MA 1901

THE FUTURE MONEY OF THE UNITED STATES.

THE STANDARD will continue the present gold dollar, containing 23.22 grains of fine gold.

SUBSIDIARY COIN will continue to be coined and circulate in about its present proportion to gold coin.

NATIONAL BANK NOTES will continue to circulate for some time but will gradually disappear.

UNITED STATES BANK NOTES will, in a more ample manner, take the place of the National Bank notes.

The establishment of a thoroughly secure and stable money standard is an indispensable condition to industrial prosperity. In all probability this has been accomplished by the recent financial legislation of Congress, whereby the original gold dollar, established during President Jackson's administration, containing 23.22 grains of fine gold, is again declared the standard of United States money. Not only is this to be the standard, but all United States money will be kept at par with the adopted standard, and ample provisions have been made for the carrying out of this declaration.

In view of the fact that all of the highly civilized nations of the world have unequivocally adopted the gold standard; are well satisfied with the arrangement as a permanent thing, and are unwilling to accept any kind of change, not even on the plan of international bimetalism, there is but small likelihood of any change in the money standard of the United States, even in the remote future.

The adoption of the present standard is the culmination of a long continued growth or evolution, that has been subjected to all manner of checks and hindrances that could possibly have been thrown in its way. Primarily, resistance was persistently offered by those whose personal interests would have been enhanced by a different course; secondarily, by such as have been misled to confuse the actions of widely different causes, and have charged to the operation of a sound monetary principle what should by right be charged to conditions brought about by causes entirely foreign to the monetary system. Now, that much of this confusion has in a practical manner been cleared away, the battles against the gold standard is and will remain a thing of the past.

The subsidiary coin of the United States, as at present constituted, is quite satisfactory, except that a very large additional volume of change, such as fractional silver, will be needed. This together with additional coinage of silver dollars, is amply provided for by the recent financial bill that passed Congress last March. The volume of silver in circulation will always be kept down to such proportions as to not endanger its parity with gold. This will in all likelihood mean that the amount of silver dollars and silver certificates in circulation will not, as a general rule, exceed one-half or three-fifths of the amount of gold in circulation.

The profits of the National Banks on National Bank note circulation, has gradually but steadily decreased, so that unless a change in the law, more favorable to the Banks will soon be made, so as to make the issue of National Bank notes more profitable, either by a decrease of interest on such circulation, or a considerable modification of the stringent regulations applied to National Banks for the privilege of issue, the National Bank note circulation will practically cease within the next generation. The decrease of the National debt and consequent scarcity of Government Bonds, will hasten this result, although there is but slight danger of total elimination within the near future. Be that as it may, the National Bank note, as a means of increasing circulation in proportion to the growing needs of the country, has been a failure, and to take its place in a more efficient manner, something else must be substituted. The high water mark of National Bank note issue was reached in 1881, when it amounted to $325,000,000. This amount gradually decreased to $123,000,000. in 1900, so that when the stringency in the money market of 1893 and 1894 came on, there was but little relief from the source of National Bank note circulation. It is true, the circulation since that time has again increased so that at present it amounts to about $250,000,000. and may increase still further under stimulus of the recent financial legislation, whereby the establishment of National Banks in smaller towns and with a minimum capital of $25,000. instead of $50,000. is allowed. Yet, it is apparent that this will only be a temporary improvement.

Public opinion, which is more and more becoming the direct ruling power of the country, will prevent any extension or increase of special favors being given the National Banks, and yet, the people of the United States have become so thoroughly adicted to the use of paper money in some form or other, that a continuance of its issue will be demanded. We have now a variety of paper money in circulation that passes freely from hand to hand, without question as to its goodness. Some of these forms are not objectionable. The gold and silver certificates being merely representative of coin stored in the treasury, ~~and as such~~ are preferable to the coin itself on account of convenience and ease in handling. These certificates being in reality storage checks, can of course not be questioned since their representatives in coin is kept constantly on hand ready for their redemption whenever presented. Neither is there at the present time any objection among the people to receiving at par National Bank notes, Treasury notes, or United States notes (green backs). The National Bank notes, as far as they go, are perfectly satisfactory, and since their ultimate redemption is guaranteed by deposit of United States bonds to their full value, no one questions their being worth full face value. The Treasury notes, now in circulation to the amount of $86,000,000. circulate without difficulty, but it is practically a circulation of certificates of indebtedness of the United States. True, it is but a small debt, but like every other debt, public or private, it should be paid as quickly as possible. The Redemption Department of the United States Treasury, as recently established, will take care of this debt in short order, and this fact is somewhat comforting. The legislation that brought the Treasury notes of 1890 into existence, was a foolish piece of business, but under the circumstances of its passage,it could scarcely have been avoided.

