The Evolution of Banking

ROBERT H. HOWE

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A STUDY OF THE DEVELOPMENT
OF THE CREDIT SYSTEM

BY
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HENRY DEMAREST LLOYD

Foreword

It is needless to say that this book does not contain all that might be written on the subject of money; many interesting and instructive phases of the subject have not been treated at all, for the reason that few people will read a bulky volume, and many cannot pay the cost of one. It is published with the sole purpose in view of stimulating thought and inquiry into the subject of which it treats and which has been nearly, if not entirely, neglected by the leaders of advanced thought.

There is growing up in America a strong demand to substitute collective ownership and operation of certain industries in place of corporation ownership and operation. This is evidenced by the recent passage in various states of Public Utilities Acts which empower the cities and villages to purchase or construct water works, electric light and power plants, traction systems, pipe lines for the distribution of gas, oil, heat or cold; warehouses for storage purposes, wharfs, etc., and empowering the cities to issue bonds or certificates of indebtedness which are to be a lien on the property built or purchased and which are redeemable out of the operating income.

These enabling acts will certainly be taken advantage of in the near future. The present Public Utilities owned by private interests and operating under franchises are staggering under a burden of stocks and bonds far beyond the value of their properties, and in many cases double the cost of reproduction.

In taking over these various activities an attempt will certainly be made to unload this mass of indebtedness, a large percentage of which is fictitious, upon the public at par, and issue in place thereof twenty or twenty-five year Public Utility Bonds or Certificates bearing 4 per cent or 5 per cent interest. This would place upon the public a burden of debt for principal and interest far in excess of the value of the property taken. Under the present laws it is not possible to take over these properties or build others without issuing interest-bearing obligations which will make the cost to the public from two to four times the value received.

If Congress would enact into legislation the Currency Bill found at the close of this volume, cities could take possession of these public utility properties and pay no more than their actual value and never be obliged to pay one cent of interest.

Currency is a tool which man invented for use where there was an unequal exchange of services or commodities.

Under a system of barter where each exchange was a complete and closed transaction money was unknown and unneeded. The following quotation from Homer's Illiad depicts a state where no money was used:

"From Lemnos Isle a numerous fleet had come
Freighted with wine * * * *
* * * * all the other Greeks
Hastened to purchase, some with brass and some
With gleaming iron; some with hides
Cattle or slaves."

But where there was an unequal exchange of services or commodities between two persons there would be the difference in the amount due from one to the other and some evidence or token would be required by the creditor from the debtor.

In writing of this subject Aristotle said:

"But with regard to a future exchange (if we want nothing at present, that it may take place when we do want something) money is, as it were, our security, for it is necessary that he who brings it should be able to get what he wants."

To instance this in a simple manner let us picture a shoemaker living in a house built on a low, wet piece of ground which he desires drained. He employs a neighbor to dig a ditch that will carry off the surplus water. While the ditch is being dug the shoemaker makes a pair of shoes, and offers them to the ditch digger as compensation for his work. He refuses the shoes because he has a good pair, but accepts the shoemaker's I. O. U. The ditch digger, however, needs a coat and a tailor who knows the shoemaker accepts the evidence of his debt in payment for the coat. The tailor in turn wants the roof of his house mended and employs a carpenter to do the work and transfers to him in payment for it the shoemaker's I. O. U. The carpenter needing a pair of shoes gets a pair from the shoemaker and pays for them by surrendering the evidence of the debt which the shoemaker originally owed to the ditch digger, and the shoemaker destroys it.

It will thus be seen that the debt contracted by the shoemaker was the basis for the currency by means of which the services of the ditch digger, the tailor, the carpenter and the shoemaker were exchanged, and when the debt was paid the currency disappeared. It shows also that where there is no debt there can be no currency.

McLeod, in his Theory and Practice of Banking, says: "This currency is nothing more than the evidence of service having been rendered for which an equivalent has not been received, but which may at any time be demanded. It is obvious that as soon as it has been rendered, the evidence of its being due must be given up to the debtor to be destroyed, and it will be no longer current. And if any man can render services to his neighbors, he must in return receive either other services, or the evidence of their being due; and if he renders more services than he immediately requires in return, he will accumulate a store of this evidence for his future wants.

"These simple considerations at once show the fundamental nature of a currency. It is quite clear that its use is to measure and record debts, and to facilitate their transfer from one person to another; and whatever means be adopted for this purpose, whether it be gold, silver, paper, or anything else, is a currency.

We may, therefore, lay down as our fundamental conception that CURRENCY AND TRANSFERRABLE DEBT are convertible terms; whatever represents transferrable debt of any sort is CURRENCY, and whatever material the currency may consist of, it represents transferrable debt and nothing else."

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INTRODUCTION

The most important factor in civilized life is the production and exchange of commodities. The creation and distribution of the wealth necessary for the support and comfort of the human family is the main object of all industry. Money and its modern substitute, Bank Credit, are agencies by which this industry and commerce is carried on; but we must not, in considering the subject, be blinded by the intervention of Money and Bank Credit, and fail to maintain a clear distinction between the main object and the agency by means of which we attain the desired end. Neither must we delude ourselves into thinking that Money, Banks and Bank Credit are the only agencies by which men can exchange wealth.

Bank Panics occur which result in nearly a complete stoppage of industry. We have all the physical elements for the production of the wealth that is needed to satisfy human wants. Yet hundreds of thousands of willing workers, both skilled and unskilled, are thrown out of work almost over night. If idle factories, idle land, and idle men are the inevitable result of the modern financial system, it is the duty of all to investigate the Banking and Money question, and substitute a saner, more reliable, and less expensive system than the present one.

The modern banking system has grown up and developed along with the modern industrial system. Though the two are inseparably linked, the Banking system must be considered as merely an adjunct to the commercial system.

At the dawn of history, when mankind was emerging from savagery, commodities were produced by hand labor and exchanged by means of barter. Human needs were few and simple, and were easily satisfied.

To-day, commodities are almost entirely the result of machine labor. Human needs have multiplied and are supplied by a worldwide commerce. But no matter how complex the modern commercial system seems, the same fact persists, and has persisted through the sweep of the centuries, that we still carry on a system of exchanging goods for other goods. Producers do not now meet face to face, as they once did, and exchange their product by direct barter, but still the products of the rural districts pay for the products of the manufacturing districts. The same is true of the nations—our exports pay for our imports. But this inter-social exchange of commodities could not have grown to its present immense proportions had not some means been invented to facilitate commerce.

In the hunting stage skins, and later, in the pastoral stage, cattle were used as the Unit of Calculation, by means of which values were expressed and goods exchanged. Later, a vast array of agricultural products and metals were used as the basis for the exchange of commodities. They all served their purpose at the time and place where they were used, but were discarded from time to time, and better mediums substituted: Cattle were eliminated because of the differences in the age and condition of different members of the same flock, and also on account of their liability to death and disease; agricultural products decayed and became worthless; metals used as coins went through the same process of elimination; iron was used, but was too cheap and liable to rust; lead was too soft to long retain the impression of the mint, etc. But, however interesting and instructive this subject is, space does not permit of a history here.

ENGLISH TALLIES

One of the most interesting instances of the use of representative money is found in the English Exchequer Tallies which circulated in England for over six hundred years. These were adopted as a means of financing the English Treasury by the fourth son of William the Conqueror, who ascended the throne as Henry I in the year 1100. The tallies were of wood and were issued by Royal Warrant. All who served the King or State were paid with them. Supplies for the Royal Household and army were purchased with them and they circulated among the people as money and were used as such in the exchanging of commodities. They were four sided rods of hazel or linden wood about an inch in diameter. The amount due from the State to the creditor was designated by notches cut into one of the flat sides of the rod. £1,000 was represented by a notch as broad as the palm of the hand; £100 by the breadth of the thumb; £20 by the thickness of the little finger; £1 by that of a barley-corn; for a shilling the least piece possible was cut out; and a penny merely by an incision without any wood being taken away. The amount was also written in ink on two opposite sides. The rod was then split by knife and mallet lengthwise through the notches. One-half of the stick, showing the inscription in ink and one-half of the notches was given to the creditor and one-half was placed in the treasury. They circulated throughout the Kingdom as money and the merchants and others used them in all business transactions. They did not pretend to be based on gold or silver. They were redeemed by the Government only by being accepted in the payment of taxes. When the time came for the collection of taxes the Sheriff of the County by proclamation called all who had exchequer tallies to present them and obtain allowance for them. They were matched with the counter tallies and where the two edges fitted into each other they were said to "tally."

After being accepted in payment of taxes they were broken in half and thus cancelled.

When the Bank of England was established in 1694 there was about £14,000,000 ($70,000,000) in wooden tallies in circulation in England. The Bank enjoyed the privilege of issuing paper currency for the first time in England, although it had been used in China several hundred years previously.

To Sweden, however, belongs the credit of first introducing paper bank notes in Europe.

The money of Sweden consisted of large plates of pure copper, $3/8$ of an inch thick, and was very inconvenient to handle in large business transactions. The two-daler piece was $7\frac{1}{2}$ inches square and weighed $3\frac{1}{2}$ pounds. A merchant on a collecting tour was obliged to take a wheelbarrow or cart to bring his money home. To remedy this inconvenience a Bank of deposit was established at Stockholm and the copper money was deposited and bank notes given in exchange for it. These bank notes were used all through the country in making payments.

The Bank of England did not at first issue notes for a less amount than £20 ($100) and these were of little use for general business purposes, so the Chancellor of the Exchequer began the issue of £5 and £10 exchequer bills. The use of the paper bank notes and the exchequer bills gradually displaced the wooden tallies in the more important business transactions, but it was not until 1783 that their use was abolished by act of parliament. In spite of this act their use was not finally abandoned by the government until 1826. Four years later the heaps of them which had been accumulating for centuries were ordered burned in the furnaces of the Houses of Parliament. A defective or overheated flue started a conflagration which completely destroyed the buildings.

There is still preserved in the British Museum a tally which looks like a huge wooden sabre. It was given by the British government to the East India Company as security for a loan of £25,000 ($125,000). The loan was afterwards repaid.

In 1697, when the capital of the Bank of England was increased by a new subscription of £1,000,000 ($5,000,000), eight hundred thousand pounds, or four million dollars, of the stock was paid for with wooden tallies at par.

MODERN BANKING

Modern banking can be said to have had its origin with the establishment of the Bank of England in 1694, and the Bank of Scotland in 1695.

Previous to that date the Banks, such as The Bank of Venice (1191-1797), Bank of Genoa (1407-1797), Bank of Hamburg (1619), Bank of Stockholm (1668-1754), and the Bank of Amsterdam (1609-1790) were Banks of Deposit. Payments in business transactions during the medieval period were made by means of coins, but the inconvenience of handling and storing a large number of coins, with the risk of loss through overvalued or debased coins and the risk of theft, led to the establishment of these Banks of Deposit, where the coins were valued for once and all and were then locked up in the bank vaults and never withdrawn, but the title to the same was transferred on the Books of the Banks. This is in effect what the United States Treasury is doing at the present time when it issues gold and silver certificates to any one who deposits gold and silver coins or bullion in the Treasury. The Banks of Deposit made no loans, but their income was derived from a charge that was made for each transfer of funds on the books of the Bank.

Our modern banks are Banks of Discount as distinguished from their predecessors, the Banks of Deposit, and have given an enormous impetus to commerce. They have been able to do this because they can and do create credit that circulates the same as money and in a far more convenient, safe and economical form.

At the beginning of the banking era the presence or absence of banking facilities were of little or no importance to the working class, but these facilities were utilized by the merchant or trading class.

The merchant was able to purchase goods from the producers in an amount far exceeding his capital because he could give to the Bank his note payable three or four months later, and receive Bank Notes for the amount of his note less the interest.

These Bank Notes circulated the same as coins. They paid for goods and discharged all kinds of financial obligations equally as well as gold, and were far more convenient to handle. They were redeemable in coin (Gold or Silver) on demand, but the bank maintained only a small reserve in gold for redemption purposes. This led to a suspension of specie payments by the Bank of England twice in its career, the most important one continuing for twenty-five years—1797 to 1822—but the business of England, and of the Bank, continued just the same.

Private Banks were established, but could loan only their own or customers' capital. They could not loan their credit like the Bank of England, as the latter, by its charter, had a monopoly of the issue of Bank Notes.

THE INTRODUCTION OF BANK CHECKS

About the year 1780 the London Bankers introduced a simple and apparently unimportant change in their methods of transacting their business, which destroyed the monopoly of the Bank of England. Instead of giving their promissory notes or deposit receipts, they entered on their ledgers the amount due their customers and gave them books of blank forms called checks. This method enabled the Bankers to create a currency not contemplated by the framers of the Bank Act. When the Bank of England discovered it, they appealed to Parliament to stop it, but they were told such monopolies were out of fashion and their demand was refused.

The Banks that began to be established in the United States about the year 1800 followed exactly the English methods. They received their charters from the various States. These charters gave them the right to accept deposits and to discount notes for merchants and others and granted them the privilege of issuing their circulating notes to the amount of two, two and one-half, and in some cases three times the amount of their paid-up capital. These notes were redeemable on demand in coin (Gold and Silver), just as the Bank of England's notes were, and a reserve was to be maintained in the vault of the bank to the extent of from 25 per cent to 33 per cent of the bank's notes that were in circulation.

At first the liabilities of the banks for notes in circulation far exceeded the liabilities under the head of Deposits; but, as the use of bank checks in place of currency grew, the ratio changed and has resulted in the present condition, where the circulation liability of the National Banks is about \$750,000,000—while the liability to depositors is upwards of \$15,-000,000,000. A most profoundly erroneous impression is made on the mind of the public by the published statements of the amount of liabilities of the banks under the head of "Deposits." It is almost, if not quite, universally believed that the so-called deposits are deposits in actual cash, while the truth is, in so far as the deposits exceed the cash on hand, they are the proceeds of discounted commercial paper.

Banks do not loan money. They loan credit. They create this credit and charge interest for the use of it. It is universally admitted that the old State Banks that created credit in the form of bank notes, created currency—and our modern system of creating credit in the form of "Deposits" which circulate in the form of bank checks, is doing exactly the same thing—creating currency.

All this in effect nullifies the National Banking Act, which provides for National Bank Currency based on U. S. Government Bonds, and also the act levying an annual tax of 10 per cent on all State Bank Currency.

As the Banks of the United States, as a whole, have a reserve fund in cash of only about 10 per cent against their deposit liabilities, it is evident that 90 per cent of the deposits that are our real circulating medium is based on the real circulating capital of the country; i. e., the wheat, corn, oats, cotton, wool, iron, coal, sugar, linen, lumber, hides, leather, carpets, furniture, shoes, clothing, and other commodities that are in the process of exchange. In other words, the banks are coining all classes of commodities into money.

The public little realizes to what an extent Bank Credit, circulating in the form of bank checks, has supplanted all other circulating media. In 95 per cent of all the business done in the United States, the payments are made in bank checks and in only 5 per cent is any cash used; and of this 5 per cent an infinitesimal fraction only is gold.

The introduction of bank notes was useful in weaning the public from the use of gold and silver coins, and prepared the way for the introduction of Bank Credit as the means of payment for commodities. As a result of this evolutionary process, the checks drawn and paid in the United States amount to between two hundred billion and two hundred and fifty billion dollars a year.

It is clear that it would be a physical impossibility to do this amount of business by the use of gold coin. There is only about eight billions of gold money in the world, of which amount less than two billions of dollars are in the United States.

The banks have created fifteen billions of dollars of credit by discounting the notes of merchants and manufacturers, and crediting the proceeds to the borrower's account under the head of Deposits. As a result, the borrower is enabled to draw checks and pay his debts with them. The credit thus started on its journey flows through the channels of commerce, paying all manner of monetary obligations as efficaciously as though done with gold. The merchant draws his check for the exact amount of each account he wishes to pay. He makes the checks payable to his creditors' order and sends them through the mail without risk of loss. The recipients of the checks deposit them to their credit in the bank and start their checks out on the same debt paying errand. The credit first extended to the merchant in the course of the three or four months that it is in existence, is the means of paying debts to the amount of ten or twenty times the amount originally borrowed. The borrower, meanwhile, is constantly increasing the amount to his credit in the bank by depositing his receipts from the sale of his merchandise, and when the note falls due, he gives his check for the note, and the debt and the credit—which are counterparts of each other—are by this means offset and both disappear.

Up to the present, nothing has been said of the possible interest the wage worker, who is without property or industrial capital, has in the subject of Banking and Bank Credit.

As has been said in a previous paragraph, at the beginning the facilities offered by a bank were utilized by the merchant or trading class.

Production, at that time, was carried on almost exclusively by independent workmen who owned the tools with which they worked. But the invention of the steam engine, and the rise of the factory system, separated the self-employing workmen from their tools, which had become useless, and forced them into the factories as wage workers. Their labor power became a commodity to be bought just the same as coal, or oil, or any raw material necessary in the manufacture of goods. Under our modern industrial system, with its world-wide markets, the manufacturers are absolutely dependent on their ability to secure credit from the banks to carry on their business. Just as far as their ability to secure credit is curtailed or ceases, their ability to employ labor and purchase raw material is curtailed or ceases. Financial panics have occurred in the past; we are in the midst of one now; and they will keep on occurring as long as the present industrial and financial system continues. While the wage-worker has no business dealings with a bank, either as borrower or depositor, still the periodical financial disturbances result in the closing of factories, workshops, mills, and mines, and he, with millions of his fellow workers, suffers from long periods of unemployment with all the direful consequences.

The raw material that the manufacturer uses does not necessarily deteriorate from non-use. The uncut forest is more valuable, for the trees have been growing during the year or two of depression, or if cut, the lumber is better for being well seasoned. The unmined coal is just as good as ever; but labor power must be nourished or it wastes. The man may sink into the vagabond or criminal, and wives and children suffer from cold, hunger, and privation.

The subject of bank panics and periods of industrial depression have never been given the study they rightly deserve. In the physical world, the eclipses of the sun and moon and the precession of the equinoxes were phenommena for which astronomers formerly could give no adequate explanation, because their theories were founded upon the utterly false premise that the earth was flat and stationary. But the Copernican theory of the revolution of the earth upon its axis each twenty-four hours, and its yearly journey around the sun, cleared away the mists of ignorance that surrounded the subject of astronomy, and it has since become one of the most fascinating of sciences. The same condition prevails today in the science of political economy as prevailed in the science of astronomy during the dark ages. After two hundred years of theorizing, the professors of political economy are unable to predict a financial crisis or period of industrial depression or offer an adequate explanation for one when it appears. No wonder Gladstone said that the surest way to the madhouse was to study the money question.

The ancients made the mistake of believing that the world was the center of the universe and all of their calculations based upon that error were valueless.

The modern political economists make a similar error when they place the interests of the possessing class in the center of their little world of thought and ignore the interests of the far larger and more important producing class.

An American author of international repute, after studying the subject of money for years, wrote: "In every age, whole philosophies of what was once supposed to be knowledge, withers away, fit only to enrich the soil of something better. An encyclopedia of the political economy of slavery would not be of much value today. It is better to look into the new facts of our day, and the rising aspirations of the multitudes to become peoples, for the truths of money—by what tools of exchange we are to serve each other in the market—than to wander through the teeming graveyards of economic literature."

Between the years 1810 and 1860, there were ten bank panics in the United States—an average of one each five years. Since the close of the Civil War there have occurred the panics of 1873, 1893, 1907, and 1913-14, and there have been disturbances and depressions of trade and industry of more or less marked intensity during the entire period. In considering the panic of 1873, and the years of depression following it, the Director of the United States National Bureau of Labor, in his report of 1886, found that the most severe effects were felt in those countries in which the employment of machinery, the efficiency of labor, the cost and the standard of living, and the extent of popular education were the greatest. It was felt alike in nations that had been involved in war, as well as those that had maintained peace; those that had a currency based on gold; and those having a paper currency based on promises to pay that had not been kept; free trade countries and those maintaining a protective tariff; republics like the United States or France; limited monarchies like England, and the autocratically ruled Russia.

POLITICS IS NOT THE CAUSE

Panics have occurred in the United States under Democratic and Republican administrations; under a low tariff and under a high protective tariff. Free trade would not be a preventive here any more than it has been in England. The frequency of elections is not the cause, as witness Russia, where there are practically no elections held. Failure of crops cannot be named as a cause, as the crop harvested the present year (1914) was the largest in our history. The failure of the State Banks before the war was caused primarily by the inability of the banks to redeem their circulating notes in gold and silver on demand as agreed. It was not caused by the redundancy of the notes as is so often alleged as the following figures disclose:

1857—

Bank notes in circulation		$214,778,000
Other money in circulation		242,300,000
Total		$457,078,000
Population	28,916,000	
Circulation per Capita		$15.81

If to the above we add the Bank Deposits which circulated by means of Bank checks, we have

Total notes and money in circulation	$457,078,000
Bank Deposits	230,251,000
Total	$687,329,000
Circulation per Capita	23.75

1912—

General stock of money in the U. S.		$3,284,000,000.00
Population	95,237,000	
Circulation per capita		34.45

If, to the above we add the Bank Deposits which circulated by means of Bank Checks, we have

General stock of money in the U. S.	$ 3,284,000,000.00
Bank Deposits	17,024,000,000.00
Total	$20,308,000,000.00

Circulation per capita $213.20, or nine times the circulation per capita of 1857.

Now let us compare the condition of the Banks of the two years as to their ability to redeem their liabilities in cash.

