THE UNITED STATES RESERVE BANK

THE FUNDAMENTAL DEFECTS OF THE FEDERAL RESERVE SYSTEM AND THE NECESSARY REMEDY

BY

HON. CHARLES N. FOWLER

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HON. CHARLES N. FOWLER

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THE

ESSENTIAL PRINCIPLES

AND

IMPORTANT FEATURES

OF A

SIMPLE, SOUND, EFFICIENT

& ECONOMICAL

FINANCIAL & BANKING SYSTEM

FOR

THE UNITED STATES

CONTENTS

DEDICATED

TO

ALEXANDER HAMILTON

WITH profound reverence for and the sincerest gratitude to Alexander Hamilton, the greatest banking economist and greatest constructive statesman the world has ever produced—the architect and builder of this government—these pages are dedicated by

THE AUTHOR

Foreword

Origin and Passage of the Federal Reserve Act

THE first draft of the Federal Reserve Act was made by Mr. Fowler who introduced the bill on March 29, 1910, and made an extended speech on the measure and upon bank reform in general.

The Federal Reserve Act was drawn by Mr. Fowler for the express purpose of planting the United States irrevocably upon the gold standard, and of providing a currency as responsive to the demands of trade as bank credit itself, and currently redeemed in gold through our Clearing Houses precisely as checks and drafts are.

It was one of those strange freaks of fortune; it was the very irony of fate itself that under the dictation of the leading money fiatist of this half-century, the Federal Reserve Act was to become the vehicle of a practically unlimited issue of "Government Paper Money."

In 1913 the Democratic party came into power and took possession of every department of the Government. It was greatly to its credit that, in a patriotic and courageous way, it immediately set about the passage of a general financial and banking law.

Unfortunately, however, for true bank reform, Hon. William J. Bryan was then Secretary of State, and completely controlled the Democratic majorities in both houses of Congress. It is a matter of well-known history, that Mr. Bryan inspired, directed and dictated the fundamental or underlying principles of the Federal Reserve Act. Through his following he literally compelled Congress, in utter defiance of the objections and vigorous protests of the Gold Democrats, to make The Federal Reserve Notes primarily United States Notes, or Greenbacks, each note bearing these words: "The United States of America will pay to the bearer on demand........................dollars." This is *one* of the fatal features or defects of The Federal Reserve Act.

Nearly every State in the Union has passed a law authorizing its State banks to hold Federal Reserve Notes as reserves. Indeed, all State Banks, more than 20,000 of them, do hold Federal Reserve Notes as reserves. And why not? The Federal Reserve Notes are United States Notes, with the guarantee of the Federal Reserve Banks; and the $346,000,000 of United States Notes that were outstanding at the time of the passage of the Federal Reserve Act have been lawful reserves for banks since 1862—legal tender.

The $150,000,000 gold reserve back of the $346, 000,000 Greenbacks or United States Notes is a 43% reserve. The law requires only a 40% gold reserve back of the Federal Reserve Notes.

The $346,000,000 United States Notes or Greenbacks which are "legal tender" bear these words: "The United States will pay to bearer——dollars." These United States Notes are neither made payable "*on demand*" nor are they *guaranteed* by any strong financial institution, as the Federal Reserve Notes are.

By a parity of reasoning, therefore, can not any one show beyond a peradventure of doubt that the Federal Reserve Notes should be made lawful reserves for our banks—legal tender?

As late as 1916 the Federal Reserve Board did their utmost to get Congress to pass a law making the *Federal Reserve Notes lawful reserves for member banks. Of course, this is just what is going to happen. We can not escape it.*

Now, every intelligent man must know that, when the Banks of the country hold these Federal Reserve Notes as Bank Reserves, they *economically become legal tender* whether the National Government has made them so, by statute, or not. According to the circulation statement of United States Government on Jan. 1, 1921, there has been issued by the Government Federal Reserve Notes and Federal Reserve Bank Notes amounting to $3,978,000,000—paper promises to pay, merely I.O.U.'s—representing less than $1,600,000,000 in gold, the amount of the Reserves held; *and yet, the whole $4,000,000,000 Federal Reserve Notes are possible reservse of our banks.*

When normal conditions have again returned, how long, under these circumstances, will it take Gresham's omnipotent law to work its way?