The political pressure in Congress from the side of the free coinage of silver advocates, was so great that it was necessary to make a choice of the lesser of two evils. The other evil was "free coinage of silver at a ratio of 16 to 1." The experience with Treasury notes of the 1890 variety, has had a salutary effect on the minds of the people, so that popular education has been the gain, although at a rather high price. The experience with Treasury notes as issued under the Sherman Act of 1890, was an experience with fiat money in a disguised form. This measure provided for the monthly purchase of 4,500,000 ounces of silver bullion at market value, and the issuing of Treasury notes in payment for same. Under this Act, 180,000,000 ounces of silver was purchased. The probability is that had that amount of silver been coined and put into circulation, together with the silver previously coined and circulating, and no guaranty to the contrary on part of the Government, the silver dollars would have quickly depreciated in value. The parity was maintained, but the United States "paid the fiddler." This was owing to a peculiar provision of the Sherman Act. The Act provided that on demand of the holder of the notes (whether they had been in circulation ten minutes or ten months) "the Secretary of the Treasury should, under such regulations as he may prescribe, redeem such notes at his discretion, it being the established policy of the United States to maintain the two metals on a parity with each other upon the present legal ratio as provided by law." The subsequent drop in the market price of silver virtually caused the silver coin to become in part fiat money, since the metal in the silver dollar was only worth fifty cents or less. The Government made good the fiat by promptly paying gold in redemption of the Treasury notes whenever called for, thus preventing the depreciation of our silver coin. This was, however, done at the cost of a heavy drain on the gold reserve, augmented by the fact that owing to deficient revenue of the Government, the Treasury notes had to be paid out again for current expenses, and thus give rise to the endless chain of repeated redemption and re-issue.

The United States notes, or more familiarly, greenbacks, under normal conditions, are an acceptable circulating medium, but have the same objection attached to them as the Treasury notes. They are merely certificates of indebtedness, and their gradual retirement, as now provided for, is a sound and proper kind of legislation.

Thus we find ourselves facing conditions that will soon mean a considerable decrease of the paper money in circulation. The gold and silver certificates will of course, continue in circulation at its present volume, ~~and~~ or possibly with some increase, but the Treasury notes and greenbacks will gradually be retired, and for reasons already stated, the National Bank note circulation will also gradually disappear. Something must be done to meet the popular demand, of not only a continuance of but an increase in the volume of paper money.

There is a steadily increasing desire for a means of increasing circulation, when circumstances and conditions demand it. By this I do not mean the creation of a so-called "flexible currency" for the "moving of crops", or use only at certain seasons of the year. There is less in this proposition than the prevailing impression really warrants. One would imagine by reading and hearing the discussions over additional money needed to move the crops in the fall of the year, that the farmers of the West would all of a sudden become immensely wealthy, and that all the money of the country would not be sufficient to satisfy their demands. The fact is that almost simultaneously with the crop movement comes the liquidation of debts the farmers owe in the eastern money market; the paying off of mortgages and interests, and also, in a more indirect way, the payment of goods that had previously been shipped from the East, so that when the movement of the drops is over, there is but little money left in the hands of the farmers in addition to what they had before the movement commenced. The experience in this regard has been that under ordinary conditions, when the money market is in its normal state, the movement of the crops is not a very serious matter to contemplate.

What the people want, and most likely will have, is a supply of money that can be reached by states, counties and municipalities, for the carrying on of public works and public improvements as occasion will demand, more readily accessible than under the present system of bonding. There is an increasing popular desire- as expressed by the political platforms and campaign utterances during the past several years- that the issue of National Bank notes is not altogether desirable and should be discontinued. Not that any fault is found with the paper issued by the National Banks, but rather with the fact that the issue carries with it certain privileges and profits that in the public mind savors of favoritism. This is a peculiar incident, since the Banks themselves originally opposed the passage of a National Bank law, looking upon them as an abridgement of their natural rights. Public opinion, however, insists on making itself heard and must be respected, and in this particular case the tendency seems to favor a more direct manner of issuing on the part of the Government, so that any possible profits arising from the transaction should go to the Government, and not to private corporations.