Condition of Banks in 1857—

Circulating notes outstanding	$214,778,000
Due Depositors	230,251,000
Demand Liabilities	$445,029,000
Cash Reserve	111,554,000

or 25.6 per cent.

Condition of Banks in 1912.

Due Depositors	$17,024,000,000
Cash Reserve	1,573,000,000

or 9.2 per cent.

These figures show in a startling manner some very pertinent facts. One is that the banks' percentage of cash reserve was three times as great in 1857 as it was in 1912. And yet the panic of 1857 was the worst that up to that time had ever swept over the country. Every bank in the United States suspended.

Another fact disclosed is that while the stock of money in the United States increased from \$15.81 to \$34.45 per capita, or 118 per cent, the liability of banks to their depositors increased from \$7.96 to \$178.75, or 2145 per cent. Or, in other words, while the stock of money in the United States a little more than doubled, the liabilities of the banks to depositors multiplied more than 20 times.

This explains why the banks demanded a Federal Reserve Act and got it. The banks are now in a position, in case of stress, to unload on the United States Treasury, through the Federal Reserve Banks and Federal Reserve Board, at their face value, a considerable portion of their assets in the shape of notes, bills of exchange, bonds, and other promises to pay, and receive Federal Reserve Notes, which are an obligation of the United States Government and payable in gold on demand at the U. S. Treasury at Washington, D. C., or in gold or lawful money—greenbacks, silver dollars, etc. (but not National Bank Notes), at any Federal Reserve Bank.

The Banks, before the war, were forced to close their doors because they could not keep their promise to redeem their deposits and bank bills in coin on demand.

The panic of 1873 found the public in a different frame of mind. The use of Greenbacks and National Bank Currency had accustomed them to the use of a paper currency based on the credit of the federal government. They therefore, did not demand the redemption of their bank notes in coin, although they could have done so. The demand was for the redemption of the deposits in currency and this was impossible as the issue of Greenbacks was limited by the Act of Congress, and National Bank Notes could only be issued upon the deposit of government bonds with the United States Treasurer. The Banks could not redeem their deposits even in paper currency. The same thing occurred in 1893, when 415 banks and more than 15,000 merchants failed with a total liability of over $500,000,000. Again, in 1907, the banks were run down by the public and resorted to various expedients and forced the public to use certified checks, cashiers' checks, and clearing house certificates in place of money.

After over one hundred years of bitter experience, it has at length dawned upon the minds of the American bankers that a bank system that carries demand liabilities of from four to ten times the amount of cash on hand is an impossible system.

And the Federal Reserve Act, instead of providing for an increase in the cash reserve, allows a decrease of 30 per cent. This decrease in the reserve requirements gives the National Banks the right to loan over $800,000,000 more credit.

In case of a run on the banks the loans thus made can be deposited with the United States Treasurer and Federal Reserve Notes issued to them to the amount of two and one-half times the amount of gold the bank has on hand. These Federal Reserve Notes are an obligation of the United States Government payable in gold on demand in Washington. There are now $346,000,000 of Legal Tender Notes outstanding, which are payable on demand in gold, and the government has a reserve of only $150,000,000 with which to redeem them if asked. Where the gold is to come from to redeem the Federal Reserve Notes, which will certainly be issued some time in the future, is a question no one can answer.

If the present financial system continues, its future history will be but a repetition of the past. Panics and industrial depressions will follow one another with all the misery they entail.

A new system must take its place in which labor will be the standard of value instead of gold. The new financial legislation must be formulated solely with the view of increasing the production of commodities and their distribution among the workers who engage in the necessary labor. The interests of the possessing class must be ignored and the interests of the workers only considered.

THE BANK OF VENICE

The Bank of Venice was founded in the year 1171 through the necessities of the Venetian Republic. The expenses of the Republic in its war with the Emperor of Greece were so great that the state was compelled to make a forced loan from the wealthy citizens, who were promised an annual interest at the rate of 4 per cent per annum. A Chamber of Commissions was created from the contributors to manage the loan, transfer the stock, and pay the interest. The loan was increased later by other loans upon the same terms. Each contributor was credited on the public ledger with the amount of his contribution, which he could transfer to another either in whole or in part whenever he desired. The convenience of transfer, the prompt payment of the interest, together with the security of the state, made this public debt attractive to those having surplus funds on hand and soon led to a rapid circulation of the loan. No cash payments were ever made on account of this loan. The repayment of the loan to the creditors of the state soon ceased to be considered either necessary or desirable. The funds received through these loans were used for public purposes and the specie found its way back into circulation through the various channels of public expenditure.

The convenience of transferring a credit on the books of the bank in payment of a debt or for the purchase of goods was so great that in the year 1423 it was decreed that all bills of exchange, whether domestic or foreign, payable in Venice, unless otherwise stipulated, should be paid in the bank, and that all payment, in gross or in wholesale transactions, should be effected in the bank. The practical effect of this was to make all money in the bank legal tender for all debts.

The merchants and traders of Venice deposited the gold and silver coins that came into their possession in the bank and received credit at their value as bullion. This was a great improvement over the old method of settling the vast commerce of this maritime city by means of payments in cash. The vessels arriving in Venice brought with them from all parts of the then known world an endless diversity of coins. Many of these were so worn that the inscription was undecipherable. Others had been clipped or sweated, and part of their original value thus abstracted. Cities, principalities, petty-nobles and patrician families exercised independent rights of coinage and the debasement of coinage both in weight and fineness was all but universal. Large numbers of counterfeits were in circulation. Attempts to settle debts or pay for purchases or merchandise frequently resulted in endless disputes and wrangles.

The facilities offered by the bank simplified the commercial transactions of the day and created a great additional demand for funds of the bank and brought large sums into the public offices. The merchant class speedily took advantage of the new method of payments; the demand for bank credit was greater than the supply; and during the whole existence of the bank, credits on its books were worth a large premium over coins. This extraordinary fact that a credit on books of the bank with no money in its vaults, which paid no interest upon its deposits during the last four hundred and fifty years of its existence, and which was not bound to pay its depositors in cash, either on demand or at any future time, should command a high premium over gold and silver, has been the cause of considerable speculation. This premium or *agio*, as it was called, rose to 30 per cent over coins and continued to fluctuate near this high point until the government by decree limited it to 20 per cent, at which point it remained until the extinction of the Republic by Napoleon and the French Army in 1797. The government's attempt to limit the premium on bank funds was rendered abortive by the introduction of the *sur agio* or extra premium based on the *agio* and the original sum together. This additional premium ranged from 20 to 30 per cent for a long period.

No adequate explanation for the *agio* seems to be offered by anyone. One reason advanced is the difference between the value of the ducat and the coins then current in Venice. The money of account of the bank was the ducat. The Venetian ducat was of gold and was one of the few coins then circulating that had not been debased. When it left the mint it was full weight and of standard fineness, and was held in high repute everywhere on account of its purity. But this does not explain the *agio*, for the bank never paid out any coins of any description, and therefore the expectation of receiving gold ducats from the bank on account of any claim against it would meet with disappointment. There were probably several causes operating to create and maintain the premium on bank deposits. One of them was the deplorable state of the coinage then circulating in Italy, and the evil was particularly aggravated in Venice, where the multiplicity of coins was probably unequaled anywhere in the world. The settlement of debts and the payments for merchandise could not fail to be, under such a system, anything but a tedious and vexatious process. It was necessary to scrutinize each coin separately as to its genuineness, weight and value. The time consumed and the disputes arising as to the values allowed for certain coins must have been a source of irritation to the principals interested, especially where the amount involved was a large one. Only the wealthiest merchants could afford to keep an expert in their employ, and the smaller merchants were compelled to assume the risk of loss through counterfeits and over-valued coins.

An added risk was that of robbery or defalcation, which is ever present where a large sum of cash is kept on hand. The facilities offered by the bank obviated these risks and annoyances. If a merchant had a financial obligation to meet he did not accumulate the funds in his strong box, but carried them to the bank and placed them to his credit. The coins were valued by the skilled employes of the bank, and when the day of settlement arrived the two principals went to the bank together and the transfer was made. These considerations naturally caused a steady demand for the use of money in bank. Another and probably the strongest reason for the *agio* was an active demand by the commercial classes, which is ever present in all trade centers, for accommodations with which to meet maturing obligations which for some reasons they had not been able to provide. Punctuality in meeting his financial engagements in order to maintain his credit was as necessary to the merchant of Venice as it is the merchants of today in America. There were undoubtedly a considerable number of money lenders in the city who kept their capital to their credit in the bank. A merchant having a bill of exchange to meet, and with insufficient funds to his credit in the bank, would naturally apply to one of those money lenders for an accommodation, and would be willing to pay a bonus to have transferred to his credit sufficient funds to enable him to pay his maturing obligations and thereby protect his commercial standing. As the bank did not discount notes or loan its credit in any way, this was his only alternative. By the edict of the council of Venice all bills of exchange were payable in the bank, and the creditor could refuse the coins then circulating in Venice. This method of settling accounts brought an ever-increasing amount of business to the city and largely increased the deposits of the bank.

Mr. Lewis (London, 1676) tells of the suggestion of a Venetian merchant intended to prevent the high premium on credit in the bank. The method suggested was to have the bank occasionally, instead of transferring the credit, tender the amount in gold or silver, and thus, by raising a doubt in the mind of the public as to what they would receive at the bank, prevent the premium on the bank money from going to an excessive figure. But this suggestion does not seem to have been acted upon; in fact, it would have probably been inoperative had it been tried, as the recipient of the coins could have deposited them to his credit and so in the end nothing would have been gained.

Great care was exercised by the bank to prevent errors or fraud. Every transfer was made in the presence of two bookkeepers who kept separate sets of books. The bank was closed one day each week to check the transactions. The bank was also closed for twenty days at a time four times a year and the books balanced. During these bank holidays no paper matured or could be protested until six days after the reopening of the bank.

The bank became such an indispensable adjunct to the commerce of the day that Venice became practically the clearing house for the merchants of Europe and maintained that position for centuries. Bills of exchange came to be used more and more and the concentration of payments in the Bank of Venice kept a continual stream of coin flowing into the bank to make the credits on the books with which these payments must finally be met.

The bank's deposits increased, or rather the public debt of Venice increased, until it was sufficiently large to liquidate the financial obligations of the traders as they matured from day to day. All money deposited in the bank was accounted an addition to the original loan, and, as such, taken into the public treasury as money loaned to the state. The treasury being thus replenished, the Republic was enabled to maintain its position among the nations of Europe without burdening commerce or its citizens with heavy taxes. There does not seem to have been any thought given or plans laid looking toward the ultimate extinction of the public debt represented by the total amount of deposits in the bank. There is every reason to believe that such a proposition would have met with universal opposition. The first step would necessarily be to refuse to receive any further deposits of coins. This would result in the deposits already in the bank commanding a still higher premium than had heretofore prevailed. The Republic would then have to levy taxes sufficient to meet the expenses of the state, and leave a surplus each year that could be applied to the gradual extinguishing of the deposits. The increase in taxation would certainly have been opposed by the general public. The denial to the merchants of Venice and Europe of the facilities which they enjoyed through the bank, of settling balances between them and meeting the bills of exchange or other maturing obligations, by the transfer of credit in bank, would have unsettled the entire commercial structure. The proposal to return to the discarded method of payment of debts in the heterogeneous coinage which in the past had proven itself so inadequate to the needs of commerce, would not have even been considered worthy of discussion. The histories of Venice, so far as can be ascertained, do not contain any evidence of objection or dissatisfaction either by public speech or published writings as to the bank or its methods.

So far as regards failing to make provision for the final payment of the public debt, Venice is no more subject to criticism than other nations of the world that have since come into existence. Walker, in his "Science of Wealth," page 377, says: "No large national debt has ever been paid, or in any way discharged, except by repudiation." "The debt of the old French monarchy was wiped out with the 'assignats.'" The debt incurred in the American Revolution vanished in 'worthless continental money.' The present debts of England, France, Austria, and other European countries are so large, the constantly increasing demand for more extensive and costly armaments so pressing, so absolutely overwhelming, that the hope of any payment of the principal cannot be reasonably indulged."

Experience finally demonstrated that the bank as constituted did not supply all the facilities needed by the merchants in the ever-increasing commerce of the city. The inability of the depositor to withdraw his money from the bank after once depositing it, caused considerable inconvenience to those who needed the coins to use in small retail transactions, and to those traveling to a foreign country and who needed a stock of coin for personal use. To meet these requirements the bank established a second department of the bank, in which could be deposited coin or bullion with the right of withdrawal at pleasure, or transferring the title if desirable. This department was utilized by those having money in hand for which they had no immediate use, and by foreign merchants arriving in Venice for the purpose of making purchases and who desired to await the course of business before deciding what disposition to make of it. The deposits in this department of the bank were subject to withdrawal on demand and thus bills of exchange or other maturing obligations could be met in coin if desired, whereas they were only payable by the transfer of credits on the books of the older institution. While this depository was completely successful in its own special field, it did not check the flow of money into the older branch, as the demand for bank money always exceeded the supply. A large sum of specie accumulated in this depository, and while the amount fluctuated considerably according to the exigencies of business, a large percentage remained unmoved and was used as an emergency fund by the government in times of pressing need. This policy led to at least two suspensions of specie payments by this branch of the bank, notably from 1717 to 1739, but the branch remained open and the deposits were transferred as in the older branch. During the period of suspension the two departments of the bank were practically merged into one, so far as their operations were concerned, the only difference being that, while the fund in each was a public debt, the value of the deposits in the older branch for commercial purposes did not vary, the deposits in the cash office fell at one time to a discount of 20 per cent. At its earliest opportunity the state resumed specie payments and the business of each department fell into its appropriate channel.

The Bank of Venice was closed by Napoleon when he entered the city with his army in 1797, but he failed to secure one penny of loot. McLeod, in his "Theory and Practice of Banking," page 290, says that it is one of the delusions of historians and economists that the Bank of Venice was established in 1171, but that the organization took place in 1587, when the merchants of the city were invited to deposit their money in an office managed by the Commissioners of the Public Debts. These deposits could be withdrawn, but for four hundred and sixteen years it had been *transferred from one account to another* of the merchants of Venice and Europe, and had by this means exchanged commodities and discharged debts to the satisfaction of all concerned, and in a way far more to the advantage of the public than could possibly have been secured by the use of coins.

McLeod forgot evidently that on page 286 of the same volume he had written the following: "It is often said that the temples of Greece, especially those of Delos and Delphi, acted as great banks of deposit. It is true that they received sums of money for safe custody, but we do not think there is any evidence to show that either they or the Greek money dealers settled claims by *transferring credits from one account to another, which is the essential feature of "Banking."* (The Italics are mine. R. H. H.) This is what the bank of Venice did precisely; transferred credits from one account to another during the entire six hundred and twenty-six years of its existence. The Bank of Venice was therefore an institution engaged in the business of "Banking," according to McLeod's own definition of the functions of a bank.

THE STORY OF THE GUERNSEY MARKET

Gladstone once said that the surest way to get into the insane asylum was to study the money question. He could not have made that statement had he been familiar with the simple manner in which the inhabitants of one of England's Channel Islands had solved the question for themselves and in a way so direct and logical that it is strange the political economists have paid so little attention to it.

At the close of the Napoleonic Wars the Island of Guernsey was in a deplorable state, both financially and physically. The sea walls were in such a bad state that large areas had been swept away and other tracts were in danger of inundation. The estimated cost to repair and strengthen the sea walls was $50,000, which the parishes adjoining the threatened districts were too poor to supply.

The annual revenues, after providing for the interest on the public debt and ordinary administrative expenses left a surplus of only $3,000 for unforeseen expenses and improvements.

The roads leading to St. Peter, the principal port, were too narrow for a horse and cart to pass abreast. They were only four and a half feet wide, unpaved and the rains tended to render them deeper and narrower.

There were no public conveyances for the use of visitors. There was not a four-wheeled carriage in the Island.

The conditions of the thoroughfares of St. Peter were no better. Narrow lanes were the rule and the main street that led from the country to the harbor was only seven feet wide and lined on both sides by lofty buildings.

The impossibility of carts passing each other in such a narrow passage resulted in congested traffic at each end and accidents were numerous and delays exasperating.

The population was decreasing—stagnation of business causing the laboring class to emigrate and those in comfortable circumstances were leaving in search of the conveniences and pleasures the Island failed to afford.

The circulating medium consisted of badly worn French and English coins. There was no bank in the Island.

The Government of the Island is autonomous. It has a Parliament, called the "States," which is elected from the parishes, but its decisions are subject to the Privy Council of Great Britain, to whom there is also the right of appeal.

The pressing need of a revenue led the States to request the Privy Council to permit an excise tax to be levied to one shilling per gallon on spirituous liquors. This was granted for a period of five years. The duty was renewed in 1819 for a further period of ten years and in 1825 for fifteen years, or until 1844. One thousand pounds per year of this duty was to be used to liquidate the public debt.

As was usual in provincial towns in the early part of the nineteenth century, a great part of the retail trade of St. Peter was carried on in a public market. This market was held in the vacant space around the church. There was no building provided and the traffickers were subject to all the losses and exposures due to heat, rain and cold.

A committee of the States on April 12, 1815, brought in a recommendation to issue £6,000 ($30,000) in one pound State notes, for the purpose of providing a suitable market for the use of the farmers and townsmen. The States rejected this recommendation. However, later in the same year the Finance Committee reported money was badly needed for roads. The States authorized the issue of £4,000 ($20,000) in notes, which were to be redeemed out of the liquor tax at various fixed dates during the following three years.

It will thus be seen that while the issue of notes was first urged on behalf of the market, and they thus become known as Market House Notes, the real security for their redemption was the duty on liquor.

These notes bore no interest, but circulated among the people and greatly stimulated trade and commerce. The last of them were due April 15, 1818, and the success attending their issue and circulation resulted in a new issue of £1,250 ($6,250), on June 18, 1818.

A meat market company which had purchased a site and some buildings for £5,000 ($25,000) had been given the privilege of charging a certain price per head for all animals killed, upon condition that it would sell the site to the States at any future time at the price originally paid. The States took advantage of the purchase clause on April 10, 1817, borrowing the £5,000 at 4½ per cent interest, a report of the committee to issue £1 notes with which to make the purchase being rejected by a majority of one vote.

The advocates of a larger and better market still persevered and were finally successful on

May 12, 1820, five years and one month after the first request was denied.

The States provided for an issue of £5,500 ($27,000) in States notes for the erecting of the building, the notes to be redeemed from the rents received for the stalls, to which the States were to add £300 ($1,500) per year from the duty on spirituous liquors, for a period of ten years.

The building was completed and opened Saturday, Oct. 12, 1822, with a general jubilation. The cost of the building was about $21,000.

It was computed at the inception that the Market stalls would bring a net annual rental of £150, to which the States would add £300, making a total of £450, or $2,250, and the notes could all be redeemed and cancelled in ten years, but the result far exceeded their anticipation.

The "Treasurer's account of the Market" for the year 1827, as published, shows a net revenue from the stalls for that year as £608, or over four times the anticipated revenues.

Had the Guernseymen stopped here, the success achieved would have been sufficiently illuminating to guide other communities in the way of financing public enterprises without recourse to interest bearing bonds. But they did not stop. In 1820 they issued £4,000 ($20,000) in one pound notes and paid off the floating debt. A year later an issue of £580 was used to purchase a house occupying a site needed for the new market. Later in the same year £4,500 ($22,500) was issued to redeem an outstanding interest bearing public debt.

In 1824 £5,000 ($25,000) in one pound notes were issued to repay the $4\frac{1}{2}$ per cent loan made in 1817 with which to purchase the land upon which the Market house was built.

In 1826 about £10,000 ($50,000) in notes were issued, some of it for the neighboring Isle of Sark, the balance for Elizabeth College, schools and other purposes.

In 1827 £11,000 in one pound notes were authorized to be used in widening and improving Rue de la Fountaine, a street adjoining the market. This involved the destruction of old buildings and their replacement by new ones and the rents were pledged to redeem the notes.

This was followed during 1828 and 1829 with further issues, among which was one appropriation of £8,500 for the benefit of Elizabeth College and £11,000 for street improvements.

A threatened epidemic of cholera in 1834 caused an appropriation of £1,000, to be voted to defray the costs of preventive measures. This was issued in one pound notes.

Here we have the history covering a period of twenty years, during which time approximately £80,000 ($400,000) of non-interest bearing circulating notes were issued and which had no metallic basis, but the redemption of which was secured by rents from stalls, buildings and the excise tax. The worn and mutilated notes were replaced by new ones. They circulated without question and were the source of great benefit and convenience to all classes.

While the total issued was £80,000, there never was at any time more than £55,000 in circulation. While new issues were provided for new purposes, old issues were being redeemed by the application of surplus revenues that had been pledged to that purpose.

The public benefits derived by the Island of Guernsey through this method of financing can be appreciated by a knowledge of the fact that during the fifteen years between 1815 and 1830, not only had there been expended $100,000.00 on old and new breakwaters, piers, etc., but there had been two streets in the town widened, paved and sewered, sixty-eight miles of good country roads built, in addition to the Market house, which had cost, for land and building, £12,748, or $60,000.