In 1896, Hon. William J. Bryan went before the country as a presidential candidate upon a platform declaring, "for the free and unlimited coinage of silver at the ratio of 16 to 1," and was overwhelmingly defeated upon that specific issue, as no other question was considered during that campaign. The silver dollar *was then worth fifty cents*. What Mr. Bryan failed to accomplish in 1896, however, he did accomplish 17 years afterward (in 1913) in the passage of the Federal Reserve Act, which provides "for the free and unlimited" printage of Government Paper Money —United States Notes or Greenbacks—of a pre-determined or fixed value of forty cents on the dollar *in gold, if used as a reserve, or as the basis of credit; for the remaining sixty cents is credit.* Certainly no one is so insane as to argue that any form of credit should be used as a reserve, or as a basis of another credit; for if one credit is good enough for a reserve, or as a basis of another credit, then all good credits are good enough for bank reserves or as a basis for other credits. Then Mr. Rockefeller's check, Mr. Armour's check—indeed every good check is good enough for a bank reserve, or a basis of other credits.

Therefore, the silver dollar of 1896 was twenty-five per cent more valuable as a reserve, or as a basis for other credits, than the Federal Reserve Notes are, which represent by the terms of the statute only forty cents in gold.

The danger differential in the silver dollar in 1893 was only fifty cents, because its actual, inherent or bullion value; its true reserve value was fifty cents. There was then only 540,000,000 silver dollars in the country; yet that amount was sufficient to precipitate the gold panic of 1893-4-5.

The danger differential in the Federal Reserve Note is sixty cents, because its actual or inherent value, its true reserve value is only forty cents.

Query: How long will it take four billion of these Federal Reserve Notes (and still more of them to come) to precipitate a gold panic?

If we but had the wisdom to comprehend and the courage to weigh accurately and impartially the folly and madness of many of our acts during the past few years, we would perceive that these very same Federal Reserve Notes were the chief, if not the only cause, of that wild expansion, that insane inflation, from whose dizzy heights of high prices and flush times we are now very slowly but very painfully descending; and the end is not yet!

On a memorable occasion Abraham Lincoln declared that this country could not endure half slave and half free; but that it would become one thing or the other.

With equal truth and certainty it may now be said that this country can not continue with gold money and a practically unlimited issue of Government Paper Money—United States Notes, or Greenbacks—but that we shall be compelled to decide sooner or later (and the sooner the better) whether we shall have gold money or government paper money.

That is the greatest and most serious question before the American people today. Shall we meet it intelligently and bravely now, or wait, and wait, until we have paid the full penalty of our ignorance and cowardice? And what a penalty that will be!

Two Facts to be Remembered

Fact one is, that while the price level of all commercial commodities rose between 1913 and 1920 from 100 to 250, the price of every ounce of gold was fixed by statute at $20.671834, and our unit of value—the gold dollar—was fixed by statute at 25.8 grains of gold, nine-tenths fine.

Fact two is, that if we are going back to the gold standard, and are going to maintain that standard, everything must be reduced to a gold level; that is, the interconvertibility of all commercial commodities and gold must be re-established.

When this condition, or price level is re-established then, but not till then, will the annual production of gold equal, and probably exceed, the quantity produced annually prior to the War. This result is very important, if indeed not essential to the commercial welfare of the world.

There is, however, always one variable factor that must be recognized and reckoned with—that is, the differential in price, growing out of the law of supply and demand. For example, if the supply of some article is very great, and the demand very small, the tendency is to decrease the price of that article; and, on the other hand, where the supply of an article is very small, and the demand for it is very great, the tendency is to increase the price of that article.

Today, the price (wholesale price, as the retail prices have not yet been completely readjusted) of almost everything has been liquidated down to the gold standard, excepting coal, steel and wages. When these have reached the gold standard level, the business of the country will be resting upon a solid foundation from which it can confidently start to build up again; but, not until then. And the longer this complete liquidation and the re-establishment of the gold standard is delayed, the longer will universal and permanent prosperity be delayed.

Some Reflections

Napoleon carried on all his wars upon the gold standard, demonstrating that he was as great a banking economist as general.

When we entered the War we had about three billions of gold, and should have carried on the War upon the gold standard. But the unlimited facilities for expansion, the wide open invitation to inflation created by the Federal Reserve Act, and the apparent utter ignorance of the Federal Reserve Board of the laws of banking economics cost the American people from forty to fifty per cent of the total cost of the War; *or approximately twenty billions of dollars.*

Prof. O. M. W. Sprague of Harvard University used this language recently:

"That it is possible to finance without inflation expenditures as great even as those incurred by the United States government during the recent War I am fully convinced. That we could have financed that War without credit inflation I am equally convinced."

