SCIENTIFIC MONEY

Mr. Paton's Address Before the Single Tax League of Auckland, New Zealand

Many of the single taxers avoid the money question or treat it of no particular moment; as something of a private nature, with which government ought not to concern itself. But some of them realize that taxes are paid in legal tender coined money—and in nothing else; and they give the money question the attention it deserves.

The following is an address delivered by James S. Paton, now of Riverside, Cal., before the Single Tax league of Auckland, New Zealand, in October, 1901; and it is now being circulated by the Financial Reform league of Inglewood, N. Z.—which goes to show that the money question is a live one even in progressive New Zealand, the country without strikes. Mr. Paton said:

Mr. Chairman, Ladies and Gentlemen: My subject tonight is "A Perfect Money System." Ricardo said: "A perfect money will always have the same value." He held that a perfect system of money was impossible, and his reason was: "That as all commodities fluctuate in value, a system of money based upon a commodity must also fluctuate in value."

His reason is good as far as it goes; but it only proves that a system of money based on a commodity must be imperfect, and in that I agree with him.

The ideal system that students of the money question are looking for must be based upon a natural law that will force it to expand and contract automatically with the expansion or contraction of commerce. For, as the value of money depends upon supply and demand, and as a perfect money must always have the same value, an increased demand must be accompanied by an increased supply in exact ratio to the increased demand; otherwise, the value of money must fluctuate, and the money be imperfect. One function of money is to measure values, consequently it should always be of the same value, just as a measure of length, such as a yard must possess the quality of length, and to be an honest measure, must always be of the same length. As it is a duty of government to regulate weights and measures, it is the duty of government to regulate the value of money—the measure of values.

Del Mar says: "Value is not a thing, nor an attribute of things; it is a relation, a numerical relation, which appears in exchange." Now, if that is true, and also that the value of money depends upon the relation of the whole volume of money, to the whole amount of goods and services it is required to exchange; it follows that the value of a perfect money must be regulated, not by regulating the quantity of the material in a piece of money, nor by arbitrarily limiting the quantity issued; but by regulating its relation to the wealth it is required to exchange.

The rate of interest indicates the relation of the volume of money to the volume of trade. When more goods than usual have been produced, it requires more money than usual to exchange them at the usual prices, and if more money is not forthcoming, interest will rise until the fall in prices makes it possible for the amount of money in circulation to exchange the goods offered for sale and demanded by buyers.

If the increased production of goods were accompanied by an increased supply of money, the increase in the currency being in exact ratio to the increase in production, interest would not vary nor prices fall.

Now, suppose that the government, instead of trying to regulate the value of money by simply fixing the weight and fineness of the metal contained in the coins, or by limiting the amount of notes issued, was to issue as much money as was demanded at a fixed rate of interest, in that case the increased demand would be accompanied by an increased supply.

I propose that—

1. The government issue paper money and loan it to the people.
2. Loans on real estate not to exceed the value of permanent improvements.
3. The rate of interest to be the lowest rate current at the time the system is adopted.
4. The rate of interest so established to be permanent.
5. All demands backed by good security to be supplied.
6. No restrictions to be placed upon private parties or private banks in regard to amount of interest charged by them.
7. The "free coinage" of both gold and silver must be abolished.

I am in favor of a paper currency, but it is not essential to my plan, farther than that if gold and silver were used, and the government could not supply the demand in coin, it would have to issue enough notes to make up the deficiency. But if the value of money depends upon the number and denomination of the pieces in circulation, and their relation to the volume of trade—which I believe; and most writers on the subject admit—why not use the cheapest and most convenient material? Although I consider paper the best material for making all money, except small change, no kind of money can be good unless people have confidence in it, and are willing to accept it. Gold and silver coins are inconvenient on account of their weight, and the expense of buying gold and silver to make money is very great; still a sound and honest money may be made of gold and silver; but not on the "free coinage" plan. A perfect system of money must be limited, and it is absolutely necessary for the government to have the power to issue more money when more money is required, and to stop its issue when there is enough money in circulation; because it is the whole amount of money in circulation that measures value. It is just as necessary for the government to regulate the value of money as the size of bushels or the length of yards; and it is just as impossible to have a perfect system of money based on the free coinage plan as it is to have a perfect system of weights and measures where weights and measures are not regulated. Free coinage of gold gives to the owners of gold the same power that a law allowing dealers in all kinds of goods to change the size of their weights and measures, whenever it suited their convenience, would give to tradesmen. Even if paper were issued exclusively in place of large coins, it is not so convenient as coin for small change, and the use of small coins should be continued.

I would limit the amount loaned on real estate to somewhat less than the value of the permanent improvements because lending on the value of improvements would encourage industry; and I would not favor lending upon land values, because it would encourage speculation in land.