The following is an interesting extract from the address of Daniel de Lisle Brock of Dec. 23, 1829:

"With the gratitude for the means placed at their disposal the States feel an honest pride in the recital of the manner in which those means have been applied. First, considering the danger arising from the bad state of the sea embankments, and the hardship of subjecting particular parishes to a charge for the general safety to which they were unequal, the States took on themselves the present repairs, and the future maintenance of those embankments. This essential object connected with the paved slips or avenues to the beach, has been attended with an expense of $75,000, without including five or six thousand for a breakwater to defend the line of houses at Glatney, on the north side of the town.

"Independently of the sums contributed by government towards the military roads, about $150,000 have been expended by the Island on the roads, so that in lieu of those before described, there are now fifty-one miles of roads of the first class, as good as those of any country, with excellent footways on all of them and seventeen miles of the second class.

"Not only the main harbor, piers, quays, buoys and sea marks have been attended to, and at a great expense, but, in order to facilitate the exportations of the granite from the north of the Island, the harbor of St. Sampson has been rendered secure and convenient by a new breakwater and quay.

"The situation and state of the town were thought to preclude all hopes of much amelioration, but the widening of High street, and other streets, the reducing of the precipitous ascent to the Government and Court Houses, the clearing away of the unsightly buildings that obstructed the view and approach to those public edifices, the new sewers, pavements and, above all, the Public Markets and new Fountain street, attest the solicitude of the States toward the town, and surprise those who return to it after a few years' absence. And to those the enlarging and improving of the Court House and Record Office, where the public have daily access, and where are kept the contracts and registry of all the real property of the Island. Add, also, the new college, which, with the laying out of its grounds, the roads round its precincts, contributes to the embellishment of the town, induces families from other places to settle in the Island, on account of their children, and affords to the inhabitants the ready means of a good education.

"The advantage from all these improvements has not been confined to their utility, or to the increased activity given to industry, and the circulation of money by the public expenditure; they have excited in all classes a similar spirit of improvement, which displays itself in the embellishment of the premises already built upon, and, above all, in the number of the handsome dwellings since erected. In the town parish alone, 401 houses have been built since the year 1819 at an expense of upwards of $1,000,000, and few towns do now present a more animated scenery around them, or one where ornament and comfort are more generally united; the same comfort and improvements are witnessed in every direction, and at the greatest distance from town. And thus it is that the public works have not only given life and activity to every species of industry by the immediate effects of their utility, as for example to the building of a number of mills in the Island, before supplied with most of its flour from abroad, and now enabled to manufacture it for exportation, but, and still more by the consequent impulse communicated on all sides, prompting the wealthy to lay out for private mansions greater sums than were expended for public works and creating a permanent source of employment, by the future expenses which the repairs and occupations of those mansions will require. The extent of benefits conferred is sufficiently attested by the concurrent testimony of inhabitants and strangers."

OPPOSITION BY PRIVATE BANKERS

At the time the notes were first issued the currency of the Island consisted of a mixed, badly worn coinage—French and English. There was no bank on the island and none was established until the notes had been circulating for over ten years. Consequently there had been no opposition from privately owned banking corporations.

In 1826 three members of the States, two of them members of the finance committee, objected to the improvements contemplated in the widening of a street unless the consent of the King was first secured. Their resolution to this effect was overwhelmingly defeated.

The next year the Guernsey Banking Company was established with one of the three objectors as vice president. On the 10th of April, 1829, the above-mentioned objectors with three more complained directly to the British Government. The complaint was referred back to the States for reply. The answer drafted by Daniel de Lisle Brock is well worth reading, even though penned nearly a century ago, and was evidently so convincing that the opposition ceased for a while.

But in 1830 the Commercial Bank was started and claimed equal right with the Old Bank and even with the States to issue notes. Daniel de Lisle Brock summoned the States to consider the matter, evidently with the intention of obtaining an injunction against the issue of notes by the Bank. He defended the rights of the States as against private individuals, as the following quotation from his address will show:

"If there is one incontestible principle it is that all matters relating to the current coin of the country have their source in the supreme prerogative, and that no one has the right to arrogate to himself the power of circulating a private coinage on which he imprints for his own profit an arbitrary value. If this is true for metal coin still more so is it for paper money, which in itself has no value whatever."

The second bank should have kept, and still ought to keep, to the legitimate business of banking transactions. It appeared to have for its principal object the issue of paper money. The Bank makes no secret of its pretensions: there are, it says, three parties for issuing paper money; this issue cannot rise above $450,000 since the circulation in the country does not allow for more, the States ought to have only one-third of the issue, the two banks the remaining two-thirds. This is a fine way of making the division, and very convenient for the Commercial Bank. It would even have some show of justice if the parties had equal rights, and if the public had no interest in the matter; but the rights are not equal—the bank has none to put forward, that of the States is incontestible: they exercise it for the welfare and advantage of the whole Island which they represent. Consequently the public has the greatest interest in preserving for the States the power of issuing paper money without interruption. Let the bank reply to the questions already put; let it say what inducement it can offer the public to drive out of circulation the States Notes, the profits on which benefits all, especially the productive classes, and substitute for it Bank notes, the profit on which benefits only the individuals of the unproductive classes? Now is the time to ask the proprietors themselves and ascertain whether in starting a bank they ever had the intention of letting it work to the detriment of their country.

"The Public Treasury is the heart of the State—did they ever wish, do they today wish to strike it with a dagger? The Bank should feel that it is not enough to intend not to injure, but that it is necessary to abandon any such step which, even without its wish, would be prejudicial to the interests of the country. It should recognize that as regards the circulation of paper money, the States have for a long time and for the common good, been in possession of the ground which it seems to wish to invade which, however, it cannot occupy without injustice.''

The debate was lengthy and animated and was around a proposition as published in the Comet of 22nd of September, 1836:

''That in execution of the numerous ameliorations that have taken place during the last 20 or 30 years, the States having put into circulation about $275,000 in one pound notes, as a financial measure in favor of the public generally, if they are of opinion to defend the rights of the States against those who wish, for the advantage of a few individuals only, to hinder the circulation of the States Notes, for the purpose of substituting those of private individuals in lieu thereof; and whether it would not be proper to make an appeal to all the inhabitants, who are the friends of their country, to invite them to afford their assistance in supporting with all their might the notes belonging to the States. . . . . .
If they are of opinion to name a Committee that shall be authorized in a special manner to defend the rights and interests of the States, and of the public—to do their utmost by every conciliatory measure in their power, and, above

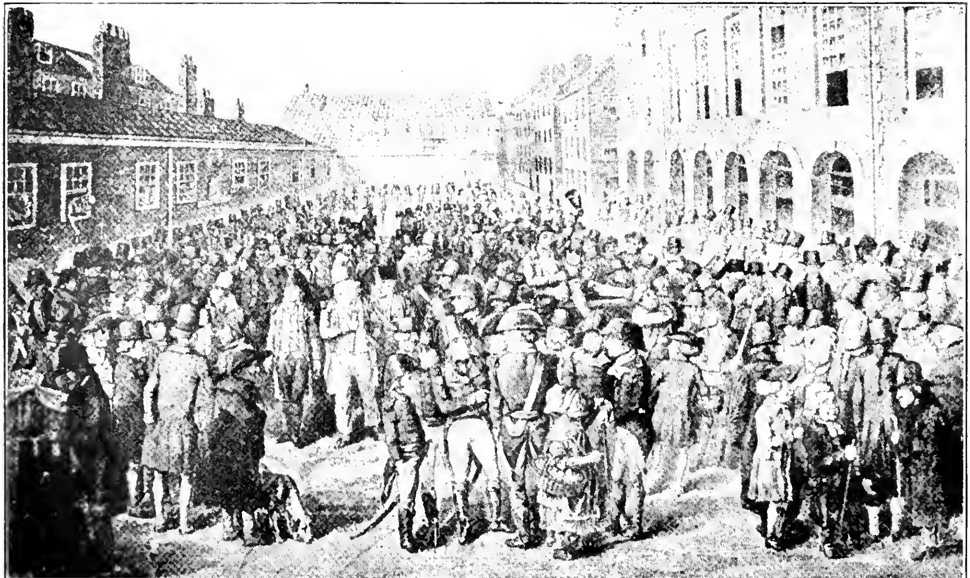
all, to agree to an arrangement that shall screen the States from all interruption in the circulation of their Notes, which have been issued for the benefit and advantage of the public, with the design of gradually diminishing the number annually. And in the event of such an arrangement not taking place, to adopt every measure and make every necessary sacrifice for supporting the circulation of the States Notes. And, finally, should the case require it, to propose to the States the adoption of those ulterior measures deemed requisite by the Committee, for the general interests of the Island."

This was carried by a decisive majority.

The victory of the States seemed complete. One would believe that the matter was settled for all time and that the private bank notes would be withdrawn from circulation, leaving the issuance of the circulating medium in the hands of the people—but such proved not to be the case.

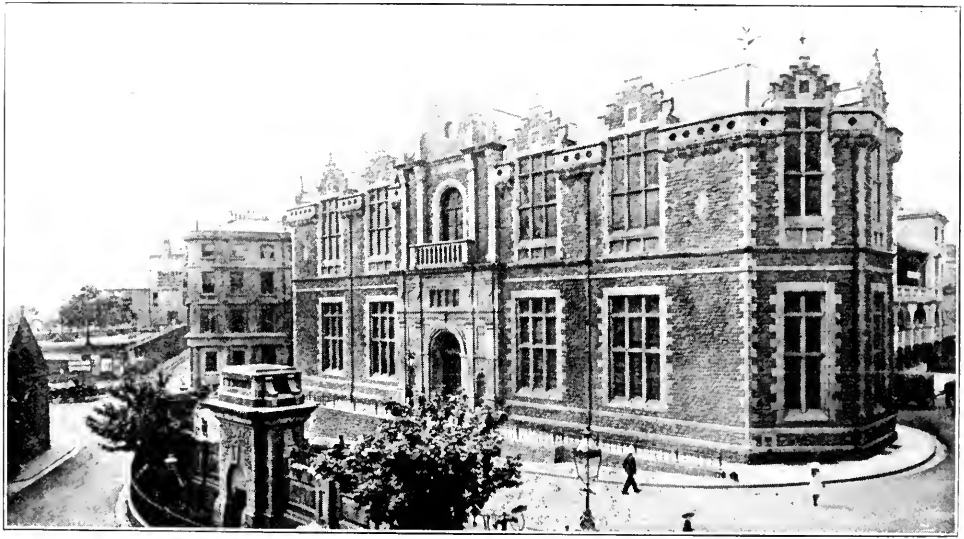
What happened during the interval between the meeting of Sept. 21, 1836 and Oct. 9, 1836, no one can tell. The records are absolutely blank on the subject. All that is known is that on the latter date Daniel de Lisle Brock signed an agreement with the banks to the following effect: $75,000 of the States' one pound notes would be withdrawn from circulation and converted into a bank loan drawing

PORT OF ST. PETER, SHOWING PAVED SLIP AND SEA WALL.



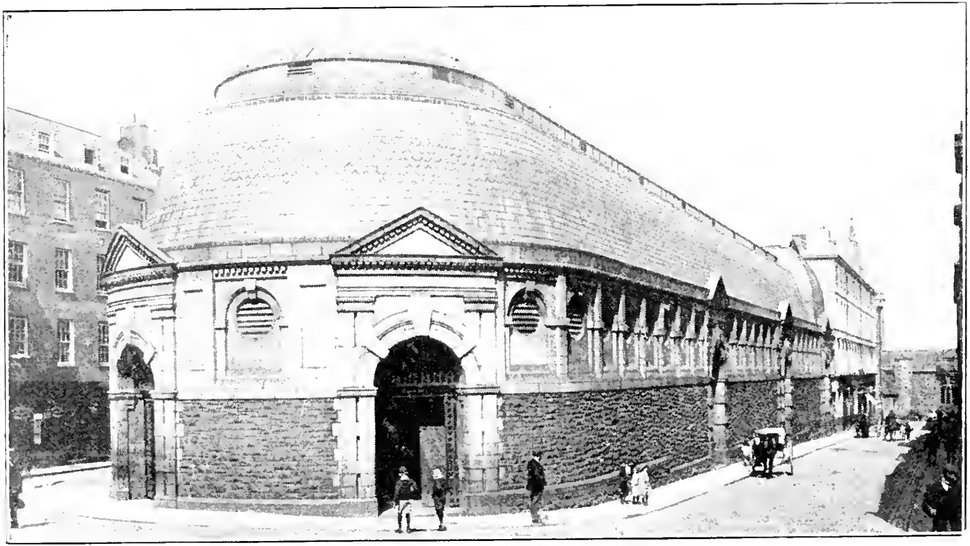
GUERNSEY MARKET PLACE, 1811. FROM AN OLD COPPER-PLATE.

GUERNSEY MARKET PLACE, 1911, SHOWING PORTION OF MARKET HOUSE BUILT IN 1822.
(LOW BUILDING AT LEFT.)



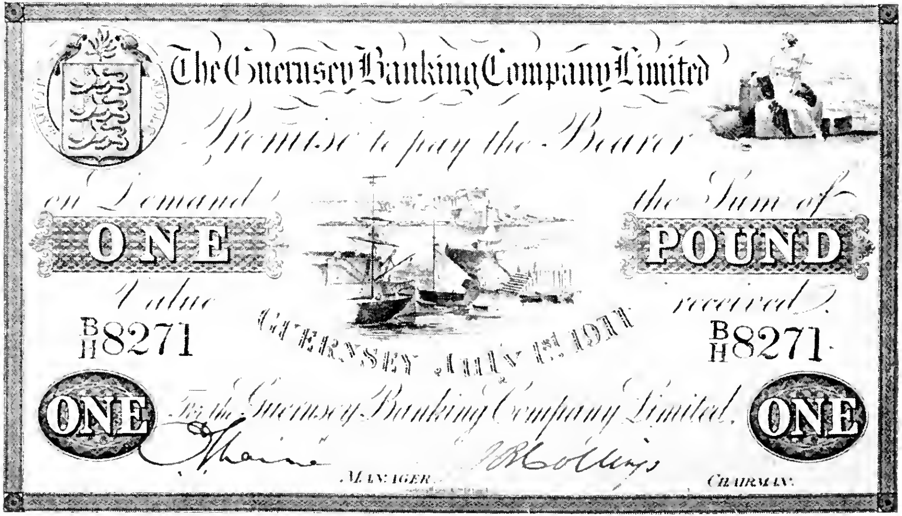
EXTERIOR OF NEW MARKET HOUSE, GUERNSEY.

INTERIOR OF VEGETABLE MARKET, GUERNSEY.



EXTERIOR OF FISH MARKET, GUERNSEY.

REPRODUCTION OF GUERNSEY MARKET HOUSE NOTE. $200,000 OF THESE NOTES ARE STILL IN CIRCULATION.



REPRODUCTION OF ONE-POUND NOTE ISSUED BY PRIVATE BANKING CORPORATION.

3 per cent interest. The States pledged themselves not to have at any time more than $200,000 in circulation, and cease collecting the notes of the Banks in cash (Gold and Silver). As a result of this agreement the States withdrew from circulation $75,000 and burdened the people with an annual tax of $2,250, to pay the interest on that amount, and gave over to the private banks the monopoly of the money of the Island in excess of $200,000 to be issued for their personal profit and the banks suspended specie payment so far as the redemption of their notes held by the Public Treasury was concerned.*

There are still circulating in the Island One Pound States Notes to the amount of $200,000. These notes have been in circulation over ninety years at no cost for the interest. Had they been converted into bank loan as was the $75,000 in notes the inhabitants would have

*Under date of January 11th, 1915, Mr. J. LePelley, Assistant Supervisor, writes to Theo. H. Lunde, of Chicago, as follows:

"To prevent a panic, the States had passed an 'Ordinance' making all notes, bank and State, legal tender, in effect guaranteeing the notes of the banks and limiting their issues to those notes issued previous to August 4th, 1914.

"Thanks to the measures taken, the banks here opened on August 4th, without the days of closure that they had to institute in the mother country.

"I do not anticipate any further interference with the agreement between the banks and the States; the feeling appears to be that after nearly 80 years they have acquired vested interests."

paid the bankers over $550,000 in interest and still owe the original amount of over $200,000, and the interest will run on and on forever if the people never wake up to the inbecility of issuing an interest bearing debt to supply themselves with a circulating medium.

As it is, they have paid $2,250 a year for interest since 1836. This has amounted up to the present time to $180,000 on a debt of $75,000 and which debt they still owe the bank.

It would be interesting to know the amount of notes the Banks have in circulation at the present time and what profit they have made on them.

There is now, and has been for fifty years, $346,000,000 legal tender notes outstanding in the United States. Had these notes been converted into interest bearing bonds, as the bankers desired, the people of the United States would have paid as interest about $700,000,000.00 without receiving a particle of benefit and would still be owing the bondholders the original $346,000,000.00.

The argument advanced by some political economists that the issue of the Guernsey States' notes merely drove an equal amount of gold out of circulation is a fallacious one. The deplorable condition of the Island reported in public documents is evidence that there was an insufficient amount of money in circulation to bring together the unemployed labor and the raw material which existed in abundance.

The issuance of the new money was followed immediately by an activity in all lines of industry—idle men were employed and building materials were purchased—houses were built—roads widened, paved and sewered. Old houses were demolished and better ones built in their stead.

The notes were destroyed quarterly as they were received in payment of rent for space in the building. Some of the notes were received from the "States" as an appropriation out of the tax levy by the local governing authorities, as the following extract from the Treasurer's Report, published in "Jacob's Annals of Guernsey," Part I, 1830, shows:

TREASURER'S ACCOUNT OF THE MARKET.

Receipts.

1827—

Balance from last quarter.

	£	s.	d.
Net produce of the first quarter.....	99.	14.	0.
Net produce of the second quarter...	110.	12.	6.
Net produce of the third quarter....	282.	10.	5.
Net produce of the fourth quarter...	115.	5.	11.
Annual contribution of the States...	400.	0.	0.
Total	1,008.	5.	11.

Expenditures

1827—

State Notes destroyed.

	£	s.	d.
May 30	500.	0.	0.
August 2	110.	0.	0.
November 1	283.	0.	0.
1828—			
February 15	115.	0.	0.
Balance to new account	...	5.	11.
Total	1,008.	5.	11.

In view of these facts the history and experience of the Guernsey Islanders should be read by every voter in America.

The commerce of this country is no longer carried on by means of gold and silver coins. It is not even carried on by means of currency. The cash transactions only amount to five per cent of the whole. The balance, 95 per cent, is paid in bank checks. These latter total more than two hundred billion dollars each year. All this immense sum is based on bank credits.

It is very evident that whoever can control the bank credits can control all business and thereby are enabled to levy tribute on every transaction.

They can assure success to some by extending credit and drive others out of business by refusing credit. Such a power in the hands of a class would result in an Economic Monarchy from which the public could not hope to escape.

Congress must enact such legislation as will expand the functions of the Treasury and the Postal Banks and through them issue all money and credit for all public purposes.

FROM AN UNPUBLISHED MANUSCRIPT
BY HENRY D. LLOYD

"Professor Jevons says there is no mystery about the operation of the paper money issued to build the Guernsey market house. It simply drove an equal amount of gold out of circulation and was therefore a forced loan on which no interest had to be paid. No evidence is given to support this, which is probably asserted because the bullion theory presupposes such effects in such cases. If the market house had been built without the issue of any money by the use of a system of book accounts, or if there had been a sort of communism in the Island, would the construction of the market house have been accompanied by the withdrawal of four thousand pounds from circulation? If the gold in circulation was fully employed, if the men who built the market were idle and there was no commercial demand for the stone and other stuff used, how could the bringing together of all these things to produce a new utility and new source of wealth production have the effect of driving four thousand pounds out of circulation? Would not the new activity and prosperity on the contrary have such an effect on the general trade and industry as to greatly stimulate the circulation of the gold besides keeping in circulation the new money? Jevons' statement seems to proceed on the theory that no matter what the amount of the gold circulation may be it is enough for all the currency purposes. No account is taken of the fact that hoarding and traveling and other subtractions, as, for instance, a determination on the part of capitalists not to use their money in industrial undertakings until some financial policy has been settled to their liking or their interest—as the capitalists of the United States did during the Bryan campaign—may reduce the stock of gold in circulation below the needs of the people. Then prices would fall and money flow in and the equilibrium be restored? Yes, if everything in this world were fluid to intelligence, and the needs of the people and all civilization were but one market, with its frequenters able to know always the movements in every part, of prices and goods, supply and demand.

This currency theory is like that of the mobility of labor, which proves that when there is a slackening in the demand for labor in one place, the laborer has only to go to another. Still, laborers willing to work starve because they can not find this other work or can not get to it. Of course on the theory that the supply of gold, whatever it is, will always do the business of the world as this business ought to be done, once it is accepted, puts out of the forum any arguments that more money might be needed. This theory leaves the enquirer perplexed as to why the people that hold it should be so eager in their quest for gold in Mashonaland and the Transvaal. The gold they already have must be enough by the theory to do their business. Prices and the movements of industry have adjusted themselves to this specie basis. It is not hard to detect here the same metaphysical and theological preconception which we find all through the writings of most of the economists. No doubt it is true that prices and all commercial affairs will adjust themselves to the amount of specie, and that if it is the only money it will distribute itself, as the bullionists say, throughout the world in proportion to the demand for it. The process will require a great deal longer time in the slow moving world, than in their very rapid minds, but it will get itself done. But that this is a beneficent process, that it is for the best, that the results vindicate the "laws of trade" as like the other forces that are making this the best of all possible worlds—these, which are the underlying implications, are absolutely unverified and unverifiable. When this reasoning is examined in the light of science and culture it becomes plain that here is the same reactionary argument which has been used all through history in one shape or another by the priests, kings, nobles, the invested classes, the "Chivalry" who were in the saddle and could ride down their defenseless brethren, by the stupid, to oppose change. Those who were conservative from selfishness, and those who were so from dullness, have always met reform with this argument. In the ordained nature of things—that nature which the bullionists tell us distributes the stock of specie as it should be distributed—matters would go right and as a matter of fact were going as nearly right as could be expected, considering that the individual regeneration of men was so incomplete. Such is the talk with which the creative genius of the world has been discouraged ever since time began. One other counter attack can be made on this position of Jevons. If this was a forced loan, and if gold was driven out of circulation, then, judging by results, forced loans and driving gold out of circulation are good things to effect. Let us have more of them and less of this clerical economy.