There are still in existence those who say, "let the government meet the demand by issuing more money", meaning that the Government should merely issue "fiat" money. The only difference between the many eonomists of that class is, that they each have a pet scheme of a more or less disguised form of government fiat. With the long list of experiences of this kind recorded by history, not of the United States alone, but every nation in the world that has a history, all of which have proven more or less disastrous, it is a wonder that men will still argue along that line, as though the Government had not only "the divine right to rule", but the divine right and ability to create much out of nothing, as well. But, they argue, these experiences took place long ago, when this Government was weak and had but little wherewith to back its mandate. There may be some reason in that argument, but even now, the virtue of moderation is not a too prominent part of human nature. The history of the greenbacks is recent enough to illustrate the result of fiat issue under fair, modern conditions. Any kind of paper money not backed by definite security and for which there is not provided ample and specific redemption, may properly be termed fiat money. Such was the case with the greenbacks up to 1878, and even at the present time, the entire element of fiat is not removed since no definite time is fixed for greenback retirement.

The greenback fell in value to 98 cents on the dollar immediately after the issue in 1862; touched the low point of 35 cents on the dollar in 1864; 61 cents on the dollar in 1869, and 97 cents on the dollar immediately before the resumption of specie payments in 1878. Thus we see that even as late as 1878 the fiat of the Government was not wholly accepted even on a small scale.

At the present time we have partial fiat money in circulation in the United States as follows: greenbacks, $318,000,000; treasury notes, $86,000,000; subsidiary silver, $75,000,000; silver certificates, $400,000,000, making a total of $881,000,000. This is probably all our Government should try to carry in the way of fiat. Sound business policy, such as apparently is now in operation, will look towards a decrease, rather than increase of this element in our monetary system. The idea is vigorously advanced in some quarters, that the Government, through a special department of the Treasury, should issue paper money direct, according as the nature of the case would require. The issue to be made on some kind of security; on bonds of railroad companies; private or civic corporations. There is at least one serious objection to this mode of proceedure. This would place the whole matter directly under control of Congress. The policy pursued would vary from one election to another; political pull would be more the controlling element than sound business principle. It would result in a "grab bag" game from beginning to end, and the Congressman who did not do his share of grabbing for his constituency, would not be re-elected. Then also, the still existing tendency toward fiatism would be a menace. At some period of natural industrial depression, a Congress might be elected under the stress of temporary circumstances, that would make a wild break for fiatism for temporary relief. The bars once down, the end would not come till the financial conditions of the country would be in a state of disgrace and ruin. The farther apart the managers of business policy and the managers of politics of the country can be kept, the better for business, and possibly for the purity of politics as well.

There is a deeply rooted prejudice in the minds of the people against the issue of money by any form of Bank, but after all some institutions besides the National Bank, will be needed to provide for the issue of suitable paper money, and a selection will soon have to be made. The experience of the United States with banks of issue has practically been confined to five kinds, land banks, private banks, state banks, national banks and United States banks.

The land bank was the first banking experience of Massachusetts, of which we have a clear record. This was started in 1714, and was a move on the part of a lot of schemers who had more land than they could make use of, and many of them in close circumstances. They banded themselves together and subscribed 300,000 pounds for bank capital, but instead of putting up their respective subscriptions in coin, each subscriber made over real estate to the value of his subscription, to the trustees of the bank, who on this real estate as security, issued the circulating notes. Although not favored by the General Court, the scheme proved very popular. Within certain limits the plan might have worked very well, but it was quickly overdone. The Land Bank of 1714 was crushed temporarily on account of the General Court not granting it a charter. In 1741 the scheme was revived with redoubled energy, and this time carried the General Court with it. It resulted in the wildest kind of inflation, until stopped by the anti-Bubble Act of Parliament. Although the Bank continued in full operation for only two years, it caused heavy losses and ruin to all who were concerned in it. The Land Bank scheme was not dishonest in its original conception, but its operation proved unsound and pernicious. A return to such a plan of money issue at the present time need hardly be considered.

Under the free banking system in vogue in the United States up to 1862, we have abundant illustration of paper money issued by private banks, or banks owned by citizens. A great many of these institutions were started with the evident intention of fraud; others were launched with good intentions and honest endeavor to conduct honest banking business, but failed, for lack of good banking principles so as to keep at par the notes issued. A few met with notable success, in maintaining the credit of their banks and keeping at par their circulation. This result was reached by carefully limiting the note issue and providing for ample redemption fund. As a bright example of successful private banking, may be mentioned the Wisconsin Marine & Fire Insurance Company, started by George Smith in 1839. This was really a banking institution doing business in a roundabout way, since their charter expressly forbade their doing banking business. However, a form of certificates of deposit was issued and put in circulation, and passed as well as the best of regular bank notes.