Under prevailing systems the rate of interest depends upon the supply and demand for money—rising as money becomes scarce, and falling as the supply increases or the demand diminishes. An imperfect currency fluctuates in value, and the fluctuations are accompanied by fluctuations in the rates of interest. As a perfect currency must always be of the same value—that is supply and demand must always remain equal—a perfect currency must be accompanied by a fixed rate of interest. The rate of interest and the amount of money in circulation are interdependent. Limit the amount of money in circulation arbitrarily, an increased demand for money in that case cannot be accompanied by an increased supply, the value of money increases, and the rate of interest rises. But fix the rate of interest arbitrarily and leave the amount of money free to adapt itself to the rate of interest, by issuing as much money as is demanded at that rate—and maintaining the same fixed rate—money will fluctuate in quantity with the requirements of commerce, but will not fluctuate in value. The rate of interest adopted should be as near as possible the current rate because every change in the value of money does an injustice. Every increase in the volume of the currency, without a corresponding increase in the amount of business, depreciates the value of money and does an injustice to creditors, and a contraction of the currency does an injustice to debtors. For that reason the value of the currency should never be changed; and as changing the rate of interest would change the value of money, the rate of interest should never be changed. I don't mean that a law should be passed to prevent the legislature from changing the rate of interest, for such a law would be impossible; for any law enacted by one set of men may be repealed by another set of men. One set of law-makers sometimes make promises and throw the responsibility of fulfilling them on succeeding generations; but when people realize that the dead have not the power to govern this world, such laws will not be respected. I only want to point out that the value of money should never be changed for the same reason that standards of weight or measure should never be changed. In order that the amount of money may be free to adapt itself to the rate of interest, it is necessary that the quantity should not be limited. Another reason why the quantity should not be limited is that a limited supply can be controlled and monopolized by money-lenders; for if the government issues are exhausted without supplying the demand, there must be a scarcity of money, and private parties could extort high rates of interest.

For the same reasons that the demand should be fully supplied no money should be issued except the loans are at the fixed rate of interest, for as loans at a fixed rate of interest would maintain the equilibrium between supply and demand; any other issues would destroy their equality.

Probably the greatest reform yet adopted in New Zealand is its loans to settlers. It is a step in the right direction; but only a step. It has brought down the rate of interest, and made it harder for the money-lenders to control the currency.

By issuing notes it could retain as revenue the interest it receives, instead of simply acting as agent and collector for the money-lenders; and by supplying the demand at a fixed rate it would completely break the power of the money-lenders to extort high rates of interest.

They are trying to pass a bill to limit the rate of interest. Such bills have been passed in other countries and failed to produce the desired effect—the laws are either evaded or less money is lent than borrowers demand. If the rate of interest depends upon supply and demand, and it is desirable to limit the rate to five per cent, the way to do it is to supply the demand at 5 per cent. If three or four per cent is considered more desirable, let them supply the demand at one of those rates; but the rate once fixed should remain unchanged.

If the government issued notes in unlimited quantities and loaned them at, say, four per cent, it is evident there could never be a scarcity of money. Every person who possessed the required security could obtain money at that rate, and nobody would pay extortionate rates to money-lenders. Private parties could get four per cent as long as there was not too much in circulation. When less money was required in business there would be idle money which would be offered on better terms than the government loans, and less government loans would be called for; competition amongst private parties would prevent inflation, and the government loans would prevent contraction. (Expansion could also be prevented by the government borrowing from the people at the same rate that it received, but I don't think it would be necessary.)

The greatest objection to a paper currency has been that the material being unlimited, and no natural way of limiting its issue being known, it has often been issued in excessive quantities.

With the plan I propose, the borrowers would really be the issuers of the money, and its redemption would be insured by their property pledged as security, borrowers would receive money on better terms than before, and the whole people would be benefitted by the government receiving a revenue that it had earned.

Government loans to the people would increase the revenues of the government and at the same time lighten the burdens of the people. It would compel no one to borrow money; but those who desired to do so, could borrow on better terms than they otherwise could. They would get money at exactly what it was worth, and the government would render them a service worth all they paid for it. It would not be a special privilege in any sense.

Why does progress always accompany an expanding currency, and stagnation and ruin always accompany contraction?

One answer to the question is: That when the currency is being inflated prices rise owing to the depreciation of money, and although people have more money than formerly, their increase in real wealth has not been in proportion to their increase in money; also, when the currency is contracting it is appreciating in value, and although people have less money, they may still have as much real wealth. Although this answer is quite true, it is not the whole truth. Real progress cannot accompany a depreciating currency, and it must always be accompanied by an expanding currency.

Money is said to be to commerce what blood is to the human system—it is the circulating medium that carries nourishment to all parts of the state. I would compare a progressive country to a child. A healthy child has as much blood as it requires; but as it grows it requires more blood in proportion to its size, and the amount of blood that would keep a child in health would not sustain the life of a man. It is just so with commerce. It cannot grow unless the circulating medium grows with it. It cannot grow with a fixed amount of money any more than a child can grow with a fixed amount of blood.

