MONETARY AND INDUSTRIAL FALLACIES.

A Dialogue.

BOSTON:
HOUGHTON, OSGOOD AND COMPANY.
The Riverside Press, Cambridge.
1878.

RIVERSIDE, CAMBRIDGE:
STEREOTYPED AND PRINTED BY
H. O. HOUGHTON AND COMPANY

PREFACE.

THE following dialogue was intended to form part of a work entitled The Political Economy of Great Britain, the United States, and France, in the Use of Money: A New Science of Production and Exchange. As it would swell the book to too great a size for convenience, it is published separately. To some minds this form of arguing economical and monetary questions may be more agreeable than a didactic and formal one; and besides this, a comparison with prevailing opinions can be carried along at the same time. New ideas are thus presented in the most forcible manner possible, and those who offer them have some opportunity of being heard, by being found in company with those who can argue in favor of the old ideas. The dialogue introduces a skilled workman who is in search of work, who thinks the national banks ought to be immediately wound up because they are making money scarce, and their notes replaced by government issues. Absurd as this scheme really is, and as it certainly appears to most men who have any knowledge of practical affairs, some business men, thousands of laborers, skilled and unskilled, and some men who are well known as writers upon economical questions, support it. The minds of ignorant, and, in many instances, vicious, as well as ignorant men, are being filled with false ideas by traveling lecturers and speakers, in some parts of the United States, and there is no organized effort to counteract it. The spirit of destructiveness and Communism is attracted very naturally by such arguments, and the result may be the prostration of industry and commerce for years, by the indefinite postponement of a return to convertibility of bank and government debt now used as money. The dialogue introduces a writer who favors a government currency convertible into funded debt, the latter being reconvertible into currency at the pleasure of the holder. How the government is to loan this currency without turning banker, this writer and his brethren are unable to say, because they have not thought about that. The dialogue introduces also a writer of the prevailing school of economists, who thinks bank credits are likely to liberate gold from banking reserves, until finally, as "clearings" are extended from time to time, the gold required for reserve becomes a mere trifle, and that metal as well as silver is largely exported and sold, for use in barbarous or half-civilized countries. The same writer insists that there cannot be such a thing as overproduction, and that a banking, commercial, and industrial crisis is merely a matter of "over-trading" and "speculation." These economists argue their own case together when they agree, and when they do not, each for himself, in opposition to a banker who has adopted the ideas maintained in the book above referred to. This banker insists that all money is substantially one and the same thing, — a process for the exchange and distribution of the products of labor; that gold and silver are the most perfect form and kind of money, and that for all ratios of valuation and all equations of exchange between buyers and sellers, in order to have the true and real benefit which gold and silver are able to confer, a definite portion on short averages, of units of gold or silver, ought to form a part of the total number of units of money (whether units of bank or government debt constitute the remainder) in every ratio and equation. This result is obtained by a metallic reserve, varying in short periods only, from a definite ratio to bank-loans. This banker maintains the proposition that while natural inequalities of condition and of ability are essential to the progress of society and even to civilization, because without them there could be no loans and therefore no production on credit, yet by the uncertain degrees of economy of gold and silver, which a constantly variable banking reserve implies, production on

credit is carried to such an excess as to bring about periodically crises which appear in banks, in commerce and in industry. Hence the attempt to establish a bank-note currency by the Act of 1844, in England, "varying as gold would vary," was utterly futile, because Adam Smith's law in respect to bank-notes, — that they ought not to exceed in volume the metal they displace, — is equally applicable to all bank loans. The non-perception of this law, as equally applicable to the loans of all banks, and it may be the impossibility of carrying it out in respect to deposit-loan banks, have caused England and the United States much loss and suffering. Production is subject to a law which is paramount to money, — the necessity of exchanging the products of labor. The coinage of silver is also incidentally discussed. A conservative banker is introduced, who believes in the doctrines of the economists of the day, but is ready to hear all sides, and anxious to learn the truth.