Willford I. King, a member of the Research Staff of the National Bureau of Economical Research, Inc., 175 Ninth Avenue, New York, in the *American Economic Review* of December, 1920, used this language:

"The inflation of the currency and bank deposits continuing since 1914 has done much to drive laborers to look to radical and even revolutionary measures for relief. Increasing dollar efficiency has too often resulted in greatly diminished human efficiency. The need for a stable dollar can scarcely be over-emphasized, and this stability can be more easily attained if measures are taken to make the rate of increase of deposit currency correspond roughly to the growth in the physical volume of business." *

"The Federal Reserve Act was enacted chiefly as a safeguard against panics. Even its ardent supporters hardly contend that it will entirely prevent the periodical readjustments in business known as depressions. They do, however, insist that it renders a money panic practically impossible. But, granting that this contention is correct, it by no means follows that the new system is to be commended. The principal evil of a money panic is that it unjustly transfers much wealth from one person to another. It is, however, highly improbable that all the panics in the history of the nation have together caused the unwarranted transfer of more than a small fraction of the 60 billions of dollars' worth of goods, the ownership of which has been arbitrarily shifted by the workings of the Federal Reserve Act and its amendments." * * * * * * * * * *

"The system as established, has proved to be merely a new model, producing results very similar to those yielded by its numerous predecessors in the past—the cheap money devices which have so often dominated the financial policies of the nations and always with untoward results." * * * * * * * * * *

"*While it will be impossible to repair most of the damage already wrought, steps should at least be taken to transform the Federal Reserve System from its present status as a mechanism for inflation into that beneficent regulator of credit which its originators sought to establish, thus preventing in the future an extension or repetition of the policy, which has upset the whole financial structure of* *the nation and has changed property rights from realities into phantoms."*

The author desires to call the attention of the reader to the fact that he has often used figures and graphs to illustrate principles without any reference whatever to any particular time, *e. g.*, the average amount of Federal Reserve Notes outstanding in 1920 was about \$3,100,000,000. He has used \$3,000,000,000 simply as illustrative. The same is true of the Canadian graph, page 46, 1902-1906, which illustrates the flexibility and marvelous adaptation of bank credit-currency in Canada in normal times to the needs of business. This is a discussion of principles.

Principles and Important Features

THE following statement of principles and important features must be studied and reread over and over again until they are perfectly comprehended and thoroughly understood, if the reader hopes to reap the greatest possible advantage from a study of this important—this vital question. These principles and features should literally fix and determine the mental attitude before one proceeds or undertakes to grapple with the details of this subject. For, if you once truly master the principles, the details will quite readily take care of themselves. Otherwise, you will become swamped with a multitude, a veritable morass of facts, as you get into the subject.

Gresham's Law*

Bad money will always drive good money out of circulation.

The cheaper metal will always drive out the dearer metal.

Paper money will always drive out metal money.

In 1857, H. D. Macleod summarized Gresham's Law in these words:

"The worst form of currency in circulation regulates the value of the whole currency and drives all other forms of currency out of circulation. Gresham's Law, when propounded, technically applied where there was underweight or debased coin of the same metal. But where there are two metals in circulation and one is undervalued, as compared with the other, or where inconvertible paper money is put into circulation, side by side with metal money, this law operates with the same deadly certainty."

"Whilst each of the two metals was equally a legal tender for debts of any amount, we were subject to a

* Sir Thomas Gresham 1519-1579 was a London merchant; founder of the Royal Exchange of London and Gresham's College.

constant change in the principal standard measure of value. It would sometimes be gold, sometimes silver, depending entirely on the variations in the relative value of the two metals; and at such times, the metal which was not the standard would be melted and withdrawn from circulation, as its value would be greater in bullion than in coin."—*Ricardo, 1772-1823.*

"Oftentimes we have reflected on a similar abuse
In the choice of men for office, and of coins for common use;
For your old and standard pieces, valued and approved and tried
Here among the Grecian nations, and in all the world beside,
Recognized in every realm for trusty stamp and pure assay*
Are rejected and abandoned for the trash** of yesterday;
For a vile, adulterate issue, drossy, counterfeit and base
Which the traffic of the city passes current in their place."

