction and acquirements of various properties at high prices that the supply of lendable funds in bankers' hands becomes exhausted.

"It has been said in answer to all this that there would be money enough in the country for all legitimate business if speculation could be kept quiet. But this objection is without force. Speculation cannot be kept quiet. It is the natural complement of business prosperity, and so-called legitimate business itself is largely speculative in its nature. A circulating medium which did not allow and provide for the needs of speculators would be worthless; by which is meant, of course, that reasonable and not unreasonable provision of the kind is necessary; undoubtedly, present circumstances will strengthen the demand that has recently arisen for an 'asset' currency system; but if it is said that the flood of money or of the paper promises of banks to pay money that the establishment of such a system will bring, is necessary to afford proper elasticity to the conduct of business affairs in our country, one must recall the increase in the circulating medium that has already occurred under existing laws and wonder at the voracity of the demands, which, it appears, this increase has stimulated and is no longer able to satisfy. The circulation has increased in the last six years almost as much per capita as in the famous war time period between 1862 and 1868; and the volume of the circulation now is twice as great as it was then. A change in the currency system cannot, however, be effected for a twelvemonth at least, and there are those who hold that recent developments, instead of emphasizing the wisdom of placing the currency on a bank asset basis, militate against it."

It will be noticed that the Sun's financial authority raises the question whether we have money enough, and his argument is clearly in support of the negative side of the question. It will also be noticed that he regards the circumstances as strengthening the demand for an asset currency, and yet it is apparent that he is not so sure that it will meet the requirements of trade. In fact, he closes his article with a suggestion that the circumstances which he has described may militate against an asset currency rather than emphasize the wisdom of it.

Now what does all this mean? It simply means that the business world is fast coming to realize that our supply of money is so inadequate that even the loaning of bank reserves over and over again will not suffice to furnish the money required to meet the needs of the country. The bank reserves ought not to be loaned at all. The law requiring banks to keep a reserve against their deposits ought to be so amended as to require the reserve to be kept in the bank vaults. To allow this reserve to be loaned when all is sunshine only to be suddenly contracted at the approach of a storm is utterly without defense. It means that when money is easy it is too easy, and that it cannot get a little tight without necessarily becoming very tight.

The scarcity of money can be understood when one inquires what the result would be if the government required banking to be done on a safe basis and the reserve to be kept in the vaults. Such a result would produce a stringency that might bring on a panic, and yet instead of providing more money with which to do business, the financiers insist upon the gold standard with all the danger that it involves.

The asset currency is urged for four reasons: First, because the banks fear that in the course of time the national debt will be paid off, and they know that with the payment of the bonds the present basis of bank-note circulation will disappear. Second, the banks also know that as the national debt is reduced the struggle to get bonds will raise the premium and lessen the profits of national banking. Third, the bankers know that there is more profit in the issue of bank notes on their assets than in the issue of notes on government bonds, both because it is necessary to invest money in the bonds and also because the money invested in the premium cannot be off-set by bank notes. The fourth reason why the bankers favor the asset currency is that it enables them to issue a larger amount of money and they everywhere feel the need of more money.

Why not satisfy this need by the coinage of silver rather than by the issue of paper promises to pay, resting upon the shifting banking assets of a banking institution? Every well-informed student of finance knows that the coinage of silver under the Bland-Allison act and under the Sherman law conferred a great benefit upon the world by increasing the amount of real money. The government will soon finish the work of coining the silver in the treasury, and there is then no law for the further coinage of silver. Not satisfied with this, the financiers are attempting to make the silver dollar redeemable in gold, thus lessening the volume of real money and increasing the volume of credit money. While it is possible to issue a certain amount of credit money upon a given amount of real money, it has never been possible to establish with mathematical certainty just what that safe relation is, and it varies with financial conditions. When everything is running along smoothly a given amount of real money will carry a larger amount of credit money than it will in time of panic or industrial depression. Then, too, the government can carry a larger amount of credit money on a given amount of real money than an individual or private corporation can, because the government, with its taxing power, stands back of its paper. (This is assuming that the government paper, like the banking paper, is redeemable in standard money.)

It is merely a statement of a self-evident truth to say that a financial system becomes weaker and less secure in proportion as the ratio of credit money to standard money is increased. It is easy to understand why the great financiers insist upon a gold standard, bank paper and an asset currency. But why should anybody else advocate these things? The farmer, the laborer, the business man (the business man who thinks for himself and is not under the thumb of some financial magnate) are all interested in having a volume of money that is not only safe, but sufficient in quantity. If the government should open the mints to the coinage of silver today, and coin all that was presented, it could not furnish money more rapidly than it is now needed. With a sufficient volume of real money we could require the banks to keep their reserves on hand and thus save the country from spasmodic inflation and contraction of the loanable money of the country; we could replace the bank currency with silver or silver certificates, and then, if there was need for more money than the gold and silver furnished, we could issue United States notes, like our present greenbacks, that are a legal tender and about whose value there can be no question. These advantages would come to us at once, not to speak of the advantage that would come from an increase in the price of silver. That would increase the export value of the silver we send out and improve our trade with the silver-using nations of the world, and raise the value of those exports which have suffered because of their competition with the exports of silver-using countries.

Because, during the last six years, the country has been benefited by the increased production of gold and by the enlargement of the volume of our currency many people have thoughtlessly declared the money question settled, but no one who reads the news from other countries and knows of the struggle that is going on everywhere to get money enough to carry on the world's business can believe that the money question is settled or can be settled by any system that curtails the volume of real money or substitutes the unsubstantial fabric of an asset currency for a legal tender standard money.

The fall in the price of European consols is only an indication, but taken in connection with the Sun's article, it shows how unsupported is the confidence of those who expect the financiers to take care of the people and solve their financial difficulties for them.

Concerning Advertising.

One of the readers of The Commoner has discontinued his subscription because The Commoner declined to publish an advertisement of the stock of a corporation in which the subscriber was interested. While one always dislikes to lose a subscriber, it is impossible to so conduct a paper as to please every one, and The Commoner prefers to lose a few subscribers rather than risk the injury of the readers by the advertisement of stock in corporations. As a rule, the corporations that advertise stock for sale are purely speculative, such as mining, oil and developing companies, and while many of these companies are entirely legitimate, the value of stock depends partly on chance and partly on the management of the companies, and as the management may change any day The Commoner has thought it best not to take such advertisements. Of course, in refusing such patronage The Commoner virtually loses the money that might be obtained from these advertisements, but the proprietor prefers to suffer this loss rather than make himself responsible for a far greater loss that might come to his readers if through such advertisements they were led into unsafe investments.

Mr. Cleveland said recently that he did not know that any one was thinking of silver. Well, he cherished the same delusion about 1896, but so many were thinking of it that even his office-holders, aided by all the banks, railroads and other corporations, could not secure an indorsement of his administration by a democratic convention.