QUANTITATIVE THEORY OF MONEY AND OTHER ILLUSIONS.

[By Matthew Marshall in New York Sun of April, 17, 1899.]

The revulsion in the stock market, which occurred week before last proved to be only temporary, and did not lead, as some feared it would, to a widespread and destructive financial collapse.

As the event has demonstrated, credits generally have not yet been inflated to a dangerous degree, and the prices of speculative stocks, high as they seem, are sustained by an unimpaired confidence on the part of buyers. Money is furnished readily in response to demands for margins.

The refusal of financial institutions to make loans upon collaterals, the value of which has yet to be shown, does not prevent their being accepted elsewhere. The coming withdrawal from our city banks, within the next ten weeks, in weekly installments of $1,000,000 each, of $10,000,000 government deposits, of which the secretary of the treasury has given notice, does not seem to have excited any apprehension.

Lesson for the Populists.

Instructive as the financial history of the past few months has been, in other respects to the philosophical observer, the proof it has given of the ease with which markets can be inflated and an immense amount of buying and selling, with bank checks alone, without the aid of coin and notes, makes it peculiarly so.

Besides the large transactions at rising prices in merchandise and agricultural commodities, which have taken place in this city, the sales of stocks and bonds at the stock exchange have averaged in value certainly $100,000,000 daily. In addition, an amount which it is impossible to estimate accurately, but which cannot be less in the aggregate than $500,000,000, has recently changed hands in effecting the transfers of property involved in the many railroad and industrial reorganizations with which the public is familiar.

Last week alone $8,000,000 was paid on account of the Chicago & Alton railroad purchase, $18,000,000 for the new issue of Manhattan Elevated railway stock, and $17,000,000 for the plant of the Liggett & Myers Tobacco company, and of other smaller industrial concerns. Moreover, the payment of the $20,000,000 due to Spain under the Paris treaty has already been arranged for, and only remains to be formally consummated.

But this business has notoriously been transacted without locking up, to the least extent, coin, government notes, or bank notes. It has required nothing more than the exchange of checks drawn against bank deposits, and of debit and credit entries on bank ledgers. The populists, silverites, and currency reformers, who insist that prices are regulated and business controlled by the quantity of tangible money in circulation, ought to study these facts and learn wisdom from them.

"Elastic-Currency" Fallacy.

That an increase of the supply of money capable of being handled and counted is required by an increase of business, or, as the currency reformers put it, that the volume of currency should be "elastic," so that it may expand to meet the wants of trade, is a fallacy that cannot be too soon abandoned. Not only do our banks accomplish, as we see, the payment of hundreds of millions of dollars daily without the use of any coin or paper money other than the small quantity required to settle balances between themselves, but they can, when necessary, increase these payments in the same manner.

For example, the clearings of the New York banks last Tuesday were $353,000,000, while the resulting balances were but $17,345,000, all of which, excepting fractions of $5,000, were settled by clearing-house gold certificates, the fractions paid in coin and legal tenders amounting to less than $150,000. For the previous week the clearings amounted to $1,553,000,000, or over $258,000,000 a day, against average daily clearings in 1898 of $111,000,000 a day.

For the month of January last the aggregate clearings of all the banks in the country were $8,492,000,000, for February $6,981,000,000, and for March $8,726,000,000, against $6,012,000,000 for January, 1898; $5,552,000,000 for February, 1898, and $5,640,000,000 for March, 1898, or a total of $24,199,000,000 this year, against $17,206,000,000 in 1898.

Thus it appears that the New York banks, without any increase of the volume of the country's currency, have recently more than doubled the volume of their exchanges, and the banks of the whole country have added, on an average, 50 per cent to theirs.

In view of these figures, it is surprising to find the executive committee of the Indianapolis monetary convention adopting a resolution, as it did a few days ago, urging upon congress "The adoption of a monetary system based upon the gold standard, adequate in volume and sufficiently flexible in character to afford the legitimate means to our producers and manufacturers for meeting the rapidly expanding volume of domestic trade and for competing upon equal terms in the world's markets with other nations."

No Lack of Currency.

The volume of our home and foreign trade has been expanding rapidly for the last six months, prices of commodities have risen, and how the trade in stocks has expanded everyone knows, and yet, as the facts prove, there has been no want of legitimate means in the way of currency for meeting its wants. There have, indeed, been complaints of a lack of paper money, but the supply of coin is not seriously deficient.

The resolution of the Indianapolis convention committee was addressed to the committee appointed last March by the republican members of the incoming house of representatives, to prepare a currency measure for consideration by the house next winter. That committee begins its session tomorrow at Atlantic City, N. J., and when one considers that its members will be bombarded by hundreds if not thousands of recommendations, besides that from the Indianapolis convention committee, it seems like cruelty to add to the burden that will be cast upon them. It is to be hoped, however, that among the budgets of advice which they will receive will be one calling their attention to the eminent flexibility of our existing currency system, as shown by present experience, and its full ability, without amendment, to meet the requirements of expanding trade, foreign as well as domestic.

It will undoubtedly be urged upon the committee that while checks upon banks in great financial centers like New York amply meet the varying wants of those centers, they do not render the same service in the rural districts. In those districts, it will be said, a borrower from a bank needs something different from the mere credits on the bank's books, which suffice for borrowers in cities. He must have actual money, which he can use to pay his debts in localities where his bank is unknown, and where his check, consequently, would be refused. The bank with which he deals must, it is contended, instead of certifying his checks, issue to him its engraved notes, which, being in the customary form of money, will have wide credit and fulfill the function of the present United States and national-bank notes. Moreover, in many districts no banks exist, and none can be established under the present national-bank act, because the minimum capital with which a bank can be organized under that act is $50,000, and, when organized, it can issue circulating notes only up to 90 per cent of the par of government bonds deposited as security for their redemption.

Demand for More Banks.

Hence the cry of the currency reformers is for banks of $25,000 capital and less, with liberty to issue circulating notes without other security than their own assets. This measure it is contended, would stimulate the creation of numerous little banks in localities now destitute of them, which, by issuing circulating notes to borrowers, would enable them to pay debts and purchase supplies to the extent of their needs.

The scheme, as it has been presented by the Indianapolis monetary convention and by the ill-fated McCreary bill, is ingeniously complicated by provisions for a guarantee of the bank circu-