—*Aristophanes, "Frogs," 405 B. C.; 891-898; Frere's Translation.*

Gold Reserves

"The issuers of paper money (currency), regulate their issues solely by the price of bullion and never by the quantity of their paper in circulation. The quantity can never be too great nor too little while it preserves the same value as the standard."—*Ricardo.*

"Every loan which a bank makes is in its first shape, a credit given to the borrower on its books, the amount of which it stands ready to pay either in its own notes or in gold and silver at his option. (When this was written both gold and silver were legal tender at the ratio of 15 to 1)"—*Hamilton.*

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* Gold Coin.

** Federal Reserve Notes.

"The interconvertibility of bank book credits (deposits), bank note credits (currency) and the standard of value (gold) is absolutely essential to a sound financial and banking system."—*Fowler.*

The bank reserves of every country should be related solely to and be determined by the *total amount* of bank liabilities of that country, and not be related to and be limited by the amount of currency in circulation in that country; because the amount of currency in circulation in any country at any given time will vary in character and quantity according to the habits of the people precisely to the degree or to the extent to which they use checks or currency in the daily transaction of their business.

Prior to the war approximately nine-tenths of the daily transactions in England were settled by check while approximately nine-tenths of the daily transactions in France were settled with bank currency. England had no currency except gold, silver and gold certificates,—(Bank of England notes which were fully covered by gold)—therefore the gold reserve held by the Bank of England was not to cover the Bank of England notes.

The International or Ultimate Gold Reserve

The international or ultimate gold reserve is held or controlled by that country which is the financial centre of the world, where all international balances are settled or adjusted. *It is the Clearing House of the world.*

The pre-requisite or condition precedent to the establishment and maintenance of the financial centre of the world is a *Free Gold Market.*

The essentials of a free gold market are:

(a) The constant interconvertibility of all bank credit and gold.

(b) The constant exchangeability of commercial and monetary gold.

(c) The free import and export of gold.

What a National or Central Gold Reserve Is For

First: it is to keep control of or direct the movement of gold to and from a country through the operations of international commerce by an economic rate of interest.

Second: it is to meet the extraordinary demands for credit during crop moving periods and other great seasonal productions.

Third: it is to conserve and control credit and keep the country in a sound commercial condition.

There should always be a real reserve.

The central reserve should consist of about one-half of all the required gold reserves, the balance being held by the banks throughout the Country for the purpose of testing current credit by daily redemption over the counters of the banks and through the clearing houses *in gold.*

Our central banking system should not itself be the source of over-expansion and lead the way to wild inflation, as the Federal Reserve Banks have, but should be a conserving, regulating power, checking the tendencies to excess beyond the safe boundaries fixed by the law of demand and supply of credit; and, the gold reserves held by our banks should be adequate and so distributed as to guarantee the soundness of all commercial credits passing through them and all currency credits created by them.

The Economic Rate of Interest

Under normal conditions the movement of gold to and from any country, under a rightly constituted financial and banking system, is influenced and controlled solely by what is paid for the use of gold expressed in a rate of interest, provided always that such country maintains a free market for gold; therefore, its supply of gold is wholly dependent upon the state of its international trade through which it obtains or purchases gold at such a rate of interest as to create a demand for gold.

In a rightly constituted financial and banking system such a rate of interest is the *economic rate of interest* and, will be both by principle and practice uniformly, if not invariably, higher than the *commercial rate of interest.*

To insure ample gold reserves for any country the economic rate should always rise and fall with the state of international trade and therefore necessarily must be fixed by the institution holding the central gold reserve of that country.

The Commercial Rate of Interest

The supply of the currency of any country should be related solely to the state of the domestic trade of that country and should spring into being precisely as checks do in connection with some transaction in the production, transportation or distribution of commodities, and, having served its purpose, should be promptly returned to its creator for redemption precisely as checks are. The rate of interest by which the supply of such a currency is influenced or affected is the *commercial rate of interest,* which in precisely the same way and identically to the same degree, influences and affects bank credit.

In a rightly constituted financial and banking system such a rate of interest is the *commercial rate of interest* and will be both by principle and practice uniformly, if not invariably, lower than the *economic rate of interest.*

To insure sound business conditions in any country the commercial rate of interest should rise and fall with the demand and supply of *domestic credit* and therefore must necessarily be fixed by the commercial banks through which the business of that country is carried on.

The Functions of the Economic and Commercial Rates of Interest Further Differentiated

In a rightly constituted financial and banking system, the economic and commercial rates of interest are actuated and controlled by entirely different forces, and from entirely different points of view, and are raised or lowered for entirely different purposes or reasons; and, they are often diametrically opposed to each other; therefore it is a fatal mistake to bring them both under one single actuating and controlling force, as has been done in the Federal Reserve Act.

