DEPOSIT CURRENCY: ITS SILENT BUT STEADY GROWTH.

BY WILLIAM C. CORNWELL.

The vast bulk of the currency in the United States is created without law. While legislators for thirty years have been endeavoring to issue and regulate the currency commerce has been issuing its own money in the proportion of 33 of its own to 5 of the government's and substantially without the knowledge of congress. Nevertheless it is not only absolutely harmless but has been of the greatest benefit in the progress of our people. Without it the United States would be a poverty-stricken wilderness. By its aid enormous prosperity has been developed.

Considerably over three thousand million dollars worth of promises are held by the banks of the United States.

These promises are made in writing and are signed by all classes of people.

Some of these people have property like stocks and bonds, or other forms of collateral which they have put up to insure the payment of their promises.

Others have prospects which they virtually pledge in their promises to pay—prospects of selling things, like wheat, corn, cotton, lumber, iron—also muscle-work and brain-work. With the proceeds of the sale of these things they expect to pay their promises.

These promises are the loans and bills discounted, held by the banks.

All of this value in promises to pay is used as the basis of a currency which has come gradually—steadily into use in the business of the United States. The operation is this: The man with a promise turns it over to the bank, which gives him its promise in the shape of a right to draw against the amount of his promise, less the discount.

The right to draw is expressed in the form of a deposit to his credit.

His checks against this deposit are accepted by anyone he wishes to pay money to, and his checks at once form a part of the currency of the country.

This currency has come into use without concerted action, without legislation—almost without the knowledge of the great majority of the people who are using it daily.

This currency is what is known as deposit currency.

A very large part of the business of the United States is carried on with this kind of currency.

The deposits in the banks, the basis of this currency or money, have increased from 11 hundred million in 1875 to 33 hundred million in 1897. The currency furnished by checks against these deposits does 95 per cent of the business of the United States just exactly as it would be done with bank notes if there were enough of them, or with government paper money. This great bulk of payments is made by checks and drafts no one of which stays in existence much more than one or two days. This method of doing this business, as I have said, has come into use practically without law, to approve, or regulate, or restrict it. It is the invention and choice of the business public and has come into enormous use in the United States, while bank notes have been cut down in volume from over 300 millions to under 200 millions.

INCREASE OF BANK DEPOSITS.

If commerce had not been hampered by legislation it would have made equally advantageous use of bank note currency in sparsely settled regions where deposit currency is not available.

We have here a method of payments which has sprung up of itself out of the needs of commerce, composed wholly of the products and paraphernalia of commerce, solely possible of use in commerce, and wonderfully adapted in every way for such use—a perfect medium.

And when we reflect that money, a medium of exchange, used only by commerce, would not be used at all if there were no commerce, does it not seem admissible and just, that commerce should decide on its own medium and perfect it?

The same process would long ago have perfected a system of bank note currency in the United States had not legislation interferred to embarass, to entangle and to destroy.

But note currency is exactly the same as deposit currency in its general principle. It is the promise of the bank given not in the shape of a right to draw against it as with a deposit, but the directly expressed promise of the bank to pay, divided up into single dollars and fixed multiples of single dollars—ones, twos, fives, tens, twenties, hundreds—printed on paper and used exactly as the checks against deposits are used.

These made absolutely safe by a guarantee fund of the banks collectively, pass current in agricultural and wooded sections where names of drawers of checks would not be taken because not known.

These notes have behind them the same kind of assets as deposits—namely, the secured promises of individuals who have borrowed the notes from the bank.

In order to make them doubly sure to the innocent holder they are made a prior lien on all the assets of the bank issuing them.

More of them cannot go out into the community than are actually needed in business because no good borrower will pay interest unless he needs to use the money, and when he ceases to need this, the notes come back to be paid.

Instead of these perfectly adapted mediums of exchange, these absolutely secured notes of banks, we are asked, in fact, have been compelled for more than thirty-five years, to accept government notes which are totally unadapted to the uses of business.

Hampered in this way commerce has spread out and quietly developed its own medium—deposit currency.

But why should commerce be hampered when its success means prosperity for all?

Why should not commerce be allowed to develop the usefulness of the bank note?

A bank note is a title to actual property held by the bank.

A government legal-tender note is not a title to anything.

It is issued for expenses, or buildings, or harbors, none of which can be used to pay it with.

It is a forced loan.

It can only be paid by taxing the people for the money to pay with.

If it is intended to have it constantly redeemable in gold, then a vast amount of gold must be tied up in the Treasury, idle, which is a direct loss to every citizen.

The tendency of legal-tender notes is to increase instead of to diminish.

It is an inflator, because once issued there is no force in the conditions of trade to drive it out when not needed.

Inflation benefits only reckless speculators and its reaction harms all.

Tried by nearly every government in existence legal-tender notes have proved in every instance a failure, entailing in their use speculation, business uncertainty, fluctuating employment for labor, suffering to wage-earners and finally disaster to every interest.

THE WORD "DAGO."

A correspondent asks if the Spanish are called dagoes because their patron saint is Saint Jago. It is quite possible that this saint, with San Diego and a number of other similar-sounding places and persons, may have had a hand in it, some rough-and-ready word-coiner having summed up his impressions of the whole language in the injurious word in question. The odd thing about it is that the name has, we believe, been applied exclusively to Italians, at least in the North, until the outbreak of the Cuban difficulty. The Standard Dictionary says that it signifies "any dark-skinned foreigner." We cannot recall having seen or heard it prior to 1882.

Japan is going to borrow 50 millions of dollars from foreigners and pay interest for the use of the money. Isn't it queer that Japan has never profited by the advice of such eminent financiers as Senator Allen and Jacob S. Coxey? Why do not the Japanese extend an invitation to these gentlemen to go to the "Land of Flowers" and teach the natives the art of making something out of nothing—of legislating value into a disc of metal or a piece of paper? The Japs would then be able to save millions of dollars in interest each year.