If at the price of forced loans and banished gold we can put the unemployed at work, and can incorporate iron and sand and timber and stone into institutions of lasting power to shelter and aid and enrich, if by paper money and paper laws we can put an end in this way to poverty and idleness and emancipate the people from the burdens of perpetual debt and interest, and the eternal meddling in their legislation, lives and industry of the "money power" —that is of the money lenders, and bond gatherers—by all means let us go on with more of this kind of finance. The people of Guernsey could have issued bonds to build their market house. They could have bound themselves for thirty years to pay interest in gold and at the end have had to renew the loan for thirty years more. They could have made the bonds for $30,000, while they received only $25,000. That would have been the "issue price." When the market house was sixty or seventy years old, and about ready to be pulled down, they would have still owed as much as ever, though in the meantime they had paid back $90,000 in interest—three times as much as they had borrowed. Meanwhile every attempt to improve the currency or to change the regulations of the market or to make any alterations in their ways, that could by any ingenuity or timidity be construed as involving danger to the bondholder, or any threat of revolution or financial dishonor would have been the signal for the descent on them of a torrent of abuse from the press and pulpit and professors of the world; their legislatures would have been haunted by armies of lobbyists trying to get new issues of bonds on one pretext or another; their elections would have been taken in charge by the "honest money" men, and the principal activity of their common councils and executive officers would become the contrivance of new forms of profit-producing government-made privileges for these guardians of their morals and economic welfare. As it is the Guernsey market house stands today free from the burden of ever having paid one day's interest, and unstained by the intrigues of lobbyists or privilege hunters, a monument to the "beneficence" of a creative intelligence among the people which can set them to co-operating with each other in an exchange which is of, by and for the people, and embodies itself in work which lasts to bless future generations, an asset instead of a debt.

If the Guernsey operation was a "forced loan" on which no interest was paid, as Jevons says, it hardly seems to require argument that the forced loan was a very profitable thing. All taxation is a forced loan, but when it is taken by the people from themselves to be spent by themselves for their own benefit, and so wisely that it does yield the benefits planned for, the sting is all taken out of the "begging-the-question" phrase "forced loan." It was a good bargain for the people to use their own money without interest for a few years if thereby they saved themselves the payment of interest to London for an indefinite number of years. The number of instances in which people have got under a bonded debt and got out again, in which they have been able to pay up and get a release and look upon themselves without the appendage of a tail of bonds, is so small that there is very little hope that a people who once begin to give bonds will ever be free again.

If it is true that when the market house money was issued, it drove an equal amount of gold out of circulation, it must also be true that when this paper was destroyed, the gold came back. All, therefore, that the people had to give for a market house which stands forever, was a few years' absence of 4,000 Pounds Sterling of gold. The gold was not missed; as it went out, the market house went up; now the people have both their market house and the gold, according to Jevons' own theory. If gold can do so much good by leaving a place, the oftener it goes the better.

If the Guernsey market house had been built by the usual methods of loans from bankers and contracts with profit-hunting Captains of Industry, the bankers would have had to be paid their price for effecting the application to this work of the loanable capital. But by the method the people adopted, they saved this charge, and it is always a very heavy one. In their turn the contractors would have had to be paid their commissions or profits. These are very heavy. But the people, by making themselves their own contractors, saved this. If it was a forced loan, it was not so large a loan as the other process would have necessitated, and it was no more forced than that. If both methods, that by taxation, syndicating of bankers and contractors, and that by the issue of money for services and popular self-direction are both forced loans, it is manifest that the one kind of forced loan is infinitely superior to the other. One is a forced loan which distributes wealth, the other concentrates it; one increases popular powers of self-help, the other diminishes it; one is quickly paid and settled, the other is almost interminable and, experience shows, often grows the more burdensome the more has been paid on it. A forced loan collected by the people from the people and spent among the people is a co-operation; one that is made with the intermediation of bankers and other financial functionaries is a servitude putting the people under tribute to absentee rulers.

The people may rest assured of one thing: they will never have a currency which will be for the people until it is of the people. Not until they have mastered the work which currency must do and the principles on which it should be provided will there be a good money, good morally and economically. As long as the supply of currency is left to "God" it will be like the other work of inferior nature, the sport of accident and mistake, and the product of the grosser laws of matter and force. Not until it is taken in hand by the highest will that has to do with social affairs—the will of conscious and conscientious men—will it rise in its development above the slow and torturing evolution by which the lower forms of life have been evolved. Its perfect social development will not come until it has been brought under the jurisdiction of the people, when there comes to be such a body. As long as the forms and uses of money are fixed by individuals or classes, so long will these have a class and sinister purpose and effect.

Money represents service. There is no such thing as "cold cash." Every dollar is a warm, throbbing, living product of somebody's toil. It is because the real significance of money is forgotten, and we come to regard it as so much gold metal, to be used irresponsibly by anybody who happens to have possession of it, that money becomes a tap-root of every kind of evil.

Money,therefore, is a sacrament, representing the real communion of man with man. He who uses it any other way "drinks to himself damnation."

FRENCH ASSIGNATS

One of the most prominent examples of the use of paper credit was the assignats issued during the French Revolution. These have often been referred to by those who uphold the superiority of a metal coinage to show the utter fallacy of anything serving as money but gold and silver. The gradual depreciation of the assignats and their final disappearance are quoted as proof positive of their utter worthlessness from the very beginning.

The assignats were brought into existence while France was in the throes of the revolution. The nation under the monarchy had become bankrupt. Steeped in debt, and with an insufficient revenue to pay current expenses, the finances of the nation were in an alarming condition. Very little money was in circulation. Trade was stagnant and labor was unemployed. The credit of the nation was so low that no more loans could be made. The States General was convened and declared itself to be the National Assembly and proceeded to legislate in behalf of the masses. It consisted of 270 of the nobility, 291 of the clergy and 584 of the third estate, or representatives of the people. The nobility and clergy united to demand that they should legislate as a separate and superior body, with the intention to curb and veto the third estate. The latter openly and firmly resisted. They insisted that the States General should sit, not as three bodies, but as one. The deadlock lasted nearly two months, but finally the clergy, more politic than the nobles, gave way and joined the third estate. The nobility, humiliated and impotent, were compelled to capitulate.

In the meanwhile, France, and especially Paris, was becoming exasperated at the delay. Work was scarce, and food even scarcer. A mob of hungry and desperate citizens attacked and captured the Bastile and murdered its Governor and also the Mayor of Paris. Another mob made its way to Versailles and forced Louis XVI, Marie Antoinette, and the National Assembly to take up their abode in Paris. Famine and destitution was widespread. Countless numbers were in want for the food and the common necessaries needed to support life.

The revolution was at its height, but the Revolutionary party had no money, not enough to pay its expenses from day to day. It had no credit and every source of revenue was exhausted.

The Catholic church owned more than one-third of the entire real property of France. It consisted of princely estates in the country, sumptuous palaces and buildings in the towns, and had a value of about four thousand million francs and yielded an annual income of about two hundred millions. This represented the accumulation of thirteen hundred years. On the 2d day of December, 1789, it was declared that "all the lands of the clergy belonged to the state."

Two weeks later a bill was passed authorizing the issue of bills of credit called "assignats," or mortgages based upon the lands confiscated from the clergy.

The first issue consisted of 400,000,000 francs and an equal amount in value of the lands was pledged for their redemption.

The church and clergy denounced these acts as robbery.

In June, 1790, another issue of 400,000,000 francs was authorized, based as before on the confiscated lands of the church. The church and clergy seeing their lands being swallowed up in the maelstrom of the revolution began a campaign of disputes, threats, and finally organized opposition. Joining with the nobility, whose lands and estates were valued at nearly as much as those held by the church, and which were also confiscated, they made war on the revolution. Under the cry of "God and the King" they rallied the ignorant and superstitious peasantry. Religious fanaticism, coupled with their devotion to their feudal masters, caused the misguided yeomanry to lay down their lives by the tens of thousands. The horrors of the civil war in La Vendee are unequaled in the annals of human history.

A coalition was formed between the Catholic clergy and the emigrant nobility to defeat, if possible, the revolution and restore the confiscated lands to the church and the aristocracy.

The first anniversary of the fall of the Bastile was the occasion when the king accepted the new constitution and took the oath to support and defend it. The constitution gave the National Assembly the right to confiscate the lands of the clergy. It was a declaration to the world that the rights of man were supreme in France and that kingly, aristocratic and ecclesiastic power had been overthrown. A majority of the clergy, of whom there were about 175,000 in France at the time, refused to take the oath to support the constitution. Those who refused were treated as enemies of the revolution, denied their priestly functions, and deprived of support. They organized and made every altar, vestry and confessional a rallying point of revolt. Aristocrats at home and abroad assisted in the work and the kings of Europe, scenting danger to their thrones from the spread of republican ideas, began to combine with a view to interference. Speculators in food joined with the nobility and clergy. Famine was widespread and food was difficult to procure even by those who had money. Against these three evils—anarchy, famine and counter-revolution—the government of France had to fight its way. The assignat was its savior, just as the continental currency had saved the American revolution fifteen years before.

The coalesced kings of Europe began their preparations for the invasion of France with the intention of partitioning it among themselves just as Poland had been.

To resist foreign invasion, an army was needed. The republic raised the army and it was armed, equipped and fed by means of the assignats. They were its sole financial reliance.

In the midst of the utter confusion that reigned, the king and his family attempted to escape from France and take refuge with the army of the king of Prussia, but was captured and brought back a prisoner.

War was inevitable. To prepare for the impending struggle, which was certain to be a titanic one, an issue of 800,000,000 of francs in assignats was authorized.

Mirabeau, who previously had used his immense influence against them, declared that this was not a matter of choice, but a measure demanded by necessity.

The assembly, in legalizing the issue, declared that all debts of the government should be paid in them and that as fast as they were paid back to the government for taxes or in payment for land, they should be destroyed, and that no more would be issued than there remained of the public domain as security for their redemption, and that the amount in circulation should at no time exceed twelve hundred million of francs.

The marshaling of the armies of Europe on the frontiers of France intent on invasion, and the known hostility of the king, the nobility and the non-juring clergy, drove the people to a frenzy, and, on the 10th of August, 1792, they deposed and imprisoned the king.

The march of invasion began and threw France into a frenzy of patriotic and revolutionary zeal. The south and the west of France was ravaged by civil war between the revolutionary forces on the one hand and the pious peasants who still retained their loyalty to the feudal lords, led by priests and nobles, on the other.

France was a huge military camp. Peaceful pursuits were almost wholly abandoned and the citizens almost *en masse* threw themselves upon the foreign invaders and drove them from the soil of France. Belgium was overrun and declared a republic. The estates of the nobility were confiscated and were added to the estates taken from the Catholic church and thus made to strengthen the credit of the republic.

The Legislative Assembly that succeeded the National Assembly took its seat October 1, 1791, and from the beginning was torn by factions. It consisted almost entirely of middle class representatives. The extreme right was composed of a few who were only mildly revolutionary and who, while professing to be satisfied with the changes—such as the abolition of serfdom, wrought by the Revolution, desired a king on the throne with limited powers. The center, or Girondists, were extreme republicans. Eloquent, cultured, and many of them very rich, they desired, as Carlyle expresses it, a republic of the virtues in which they would rule, but were doomed to the harsh fate of seeing a republic of the strengths, virtuous or otherwise, in which others ruled. They represented the elements in society of that time that can fairly be compared with the elements which made up the Progressive Party in America. The left, or Mountain Party, while few in numbers, were strong in their hatred for the old regime and were impatient over the long debates and hair splitting theories of the other members of the assembly.

They were essentially men of action and were the idols of the working class, who had fought and suffered so much for the Revolution. To them oratory, with high sounding phrases and fine spun theories, was no substitute for food. The masses of the people were cold, hungry, and ragged, and the Revolution meant nothing if these conditions were to continue, no matter what political form it took.

Bitterness, hatred and the desire for revenge resulted from the clash of these factions. The first faction to disappear was the extreme right, leaving the field to the Girondists and the Mountain.

The king was accused, tried and beheaded. The two contending factions faced each other for the battle.

The Girondists were well meaning, but weak in that they were unable to understand the forces that brought on the Revolution. The Mountain was strong in its uncompromising singleness of purpose. To them hunger, cold and wretchedness were concrete realities and not mere abstract theories. The convention was overwhelmed again and again by the Parisian mob crying for bread.

The Mountain gained in strength while the Girondists lost, and at length the convention created the Revolutionary Tribunal and the Committee of Public Safety. This sounded the doom of the Girondists. Arrested, tried and guillotined, their numbers dwindled. Many of them sought safety in flight, but were hunted like wild beasts. Some succeeded in escaping to other countries, but the unfortunate ones were caught and beheaded.

The Reign of Terror was in full swing with Robespierre as its leader. The Mountain Party was divided. Rabid members denounced the moderates, and accusations of treason were launched upon the flimsiest pretext. To be accused meant certain death, as the trials were travesties on justice. One by one the leaders of the Revolution were exterminated.

During these months of terror the Convention sat paralyzed with fear. At length, with a courage born of desperation, they declared

Robespierre an outlaw to be guillotined without trial. He was seized, but rescued by the Paris mob, retaken and beheaded on July 26, 1794.

The amount of assignats from the time that the first issue was authorized in December, 1789, was increased from time to time until the amount in circulation January 1, 1794, was 5,536,000,000 francs or $1,107,000,000. The value of the lands confiscated from the nobility and clergy and held as security for their redemption was 15,000,000,000 francs, or $3,000,000,000. This hasty review of the events of the four fateful years gives but a faint idea of the tremendous burden thrown upon the people of France. With a Revolutionary government in control of affairs, beset by armed foes from without and traitors at home, it performed prodigies of valor. In spite of all the internal dissensions it maintained thirteen armies in the field, comprising more than one million of men, and single handed defeated the allied armies of five European nations, all of whom were on the soil of France at the same time. It defeated the armies of the reactionary elements at home that waged Civil War for the purpose of re-establishing the feudal system and restoring the lands to the nobility and clergy.

During this titanic struggle, gold and silver had disappeared. The paper assignat was the only money. Without it the Revolution would have been helpless and impotent. With it the Revolution overcame its enemies at home and abroad. Every means that chicanery or dishonesty could devise were used by the enemies of the Republic to discredit and destroy the assignat.

The Clergy denounced to eternal pains every communicant of the church who sustained the spoliation of the church, and the nobility and clergy united in denouncing the assignat as based upon theft, sacrilegious robbery and impious outrage upon the charities of the church.

They declared that their lands had been appropriated by the Revolution without any of the forms of law, and in such flagrant outrage of all recognized codes of property that the civilized world held, that the titles still remained in the clergy and nobility.

They pledged their lives, their religion and their honor never to cease agitation and war on the Assignat, its credit, and the robbery on which it was based. But in spite of the opposition the Revolution was stronger than its enemies. The successes of its armies, armed, equipped and maintained in the field through the use of the Assignat, carried fear into every nation in Europe.

Failing to destroy the credit of the assignat by appeals to passion and prejudice they sought to accomplish the same result by stealth.

Shortly after the third issue of assignats in September, 1790, adventurers in Belgium and priests in Switzerland began to issue counterfeits that so closely resembled the genuine notes as to deceive any one except an expert. But these two countries were too small to offer the necessary opportunity for extended operations. London offered a field where the manufacture could be carried on without fear of interruption.

Seventeen establishments were in full blast in London, employing four hundred men engaged in the production of false and forged assignats.

In May, 1795, it was found that there were in circulation between 12,000,000,000 and 15,000,000,000 francs of forged assignats. At that time the assignats in circulation that were issued by the Revolutionary government amounted to 7,860,000,000 francs. Two out of every three of the bills in circulation were fraudulent, but were so perfect an imitation that it was next to impossible to detect the difference. No paper currency ever issued could be maintained under such conditions. The wholesale business of printing and circulating the forged assignats was carried on under the direction of Count d'Artois (a brother of Louis XVI and afterwards Charles the Tenth). He was assisted by Count Puisaye and Bishop Dol and by a host of Catholic priests still residing in France.

Catholicism was the dominant religion in France and in every parish there were numerous communicants who felt that an outrage had been committed on the Church in confiscating its lands and who were willing assistants in the work of circulating the counterfeits. The noble and priestly scoundrels who were engaged in this infamous traffic quieted their consciences by claiming that the assignats issued by the government were based upon land confiscated from the church, which act they denounced as robbery and that genuine notes had no foundation in law or morals. They claimed the right under the laws of war to recover the property taken from them and to weaken the enemy by any means in their power.

Rumors that large amounts of assignats were being forged and circulated reached the ears of the revolutionary leaders, but they at first refused to credit them. To admit it would bring all outstanding issues into discredit. Every device known to the stock jobbers and speculators was used against the assignats. The rumor that forgeries were in circulation and the subsequent denials caused wide fluctuation in prices and enabled the speculators to reap large profits.

Rumors of impending defeat of the Revolution and the return of the confiscated lands to their former owners were also widely circulated. The forces of reaction, the stock jobbers, gamblers, priests and nobles, together with the fact that could no longer be denied that less than one-half of the assignats in circulation were genuine, caused the people to begin to lose faith, and this mental condition it was impossible to control. The end was in sight.

With the downfall and death of Robespierre the Revolution may be said to have ended. The assignats fell to six cents on the dollar.

The reactionists secured power and began a relentless warfare on the radical element. They revoked the decree that expelled the nobility and clergy from France and restored to the non-juring clergy their rights to worship in the churches of which they had been deprived. Paris was in a ferment, and mobs with the cry for bread and work tried to stay the counter-revolution. They attacked the Convention, but were defeated and dispersed. They were disarmed and the arms taken from them were used against them with bloodthirsty ferocity.

The Convention by a general act restored the confiscated lands to the families of all persons condemned by the Revolution so far as such lands had not passed into the possession of purchasers under the decree upon which the assignats were issued.

This took from under the assignats the basis for their redemption and left them without support except that they could be used to a certain extent in the payment of taxes and in payment for unclaimed lands not restored to the former owners who had disappeared and could not be located. But the value of these lands did not exceed the one hundredth part of the amount in circulation.

The Convention submitted a new constitution to the people, which was accepted by them, but which did not please the Royalists. They combined with the Sections of Paris to overthrow it, but Napoleon was given charge of the armed forces of the Convention and with his "Whiff of Grape Shot" secured the control of France to the middle class.

During the fifteen months between the death of Robespierre and the victory of Napoleon there were 5,000,000,000 francs of assignats issued without regard to the obligations they created. The Directory was given a credit of 3,000,000,-

000 francs for expenses, but they could not realize one franc in coin for one hundred assignats. They were compelled to rely on forced loans and on the war indemnities Napoleon's victories wrung from the conquered nations of Europe. The discredit of the assignats was complete.

The Directory tried to substitute for them a paper currency known as Mandats. They were based on the lands that actually belonged to the nation. They were legal tender and receivable for all public dues. It was intended to purchase with them the outstanding assignats at their market value, which was about one cent or less on the dollar. Land was worth only about one-half what it was in 1790 and the Mandat fell accordingly. They fluctuated between 80 and 15 cents on the dollar, and never circulated, but were bought up by land speculators.

Their issue was a failure. Their career lasted only four months, from March 16th to July 16th, 1796. After that they were ignored, the government refusing to receive them for taxes or payments on land except at the current rate, which was from five to eight cents on the dollar.

This closes a brief history of the paper money issued by the revolutionary forces in France between 1789 and 1795. It ought to satisfy any reasonable mind that the failure was not due to any inherent defect in a paper money as such, but was on account of the extraordinary conditions that prevailed and to the malicious and infamous methods used by powerful elements and which were finally successful.

But the Revolution, with the financial aid of the assignats based on land confiscated from the idle classes, overthrew the monarchy and established constitutional liberty and civil equality. It freed twenty-five million serfs, and 6,000,000 owners of the soil took the place of a landed aristocracy of 150,000.

STATE BANKS IN AMERICA

Before the Civil War the state banks operated under charters granted by the State in which the bank was located. Bank charters were considered as one of the spoils of partisan politics and were often granted by the party in power to politicians as a reward for party activity.

In some instances the state held a portion of the capital stock. The State of South Carolina owned all of the capital stock of the Bank of the State of South Carolina and its officers and directors were elected by the Legislature.

The banks received deposits, discounted merchants' notes, and loaned money to land owners on mortgage security and dealt in domestic and foreign exchange. They had the right to issue circulating notes to the amount of two or three times their capital stock. Their bills were redeemable on demand in coin—that is, gold or silver, whichever was most convenient. A reserve of about 33 1-3 per cent was maintained by the better class of banks, but others kept but 10 per cent or even less.