The separation of the economic and commercial rates of interest is vital to the untrammeled and most efficient use of the economic rate, either to influence the movement of gold; or to relieve the pressure growing out of an extraordinary demand for credit; or to check over expansion in trade. Their combination is fatal to such uses.

The separation of the economic and commercial rates of interest is of such vital importance to the current basic cost of production, expressed in the interest charge, that if there were no other reasons for the repeal of the Federal Reserve Act, this one *alone* would be of sufficient importance to compel its repeal.

Their separation is vital both to our highest international and also to our greatest domestic commercial success. Their combination is fatal to both. To observe this distinction between the economic rate and the commercial rate of interest is essential because the difference between the two is profound, indeed is fundamental; and, unless recognized and our bank practices made to conform to this principle we shall continue to fly in the very face of fate.

Wisely and properly actuated and controlled the economic rate of interest starting at a high point might be raised to a still much higher point, while the commercial rate—the current, basic cost of production—might be very low, and still falling to the great advantage of our commercial interests.

For the express purpose of keeping the commercial rate low the economic rate might be raised. To illustrate, it might be raised to maintain or even to increase the gold reserves of the country, and thereby insure that public confidence which is always essential to guarantee reasonable commercial rates.

In "Money Changing," Hartley Withers says:

"No country can afford to leave its exchange unregulated. We shall see later that the Bank of England is always watching the foreign exchanges, and when it sees fit, takes control of the money markets in order to regulate them. Among the countries that are prominent in international trade and finance, the only one that leaves its exchange to its own devices is America, and the results of its neglect rouse astonishment rather than envy among other nations, and make the American business world clamor continually for a regulating body."

Can any one who has any appreciation whatever of the operation of economic law doubt the certainty of our predestined fate, if the Federal Reserve Act should remain on our statute books?

Psychology in Finance and Banking

In the whole realm of thought in the whole field of human action, psychology is nowhere so potential and far-reaching in its influence and nowhere plays so significant a part as right in the world of finance and banking.

The North and South poles are no farther removed from each other on the earth's surface than confidence and suspicion of the public mind in the banking system of its country—*in its money.* The Federal Reserve Act, which when fully understood and appreciated *from an economic point of view* (the mechanics and science of banking are two very distinct, two very different things). is nothing more than a succe of accumulated blunders, and the very limit of hu folly was reached when the authors of the Act removed from the human touch and from the eyes of the masses of the people all our gold coin and its substitute, all gold certificates, and put forth an almost unlimited amount of make-believe money—stage money—just I.O.U.'s that derive the only virtue they have from the fact that they are temporarily redeemed in gold until the day of reckoning comes, when public confidence being disturbed, disappears before we are conscious of what has actually taken place.

If the people never touch any gold money; if they can never get any gold money; if they can never see any gold money; how long are they going to think in terms of gold money? As soon as the impression gets abroad that possibly the burden is too heavy for the gold fund, as it did in 1893-4-5, or that possibly the gold fund is a myth, doubt instantly impregnates the public mind from ocean to ocean; suspicion follows hot on the heels of doubt, and gold hoarding begins—a gold panic is on. Its consequences can be read in the story of 1893, 1894 and 1895, when the price level fell to sixty-eight—twenty points lower than it has been at any time within 100 years. Wise statesmanship will preclude the probability of such a disaster if it is at all possible.

The great strength of the British monetary system, always has been due largely to the fact that gold was always in current, daily use, and therefore presumably there was any quantity of it for any purpose whatever; and the fact is, there was; because England had a free gold market.

The universal presence of gold is such a source of confidence, the universal absence of gold is such a source of suspicion, that it is next to insanity to ignore this all powerful human element.

Like Caesar's wife, our money must be above suspicion, for money is the concrete expression of wealth, the symbol of property, the counterpart of goods. It stands for everything that we work for to provide against want, the ravages of age, and to protect those we love against the misfortunes of life.

The slightest suspicion that this symbol—this thing that we call money—is not absolutely genuine, that it is false to even the slightest degree, will send a withering blast across the whole country in the twinkling of an eye and will paralyze, if it does not actually destroy, the greater part of our liquid wealth.

If our money is gold and all the people are conscious of its presence in ample quantity for all our requirements, our banking system will be protected, safeguarded and buttressed by the first line of defense—the absolute confidence of the people.