The Bank of North America is another example of good banking by citizens, instituted at a time when Continental currancy was at its last gasp, and any kind of sound banks were unknown in the country. This bank was chartered by the Continental Congress in 1782, and is still continuing business, but now as a National Bank. This bank was organized and financiered by Robert Morris, who made use of $470 in specie on which to start the issue of bank notes. The business was conducted on sound banking principles and the circulation kept in good repute. These and a few others are notable exceptions to the general run of private banks. Under the stress of competition and absence of proper restraining laws, the private banks were always inclined toward recklessness to such an extent as to make their notes uncertain and fluctuating in value. The heterogeneousness of the various bank issues was such as to make it easy for counterfeiters to ply their trade with success. Altogether, the circulation of private bank notes under a free banking system, is not desirable and will never be renewed in this country.

State Bank circulation is scarcely more desirable than that of a private bank. It is true, some excellent systems were involved during the regime of the State Banks, and the best features of our National Bank laws are copied in a modified form from these. The variations of State laws regulating the State Bank issue would be one objectionable feature. Some would naturally be more lax than others, thus inviting recklessness and fraud to such an extent as to prove a hindrance to industrial and commercial development. The various designs for State Bank notes were as numerous as the States in the Union, thereby making counterfeiting more easily accomplished. The general desire for uniformity of design of bank notes and of banking laws, is strong enough to prevent a reinauguration of the old State Bank issue, so we may as well allow that phase of the question to be set aside.

As previously mentioned, the National Bank Acts of 1863 and 1864 were passed against the wishes of the bankers of the country. They took umbrage at what they thought an unwarranted interference on the part of the United States with private business. When the law went into effect and had some time to demonstrate its workings, the bankers were convinced that the measure was a fair one and entirely consistent with good and safe banking. The objection to the National Banks on part of most people is rather owing to a misconception of the facts in the case than otherwise. The National Banks have been of inestimable service to the nation, even though as a rule the promoters have profited. They fill the place for which they were designed fairly well, and no reasonable objection can be raised against them, except that they do not supply sufficient currency at the time when most needed. However, the National Banks will likely continue to do business as at present, and still further develop for a good many years to come.

This country's experience with banking and bank issues, includes two United States Banks. The first established in 1791 by recommendation of Alexander Hamilton, and continued under its twenty year charter, till 1811. Under the wise management of Gallatin, this bank proved a success, and earned profits to the United States of over $1,000,000, besides keeping in circulation a large issue of United States bank notes. Politics prevented a reeissue of the charter when it expired in 1811, but a new one was issued in 1816. This new bank was managed somewhat less wisely by Nicholas Biddle. He tried to run not only the bank, but President Andrew Jackson as well. That is where he made his most serious mistake, for through Jackson's manipulations the re-issue of the bank charter was prevented in 1836, and the affairs of the bank were wound up as quickly as possible. Financially it was a fair success, but prejudice was worked up against it for political purposes, and these have continued up to the present day.

The two United States banks were swept out of existence by a wave of public opposition, caused by bitter politics. The popular verdict against these two United States banks was based principally on prejudice, and had but slight foundation in fact. After all, there were some excellent features connected with these banks, and these, with proper modifications, will likely be brought into service again. The needs of the present day seem to point towards the desirability of a third United States Bank.

The third United States Bank will doubtless be established some time in the near future, and following is a suggestion for an outline of its plan:

1. By special Act of Congress it will be given an irrevocable charter for one hundred years. The long term of years is

necessary so that the system may become thoroughly established, and politicians, for one generation at least, will be discouraged from intriguing for its downfall and against a renewal of its charter.

2. The bank to be capitalized at $100,000,000, divided into 100,000 shares of $1,000 each. Shareholders to be limited to citizens of the United States, and $10,000,000 to be the limit of subscriptions for any one State, and $1,000,000 reserved for subscriptions in each State. A limit of 100 shares should be made for each person. The bank should be allowed to start business as soon as one-half of the stock subscribed would be paid in, balance of stock to be collected within one year of organization.