There was no adequate supervision and the laws enacted for their control were loosely enforced. Some of the charters were secured by unscrupulous men who ignored or evaded the laws and who issued bank notes without the capital stock being paid in full, and in the case of some banks no capital at all was provided. They made loans to themselves or their friends and relatives on insufficient security, maintained only a small reserve, and at the first sign of trouble the bank broke, leaving unpaid depositors and noteholders, and bringing other banks and bank notes into disrepute.

Other charters were granted to men who were well meaning and honest but weak and inexperienced, and who were easily induced to loan the credit of the bank for hazardous and speculative enterprises. These banks failed as the others did.

There were, at the outbreak of the Civil War, about 1500 state banks in existence issuing bank bills. The bills of no two banks were similar in makeup and design, and the bills of 1250 of these banks were counterfeited. There were nearly 5000 alterations and imitations of various kinds, and in addition bills of nearly 1700 banks were circulating that purported to be issued by banks located in towns that really had no existence—and many bills were issued by institutions having little or no paid up capital, and which never expected to redeem them.

Is it any wonder that this was called the era of "Wild Cat" and "Coon Box" banks and that the money was dubbed "Wild-Cat," "Red-dog" and "Stump-tail" money?

But even if no charters had fallen into the hands of weak or unscrupulous men, but had all been secured by shrewd and capable men of high character and who were faithful to every trust reposed in them, and no counterfeit, or altered bills, or bills of fictitious banks had been in circulation, the system was bound to fail by reason of a fundamental error in the structure.

The charters of these state banks gave them the right to issue circulating bills to the amount of twice, and in some cases, three times the capital of the bank and to receive deposits, which liabilities they were obligated to redeem in coin, i. e., gold or silver on demand.

The condition of the banks in the panic years of 1837 and 1857 is shown in the Report of the Controller of the Currency for 1911—page 814, table 106—and is as follows:

Panic Year of 1837:

Circulating notes outstanding	$149,185,000.00
Specie on hand to redeem same	37,915,000.00
Reserve, 25 per cent.	
Circulating notes outstanding	$149,185,000.00
Due depositors	127,397,000.00
Total demand liabilities	$276,582,000.00
On hand to redeem the same:	
Specie	$ 37,915,000.00
Bills of other banks	36,533,000.00
Specie funds	5,306,000.00
Total	$ 79,754,000.00
Reserve, 29 per cent.	

Panic year of 1857:

Circulating notes outstanding	$214,778,000.00
Specie on hand to redeem same	58,349,000.00
Reserve, 27 per cent.	
Circulating notes outstanding	$214,778,000.00
Due depositors	230,251,000.00
Total	$445,129,000.00
On hand to redeem the same:	
Specie	$ 58,349,000.00
Specie funds	25,081,000.00
Bills of other banks	28,124,000.00
Total	$111,554,000.00
Reserve, 25 per cent.	

Of course these banks had other assets, but they were in the form of notes, real estate, mortgages, etc. But these could not be used during a panic, as months and perhaps years would ensue before they could be realized on.

When a run on a bank occurred the specie on hand would be withdrawn and hoarded by the public, and when the reserve was exhausted, the bank closed its doors. This result was inevitable. While a cash reserve of 25 or 30 per cent was undoubtedly sufficient to transact an ordinary day's business in the bank, panic days are extraordinary days and no debtor, bank or merchant can pay on demand one dollar of debts with thirty cents or less in money.

The banks brought ruin on themselves by promising to do what they knew they could not do if called upon.

The year 1847 was called a good year—exports amounted to $158,000,000—and the net gain by this country in specie importations was $22,000,000. And yet the condition of the banks was not extraordinarily different from the panic year of 1837, which preceded it, and the panic year of 1857, which followed. The year of 1847 could and would have been a panic year if the noteholders and depositors had made a run on the banks and demanded the specie which they were entitled to according to the banks' promises.

In 1837 the banks had four times the amount of bills outstanding that they had specie to redeem them with, while in 1847 they had three times as many; and when we take into consideration the total amount of demand liabilities and the quick cash assets on hand to redeem them with, the difference between the two years is only the margin between 31 per cent and 29 per cent.

CONDITION OF AMERICAN BANKS

(Taken from the Report of the Controller of the Currency for the year 1911, Page 814.)

PANIC YEAR OF 1837.

Condition of Banks. 788 Banks Reporting.

Circulating notes outstanding	$149,185,890.00
Due to depositors	127,397,185.00
Total amount payable in coin on demand	$276,583,075.00
Specie and bills of other banks on hand with which to pay above liabilities	79,835,267.00
or 29 per cent.	

GOOD YEAR OF 1847.

Condition of Banks. 715 Banks Reporting.

Circulating notes outstanding	$105,519,000.00
Due to depositors	91,792,000.00
Total amount payable in coin on demand	$197,311,000.00
Specie and bills of other banks on hand with which to pay above liabilities	62,093,000.00
or 31 per cent.	

PANIC YEAR OF 1857.

Condition of the Banks. 1416 Banks Reporting.

Circulating notes outstanding........$214,778,822.00
Due to depositors.................. 230,351,352.00

Total amount payable in coin on demand $445,130,174.00

Bills of other banks and specie on hand with which to pay above liabilities $111,555,487.00
or 25 per cent.

YEAR OF 1863.

The National Banking Act was passed in this year and the Civil War had been in progress for two years.

Condition of the Banks. 1466 Banks Reporting.

Circulating notes outstanding........$238,677,218.00
Due to depositors.................. 393,686,226.00

Total amount payable in coin on demand $632,363,444.00

Bills of other banks and specie on hand with which to pay above liabilities $205,563,215.00
or 32 per cent.

PANIC YEAR OF 1873.

Condition of National Banks on Sept. 12, 1873. 1976 Banks Reporting.

The monetary panic of that year began five days later, on September 17, and the disastrous effects were felt in this country and Europe for many years afterward.

(See Report of the Controller of the Currency for 1911, Page 333.)

Due depositors	$622,685,563.00
Due U. S. treasurer	15,927,827.00
Total amount payable in currency on demand	$638,613,390.00
Cash and clearing house checks on on hand	$219,723,752.00
Due from U. S. treasurer	20,610,000.00
Total	$240,333,752.00

or 37 per cent.

YEAR OF 1883.

Condition of the National Banks on October 2. 2501 Banks Reporting.

Due depositors	$1,049,437,700.00
Due U. S. treasurer	14,164,455.00
Total amount payable in cash on demand	$1,063,602,155.00
Cash and clearing house checks	$ 297,963,590.00
Due from U. S. treasurer	26,566,712.00
Total	$ 324,520,302.00

or 30 per cent.

PANIC YEAR OF 1893.

Condition of the National Banks May 4, 1893. 3830 Banks Reporting.

Due depositors	$1,749,930,817.00
Due U. S. treasurer	13,950,982.00
Total	$1,763,881,799.00

Cash and clearing house checks on hand	$ 446,749,173.00
Due from U. S. treasurer	21,154,880.00
Total	$ 467,903,953.00

or 26 per cent.

PANIC YEAR OF 1903.

Condition of the National Banks Sept. 9, 1903. 5042 Banks Reporting.

Due depositors	$3,156,333,499.00
Due U. S. treasurer	146,615,000.00
Total	$3,302,948,499.00

Cash and clearing house checks on hand	$ 730,096,062.00
Due from U. S. treasurer	21,342,184.00
Total	$ 751,438,184.00

or 23 per cent.

PANIC YEAR OF 1907.

Condition of the National Banks May 20, 1907. 6429 Banks Reporting.

Due depositors	$4,322,880,141.00
Due U. S. treasurer	180,678,309.00
Total	$4,503,558,450.00

Cash and clearing house checks on hand	$ 994,995,887.00
Due from U. S. treasurer	31,673,714.00
Total	$1,026,669,601.00

or 23 per cent.

YEAR OF 1910.

Condition of the National Banks June 30, 1910. 7145 Banks Reporting.

Due depositors	$5,287,216,312.00
Due U. S. treasurer	54,541,348.00
Total	$5,341,757,660.00

Cash and clearing house checks on hand	$1,294,107,094.00
Due from U. S. treasurer	42,433,572.00
Total	$1,336,540,666.00

or 25 per cent.

YEAR OF 1911.

Condition of the National Banks June 7, 1911. 7277 Banks Reporting.

Due depositors	$5,477,991,156.00
Due U. S. treasurer	48,455,641.00
Total	$5,526,446,797.00

Cash and clearing house checks on hand	$1,239,542,218.00
Due from U. S. treasurer	42,525,336.00
Total	$1,282,067,554.00
or 23 per cent.	

Condition of National, State, Savings, and Private Banks and Loan and Trust Companies. (Table 86, Page 786, Report of the Controller of the Currency, 1911.)

Due individual depositors	$ 8,307,913,874.00
Due savings depositors	5,445,724,306.00
Due U. S. treasurer	48,455,641.00
Cert's of deposit outstanding	1,894,840,264.00
Certified checks outstanding	161,596,617.00
Cashiers' checks	96,199,647.00
Total due to the public	$15,954,730,349.00
Cash on hand:	
Gold coin	$ 232,842,276.00
Gold certificates	623,583,300.00
Silver dollars	24,923,135.00
Silver certificates	194,474,846.00
Fractional silver, etc	34,852,572.00
U. S. legal tender notes	248,334,727.00
National bank notes	105,240,916.00
Clearing house checks	363,576,911.00
Cash not classified	89,889,296.00
Total cash	$ 1,917,717,979.00
or 12 per cent.	

The circulation statement issued by the Secretary of the Treasury shows the stock of money in the United States on March 1, 1912, to be $3,621,117,239.00, or 22.7 per cent of what the banks owe the public. The banks owe the public four and one-half times as much as they could pay in cash on demand even if they had all the money in the United States in their vaults, while as a matter of fact they have less than half of it.

But these figures are capable of still further analysis. There are in the United States over 25,000 banks. Of this number about 7,300 are national banks and between 18,000 and 19,000 are state or private banks. By deducting the amount of the deposits and cash of the national banks from the totals as shown in the above table we will ascertain the condition of the banks other than national banks.

Total amount due the public by all banks	$15,954,730,349.00
Less amount due the public by national banks	5,526,446,797.00
Balance due the public from 18,000 banks other than national banks	$10,428,283,552.00
Total cash on hand in all banks	$ 1,917,717,979.00
Less cash on hand in national banks	1,282,067,554.00
Total cash on hand in 18,000 banks other than national banks	$ 635,650,425.00

or a cash reserve of only 6 per cent.

THE BANK OF THE STATE OF SOUTH CAROLINA

The financial history of the United States from the time of the adoption of the coinage act in 1792 to 1860 ought to convince the most skeptical of the impossibility of an expanding nation maintaining a specie basis for its commercial transactions. It also exposes completely the fallacy that a legal enactment can establish a fixed and unchangeable price for gold and silver and that the relative value of these two metals will also remain unchanged.

This coinage act fixed the mint price of the two precious metals in the money of account, and also fixed the relative value of gold and silver. It declared the value of one pound of gold to be the same as fifteen pounds of silver. Colwell says: "In this congress acted in accordance with prevalent opinions of the day, opinions not entirely surrendered by many, even at this time. It is obvious, however, that the proportion of gold and silver cannot be settled by statutory regulation. It must remain subject to the course of trade, and whatsoever else influences the market price of one or the other of these two metals."

This enactment undervalued gold, and it consequently ceased to circulate in any considerable quantities. Between 1802 and 1810 the market price of gold was 20 per cent higher than the mint price. Shrewd business men would not take bullion with which they could pay one hundred and twenty dollars of their debts, to the mint and have it coined into ten gold coins worth ten dollars each and thereby lose twenty dollars of their debt-paying capacity.

The high price of gold was due in a large measure to the Napoleonic wars which acted as a drain on the gold of the United States and England, and caused the Bank of England to suspend specie payments for a period of twenty-five years.

An attempt was made to correct this error in the mint price of the precious metals in 1834, when the mint price of gold was raised 6½ per cent. For a while after this change was made gold and silver circulated fairly well and the coinage of gold quadrupled. But the influx of new gold due to the discoveries in California and Australia caused gold to fall in value below the mint price, and silver became the undervalued metal, and all full weight silver coins disappeared, leaving as our only silver coins with which to transact retail trade, foreign and domestic coins so worn through use that they had lost from 5 to 20 per cent of their value. In 1860 one thousand silver dollars of full weight were worth in the market as bullion $1,045.00 and they were promptly consigned to the melting pot and exported. In 1870 one thousand silver dollars were worth $1,027; in 1872, $1,022; in 1873, $1,003. There were practically no silver dollars being coined, and the few that were coined speedily disappeared from circulation. During this period, from 1792 to 1873, only a little more than eight millions of silver dollars were coined, or an average of $100,000 a year for the eighty-one years that the mints were open to the free coinage of silver. This amount would scarcely have been sufficient for the needs of the expanding commerce had they all remained in circulation.

In addition to this error of trying to fix a permanent price for gold and silver, business was further complicated by reason of the foreign coins that were circulating as a medium of exchange. The volume of these foreign coins was sufficiently large that congress was compelled to recognize the fact and fix the values at which they should be received at the public offices of the United States. The foreign coins recognized as current in the United

States, and made legal tender, were the gold coins of Great Britain, France, Portugal, Spain and her dominions, Brazil, Mexico, and Columbia. The silver coins recognized were the five franc piece, the silver dollars of Mexico, Peru, Chile, Bolivia, Brazil, Central America, and the Spanish milled dollar or piece of eight, as it was also called.

The condition of the circulating medium of the United States after the revolution bears a strong resemblance to the conditions prevailing in the Republic of Venice at the time of the establishment of the Bank of Venice.

It would be strange indeed if the citizens of this nation did not try to evolve some system of banking and currency which would relieve them of the annoyances and losses that were inevitable under the conditions that they found themselves in. They had before them the example of the Bank of England, which received deposits, discounted notes for merchants and others, and issued bank notes, which, together with the deposits, were declared to be redeemable in gold on demand, and for which purpose coin reserves were maintained that were deemed sufficient to keep the bills at par with gold in all business transactions.

The various states began issuing charters for banks. Some of these charters fell into the hands of men who, by reason of their character and ability, could be depended on to make careful use of their trust. Others were obtained by men that were easily led into loaning the money of the bank on hazardous and speculative enterprises, and again others were secured by unscrupulous individuals of which there are always a number in any community. But all of these banks, whether managed by the wise, the weak, or the dangerous men, were liable to failure some time or other by reason of the fundamental error in making all of their deposits and issues of currency payable in coin on demand, a promise incapable of fulfillment. This was proven by the fact that specie payment was suspended by the banks of the United States ten times between 1809 and 1860, a period of fifty-one years, or an average of one panic every five years. Is it any wonder that this period has been designated as one of "wildcat banking"?

Some of the banks, particularly those located in New England and New York, were fairly well managed and successful, but a large number in the western and southern states were managed in such a way as to be open to the severest criticism.

Some of the states of the Union established banks which were owned wholly or in part by the state itself, and in some states the banks so established were failures, and in the case of other states the success was such as to altogether set at rest the question of whether or not the state can successfully conduct a banking business.

The most notable instance of the success of the bank owned entirely by a state was the Bank of the State of South Carolina, established in 1812. The deplorable condition of commerce in South Carolina, caused mainly by the war with England and the suspension of specie payments, together with the high price of gold and the consequent disappearance of coin, left the citizens without adequate means of exchange with which to carry on their commercial transactions, and the state decided to organize a bank as a measure of relief.

The capital of the bank consisted of all the funds and securities which the state had in its possession at the time, and also debts of whatever kind that were due to the state. This gave the bank a capital to begin with of a little over one hundred thousand dollars. During the next seven or eight years the caiptal was increased to about $1,200,000. There was no part of the capital contributed by any individual, as was the case in Indiana, where the state owned one-half of the stock and individuals owned the other half. In South Carolina the state was the sole owner and the president of the bank and the board of directors were elected annually by the legislature.

The bank transacted a regular banking business. It received deposits, and it discounted notes at the rate of 6 per cent interest, when endorsed by two or more good names. It also loaned money on real estate security at 7 per cent interest, the loans being limited to not more than one-third the value of the land, and not more than two thousand dollars could be loaned to one person. The mortgages were for one year only, but could be renewed from year to year upon payment of 10 per cent of the principal. These loans were apportioned equally among the legislative districts. Circulating notes were issued by the bank, but the amount was limited to twice the amount of the capital. The bank had the exclusive right to issue notes for five dollars or less and some were issued for the small amount of six and one-quarter cents. Three branches were maintained, but were not profitable; but the state believed that the convenience of the public was of sufficient consequence to offset the pecuniary loss sustained. Beside the capital of the bank, the depositors and note holders had as an additional security, the credit of the entire state, which was pledged to cover all possible losses.

The bank was conducted with ability and integrity. While it had made some losses, and in addition maintained the unprofitable branches, its statement in 1843 showed a total profit to the state of over $3,672,000.00. It had also repeatedly made advances of money to the state (at one time more than a half million dollars) without interest.

One notable instance where the bank was signal service to the people was after the great fire of 1838, which destroyed the greater part of the city of Charleston. The state issued $2,000,000 of bonds to relieve the sufferers. The bank sold the bonds in London and loaned the money on land in the burnt district and the people were thus enabled to rebuild their homes.

In his message to the legislature, Nov. 24, 1852, Governor Means, in discussing the management of the bank, says: "This institution has proved itself to be highly useful and safe as a fiscal agent of the state, and has aided materially in sustaining our people during the severe monetary crisis through which we have passed. As all human institutions are imperfect, no doubt some instances of mismanagement have occurred in the conduct of its affairs. I believe that the only mismanagement that has been complained of, is an over indulgence of some of its debtors. I have not been able to learn, however, that the bank has sustained any losses from this cause.

"In some instances a long indulgence has secured the final payment of the debt, and at the same time enabled the debtor to secure a competence for his family when the sudden calling in of the debt would have resulted in heavy losses to the bank and brought ruin and bankruptcy upon the debtor. . . . . I know that great fears are entertained as to the political power which a strong bank of the state could wield. But these are rather imaginary than real, if you will reflect that it will be entirely under the control of the legislature. Its officers are elected annually and, of course, could be removed if found exerting any influence at variance with the true interests of the people. All the arguments which go to establish our fears that a corrupting influence might be exercised upon the politics of the state will apply equally to private banks.

"If there is any real danger of such influences from moneyed monopolies, it is far better that they should be under control of the state than that they should control the state."

The Bank of the State of South Carolina during the sixty years of existence was able to maintain itself during all the financial panics that swept over the country. Its credit was so good that, while private banks were forced to suspend, its notes were hoarded the same as gold by the frightened people. It passed unscathed through the wreck of southern institutions caused by the war of the rebellion.

As part of the financial legislation during the war of the rebellion, congress levied an annual tax of 10 per cent on the currency issued by the banks chartered by the different states. This was for the purpose of stimulating the establishment of national banks and thereby making a market for the United States bonds. These bonds could then be deposited with the United States treasurer, who was authorized to issue national bank notes to the extent of 90 per cent of the face value of the bonds. This act wiped out the state bank notes completely. The Bank of the State of South Carolina went into voluntary liquidation in 1870 and paid its depositors and note holders in full. No one, during its existence of sixty years, lost a single dollar on account of the bank.

It is to be regretted that the people of South Carolina were not fortunate enough to have as governor at the time of the destruction of Charleston a man as wise financially as the governor of Guernsey. If they had, they would never have committed the blunder of issuing two millions of bonds to the bankers of London, and burdening themselves with the interest charge for twenty, thirty, or perhaps forty years which those bonds necessitated. Their own bank, properly utilized, could have supplied all the money needed to reconstruct their city. The money could have been issued as buildings were erected, just as was done in Guernsey. The redemption of the money would have been in its acceptance by the state in payment of taxes, and by the bank in the yearly payments on the mortgages given as security for the money when it was issued. When the last mortgage was paid, the last of the money would have been redeemed. It was a piece of financial folly for the state to borrow the gold in London and import it for the purpose of erecting buildings. The idle men and the materials were on hand, and the state should have issued the money necessary to bring these latent forces into activity.

STATE BANK OF ILLINOIS

The Constitution of the State of Illinois permitted the general assembly to establish and regulate a state bank and its branches if they desired. Accordingly the legislature on March 22, 1819, incorporated a bank and provided for ten branches. Its capital was to be $4,000,000—one-half of which was to be subscribed by the state and one-half by individuals. Ten branches could be established and were to begin business as soon as $15,000 was paid in. Not a dollar of stock was ever subscribed and the attempt was a failure.

In 1821 the charter was repealed and a new bank to be owned and operated by the state was incorporated for ten years. Its charter was a duplicate in its essential particulars of the charter of the bank of the state of South Carolina, which had then been in operation about ten years.

All of the capital stock, which was to be $500,000, was to be owned by the state. The president and directors of the bank were to be elected biennially by the senate and lower house in joint session. Its principal office was located at Vandalia, which was then the capital of the state. The state was divided into five districts and a branch bank was to be established in each one. All the funds of the state and all money received from the United States for school purposes, together with all specie and land office money that came into the treasury, were to be deposited in the bank. The bank was authorized to issue notes to double the amount of the money so deposited and to redeem them upon demand in gold or silver. Very little specie was in circulation and almost none came into the bank. One branch bank received only two dollars in specie during its whole existence and these were retained as curiosities.