Freedom from Politics Essential to Sound Banking

Our central banking system should be organized solely for the purpose of aiding and serving the commerce of the Country, and therefore should be entirely free from the dictation or influence, even, of the Executive Department of the Government, precisely as our Supreme Court now is, which was organized to aid and serve the ends of justice, free, unafraid and uninfluenced by the Executive Department of the Government.

The Outline of a Financial and Banking System Based Upon Established Principles and Centuries of Experience

An adequate central or national gold reserve should be created to control the movement of gold to and from the Country through the operations of international commerce; to meet the extraordinary demands growing out of seasonal trade and periods of unusual stress; and to conserve and control credit and keep the Country in a sound commercial condition.

All bank reserves should consist of gold and gold alone and adequate gold reserves should be held by the commercial banks of the Country to guarantee the current daily redemption of all bank credit in gold.

All currency created in any way out of bank credit (and there should be no other kind of currency except our subsidiary coin) should spring into being precisely as checks do in connection with the production, transportation, and distribution of commodities and should be redeemed daily precisely as checks are and therefore the currency of a Country should not, indeed can not, in the very nature of things, be created by or be identified with the central or national reserve.

To insure the greatest economy, efficiency and safety in our banking system and secure the greatest possible degree of protection and justice to all, all bank examinations should be made by organizations created by the bank clearing houses themselves and clearing house credit bureaus should be established in the interest of the whole system and for the public good.

To effect the speediest possible redemption of all bank credit the bank clearing houses located at all the natural, important economic centres should be coordinated and unified into one harmonious national system.

Clearing House Bank Examinations

Clearing House bank examinations have proved most efficient and satisfactory. The system should be extended.

Because—

1. They cover *all banks*, both State and National, within a specified district, and therefore, protect all banks included within that district.
2. They are more efficient, because under the inspiration and direction of a Clearing House Committee, and not under the direction of a *political official, State or National.*
3. There are now twenty cities which have Clearing House bank examinations, most of them having been in operation from 12 to 15 years with ever growing approval and satisfaction.
4. If Clearing House examinations are adopted as a uniform principle they would be in substitution of all other forms of examination—National, State, Federal Reserve Board and the twelve Federal Reserve Bank examinations.
5. If adopted and extended to cover the whole United States, the expense to the Banks of the Country (or the cost to commerce) would not be over one-half of what it is today.
6. It would be a matter of very little, if any, additional expense to establish a complete Credit Bureau of all business houses within each Clearing House district.
7. The Clearing House district should be identical with the commercial zone—that is, include all Banks naturally tributary to each economic centre, of which there are about fifty in the United States.

8. Fifty such commercial zones, fifty such credit bureaus, all coordinated and working in harmony, would make it possible for any bank to inform itself of the condition of any business house in the United States within twenty-four hours.

Departmental Banking Established

National Banks can now do all kinds of banking:

(a) Commercial Banking
(b) Savings Banking
(c) Trust Banking
(d) Note issuing

The Powers of State and National Banks are now the same (except note issuing).

Capital and Reserve requirements of all Banks, State and National, should be uniform, under like conditions.

All Banks, both State and National, should be coordinated and unified into one homogeneous and harmonious system.

How Unity, Homogeneity and Harmony of Our Banking System will be Attained

For every conceivable reason every bank in the United States will naturally desire to become a member of such a National System.

But should any bank because of any reason peculiar to itself—such as an unsound condition or bad practices—fail, voluntarily, to become a member of the National Clearing House system, nevertheless, such a bank, if it desires to continue in the banking business, must either become a member of the National Clearing House System or clear through some other bank that is a member. In either event, such a bank will become subject to all the rules and regulations of the National Clearing House System, but without enjoying many of its great advantages; and, therefore, as a matter of self-interest or protection, will soon join the system to avail itself of those great advantages.

From these facts, it becomes perfectly clear and obvious that there can never arise any conflict between National and State banking laws such as is constantly occurring now; for, either voluntarily or involuntarily, every bank in the United States will become a member of the National Clearing House System.

Geographical Districts Within the Zone

Let there be established seven geographical districts in each commercial zone, each district containing the same number of banks. Let the bankers of each district select representatives to these two bodies of men:

First, the Bankers' Council, to which each district shall elect one banker and one business man, or 14 in all.

The United States Reserve Bank should have a representative upon each Bankers' Council who should be the presiding officer.

Second, the Board of Control, to which each district shall elect one banker, or 7 in all.