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In the following dialogue the speakers are a skilled laborer, a banker of the old school of opinion in relation to deposit and deposit loans, metallic and convertible paper, money, etc., a writer of the same school, a writer on Political Economy who maintains with the skilled laborer that what is needed for the country is more money, and a banker who has, after careful examination, adopted the opinions maintained in this book. The skilled laborer I designate by the initials S. L.; the banker of the old school of opinion by the initials O. S. B.; the political economist of the same old school by O. P. E.; the writer, who favors more money, and also the "convertible-bond" currency scheme by C. B. C.; and the banker of the new school of opinion maintained in this book by the initials N. S. B.

S. L., O. S. B., and N. S. B. meet each other casually and open the dialogue:—

S. L. I am out of employment, gentlemen; my occupation is that of steam-engine maker; can you direct me to a place where I can get work?

O. S. B. That work is said to be overdone. I do not believe it, although I know of no place where it can be had. Good workmen can always get work: there is an abundance of everything: the land is teeming with wealth and granaries are bursting. You certainly ought to be able to get work.

S. L. All you say may be true, but nevertheless I have spent much time in trying to get the work, which you say is so easy to be had, and have not succeeded, although I

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believe myself to be a fair workman. Rather than wait any longer for the work I know how to do, I am willing to try my hand at any kind which will furnish me board and clothes. If the government would only issue more greenbacks, or coin plenty of silver and set us laboring men at work, it would be a great blessing: there would be joy among all the idle boiler, steam-engine, brass-plate and iron rail and bar makers, as well as all the miners and smelters in the land.

O. S. B. Your greenbacks would not help you, if they were issued, and your silver would only cause inflation. It would also be an act of repudiation on the part of the general government: it has no right to issue cheap money to pay debts with.

N. S. B. You are right, Mr. O. S. B., in saying that an issue of greenbacks would help nobody, but you are wrong about silver. It is highly inexpedient, I admit, for the general government to coin at this time any more silver than will be needed for subsidiary use on a return to specie payments, and the amount that will be needed for that purpose will depend upon the exclusion or non-exclusion of small notes: small notes would be well enough, if a proper banking reserve were always kept. In Great Britain, in consequence of the exclusion of notes below five pounds and the absence of all gold coins below the half-sovereign, a much larger amount of silver, in proportion to the whole, is required in the circulation than has been the case with us. What is called the silver question in the United States has now no practical importance whatever. While, however, it has no practical, it is in point of science of the very highest importance, because it shows so clearly the absence of all true science in the mercantile theory of money, which has been universally maintained hitherto. The question has no practical importance, because it is impossible to coin enough silver, at any ratio, to drive out gold entirely before convertibility of government and bank debt is restored; and after return to convertibility, until gold is driven out, all silver and gold dollars and multiples of gold dollars must exchange

at par or at least very near par. So long as gold remains it will be the "Standard," because there will be a standard impossibility of expelling it until there is silver enough to take its place. It would require more than double the mint power we have to coin silver enough to drive out the gold, even if holders of bullion would bring it to the mint as soon as we should need it, to redeem with, and then nothing but free coinage of all silver bullion brought to the mint for that purpose, or the purchase at market rates and coinage on the part of government of all the silver offered for sale, could have the effect of expelling gold. Such a coinage need not be expected, if authorized, until after a return to convertibility under gold, because silver would probably rise too rapidly to allow it to take place. After a return to convertibility under gold, moreover, it will become manifest to all that the United States ought to adhere to gold until a general monetization of both silver and gold can be agreed upon, so as to make the barter rate between them stable.

O. S. B. What do you mean by the barter rate between gold and silver?

N. S. B. I mean that gold and silver bullion are, as bullion, commodities, or, as one might say, merchandise; but as money, they are not. They are, even as money, it is true, material substances designed for use; but for all practical purposes they are not commodities in the sense in which other things so called are such, and therefore I plainly and honestly say so, because for me Political Economy is not a science of abstractions: I aim to make it practical, so far as I have anything to say about it. All money, when used, whether paper or metal, necessarily resolves itself into a series of abstract units, limited in number by the metal or the paper to be had, and by the metal and paper actually used, and localized by the paper or the metal; but in order that they may be limited as well as localized by the metal and paper employed for that purpose, it is essential, while other commodities *can* be used without, that the metal be divided into pieces by weight or measure, and if not so divided, it is essential that they be weighed or measured, not for the