In conclusion, I believe that the system of currency that I propose would give us a currency that will always be of the same value; that will expand and contract with the requirements of trade; that will prevent usury; that will make it easier for the laborer to obtain capital; that cannot be controlled by monopoly; that will make a financial crisis caused by a scarcity of money impossible; that will increase the revenues of the country, and at the same time lighten the burdens of the people.

JAMES S. PATON.
Riverside, Cal.

Doyle & Berge Attorneys, Brownell Block, Lincoln, Neb.

NOTICE TO NON-RESIDENT DEFENDANT AND UNKNOWN HEIRS.

To Herman Moneka, and the unknown heirs of Sophia Herzer, deceased, defendants:

You, and each of you, are hereby notified that on the 2d day of April 1903, the plaintiff filed his petition in the District Court of Lancaster County, Nebraska, against Herman Moneka, and the other unknown heirs of Sophia Herzer, deceased, and the State of Nebraska, alleging that ever since the year 1878, he has been the owner of the south half (S. ½) of the southwest quarter (S. W. ¼) of section one (1) in township eight (8) range five (5) East in Lancaster County Nebraska, and still is the owner and in possession of said premises; that during the year 1878, he purchased said real estate from the Chicago, Burlington & Quincy Railroad Company; that during the year 1873, he married Sophia Herzer, now deceased, and that said Sophia Herzer was his wife during the year 1878, when he purchased said real estate; that prior to the purchase of said real estate, in consideration of "love and affection," he agreed with said Sophia Herzer that she should hold the naked legal title to said real estate, during the term of her lifetime, with the express understanding, however, that prior to her death, said Sophia Herzer would convey the legal title to said real estate to the plaintiff, and that during all of the time that said Sophia Herzer should hold said legal title that she should hold said seal estate in trust for the plaintiff, and plaintiff alleges that said Sophia Herzer agreed with the plaintiff to so hold the title to said real estate, and upon the conditions alleged; that thereupon this plaintiff caused the Chicago, Burlington & Quincy Railroad Company to execute a contract in writing to said Sophia Herzer, obligating itself to convey said premises by warranty deed to said Sophia Herzer upon the payment of the purchase money of said real estate.

Plaintiff alleges in his petition that when he, married said Sophia Herzer she had no property of her own except only a small sum in cash—no part of which was used for the purpose of purchasing said real estate; that the plaintiff, himself, personally, paid all of the purchase money for said real estate to the Chicago, Burlington & Quincy Railroad Company on the 18th day of March 18-4, and at said time said Railroad Company, by warranty deed, conveyed said premises to said Sophia Herzer, which deed was filed for record in the office of the Register of Deeds in Lancaster County, Nebraska, on the 6th day of July 1886, at 1:30 p. m. and recorded in Book 21 of Deeds at page 216; that said Sophia Herzer died in Lancaster County, Nebraska on the —— day of —— 1888, intestate, and without issue, and that the only heirs at law was the defendant, Herman Moneka, who is a brother of said Sophia Herzer, residing in Germany, and that if there are any other heirs of said Sophia Herzer that their names and residences are unknown to the plaintiff, and also that the name and residence of Herman Moneka, the above named defendant is unknown to the plaintiff, and that he is not certain that Herman Moneka is the correct name of the brother of said Sophia Herzer, but that he has made diligent search for Herman Moneka, and the other unknown heirs of Herman Moneka and he has been unable to learn either their names or their residences, and that they are unknown to him at this time; that he does not know whether the father and mother of said Sophia Herzer are living, and does not know their residences although he has made diligent search to learn their names and residences, but that he has failed to learn either, and both their names and residences are unknown to this plaintiff.

That about three years prior to the death of said Sophia Herzer she was insane and incapable of making a conveyance of said premises to this plaintiff, and that because of said insanity and for no other reason, were said premises not conveyed to this plaintiff prior to the death of said Sophia Herzer, and that ever since the year 1878, he has continuously had possession of said real estate in an open, adverse, notorious and peaceable manner, and that during all of said years he has farmed the same and improved the same.

That ever since March 18, 1888, at the time the Chicago, Burlington & Quincy Railroad Company executed a deed to said Sophia Herzer for said premises, he has each year paid to the County of Lancaster, and State of Nebraska, all of the taxes accruing on said real estate, for which plaintiff holds receipts.

That the State of Nebraska claims to have some interest in said real estate which plaintiff denies.

Plaintiff prays for a judgment of the court decreeing that the state of Nebraska has no interest of any kind whatsoever in and to said real estate, and decreeing also that the above named, Herman Moneka, and any and all unknown heirs of sophia Herzer, deceased, have no interest of any kind whatsoever in and to said real estate, and that plaintiff, Franz Herzer, be decreed to be the real owner of said real estate, and that the court will enter a decree quieting title in him, and for such other and further relief as to the court may seem proper.

You are hereby required to answer this said petition on or before the 8th day of June 1903.

FRANK HERZER,
Plaintiff.

By Doyle & Berge, His Attorneys.