Two thousand dollars was appropriated to start the bank. This was used to pay the cost of printing $300,000 in notes of from one to twenty dollars each. These notes were to bear two per cent interest. They were to be received by the bank, the state, or any county at par. The salaries of all the state officers were to be paid in them. Any creditor was obliged to accept them at par for any debt due.

The notes were to be distributed to the branch banks in proportion to the number of the inhabitants in the district and were to be loaned as fast as applied for. Loans for one hundred dollars or less were to be secured by notes with one endorser. Loans of over one hundred dollars were to be secured by mortgage on real estate. No loan was to be for more than $1,000, at six per cent interest, and could be renewed annually upon payment of ten per cent of the principal. The banks were to transact no business but loaning notes except that they could exchange their notes at par for gold and silver and land office paper. One-tenth of the bank's notes were to be retired annually. The faith and credit of the state of Illinois, together with its lands and its revenue, both present and future, were pledged to redeem the bank's notes within ten years.

There is a sharp contrast between the management and history of the State Bank of Illinois and that of the Bank of the State of South Carolina. While the latter was managed with prudence and with a strict sense of commercial honor, the Illinois bank became almost at once a cesspool of political corruption.

Under the charter the officials had the right to borrow $51,350, or more than one-sixth of the total issue of the bank's notes, and promptly took advantage of their privilege, and every person who could get a friend or relative to endorse his note borrowed his hundred dollars just as promptly. The directors found a sure road to popularity in loaning to anybody who desired it, and as they either were or expected to be candidates for office, little care was exercised as to security or certainty of payment.

The directors of the bank and its branches being themselves heavy borrowers from the bank were at no pains to maintain the credit of its notes. The governor of the state in his message of 1826 said they used their "right to borrow to the full extent of the law and thus became more interested than any other class in the community in impairing the credit of the institution and depreciating its notes as the means of facilitating the discharge of the debts they had contracted with it, and hence those gentlemen have been generally, if not universally, found among the warmest advocates for depreciating those notes, scaling the bank debts and various other expedients whose inevitable effects would be the revolting injustice of requiring the balance of the community to be taxed for the payment of their debts."

There being little or no silver coin in the state the people adopted the expedient of cutting the bills into small pieces for use in transactions involving fractions of a dollar.

The promised redemption of the bank bills in specie on demand was a physical impossibility and by 1823 they were worth only fifty cents on the dollar. The state was obliged to double the salaries of the officials and the members of the legislature. Later the value of the notes were fixed at three to one of specie and as the state was obliged to accept the notes at par for all its taxes, etc., the result was a deficit in the public treasury.

The state auditor was obliged to issue auditors' warrants for state expenses payable at some uncertain date in the future and these, together with the bank notes, fell as low as twenty-five cents on the dollar.

In the meantime, although these depreciated bank notes could be used at par in the payment of debts due to the bank, Ford's History of Illinois tells us that "few persons pretended to pay their debts to the bank. More than half of those who had borrowed considered what they had gotten from it was so much clear gain, and never intended to pay it from the first." From the beginning the management showed either ignorance or viciousness resulting in violations of the charter provisions and defalcations. Expenses exceeded the income, loans were made without security and the papers and accounts were in confusion.

The legislature finally enacted a law which among other things made it the duty of the cashier to burn all notes on hand not needed for expenses in the public square in the presence of the governor and other officers. Auditors' warrants were receivable for bank debts. The bank was no longer to receive deposits of individuals and any on hand were to be returned to depositors. The offices of president and directors of branch banks were abolished and cashiers appointed by the governor were to manage the branches. All manner of expedients were tried and inducements offered to facilitate the collection of the debts due the banks, with very little success.

In 1829 it was enacted that all public officers in debt to the bank should not receive their salaries until their debts were paid. Debtors to the bank were given three years extension—one-third of the debt to be paid each year, which, if paid promptly, was to be without interest and a ten per cent discount on the amount of the principal. This latter discount was afterwards increased to twenty-five per cent. This liberality may perhaps be explained by the fact that the members of the legislature were themselves the largest debtors.

In 1831 it was decided to close the bank. A loan was authorized to be applied to the payment of expenses and the redemption of the bank notes. All bank notes on hand were to be burned and all received afterwards were to be burned at the end of each quarter.

All debts due the bank were turned over to the attorney general for collection and he was instructed to sell all the bank property.

The financial loss to the state of Illinois through the mismanagement of the bank was in round figures probably $500,000—a huge sum for a sparsely settled frontier state. What the loss was to individuals is something that is incalculable.

From 1831 to 1835 there were no banks in Illinois, but in the latter year the legislature decided to re-establish a state bank. The bill passed the lower house by a majority of one vote. The same was true of the senate.

The charter was for twenty-five years and the capital was to be $1,500,000, of which the state reserved the right to subscribe $100,000.

It was to have six branches and could issue its notes to the amount of two and one-half times its paid in capital. It was to redeem in specie any of its notes on demand—a failure to do so for a period of ten days would result in the repeal of its charter.

It was also empowered to borrow up to $1,-

000,000 and to reloan it on real estate security at not to exceed ten per cent interest.

The stock of the bank was quickly subscribed and the bank started business. One of its first acts was to loan $800,000 to a firm of speculators who were trying to get control of the lead industry of Galena. Land booms began to appear and every one who had a little money or who could borrow some engaged in land and town lot speculation.

The mania for speculation was rampant in Illinois as well as the other northern and western states. The legislature was swept off its feet and voted a loan of $8,000,000 to be spent for internal improvements, such as canals, railroads and river improvements. It also authorized a $2,000,000 increase of the capital stock of the bank to be subscribed wholly by the state.

A bank at Shawneetown was also allowed to increase its capital stock $1,400,000, of which the state agreed to take $1,000,000.

Two years after the bank was established the panic of 1837 swept over the country and the bank, together with practically every other bank in the United States, suspended specie payments. The charter should have been forfeited, but the finances of the state and the bank were so interwoven that to liquidate the bank assets would entail a heavy loss on the state.

The economic conditions in Illinois were duplicated in all of the border states and many of the eastern ones also. A graphic description of conditions in Michigan during this period is given by Judge Cooley in another chapter.

The financial condition of Illinois was so bad by the year 1842 that the officers of the state, the judges and the members of the legislature were in dire need. No salaries had been paid and there was no money in the treasury to even pay the postage on public documents. The interest on the state bonds of nearly $14,000,000 exceeded the total revenue of the state and no attempt was made to pay it. The bonds were quoted as low as 14 cents on the dollar.

In February, 1842, seven years after it started, the State Bank of Illinois failed. It had $3,000,000 of its bills in circulation. This spread ruin and disaster all over the state. There was practically no specie in circulation and people were obliged to resort to barter to obtain the necessaries of life.

February 25, 1843, an act was passed to put the bank in liquidation and this ended the history of banks which the state owned wholly or in part.

The salient points in the foregoing are:

First: The credit of the state was used by individuals for purposes of speculation and exploitation. Public credit should be used only for public purposes.

Second: The utter folly of promising to redeem the currency necessary to carry on legitimate modern commerce, in specie on demand. The meagre quantity of gold in existence in comparison to the immense and growing volume of trade makes it absolutely certain that the promise will be broken when the demand is made that it be fulfilled.

STATE BANK ISSUES IN MICHIGAN

BY JUDGE THOMAS M. COOLEY.

The tide of immigration into Michigan was at this time at its highest, and the highways, especially from New York, around Lake Erie, into the territory, were crowded with vehicles loaded with immigrants. The tide of speculation throughout the country was also swelling to enormous proportions, and was probably greater nowhere else than in the state of Michigan, if indeed in any other sections it reached a like magnitude. The speculation was particularly wild in the case of lands. The land bought from the government one day for $1.25 per acre was held at twice or three times that sum the next, and in many cases actually sold at prices greatly exceeding this increased valuation.

Villages on paper were being laid out in every part of the state; some in the belief on the part of proprietors that they were soon to become large and important towns, but many of them also with a view simply to take advantage of the prevailing delusion here and elsewhere to sell lands just bought at the government price for ten, twenty, fifty or a hundred times what it had cost. There seemed to be no possible limit to public credulity on the subject, and men were apparently becoming rich on an expenditure of a few hundred dollars in buying wild lands.

Under such circumstances the greatest need of the day seemed to be banks, and the fifteen then existing in the territory, with a capital stock aggregating about two millions—there being one in almost every town of importance—appeared to be totally inadquate to supply the public demand for banking facilities. More money was required to enable the people to carry on the enormous transactions that from day to day they engaged in, the most of them purely speculative; but nevertheless, at the time, seeming to a large proportion of those who were parties to them, to be not only substantial but altogether reasonable, since the inflow of immigration and the extensive system of railroads and canals planned for the state, and then well under way, were expected speedily to make of Michigan a populous as well as a prosperous commonwealth.

Under these circumstances, the legislature of 1837 pased a general act entitled "An act to organize and regulate banking associations." The act provided that whenever any persons resident in any of the counties of the state should be desirous of forming an association for transacting banking business, they should make a written application to the treasurer and clerk of the county, setting forth the amount of capital proposed and the place of location; and on the application by at least twelve freeholders of the county, it was made the duty of the treasurer and clerk to cause public notice to be given for thirty days, upon the expiration of which time the organization of the bank might proceed, books being opened for the subscription of the capital stock, which was not to be less than fifty thousand nor more than three hundred thousand dollars. The bank was not to commence operations until the whole amount of the capital stock was subscribed, nor until 30 per centum of the amount was paid in legal money. Ten per cent was to be paid on making subscription, the county treasurer to receive the same, but to pay it over to the cashier when the bank should be organized. * * *

The issue of notes or bills for circulation as money was limited to twice and a half of the amount of the capital stock then paid in and actually possessed, and the loans and discounts were also limited to the same amount. * * * The bills were to be paid on demand, and if not paid within thirty days after demand at the banking house, the corporation was to be dissolved. * * *

Immediate proceedings were taken in every section of the state to organize banks under the authority granted by this act. Many of these were undoubtedly organized by men of sufficient means, who proposed to conduct a just, honorable and legitimate banking business in places needing then, or in immediate prospect, the facilities their bank would afford. Nor could it be said that in all other cases wrong to the public was in contemplation. The organizers saw in the prevailing delusion by which in many cases they were as much carried away as the public in general, an opportunity to make short the road to wealth by availing themselves of the privilege to issue currency, and they complied with the forms required by law so far as they found indispensable, but expecting even when they evaded compliance that the bills they put out would be redeemed in due course of business from the gains they were sure to make.

The capital they pretended to have at first they would have in fact shortly, and then they could honestly meet all obligations. But probably no banks ever organized in such numbers were based on such utterly worthless securities as were these. The lands mortgaged as security, even when they were lands which were held for prospective farming purposes, were valued, according to the ideas then prevailing, at ten, twenty, or even fifty times the value they proved to possess when the great collapse came. And it is safe to say that in very many cases the lands even to this day have never reached a moiety of the value at which securities were then accepted upon them by the county officers.

Some of the banks were located at points of little or no business importance; places not having the slightest need of a bank, and whose very names suggest that they may have been selected as localities because it was easier to give the securities on nominal village property at such places than it was upon lands known to have a substantial value.

No less than forty-nine banks were organized under this act before the third day of April, 1838, when the legislature intervened by an act which suspended the provisions of the law as to the creation of any new associations, except to allow one to be formed in the county of Chippewa. The aggregate capital of these forty-nine banks, as given in the articles of association, was about four million dollars. The amount actually paid in was in a great many cases merely nominal. The provision for the immediate payment of 10 per cent of the capital stock was evaded in various ways; sometimes by the payment of a small sum which was immediately drawn out and paid back again, and so on over and over until the required amount was thus made up; sometimes by the issue of a certificate reciting a payment of specie never in fact paid; sometimes by accommodations between the organizers of banks, whereby, after the required payment had been made to one, the sum paid in was sent to the location of another bank and used for making payment there, and so on indefinitely among those in the same section of the state.

The general fact was that as to the required securities and as to the payment of money upon the capital stock, the provisions of law were rendered perfectly nugatory, first by the securities being of merely nominal value as compared with the amount of capital stock, and next by fictitious payments of money by the stockholders; and when the banks were fully organized, they were often literally shams, representing no real capital whatever, but nevertheless flooding the state with bills for the benefit of those who had become stockholders for the purpose of the crazy speculations which were then pervading the state.

Hon. Alpheus Felch, who was bank commissioner at this period, has given in his official reports, and in other publications, a graphic account of the conditions of things as he found them on attempting to examine into the affairs of these banks; how their managers undertook to deceive and mislead the public and the state authorities as to their real condition, and how actively they bestirred themselves in forwarding money from place to place in order that they might in succession be able to make a showing of capital which did not in fact exist. The general fact was that the banks had no real substance, and the moment the great revulsion came in business affairs through the country—a revulsion more extreme in Michigan than almost anywhere else—they necessarily suspended such specie payments as they had attempted to make theretofore, and the whole system suffered an utter collapse.

At the January term of the Supreme Court in 1844, on a suit brought upon a draft drawn by a cashier of one of these institutions, it was decided that the act for their organization was unconstitutional. The decision, of course, rendered worthless all the obligations thad had previously been taken, and discharged the officers from personal responsibility. The banks, which had come to be known as "wild cats," were utterly swept out of existence. Those which had attempted to meet their obligations had been in a state of suspension for a considerable time with legislative permission, but further effort at recuperation was now abandoned.

As soon as it became apparent that the banks organized under the general banking law were wanting in substantial basis, the holders of the bills made haste to get rid of them for anything of value they could obtain therefore, and the discount of 5 or 10 per cent that they were compelled to submit to, soon increased to twenty or thirty or fifty, until it became impossible to dispose of them at all. The population of Michigan at this time was about two hundred thousand, and the losses suffered from the worthless currency were enormous. A number of the chartered banks had been as badly managed as the "wild cats," and went down with them, while those that succeeded in preserving their credit were obliged for a time to avail themselves of legislative permission to suspend specie payments. Good currency, sufficient to met the demands of business, it was almost impossible to obtain. Specie had altogether disappeared from circulation. The Safety-Fund Banks of New York, and the State Bank of Indiana, had the general confidence of the people, and their bills were met with oftener than any others, but banks located in other states and of doubtful standing not infrequently succeeded in keeping large amounts of their bills afloat through arrangement with Michigan dealers, whereby the latter, in consideration of exceptionally favorable loans, made public announcement that they would receive the bills of the former in payment for whatever they sold, and upon debts.

Advertisements to this effect were often met with in the newspapers. Such announcements, however, in many cases, indicated only that the dealer had more confidence in a particular currency than was felt generally, and expected by bidding for it to increase the amount of his trade, and the prices he could charge for what he sold. But the fact sometimes doubtless was that he thought he could speedily exchange for something of value the bills in which he had no confidence, and which he would not keep over night if the exchange could be sooner made.

The issues of Michigan banks as compared with the population and business of the state were then very limited, scarcely exceeding in the aggregate one dollar to an inhabitant. In 1841 the state, in anticipation of a state loan, authorized an issue of treasury notes in the similitude of bank bills, and receivable for taxes, but these were soon retired. Naturally a general practice of barter and exchange in the common transactions between man and man sprung up, and this went quite beyond what we are accustomed to see at the present day in new settlements, even in the most remote and inaccessible parts of the country. Every country store was a place of exchange, where the merchant disposed of his goods for wheat and other grains, wool, hides, peltry, butter and nearly everything that the farmer had to dispose of. The miller took his toll in kind for grinding grain; the blacksmith accepted pay in potatoes or produce, and so on; and the farmers exchanged work when additional labor was required in the cultivation of their lands, the harvesting of their crops or the erection of buildings. Business men of good standing in many cases issued small notes known as "shinplasters," which had considerable circulation, and from which the losses by bankruptcy were, in the aggregate, quite heavy.

DEMONETIZATION OF THE SILVER DOLLAR IN 1873

On December 16, 1872, a bill relating to mints, assay offices and coinage was reported to the House from the Senate by Sherman. It had been prepared two years before by the agent of the foreign bankers, the New York Chamber of Commerce, and John J. Knox—who was the Comptroller of the Currency. It provided for a thorough change in our silver coinage; on the plea of equalizing it with that of France. Sherman said the bill had passed the Senate at the last session, and he proposed to modify only a single section. He wished the Senate to pass it without reading. Senator Casserly of California opposed the bill. It was ordered printed and read. When it was put upon its passage in the Senate, January 17, 1873, Sherman added seventeen amendments instead of one. The house disagreed with his amendments; he then moved a conference committee of which he was the head, and, while the bill was being considered by the committee, he introduced the following amendment which was passed: "That any owner of silver bullion may deposit the same at any mint, to be formed into bars or into dollars of 420 grains Troy, designated as trade dollars, *and no deposit* *of silver for other coinage shall be received.*"

These few words abolished the coinage of the old 412½ grain silver dollar by merely omitting that coin from the enumeration the coins of the United States. It was entitled "an act revising and amending the laws relative to the mints, assay offices and coinage of the United States" and bore on its face no suggestion of any change more serious than that of regulating the petty details of mint management.

While the bill was under consideration in the House, except a mere allusion by Mr. Hooper and Mr. Potter, there is not a single word in the discussion that took place, then or afterward, in the House or in the Senate, indicating that anybody understood that a change was to be made in the standard of value in the United States. The discussion that took place pertained to other matters, such as minor coins, and whether the eagle should be retained on fractional silver pieces or not, etc.

This law created the TRADE DOLLAR, but limited its legal tender power to any sum not exceeding five dollars in any one payment. Even this slight legal tender power was abolished by an act July 13, 1876, which provided "that the dollar shall not hereafter be legal tender." As to whether the Congressmen and

Senators who voted to pass the bill were ignorant as to the effect its passage would have on the coinage or not, the following quotations ought to set the matter at rest. Extract from speech by Hon. W. D. Kelly, Chairman of the Committee on Coinage, made in the House of Congress, March 9, 1878. "In connection with the charge that I advocated the bill which demonetized the standard silver dollar, I say that, though Chairman of the Committee on Coinage, I was as ignorant of the fact that it would demonetize the silver dollar, or of its dropping the silver from our system of coins, as were those distinguished senators, Messrs. Blaine and Voorhies, who were then members of the House, and each of whom, a few days since, interrogated the other: 'Did you know it was dropped when the bill was passed?' 'No,' said Mr. Blaine; 'did you?' 'No,' said Mr. Voorhies. 'I do not think that there were three members of the House that knew it. I doubt whether Mr. Hooper, who in my absence from the Committee on Coinage, and attendance on the Committee of Ways and Means, managed the bill, knew it. I say this in justice to him." (Congressional Record, volume 7, part 2, Forty-fifth Congress, second session, page 1605.)

Extract from speech delivered in the House of Representatives by Mr. Holman, July 13, 1876:

"I have before me the record of the proceedings of the House on the passage of that measure, a record which no man can read without being convinced that the measure and the method of its passage through this House was a 'Colossal Swindle.' I assert that the measure never had the sanction of this House and did not possess the moral force of law." (Congressional Record, volume 4, part 6, Forty-fourth Congress, First Session, appendix, page 193.) Again on August 5, 1876, he said: "The original bill was simply a bill to organize a bureau of mines and coinage. The bill which finally passed the House and ultimately became a law was certainly not read in this House. It was never considered before this House as it was passed. Up to the time the bill came before this House for final pasage, the measure had simply been one to establish a bureau of mines. It came from the Committee on Coinage, Weights and Measures. The substitute which finally became a law was never read, and is subject to the charge made against it by the gentleman from Missouri (Mr. Bland) that it was passed by the House without a knowledge of its provisions, especially upon that of coinage. I myself asked the question of Mr. Hooper whether it changed the law in regard to coinage, and the answer of Mr. Hooper left the impression on the whole House that the subject of the coinage was not affected by the bill.'' (Congressional Record, volume 4, part 6, Forty-fourth Congress, first session, page 5237.) Senator Conkling, in the Senate, March 30, 1876, during the remarks of Senator Bogy on the bill (S. 264) to amend the laws relating to the legal tender of silver coin, in surprise, inquired: ''Will the Senator allow me to ask him or some other Senator a question? Is it true that there is now by law no American dollar? And, if so, is it true that the effect of this bill is to make half dollars and quarter dollars the only silver coin which can be used as a legal tender?''

Mr. Bright, of Tennessee, said of the law: ''It passed by fraud in the house, never having been printed in advance, being a substitute for the printed bill, never having been read at the clerk's desk, the reading having been dispensed with by an impression that the bill made no material alteration in the coinage laws, it was passed without discussion, debate having been cut off by operation of the previous question. It was passed, to my certain information, under such circumstances that the fraud escaped the attention of some of the most watchful as well as the ablest statesmen in Congress at the time.''

(Congressional Record, volume 7, part 1, second session, Forty-fifth Congress, page 584.)

General Garfield, in a speech made at Springfield, Ohio, during the fall of 1877, said: "Perhaps I ought to be ashamed to say so, but it is the truth to say that at that time being Chairman of the Committee on Appropriation, and having my hands over full during all that time with work, I never read the bill. I took it upon the faith of a prominent Democrat and a prominent Republican, and I do not know that I voted at all. There was no demand for the yeas and nays, and no one opposed the bill that I know of. It was put through as dozens of bills are, as my friends and I know, in Congress on the faith of the report of the chairman of committee."