To say that such a body of men would literally prevent a bank failure is not going too far, as they could always prevent any bank from getting into a position where it would be necessary to fail. These men could and would control the banks of the commercial zone just as completely as if they were branches of a large bank, and yet, the banks would be independently managed *so long as they were wisely and safely managed.*

A Court of Finance

Subject to the consent and approval of the Senate, the President should appoint a Court of Finance, consisting of seventeen members to administer the affairs of the United States Reserve Bank.

The appointments should be made to serve until the member is 72 years of age; provided however, that the Court of Finance by a vote of at least ten of its members, may extend the service of any member beyond that age.

Six members should come from the Atlantic Coast Region, three of whom should be business men and three bankers.

Six members should come from the Mississippi

Valley Region, three of whom should be business men and three bankers.

Four members should come from the Pacific Coast Region, two of whom should be business men and two bankers.

One should be appointed from at large who shall be the presiding member.

What Our Currency Now Is — Is Just Precisely What It Should Not Be

The currency of our country, outside of our gold coin, (and its substitute, the gold certificates) and all our subsidiary currency, which includes all denominations below five dollars, should not, by every conceivable legislative device, be made to partake of the nature of *essential money* (or gold, which is the only true money we have), and the American people be thereby deceived and led to believe that because a debt—a demand for gold (such as our Federal Reserve Notes are)—is redeemable in gold, it is therefore itself gold or as good as gold, or may be used instead of gold, and consequently is fit to be held as a reserve by our banks.

Reserves and Currency

The reserves of a country and the currency of a country when strictly performing their respective functions are diametrically the opposite of each other—the one is the reserve and the other is the demand against it to be liquidated by payment in it; the one is the redeemer and the other is the redeemed; and nothing whatever should be done to change their relative natures; for, by so doing, you interfere with the perfect performance or fulfillment of their natural functions.

An Irrevocable Truth Established by History

Let it be remembered as an eternal economic truth that every act, every paragraph, every sentence, every word, every syllable that is used to change or convert a true bank credit instrument into paper coin, or make it perform the function of coin, correspondingly and iden-

tically to the same degree, destroys its virtue and usefulness as a credit instrument and makes it to the same degree and directly in the same proportion, the deadly and destructive enemy of the very coin whose nature it is made by statute to approximate or assume.

There is No Possible Escape from a Gold Panic if the Present Situation Continues

According to the circulation statement of the Government on Jan. 1, 1921, there had been issued by the government Federal Reserve Notes and Federal Federal Reserve Bank Notes combined $3,978,000,000.

The States of New York, Massachusetts, Pennsylvania, and probably all the rest of the States, have passed statutes authorizing their State Banks to carry these Federal Reserve Notes as reserve. Certainly this is true, of more than forty of the States. *But you must remember that when these Notes are made lawful reserves they, economically, become Legal Tender, whether they have been made so by National statute or not.*

We are actually in a far weaker, much worse and more dangerous position today than we were in 1893, 1894 and 1895. We are simply living in a fool's paradise; that is all.

The country must not only *liquidate*, but must *deflate* its currency circulation. For every intelligent man must realize that there can be no genuine and permanent deflation so long as the Federal Reserve Notes continue in circulation, with the absolute certainty of *their increasing upon the return of normal times and expanding credits.*

There is no possible escape from a gold panic except to make this overwhelming mass of paper legal tender, and that would be commercial suicide. That would be the end.

It is abject ignorance not to know this, and it is cowardice and treason to the government and to the people not to say it.

The Way Out or Way of Escape

Incorporate and establish under national law
THE UNITED STATES RESERVE BANK

The United States Reserve Bank will hold the central gold reserve, its object is three-fold, as already stated.

First, to keep control or direct the movement of gold to and from the Country through the operations of international commerce.

Second, to meet the extraordinary demands for credit during crop moving periods, and meet times of stress.

Third, to conserve and control credit and keep the Country in a sound commercial condition.

There should always be a real reserve.

The central reserve should consist of about one-half of all the required gold reserves, the balance being held by the Banks for the test of current credit by daily redemption through our fifty Commercial Zone Clearing Houses.

Bank Credit Currency

Gold is the only money, *true or basic money,* we have. All other forms of *so-called* money are only demands for gold. The $346,000,000 of United States Notes, the $723,000,000 of National Bank Notes, the $270,000,000 Standard Silver Dollars and the $3,978,000,000 Federal Reserve Notes are *all alike*—demands for gold. All are, economically, mere debts—I.O.U.s. They must all be maintained upon a parity with gold by current redemption in gold. And, since they can be used as reserves they are several times, possibly ten times, more burdensome upon the gold fund than a corresponding amount of Bank deposits would be.

