MR. BRYAN ON BIMETALLISM

Mr. Bryan has written for the Encyclopedia Americana, now being issued by the Americana company of New York, an article on bimetallism. This article gives in condensed form the principles involved in the discussion of the subject and will be reproduced in The Commoner by courtesy of the publishers. Papers quoting from this article will please give credit to the Encyclopedia Americana. It is not convenient to publish the entire article in one issue. The first chapter is presented in this issue and other chapters will be reproduced until the entire article has been printed in The Commoner.

BIMETALLISM.

Gold and silver have been used as money for thousands of years, both the Old Testament and profane history making frequent reference to such use of the precious metals. (See Money.)

As time went on the metals were coined into convenient pieces, and the weight and fineness of the coins guaranteed by the government. Finally, a legal ratio between the metals was fixed and the coins made a tender in payment of debts.

The term bimetallism is employed to describe a financial system wherein gold and silver are used as standard money and coined without limit at a fixed ratio. Bimetallism proper implies, first, that the money unit shall rest upon two metals; second, that these metals shall enjoy equal and unlimited coinage privileges; third, that they shall be connected by a fixed and definite legal ratio; and, fourth, that the coins made from them shall be a full legal tender.

The term "limping bimetallism" has been applied to systems wherein gold and silver were used as standard money, but in which one of the metals was not coined at all, or not coined on equal terms with the other. The term, free coinage, has sometimes been used to mean unlimited coinage and sometimes to mean gratuitous coinage. Unlimited coinage is necessary to a complete bimetallic system. When coinage is limited the volume of standard money is regulated by law; when coinage is unlimited the volume depends, first, upon the total accumulation of coin, and, second, upon the annual production of the money metals. This sum is further augmented by the coinage of gold and silver plate when money becomes scarce, or lessened by an increased demand for gold and silver in the arts when money becomes plentiful.

Gratuitous coinage is not necessary to bimetallism, although it usually accompanies it. A charge can be made for mintage without destroying the bimetallic character of the system, but such a charge necessarily creates a difference between the coinage and the bullion value of the metal. When coinage is gratuitous melted coin can be recoined without loss; when there is a mint charge melted coin loses an amount equal to the cost of coinage. The "melting pot test" is, therefore, not a test of honest money.

Bimetallism does not rest upon any particular ratio; the coinage ratio is fixed by law, and can be changed by law. The ratio simply states the proportion existing between the silver dollar and the gold dollar when measured by weight—that is, at the ratio of 16 to 1, the silver dollar weighs 16 times as much as the gold dollar. While the legal and commercial ratios between the metals have fluctuated from time to time the legal ratio has, as a rule, caused the change in the commercial ratio, and from the beginning of history down to 1873 the fluctuations in the commercial ratio were never as sudden or as great as they have been since 1873. During the 400 years which elapsed between 1473 and 1873 the extreme variation in the commercial ratio was from 14 to 1 to 16 to 1, although during that period there were greater changes in the relative production of the metals than have occurred since. For instance, between 1800 and 1840 the world's production of silver was about 4 to 1 in value, compared with the production of gold; after the new discoveries of gold in 1849 the production of that metal so increased that the annual output of gold was soon more than 3 to 1 in value, compared with the output of silver, and yet during this tremendous change in relative production the commercial ratio was comparatively stable, owing to the fact that all the gold and all the silver could go through the mints into the world's currency. Hostile legislation has driven the metals widely apart since 1873 and it is the contention of bimetallists that friendly legislation will bring the metals together.

The ratio of 16 to 1 is the one advocated by American bimetallists, first, because it was the ratio existing when the crusade against silver began; second, because it is the ratio now existing between the silver and gold coins in circulation in the United States; and, third, because an increase in the ratio, made by increasing the size of the silver dollar, would to the extent that it was joined in by other nations require the recoinage of silver coins into larger coins, and thus reduce the world's volume of standard money. If, for instance, the ratio were changed to 32 to 1 by international agreement, and the silver money of the world, approximating $4,000,000,000, were recoined into $2,000,000,000, it would cause a shrinkage of about 25 per cent in the total volume of metallic money and, as contracts would still call for the same number of dollars, such a change in the ratio would transfer billions of dollars in value from the wealth producers to the holders of fixed investments.

It will be noticed that bimetallism relates to the legal status of the metals rather than to their commercial value, and does not necessarily imply the simultaneous or concurrent circulation of both metals, although American bimetallists contend that the restoration of free coinage at the ratio of 16 to 1 would result in the concurrent circulation of both metals in this country. When the ratio was 15 to 1 in this country gold went to a premium of about 3 per cent because the French ratio was 15½ to 1; when our ratio was changed to 16 to 1, silver, being undervalued at our mint as compared with its value at the French mint, rose to a premium of about 3 per cent.