Senator Allison said on February 15, 1878: "But when the secret history of this bill of 1873 comes to be told, it will disclose the fact that the House of Representatives intended to coin both gold and silver, and intended to place both metals on the French relation instead of on our own, which was the true scientific position with reference to this subject in 1873, but that the bill afterward was doctored. It was changed after discussion, and the dollar of 420 grains was substituted for it." (Congressional Record, volume 7, part 2, Forty-fifth Congress, second session, page 1058.) Senator Beck, in a speech made in the Senate, January 10, 1878, said: "It (the bill demonetizing silver) never was understood by either House of Congress, I say that with full knowledge of the facts. No newspaper reporter—and they are the most vigilant men I ever saw in obtaining information—discovered that it had been done." (Congressional Record, volume 7, part 1, Forty-fifty Congress, second session, page 260.)

Mr. Thurman said: "I cannot say what took place in the House, but I know when the bill was pending in the Senate, we thought it was simply a bill to reform the mint, regulate coinage, and fix up one thing and another, and there is not a single man in the Senate, I think, unless a member of the Committee from which the bill came, who had the slightest idea that it was even a squint toward demonetization." On January 14, 1875, the same date that he signed the Resumption Act, President Grant (during whose first administration the silver dollar was demonetized) sent a special message to Congress, advising the establishment of mints at Chicago, St. Louis and Omaha for the coinage of silver dollars. It is then evident that the President did not know that a bill passed three years previously had demonetized the U. S. silver dollar.

Here we certainly have a strange state of facts to explain. The whole of official Washington, from President down through the Cabinet, Senate, House of Representatives, officials of the mint, newspaper reporters and correspondents appear to have been totally ignorant of the passage of a bill that abolished the coinage of the silver dollar, which had been coined continuously since 1792. In the discussion of this subject, charges that corrupt means were used to secure this result have been advanced, as the most reasonable explanation. The immense amount of money necessary and the vast army of individuals who would have to be influenced secretly, render this explanation to be a most unreasonable one. There were at that time in Washington, Senators representing the silver producing states of the far West, whose economic interests would prompt them to guard with watchful eye the market for the product of the silver mines of their states.

An examination of the market quotations for silver bullion during the period under discussion reveals the fact that in the year 1860 one thousand silver dollars thrown into the melting pot could be used as bullion to pay debts to the amount of one thousand and forty-five dollars.

In the year 1870 the same number of silver dollars after melting were worth one thousand and twenty-seven dollars and in 1872 one thousand and twenty-two dollars. Here then lies the secret to the indifference and apathy of the officials and the lay public to the subject. Why should the owner of silver bullion take it to the mint when its debt paying power would be reduced on the average from three to four and one-half per cent after being coined. This also accounts for the disappearance from circulation of the small amount of silver that was coined. It found its way to the melting pot and was exported in the shape of bullion.

During the eighty years that intervened between 1792 and 1872 there were only 7,800,000 silver dollars coined, or an average of about 100,000 dollars a year, and these did not stay long in circulation. Previous to the Civil War the circulation was almost entirely in the form of bills issued by the state banks and after the outbreak of the rebellion legal tender greenbacks, national bank notes, and postal currency supplied the medium needed in cash transactions. The people had been educated to the use of paper money and found it far more convenient to handle than coins, especially where the transactions were for large amounts. For a dozen years there had been no coins in circulation, and there had never been a large amount used at any time. It is easy enough to conceive that the vast majority of the citizens knew nothing of the subject, and even if the matter had been discussed in Congress, it is doubtful whether much interest would have been aroused.

There never was a time in the United States when a large supply of currency would not have been of great assistance to commerce and industry. The owners of the silver mines and silver bullion were not interested in the need by the merchant and the laborer of a circulating medium so long as their commodity brought a higher price in the market than at the mint. But when the discovery of vast deposits of rich silver ores and the application of economical methods of extracting the values had reduced the market price of their commodity to a point lower than its former mint price, they suddenly became solicitous for the welfare of the debtor class and the working man.

The doors of the mint have been closed to the free coinage of silver. May they never be reopened. Let us close the doors of the mint to the free coinage of gold, and then, and not till then, will we know its value as a commodity in comparison to all other commodities.

THE FEDERAL RESERVE BANK

The Act establishing the Federal Reserve Board was signed by the President December 23, 1913. Three days prior to that date Professor J. Laurence Laughlin of the University of Chicago addressed the City Club of Chicago. His address was published in the Bulletin issued by the Club, and under the sub-heading "Passed by a Happy Fluke" occur these words:

"Isn't it something like a political miracle, to think that in the Lower House 286 men should have voted for it as against 84, when outside of the Banking and Currency Committee there were probably not ten men in that House who knew anything about the fundamentals of the bill! (Laughter and applause.)

"That is the greatest political miracle of recent times."

Read this in connection with the following extract from the Communist Manifesto:

"The executive of the modern State is but a committee for managing the common affairs of the whole bourgeoise (capitalist class)."

Again, Professor Laughlin says:

"The curious thing is that through all the campaign, through all the discussions on the floors of both Houses of Congress, practically no attention has been paid to, and there has been general acceptance of, the provisions which, in my judgment, are nine-tenths of this achievement. I say it is a political miracle that the real fundamental parts of this bill seem not to have caused any public discussion, but to have been accepted with the other parts of this bill as it passed the Senate last night. I want to emphasize, therefore, the relative unimportance of the question regarding notes and the quantity of money circulating in the hands of the public, as compared with the other thing, which is of enormous importance, namely, the organization of credit.

"In 1907 you gentlemen here in Chicago heard a great deal about the scarcity of money. The old fallacy persists all the way down that we are causing panics if there is a scarcity of money; or that panics can be cured by issue of money.

"Now, in this typical business situation in 1907, if a firm wanted assistance for a short period of time, if it needed $200,000 in order to meet its obligations, did it make any difference whether there was more money circulating in the hands of the public? That was not the thing. We were not lacking in a medium of exchange, not even at the height of the panic. If that firm could go to the bank and get a loan for $200,000, the first entry in the books of that bank gives the borrower a credit by a deposit account of $200,000—the loan on the right hand and the deposit on the left; for the bank does a very simple business, no different from any shop in Chicago. The bank buys the right to receive a certain sum of money in the future and gives the borrower the right to draw on demand. A deposit account is as much a demand obligation as a note. *So far as the profit to the bank is concerned, it makes no difference whether it grants this liability to the borrower in the form of a deposit account or gives out its own obligation in the form of notes.* If, in the panic of 1907, that man wanted to meet an obligation, is there any one here who supposes that he could not transfer that claim on his deposit account by a check that would meet his obligations in the markets of Chicago?"

The Federal Reserve Act was passed to protect the banks from the inevitable result of their own promises to do what they could not do—pay their depositors in cash on demand.

The position of the banks today is the same position as the state banks occupied before the Civil War so far as their demand liabilities are concerned. The only change that has taken place is in the psychology of the mob.

In England, from the beginning of the banking era down to the present time, the failure to redeem in coin on demand has always been an act of insolvency. To remain open for business was only possible through the suspension by Parliament of the Bank Act. The same was true in America before 1860. Charters granted to

State Banks nearly all carried a forfeiture clause for failure to redeem in coin on demand, but suspensions were sometimes legalized by special act of the legislature that granted the charter.

During the panic of 1893 the banks of America for the first time defiantly remained open while refusing to pay checks against deposits, and have persisted in the same conduct in emergencies ever since. It was to strengthen this weak spot that the Federal Reserve Act was secured.

The cash reserves kept by the banks are mainly valuable in that they inspire confidence in the minds of the public. During normal times when there is no excitement the cash lies dormant in the vault, but it cannot be said to be idle, as a volume of credit of from six to ten times its amount based upon it is in circulation. But in abnormal times, when the public refuses to accept the transfer of bank credit in lieu of payments in cash, the danger becomes immediately apparent.

The cash on hand begins to dwindle. Demands increase, while the daily deposits consist almost entirely of checks, the customers hoarding the cash that is received in the course of business. The banks refuse to make new loans and insist on the payment, both of maturing obligations and such loans as have been made payable on demand.

This does little good so far as the general situation of the banks is concerned. Bank loans are not repaid with money, but by checks against credit in bank. To secure this credit the debtor must sell some property or commodity to some one who can pay for it at once. To secure such a customer during times of stress prices are slashed and goods sold far below the cost of production. Market quotations of stocks and bonds tumble under a deluge of offers to sell.

Right here it may be observed that bank depositors fall into one of two classes—creditor depositors or debtor depositors. The creditor depositor has a balance to his credit and owes nothing. The debtor depositor has a balance, but owes the bank a note which he must pay and which his balance is not sufficient to meet. He must therefore sell something he owns even at a runinous sacrifice. The sale results merely in a transfer of bank credit from the account of the purchaser to the account of the seller. Then the credit on one side and the note on the other offset and mutually cancel each other. The loans and discounts on one side of the ledger and the deposits on the other decrease by the amount of the notes paid. It is thus very apparent that during the panic the falling off of bank deposits is not due entirely to the withdrawing of cash, but is in a large measure due to the cancelling of credit.

This process carried to its logical conclusion would end in the entire disappearance of the $17,000,000,000 of deposits in so far as they were the results of credits extended by the banks and do not represent the deposit of cash.

In a panic the banks are besieged by crowds of excited depositors demanding the withdrawal of their deposits. They accept without question what is paid to them. They receive gold certificates, silver certificates, treasury notes of 1890, National Bank Notes, legal tenders or federal reserve notes, without discrimination. What they receive is a promise to pay, differing in form only from their credit on the bank ledger.

Professor Laughlin says: "A deposit account is as much a demand obligation as a note. *So far as the profit to the bank is concerned* it makes no difference whether it grants this liability to the borrower in the form of a deposit account or gives out its own obligation in the form of notes." The statement contained in this paragraph is true; but if the words "so far as the profit to the bank is concerned" were eliminated, the balance of the paragraph following them would be untrue.

It is just here that the psychology of the mob is revealed. Suppose the banks adopted the methods in vogue before bank checks came into use, and issued their circulating notes to the amount of their present loans and discounts of about $15,000,000,000 instead of crediting them as now under the head of "Deposits." The banks would be just as solvent. The relation between the banks and the public would have undergone no change. The public would have in its possession demand obligations against the banks to the amount of $15,000,000,000 in the form of circulating notes. The banks would have in their possession notes of individuals, firms and corporations to an equal amount plus the amount of the banks' capital and surplus. Their published statements would not show any liabilities for "Deposits." Their demand liabilities would be for "notes in circulation."

But consider the effect of such a condition on the minds of the public. If a panic started the banks would be swamped by crowds demanding the redemption of the bank bills, just as they did before the war. They would not be satisfied as now to exchange a "promise to pay" in one form for a "promise to pay" in another form. They would demand that the bills be redeemed in gold. Some of the bills would be in the hands of debtors to the bank, but to call in loans would not help any. The payments would be made in bank notes and these could not be used to redeem other bank notes.

The publication of bank statements, as at present, showing billions of dollars of deposits, has a quieting effect on the general public. They look upon the possession of these deposits by the banks as a source of strength. On the contrary, if this amount was represented by a mass of bank notes in circulation, the effect would be the very opposite. And yet the condition in both cases would be identical.

The Federal Reserve Banks offer a temporary haven of refuge in case of a run on the banks similar to those that occurred in 1873, 1893 and 1907, and which exhausted the cash reserves completely, and this is practicaly the only purpose it ever was intended to serve.

By means of this new Currency Act member banks can secure Federal Reserve Currency to the extent of two and one-half times the amount of gold they may have on hand by depositing as security notes, drafts and bills of exchange arising out of actual commercial transactions. These notes are a first and paramount lien on all the assets of the issuing bank.

They are obligations of the United States and redeemable in gold by the Treasury Department at Washington, D. C., or in gold or lawful money (Legal Tenders) at any Federal Reserve Bank.

The Act of March 14, 1900, bound the United States to maintain the parity of all forms of money issued or coined by the United States. Under this act the United States at present would be obliged to redeem in gold about $1,800,000,000 of outstanding obligations if the demand were made. These consist of National Bank notes, of which there are $814,000,000; silver dollars, $565,000,000; greenbacks, $346,000,000, and on May 1, 1915, there were $53,000,000 Federal Reserve notes in circulation. There is in the United States Treasury to redeem all this a reserve fund of $150,000,000, or about 9 per cent plus a relatively small amount in the working cash balance. To this $1,800,000,000 must be added the amount of Federal Reserve notes, which may be issued in the future, the amount of which cannot be accurately estimated. There is in the United States at the present time $1,889,000,000 in gold, approximately one-half of which is held by the banks, the balance being in circulation. There is here a potential basis for the issue of over $2,000,000,000 in Federal Reserve notes.

It is only a question of time or events that will force the fiction of a gold basis to be abandoned. The sole basis of value is labor. The value of any commodity is the average socially-necessary labor time needed to produce it.

"Trade in general being nothing else but the exchange of labor for labor, the value of all things is, as I have said before, most justly measured by labor."—*Benjamin Franklin, 1727.*

"Money should be merely a receipt, an evidence that the holder of it has either contributed certain value to the national stock of wealth or that he has acquired a right to the same value from someone who has contributed it."—*John Gray, 1831.*

"Labor alone, therefore, never varying in its own value, is the ultimate and real standard by which the value of all commodities can at all times and places be estimated and compared. It is their real price; money is their nominal price only."—*Adam Smith, "Wealth of Nations."*

THE FLUCTUATING VALUE OF GOLD

No statistics showing the comparative cost of producing gold at different periods appear to be available.

The modern improvements in the methods of mining, milling, and treating gold and silver ores have been so great that the cost of production must be now a fraction of what it was before the introduction of the stamp mill.

The Spanish and Mexican methods of extracting the values were of the crudest character—only the surface veins were worked and these only to a shallow depth, as there were no facilities for draining or ventilating the mines. The ore was brought to the surface in sacks carried on the backs of enslaved Indians or convicts.

There was no hoisting machinery and the ladders used were trees from which the limbs had been lopped off fairly close to the trunk.

The milling was done in an *arastra*. This consisted of a space perhaps twenty feet or so in diameter, enclosed by a low stone wall. The floor of the *arastra* was flagged with flat, smooth stones. In the center was a capstan, with capstan bars extending beyond the enclosing wall, to which mules or oxen were hitched. Large, heavy blocks of stone were attached to the capstan bars by chains and the ore was dumped in and the mules or oxen were started on their ceaseless rounds. The heavy blocks of stone crushed and pulverized the ore and released the metals contained therein. A small stream of water flowing in on one side and overflowing at the other side carried away the tailings. Quicksilver scattered over the floor of the *arastra* caught and held the gold and silver, but it is needless to say that a large proportion of the values were lost by this crude method.

When we compare the Mexican *arastra* with the modern stamp mill driven by steam or electricity and the use of hoisting, ventilating and pumping apparatus, rock drills driven by compressed air and the cyanide process for extracting the last cent of value, it is well within reason to believe that gold is now produced at a fraction of the former cost.

Ever since money was invented there has been a continual effort to increase its volume.

The almost universal practice of debasing the coinage during the medieval period was not because of the dishonesty of kings or governments, but in a large measure on account of the necessity for more coins to transact the growing commerce of the age. Without increasing the volume and use of money, barter could never have developed into commerce.

In this development gold has played an important and useful role. But the time has arrived when it must give way to a better and more scientific medium.

The employment of labor in producing the wealth needed to support the race should not depend upon the accidents of nature in placing the veins of gold-bearing ore where they can be reached and, also, upon the further accident of their being discovered.

It is not reasonable to suppose that if nature, in her niggardliness, had failed to create the metals, gold and silver, that the inventive genius of man would have failed to supply some other medium of exchange. The truth is that man has, through the use of the credit system, devised a means whereby commodities have been produced and exchanged to an extent that would have been impossible by the use of gold and silver alone.

It is also true that efforts to increase the volume of money have in some cases in the past ended in disaster. But those failures prove nothing except that the nature and function of money was not understood. This being the fact, the experiments were bound to be failures.

Money represents service. It is a credit in the hands of its possessor. It is evidence of an exchange where the service on one side has been postponed by agreement. It is evidence of a debt owed by the issuer. It is good money and will pass current if the issuer is known to be solvent and able to redeem. It is bad money if there is a doubt as to the ability or intention of the issuer to redeem as agreed. Gold is not a good money. It is a commodity and fluctuates in value. Its minimum value is fixed by the coinage laws of nations. The value of an ounce of gold at the United States mint is $20.67, regardless of the cost of production.

If mountains of gold ore were discovered where the cost of extracting the gold was only one dollar a ton, the fortunate owner could still take the product to the mint and have it minted into coins with the same debt-paying power as formerly, and could continue to do so until the coinage laws were changed to fit the new conditions.

In the meantime, the fall in the value of gold could only be recorded in the rise in the market price of all other commodities.

If a traveler from Altruria should land in America and, in reply to his inquiries, be told that wheat was selling at one dollar a bushel, corn at fifty cents a bushel, eggs at twenty-five cents a dozen, and that gold was minted at twenty dollars an ounce, he could easily see that an ounce of gold would buy twenty bushels of wheat or forty bushels of corn or eighty dozen of eggs. And, if on arriving on a second visit, he was told that wheat was two dollars a bushel, corn one dollar a bushel, and eggs fifty cents a dozen, he would conclude that commodities had risen one hundred per cent. But when he found that gold was still being minted at the old rate of twenty dollars an ounce, and that an ounce of gold would buy only one-half of the commodities it formerly would, it would be obvious that the value of commodities had not risen 100 per cent, but that gold had fallen 50 per cent in its purchasing power.

This, in effect, is what happened after the discovery of America.

The product of the mines of Mexico and Peru was sent to Europe and Humboldt estimates that general prices had risen by the 18th century 294 per cent. The purchasing power of the precious metals had fallen to one-third of what it had formerly been. Arthur Young computed the rise in the price of commodities to be 280 per cent during the same period, while Jacob claimed a rise of 450 per cent.

Professor Jevons, in his "Money and the Mechanism of Exchange," says that gold "between 1789 and 1809 fell in the ratio of 100 to 54, or by 46 per cent. From 1809 to 1849 it rose again in the extraordinary ratio of 100 to 245, or by 145 per cent, rendering government annuities and all fixed payments, extending over this period, almost two and a half times as valuable as they were in 1809. Since 1849 the value of gold has again fallen to the extent of at least 20 per cent; and a careful study of the fluctuation of prices shows that fluctuations of from 10 to 25 per cent occur in every credit cycle."

MONEY

(INTERVIEW WITH MR. HENRY D. LLOYD IN THE CHICAGO CHRONICLE, JANUARY 10, 1897.)

"I have no theory," said Mr. Lloyd, "no new kind of money to propose. But as a student of events I have my ideas of the tendency of monetary systems as they exist today, and am endeavoring to suggest remedies for evils whose existence or imminence all close observers must admit.

"The financial system in England and the United States presents many points of similarity. In fact, we have borrowed the ideas of English financiers—have originated practically nothing, but have been mere slavish imitators. The present English system dates from the Bank of England Act of 1694; the American system originated with greenbackism in the early years of the war of the rebellion. The English demonetized silver in 1816, and the bank act of 1844 made the unpardonable mistake of causing the circulation of paper money to fluctuate with the amount of gold and silver on hand. This system put the cart before the horse, by making the amount of industry dependent upon the volume of the currency, whereas the true system is the opposite—the graduation of the amount of currency according to the value of the productive industry of the country. This system has been the parent of panics. A financial panic is worse than a war. Its dead and wounded are found in every household throughout the length and breadth of the land. There has long been a condition of perpetual panic. We have been passing, as it were, from one fit to another with little time intervening for recuperation and recovery.

"Apart from the exchanges necessary in the retail trade the uses of money are but few. In large business transactions currency is used only in the settlement of balances. Credit does 99 per cent of the business of the country. The real problem, therefore, of the present time is the very serious dislocation of the credit system, which has resulted in a perfect paroxysm of panics. Money itself is only important as far as it affects credit. The banks do business on a preposterous and impossible pretense of paying all depositors on demand. This is absurd. The strongest of these concerns would be forced to the wall if suddenly called upon to fulfill their contract with depositors. They could not procure the money.

"In order to do business it is necessary that the banks should have an ample reserve fund.

Under existing circumstances a large cash balance must be kept. The railroad corporations and individuals engaged in trade are the chief elements that require ready money. Their obligations to laborers and tradesmen must be discharged in cash. Aside from these avenues little actual money is needed, and it is not necessary that this little should be gold. Civilization has used up all the supply of gold for its reserves. There is not gold enough in the world for the uses of business, nor yet for the bank reserves. Many times the exigencies of business compel the banks to withdraw their reserves, and the public finds that there is not enough of either credit or currency for its uses. Hence the nervousness, often recurring, that results in withdrawals of deposits and subsequent panics.

"The fact that the New York Clearing House Association has been compelled four times within the past twenty years to issue its certificates to make good the balances of the banks is an evidence of the unwisdom of the existing system. But right here is the germ of the currency of the future. By the issue of these certificates all manner of securities representing valuable commodities are transformed into currency. It is the coinage of commodities for the purpose of creating money for the use of the banks in time of panic. How easy it would be to apply a like principle for supplying the people of the whole country with money as they require it!

"One of the most successful attempts at the coinage of commodities took place in the colony of Pennsylvania. During the period between 1720 and 1770—fifty years—the colony issued $3,000,000 in currency on the security of the lands and commodities—on leases or land—for a given period, varying from five to ten years. Benjamin Franklin, who was the originator of the plan, called it the coinage of land. The success of the experiment—for it was successful in the highest degree—is a striking refutation of the present claims that such a plan is impracticable.