3. Each shareholder to be allowed one vote for the first share held; one vote for the next two; one vote for the next three; and so on. By this arrangement the affairs of the bank will be kept from passing into the hands of a few.

4. The bank to have one branch in each State, managed by local Board of Directors, elected from the shareholders residing in the State.

5. All bank note issues to be made for the payment of State, County and Municipal bonds. The issue to be made by the parent institution at Washington, under strict supervision of a Government inspector, but all issues to be made on recommendation through the branches.

6. Discounting to be made by the branches, using the capital subscribed by the shareholders, and the profits as they would come in through the payment of interest on the bonds, but in no case to use

any of the funds paid in on the principal of the bonds.

7. No private deposits to be carried by the bank.

8. The United States Bank with its branches, to act as the fiscal agent of the Government.

9. The United States bank notes when collected on the principal of the bonds, to be cancelled and returned to the parent institution, to be there checked off. Other currency paid in on the principal of the bonds, to be kept in a special redemption fund for the ultimate redemption of the bank notes when they have circulated for fifty years, or for a shorter time, according to the abilities of the fund.

10. The Government to pledge itself not to grant another charter to a bank of issue on like principal during the ~~present~~ time of the first charter.

11. The net profits of the institution accruing from interest on bonds, to be shared equally with the United States.

12. Restrittions and regulations in regard to the discounting business of the bank to be made by Congress, as strict as those of the National banking laws, and further abridgments and safeguards to be adopted if necessary.

The business of the bank being restricted to buying bonds and issuing United States bank notes therefor, and a general discounting business, would have to be modified in such a way as to make the work connected with the institution as simple and limited as possible. Bonds only in convenient denominations need to be accepted, for example, in denominations of $10,000 or multiples thereof. The United States bank notes should be issued in denominations of $1.00, $5.00, $10.00, $20.00 and $50.00, so as to be of the most convenient form in paying out for labor and material for public improvements. A limit should be fixed for the bonded indebtedness of states, counties and municipalities, and no bond should be accepted by the United States banks where the organization issuing them would carry a bonded indebtedness exceeding ten per cent of the assessed valuation. The bonds should bear two per cent interest, and provisions for the paymnnt of two per cent on the face of the bonds annually, until the bonds are fully paid, which would be in the course of fifty years. Since the interest would decrease from year to year, this system would on the part of the issuers of the bonds, be equivalent to paying three per cent interest for fifty years, and then have the bonds cancelled.

To illustrate the workings of this plan we would take the example of the city of Minneapolis, issuing bonds under the regulations as prescribed by the authorities of the United States Banks, to the amount of $100,000. These are taken to the Minnesota branch of the United States Bank, and there deposited in return for United States bank notes to the amount of $100,000. At the end of the first year $2,000 would be due in interest, and $2,000 being two per cent of the principal, would also be due and payable. At the end of the second year the interest would be collected on $100,000 minus $2,000, or $98,000., which would be $1,960,,or $40. less than the interest paid at the end of the first year. While the regular two per cent payments on the face of the principal would continue, the interest would thus decrease $40 per year, until at the end of the fiftieth year, when the last payment of $2,000 on the principal is made,and the last interest payment amounting to $40. is made, the bonds would be fully paid and cancelled.

Necessarily the United States bank notes would have to be made full legal tender, and since it would be known that they were backed by ample security and that they would be paid gradually within fifty years of issue, there can be no reason why they should not be accepted at par.

It may be argued that municipalities can even now secure loans at three per cent, and may possibly be able to make these loans at a still lower interest in the future, there would be no call for the issue of United States bank notes according to the plan suggested. If that is so, well and good. If that condition continues to develop, it must be taken as an indication that money is plentiful; but it is hardly likely that such will be the case. A financial stringency will likely develop in the course of time, and probably within a very few years the needs for such an institution as the United States Bank will be apparent.

It goes without saying, that a plan of this kind would have to be worked out carefully in detail, so that the business of the United States Bank would be properly limited and regulated. The bonds of the states, counties and municipalities would necessarily have to be issued under strict regulations and proper limit. Besides this, effective methods would have to be adopted for the regular collection of interests and payments on the bonds. Sufficient care should be exercised so as to not over stimulate the bonding business. This can doubtless be effected by proper regulations or interests and payments, so as to conform somewhat with the conditions of industry and finance of the country.

THE FUTURE MONEY

OF

THE UNITED STATES.

T H E S E S

Of

E. A. N E L S O N ,

for Degree of

Master of Science.