The Gresham law has often been quoted against bimetallism. That law is merely a statement, made by a master of the English mint of that name, who announced as his observation that the bad coins ran the good coins out of the country—the explanation being that while, to a majority of the people, one coin was as good as another so long as it would pass current, the jewelers would melt and the dealers in money would collect and export the heaviest coins (coins passing by weight rather than by legal tender outside of their own country). It can readily be seen that the Gresham law was not intended to apply to the use of two metals, and that it can apply to the use of two metals only when there is difference between government ratios. When, for instance, we had a ratio of 15 to 1 in this country, and the French ratio was 15½ to 1, there was a tendency to send American gold to France and bring French silver to the United States, and yet this tendency did not cause the exportation of all American gold to France or of all French silver to the United States. France, being at that time the stronger nation commercially, fixed the ratio and our gold rose to a premium. In the payment of debts silver was the money employed, and gold, when it was used, was used at its commodity price. After 1834 the situation was reversed and silver went to a premium. Gold was then used for the payment of debts and for general transactions, and silver, when it was used, brought a premium. It is not fair to say, however, that gold went out of circulation entirely during the former period or that silver went out of circulation entirely during the latter period, for a great deal of the undervalued coin remained here and served the purpose of money, and to that extent relieved the pressure upon other kinds of money. That which left our country in exchange for another kind of metal did not reduce our circulation, and the exported coin still remained a part of the circulation of the world and helped to fix international prices.

In bimetallism the debtor always has the option. This is true, not because of a desire on the part of the government to favor the debtor, but because the parity can be maintained in no other way. If the debtor has the option the desire of all debtors to secure that metal which is the cheaper, will in itself, by increasing the demand for the cheaper metal and decreasing the demand for the dearer metal, tend to make the commercial value of the metals identical with the legal value, whereas, through the operation of the same selfishness, the metals would be driven apart if the creditor had the option, because the demand of the creditors for the dearer metal would still further increase its price, while the lessened demand for the cheaper metal would still further decrease its price.

The arguments in defense of the bimetallic system begin with the self-evident truth that stability in purchasing power is the test of virtue or honesty in money—that dollar being the best dollar which changes least from year to year in its command over all articles of merchandise. Stability would not be so important if all transactions were on a cash basis, but with the increase in credits, especially long time credits, it is a matter of vital importance to have the purchasing power of the dollar fluctuate as little as possible. Jacobs, in his work on the precious metals, shows that an increase of 2 per cent a year in the purchasing power of the dollar would amount to an increase of 500 per cent in 100 years. It will be seen, therefore, that the burden of national debts and other long-time securities may be materially increased or decreased by a change in the purchasing power of the dollar.

That the value or purchasing power of the dollar depends upon the number of dollars has been declared to be, and correctly so, the most fundamental principle in the science of money. To illustrate: if the business of the world is adjusted to a certain volume of money, and that volume of money is afterward suddenly doubled, prices will necessarily rise, because there will be more money with which to purchase other things. If, on the other hand, the volume of money is suddenly reduced one-half prices will fall because of the scarcity of money. Next to absolute stability in the purchasing power of the dollar or unit, the most desirable thing is that any necessary change in the purchasing power of the dollar shall be gradual rather than sudden, and a sudden change in the value of the dollar can only be prevented by the prevention of a sudden change in the volume of money. When it is remembered that the money changer and the owner of fixed investments profit by a rising dollar it is easy to understand why they have always led the movements in favor of scarce money.

Dr. Sturtevant in his book, entitled "Economics, or the Science of Wealth," illustrates the gradual change in the volume of metallic money as follows:

"Gold and silver, considered as a standard value, are an ocean flowing around the whole economic world, and very large additions at two or three points are immediately distributed to every part."

The quantity of metallic money is so great that the annual addition to it is small in comparison.

Bimetallism is theoretically better than monometallism (either of gold or silver), because under the double or bimetallic standard the volume of money changes less rapidly and less suddenly than under the single standard. Thus far history has shown no instance of a large simultaneous increase in the production of both gold and silver. There was an enormous increase in the production of silver during the 16th century; then there was a great increase in the production of gold during the year 1849 and the years immediately following. Early in the 'seventies there was another increase in the production of silver and we are just now enjoying a considerable increase in the production of gold. In each instance the increase in the production of one metal has spread itself over the entire volume of money and has, therefore, caused a less proportionate increase than it would have caused had the world been using but one metal, either gold or silver, as standard money.

The superior stability of the bimetallic system over the monometallic system has been shown by many illustrations, the most familiar being that which likens the volume of money to a body of water receiving the inflow from two rivers instead of one.

The practical argument in favor of bimetallism is that neither metal alone furnishes a sufficient quantity of money to support the world's commerce. Bimetallism is, therefore, actually necessary as well as theoretically advantageous. This phase of the question was not much considered until after 1873 because, prior to that date, there were sufficient mints open to the coinage of both metals to furnish a monetary use for every ounce produced. When all of the gold and silver available for coinage could go through the mints into the currency, each nation could consider the question from a purely theoretical standpoint, because so long as the commercial world had the benefit of the entire volume of gold and silver, it did not make so much difference how many nations used one metal, or the other, or both. When, however, the crusade against silver began and enough nations joined in it to reduce the demand for silver below the supply available for coinage, then each nation was compelled to consider not only its preference as to a standard, but whether—and it was a vital question—it was always sure of having a sufficient quantity of the chosen metal.

(To be continued in next issue.)