"A similar experiment was tried in the Island of Guernsey, with equal success. The people wanted to build a market house, but they had no money. Labor, lumber, stone, etc., there was in abundance. The authorities in this emergency issued paper notes of one pound each, which were given in exchange for the work and material needed. These notes were made receivable for the rent of stalls in the market, and had a ready circulation among the people. Each year a portion of the notes was returned to the corporation for rents and other dues, and as fast as received were publicly burned. At the end of ten years all the notes had been thus returned and destroyed, and the market house, costing some $25,000—a considerable sum for a poor community—stands today a monument to the ability of a people to break loose from gold and silver. The same system has been resorted to on other occasions in various places, and always with like good results, and it can easily be adopted by any government to the extent of the taxes levied upon and received from the people.

"The banks of the country are trying to devise means for the prevention of panics. In 1893 the finances of New York and Boston were threatened with large withdrawals of deposits. The times were panicky and all conditions portended a money stringency. The banks absolutely refused to pay out money, even upon checks against deposits. They did not formally suspend business; they simply refused to pay out money on demand, as had been their custom, and many rich men, with ample funds on deposit, were unable to procure enough currency to pay their expenses at the World's Fair held in Chicago. The business community approved the course of the bankers, and after the flurry had passed the old customs were restored. This action doubtless prevented a widespread and disastrous panic.

"It is not generally known, but it is a fact nevertheless, that at the time of the failure of the Baring Brothers' Bank in London the Bank of England was on the verge of failure. Notwithstanding all the safeguards which the government had placed around the institution its reserve was fast disappearing, and but for timely assistance would have vanished altogether. The Bank of France came to its rescue with a loan of 3,000,000 Pounds Sterling, and the government, through Lord Salisbury, then premier, extended a helping hand, and a financial catastrophe without a parallel in the history of modern civilization was averted.

"The closer union of the banks of the United States recently manifest is evidence of a desire on their part to prevent the recurrence of panics. That they may arrive at adequate means is sincerely to be hoped, yet there must be a radical change in the banking system before perfect safety can be attained.

"Much as the sub-treasury scheme of the western farmers was derided during the agitation of several years ago, it was a rational one, and may eventually form a part of our fiscal system. The plan contemplated the loan by the government—perhaps it should be called an advance—of a portion of the value of farm products, such as wheat, corn, vegetables and seeds, that could be stored in warehouses just as whisky is stored today, and sold by the government in case of forfeiture, but which in any event would bring an ample return for the money advanced. These commodities, of course, should be negotiated at the option of the government. The system, to be sure, would lead to government control of the warehouses of the country. I hope it would. The outrages perpetrated by the warehouse men upon the producing classes are so grievous as to demand some radical measure of relief. The system, in essence, is that underlying the clearing house certificates used so frequently among financiers—the issue of money based upon something of tangible value—and the practice would be attended with little risk. The warehouses could be placed under a system of inspection similar to that in the bonded warehouses in which whisky is now stored, and as the government need advance no more than 75 per cent of the value of the commodities, the security would be ample against any possible fluctuations in the market price.

"It is claimed that the system I propose would create an army of federal office holders. I do not regard this as an evil. It is time the government gave something to the people instead of lavishing its bounty upon the monopolists. We have had too many exhibitions of favoritism toward the class that seeks to control all commerce and to dictate to labor. Give the poor man a chance, even though it might multiply the number of officeholders. One thing is certain; if the present monetary system based only on gold is continued it will result in a rapid succession of panics. It is the part of a wise people to read the signs of the times, and adopt in advance such means as will give them comfort, happiness and independence.

"At first I was disposed to look with favor upon the free silver movement, but observation has convinced me that it is reactionary, revolutionary, mischievous and full of disaster. While I think demonetization was a crime, the remedy is not to go back to the *status quo ante,* but to go onward to a better system. There was never a successful system of bimetallism that tied the two metals together at other than their market value. The only alternative of the free silver men is to choose between two panics. If silver is coined at its market value it will necessarily contract the currency by depreciating the purchasing power of the silver already coined. If the present ratio is to be maintained, free coinage will drive all the gold from circulation, and again contraction will be the result. The free coinage men remind me of the cowbird, which steals the nest of other feathered creatures only to befoul them.

"Money is merely an intermediary between the producer and the consumer. Many as are the difficulties in the way of the proper arrangements of fiscal affairs, I have every confidence in the wisdom of the people. If they are only left alone they will find a way out. The trouble at present is that everything is monopolized. We are living, as it were, in a condition of industrial closure. The people are not able—are not permitted—to use their labor to their own best advantage.

"To sum up. I care nothing for any system of economics that does not include co-operation and anti-monopoly. Call it socialism if you will, I do not care. It is the only system that will bring ultimate and entire relief from the existing evils. The people of the community are as able to co-operate as the people of a corporation.

"Co-operation is a positive idea; anti-monopoly is negative. With the institution of these will come a system of finance and of all other things that will go toward making a paradise of this world of ours. The perpetual fear of poverty and panics is absurd—a delusion. The people will not submit to it long. There is too much going to waste—of food and all other things that contribute to the comfort and happiness of men—to permit of the people believing there is any good reason in nature for the poverty that grinds and the want that kills.''

CONCLUSION

The division of Labor caused the invention of money. As soon as money was invented and came into use to any considerable extent, means were taken to introduce substitutes or representatives which were of nominal value.

The earliest mediums of exchange used were the skins of animals. When these were too bulky and inconvenient to handle, a small irregular piece was cut out of the skin. This was the token that the skin from which it had been cut belonged to the holder of the small bit of leather, and ownership was proved by fitting it into the place from which it had been cut.

Leather money was used by the Carthaginians and Romans and was in circulation in

Russia as late as the reign of Peter the Great.

Paper money was in circulation in China four or five hundred years before it was issued by the Bank of England, and the Emperor of Tartary issued both paper and leather money during the fourteenth century.

The use of skins as a medium of payment was nearly universal in the early history of America. The transactions of the Hudson Bay Company were based on "skins." One beaver skin was supposed to be worth two shillings; twenty skins would pay for a gun worth about forty shillings. Sometimes a gun was sold by standing it upright on the ground and piling skins beside it until the pile reached as high as the muzzle of the gun. All kinds of skins were included and the pile would contain not only coon, beaver and deer skins, but often sea otter, arctic fox and other rare and valuable furs. This method of dealing with the Indians and trappers undoubtedly explains why the guns of that period had such extraordinarily long barrels.

During Colonial days in America not only were beaver and coon skins used as money, but also musket balls. Wampum, which was made by the Indians out of shells and which they strung in the shape of belts, was another medium of exchange and was made legal tender in Massachusetts to the amount of forty shillings. Cows were also legal tender for taxes, but, as might be expected, the thrifty New Englanders always paid with the scrawniest specimens.

In Virginia and Maryland, on account of the scarcity of coin, corn and tobacco were used in payment of debts—the tobacco at the rate of three shillings per pound, and a refusal to accept carried a penalty of three years at hard labor. Women brought over from England by the London Company were sold to the settlers as wives for one hundred pounds of tobacco. The price was afterwards raised to one hundred and fifty pounds.

In the West Indies raw produce, such as sugar, rum, molasses, ginger, indigo and tobacco, was similarly used. In Newfoundland dried codfish was used at a very recent period. Every country of Europe and Asia gives evidence of the use of vegetable and manufactured products as money.

Wheat from the time of ancient Greece to the present has been used, and in Norway it was deposited in banks and borrowed and lent.

Along the shores of the Mediterranean olive oil and in some places almonds were used, as was also salt in Abysinnia, Mexico and Sumatra, and in the latter country cubes of beeswax.

In Western China and Thibet tea pressed into small, hard cubes, called "brick tea," passes current. Fiji Islanders have a currency in whales' teeth and one red one is of the same value as twenty white ones.

In passing from barter, or the use of vegetable or manufactured articles, to metallic coins as money, an evident attempt was made to connect the coin, either by shape or design, with the article it was supposed to represent. In China cloth and knives having to a certain extent been used as a standard of value, the earliest coins were made to resemble pieces of cloth or knives. In ancient Rome the substitution of coins for cattle was marked by the impressing upon the coin a design of an ox or sow.

The transportation of any considerable amount of gold or silver coins was attended with a large amount of labor and risk, and this was obviated by depositing the coins in bank and transferring the title by means of a bill of exchange.

The Bank of Venice and the various banks of deposit in Europe are prominent milestones which mark the path of progress from primitive barter to an ideal financial system. The experience thus gained aided in the further extension of the use of book accounts in transferring credits or offsetting debts.

The traders of medieval Europe had a method of offsetting debts that closely resembles the modern system of clearing checks by banks today. The great fairs that were formerly held all through Europe during the middle ages were attended by traders from many countries, who came with long caravans, and exchanged the merchandise manufactured in their country for the goods brought to the fair by the traders from other countries.

The retail trade in these fairs bore only a small proportion to the whole volume, the largest share of the trade being in bulk between traders. At the close of the fair they met in a large room for the purpose of settling their accounts. This was accomplished by mutually offsetting their debts and credits with each other, only the differences, which were usually small, being paid in cash. Boisguilbert tells of one fair held at Lyons, France, at the close of which debts to the amount of 80,000,000 francs were thus balanced against each other without the use of a single coin.

About the year 1775 or 1780, after the use of bank checks was introduced, the clerks of some of the London bankers instead of going to each bank to collect the money on the checks, made an arrangement with each other to meet at a certain place and "swap" their checks, afterwards paying the difference only in cash. The safety and convenience of this method led a few of the London bankers—then all private bankers—to rent a room where their clerks could meet privately and exchange their checks, notes, and bills. It was kept a profound secret from the public, and a number of bankers refused to join, as they believed it to be a very questionable business arrangement. But as time went on the economy of time, as well as work, together with the elimination of the risk consequent on uselessly transporting coins daily through the street from one bank to the other, and then back again, won the day, and since then the Clearing House has become a highly respectable institution.

The Clearing House, as at first established, was a great labor-saving institution, and saved the use of money between banks in the payment of checks, except for the balances, which average only about 5 per cent of the total.

But even this 5 per cent is not now paid in the majority of Clearing Houses. In London all the member banks, and the Clearing House itself, keep an account with the Bank of England, and the differences are settled by means of checks, which transfer the amounts from one account to the other on the books of the Bank of England.

It will thus be seen that the immense commerce of England is carried on by means of book accounts, bills of exchange, and checks, and these latter are paid and cancelled without the use of a single coin or bank bill. This also includes the country banks of England, who are also members and whose checks are cleared through the Clearing House.

The same is true to a large extent in this country. While in some Clearing Houses in America balances are presumably paid in cash, they are in a large number of cases "traded"—the banks having credit balances giving orders on the Clearing House to the debtor banks with which to pay their debit balances.

These orders are paid for by a cashier's check, which goes through the Clearing House the next day.

In the Philadelphia Clearing House no money whatever is used, as they have adopted the London system of paying balances by check.

In the smaller towns the banks exchange checks with one another and the difference is settled by giving a bank draft on Chicago or New York. In times of panic the New York and Chicago Clearing Houses revert to the use of Clearing House certificates in place of money in paying balances.

It ought to be patent to any one watching the current of events that money in the generally accepted sense is becoming obsolete as a means of exchanging services or commodities. This work, formerly done with a vast amount of labor and risk, is now being done in an enormously increased volume, in a convenient, safe and economical manner, by means of book accounts, bills of exchange, checks and the clearing system.

The coins of America have almost entirely disappeared from circulation with the exception of the silver coins used in retail trade, and these are merely tokens and are worth as bullion only about one-half their nominal value. The same is true of the nickel five cent pieces and the copper cents. These coins are used merely as counters.

With the elimination of gold coins the last vestige of commodity money will have finally disappeared, at least so far as America is concerned.

Any commodity which fluctuates in value either from the effect of a diminishing or increasing supply, or from the increase or decrease in the cost of production, is a poor instrument by which to measure the relative exchange value of other commodities with itself or with each other.

The labor time necessary to produce an article will ultimately be the standard by which its exchange value will be estimated.

Any financial legislation in the future must be based on a full knowledge of the history of money and banking. It must be in harmony with the evolutionary tendencies ascertained by a study of their development. Society must be protected from disastrous results, such as were caused by errors in the past, so far as human intelligence can be depended upon.

Some day society will take the place of the capitalist as the organizer and director of industry, and then production can and will be carried on for use and not for profit.

Constructive financial legislation can be inaugurated now which will hasten the day when the exploitation of the working class will cease and make the change from private ownership of the means of life to collective ownership easy and frictionless.

To gain this desirable end by a gradual process, it will be necessary for the United States government to expand the functions of the Treasury Department and the Postal Savings Bank and through them supply money and credit to public bodies, in such amounts and under such conditions as will enable public works to be inaugurated without the aid of private capital or credit.

With the machinery of credit in the hands of the people, no more interest-bearing bonds need be issued and the burden of interest would be removed.

There have been issued during the past ten years $3,500,000,000 in municipal obligations and about $2,500,000,000 during the previous ten years, some of which have matured.

There are probably now $5,000,000,000 of these bonds still outstanding in addition to the $1,146,626,000 United States government bonds. This calls for at least $250,000,000 yearly for interest. During the year 1913 $403,000,000 and in 1914 $474,000,000 were marketed. The first four months of the present year saw an additional $148,128,400 added to the amount outstanding.

The amount of credit borrowed through the use of bonds by states, counties, cities, school boards, and road, bridge, and drainage commissioners approaches $500,000,000 a year. This means an additional charge for interest each year of $25,000,000. The interest now paid on the outstanding municipal and government bonds is equivalent to the average yearly wages of nearly 500,000 workers.

This can be saved by proper legislation along the following lines:

The Postal Savings Bank law should be amended to permit the opening of checking accounts by individuals, firms, corporations or public officers, and the limitations on the amount which may be on deposit to the credit of any one removed.

Postal Savings Banks should be located in convenient places easily reached by the public, with as many branches as may be needed in any city or town, and a campaign of publicity be inaugurated, with a view to bringing the use of the Postal Savings Bank to the attention of the people.

No deposit in a Postal Savings Bank should be re-deposited in any privately owned bank.

All sums to the credit of the United States disbursing officers should be placed to their credit in the Postal Savings Bank, to be checked against by them.

Drafts should be drawn by any Postal Savings Bank upon any other Postal Savings Bank within the jurisdiction of the United States at par, no charge being made for exchange or for services rendered, except what is necessary to cover the actual expense involved.

No interest should be paid on deposits.

All Postal Savings Banks should become members of the local Clearing House Association.

In addition to the above a bill in harmony with the provisions contained in the one with which this volume closes should be enacted into law.

When the people themselves supply the credit they need for all their present collective activities, without the intervention of bond syndicates and bankers, they will have learned a most valuable lesson in finance. They can then go on adding one enterprise after another as fast as the growing intelligence of the voters demand.

The money or credit issued to establish or purchase income-producing enterprises could be redeemed out of the surplus revenues, and after the debt created had been paid the charges for service could then be reduced and labor conditions improved.

Where the credit had been given to aid in establishing non-income-producing improvements, such as parks, roads, schools, etc., 4 or 5 per cent of the principal amount could be redeemed each year out of the general tax levy until the debt was cancelled.

The credit advanced could be either in the form of a credit entered on the ledger of a Postal Bank, and transferred by checks, or in the form of United States notes for purposes of circulation.

A BILL to Provide a Self-Redeeming Legal Tender Paper Currency, at Cost, for All Public Functions and for the General Use of the People of the United States of America.

FORMULATED BY W. W. CLAY OF CHICAGO.

(A) FISCAL DEPARTMENT:

Be It Enacted by the Senate and House of Representatives of the United States of America in Congress Assembled:

That within ninety days after the passage of this act, the Government of the United States shall establish a *Fiscal Department*, under the jurisdiction of its Treasury Department, with all clerical or other machinery that may be necessary to transact its business, and with proper and sufficient appropriation of funds to maintain the same.

The Fiseal Department of the United States shall be in the nature of a *Bank of Issue* and its purpose shall be to provide Money for the *Public Needs of the People of the United States*, and to *Unify All Forms of Curreney* now in circulation by the authority of the United States (except Federal Reserve Currency).

(B) NATURE OF UNITED STATES MONEY:

All Money Issues of the Fiscal Department shall be in *Paper Currency*, which shall be printed by the Bureau of Printing and Engraving, and properly attested.

This Currency Shall Be Lawful Money of the United States, and Shall Be Called United States Currency.

It shall be in general form and design similar to the present United States Notes, and it shall be issued in denominations that may, from time to time, seem best suited to the needs of the People of the United States.

United States Currency Shall Be an Evidence of Monetary Credit in the Person of Lawful Holders, and Shall Be Receivable at Face Value in Liquidation of All Debts and Dues, Public and Private (Without Exception), Within the Territorial Jurisdiction of the United States.

(C) UNIFICATION THRU LEGALTENDERIZING:

For the Purpose of Unification, from and after the passage of this Act, all United States Notes, National (banknote) Currency, Gold certificates, and Silver certificates shall be *Full Legal Tender* for all debts and dues, *Public* and *Private, Without Exception,* thruout the territorial jurisdiction of the *United States,* and except National (Banknote) Currency, *Shall Be Available as Reserves in National Banks*: But while in circulation, each particular kind aforesaid, shall preserve all the qualifications it now possesses, in regard to redemption in such other forms of Money, as Gold or Silver, which the conditions on its face, or the present laws of the land, provide.

(D) UNIFICATION THRU EXCHANGE:

All such various notes "currency" or "certificates" that now are, or that hereafter may be possessed or collected by the United States, thru its treasury, sub-treasuries, post offices, custom houses, or any and all other receiving departments of the United States, together with all gold coin, shall be immediately sent to the Fiscal Department of the United States Treasury, and be exchanged for United States Currency of equal sums and approximately corresponding denominations.

Any banks, corporations or individuals having such notes, currency or certificates may have them exchanged for United States Currency on application to the Fiscal Department.

The Owner of any mutilated or wornout Notes, Currency, or Certificates, may also have them exchanged for United States Currency in like manner.

No such "notes," "currency" or "certificates" when so collected or exchanged shall be re-issued or paid out by the Government of the United States or any of its Departments, and all present laws for re-issuing or re-circulating of same are hereby repealed and declared null and void.

All such Notes, or Certificates, in any manner received or exchanged for, thru the operation of this Act, *Shall at Once Be Destroyed.*

All National (banknote) Currency shall be held for the redemption of the U. S. Bonds against which they were issued.

(E) CURRENCY FOR GOVERNMENT PURPOSES:

United States Currency shall furthermore be created for, and issued into circulation, by the various departments of Government, for all *Public Purposes* that require, or may require, expenditure of Public funds, and for which appropriations may be made. The same being provided by the Fiscal Department as earned and needed.

All such new United States Currency must first go into circulation by being earned for full value received in the performance of Public Functions, and when returned thru payment of services by the Government, or thru Government revenues, must be destroyed as having completed its cycle.

(F) TO PREVENT POSSIBLE REDUNDANCY:

Return demands on money issued for Government purposes shall be made and arranged thru the usual channels for Government Revenues, so that such revenues shall, as nearly as possible, equal the outlay. But in cases similar to those now demanding extraordinary outlay, and for which the Government has heretofore issued interest-bearing bonds to obtain funds, the revenue collections shall be at a rate of 4 per cent per annum and continued until a sum equal to that paid out shall have been returned, and the *Cycle of Any Issue Thus Completed.*

(G) CURRENCY FOR STATES, ETC.:

The Fiscal Department of the United States shall also extend its facilities for supplying currency to States, and upon guarantee of States, to their respective Cities, Towns or other Political Units, whose ability to return the same in twenty-five yearly installments of 4 per cent each is fairly demonstrated; a proper public use for the money provided; the legal consent by vote of the People in such political unit obtained; and a promise to return the currency advanced (in installments as above) properly acknowledged with suitable penalties and securities.

As the currency is received back by the Fiscal Department in the installments above provided, its *cycle will have been completed; and It Shall Be Destroyed.* But these advances may be paid back, wholly or in part, in such other forms of money herein declared full legal tender by this Act, which shall be disposed of as provided for such moneys.

(H) CURRENCY FOR PURCHASING PUBLIC BONDS:

The Fiscal Department Shall issue Currency and the Treasury Department shall purchase with such Currency all *Public Bonds Now Outstanding That May Be Offered, of the United States, Cities, or Other Political Units* that may have met the interest provided by their respective bonds. These bonds to be paid for at par, plus accrued interest. The Treasury Department shall collect the interest on such bonds and destroy or otherwise dispose of the money paid in, as provided for such moneys.

When the bonds so purchased become due, and all interest requirements have been satisfied, the Political Unit involved may redeem or renew the same on the 4 per cent yearly installment plan provided for the payment of political unit obligations set forth in Section G.

For any bonds of political units not purchased under this clause, the Fiscal Department may provide currency for the payment thereof under the general provisions of Section G if the same is acceptable to the several holders of such bonds; not exceeding par value.

(I) FINALLY:

Nothing in this Bill Contained Shall Be Construed Into a Repudiation or Revocation of the Rights of Redemption in Gold or Silver Coin, as the Case May Be, of Any Now Existing Form of Money or Other Obligations, Thru Which Lawful Demands May at Present Be Made for Such Gold or Silver Coin.

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