Bank Credit Currency is no more burdensome upon the gold fund than a corresponding amount of deposits would be. Indeed it is identical with Bank deposits, being distinguished from bank deposits only by being made current credit as distinguished from order credit.

The only kind of currency we should have in this country is Bank Credit Currency, such as they have had in Scotland for over 200 years; such as they have had in Canada for 100 years; such as the currency of the two United States Banks of 1791 and 1816 was, the principle upon which it was issued being laid down by Alexander Hamilton in these words;

"*Every loan which a bank makes is, in its first shape, a credit given to the borrower on its books, the amount of which it stands ready to pay, either in its own notes or in gold and silver at his option.*"

This principle was in successful operation with most gratifying results in the States of Indiana, Missouri, Iowa, Ohio, Kentucky, Virginia, Louisiana and under the Suffolk System in the six New England States at the outbreak of the Civil War; but were all destroyed by the 10 per cent tax imposed upon bank note issues for the purpose of making a place for the bond secured National Bank Notes.

Method of Accomplishment

Establish fifty commercial zones, which shall include all Banks, both State and National.

The capital of all banks, both State and National, is now $2,568,000,000 and the surplus and profits are $3,000,000,000. Make such a readjustment of capital, and at the same time establish the principle of uniformity, between capital and other bank liabilities, as to make the capital of all banks amount to $3,000,000,000 in the aggregate, as this amount will be approximately the same as the present amount of Federal Reserve Notes in actual circulation.

Then provide that any Bank, State or National, may issue an amount of Bank Credit Currency equal to 25 per cent of its capital, upon its first having surrendered to the Government a like amount of Federal Reserve Notes; and, provide, at the same time, that thereafter the amount of Federal Reserve Notes outstanding shall not be increased.

Concurrently with this issuance of Bank Credit Currency equal to 25 per cent of the capital of the banks, the Federal Reserve Banks shall return or pay back to all member banks 25 per cent of the capital paid in by them and 25 per cent of the reserves carried by them, and also pay over to The United States Reserve Bank 25 per cent of the profits made by them and then standing on their books to the credit of the profit's account. Thereupon and concurrently the respective member banks shall transfer and pay over to The United States Reserve Bank all the money so paid to them by the Federal Reserve Banks. All other banks shall at the same time pay to The United States Reserve Bank identically the same proportionate amount to be credited to each of said accounts; to wit—the capital account and the reserve account.

At the end of the first, second and third succeeding years permit a corresponding increase of Bank Credit Currency upon identically the same conditions, including the repayment of capital, and reserves and distribution of profits.

The act creating *The United States Reserve Bank* will provide that all the powers now exercised by the Federal Reserve Banks except those covering the organization and note issues shall be extended to *The United States Reserve Bank;* and, further, that, should any conflict arise in the exercise of the powers that have been granted to both the Federal Reserve Banks and The United States Reserve Bank, The United States Reserve Bank shall have the prior right or authority to exercise all such powers to the exclusion of the Federal Reserve Banks; and, it shall be sufficient for The United States Reserve Bank to notify the Federal Reserve Board of its decision to exercise all such powers to the exclusion of the Federal Reserve Banks, to entitle it to such exclusive right or privilege.

At the end of four years we will have substituted Bank Credit Currency for all of the Federal Reserve Notes, and so gradually that the process will have been unobserved, and the effects can only be most salutary, as the Credit Currency will from the very start have been sent to the Clearing Houses for redemption, and thereby the amount in circulation always kept down to the very minimum of necessity—*never being too great, never being too small*, but *always just equal to the actual requirements of trade in strict accordance with the habits of the people.*

An American vs. A Foreign Institution

More than fifty branches of the United States Reserve Bank, one being located at every natural economic centre, would make the facilities for rediscounting far more convenient, and the relations between each individual bank and the United States Reserve Bank would be far more intimate, intelligent, sympathetic and helpful under the organization proposed for the United States Reserve Bank than they ever can possibly be with the twelve Federal Reserve Banks under their strange, complicated and foreign organization.

Federal Reserve Notes Limit to Their Full Amount the Economically Legitimate Rediscounts

Let it be observed and noted that, inasmuch as the total amount of the earning assets of the twelve Federal Reserve Banks have always been equaled, or completely covered by outstanding Federal Reserve Notes, the power or facilities for rediscounting *for economically legitimate purposes* must necessarily be restricted, or limited by exactly the amount of the Federal Reserve Notes outstanding at any given time; for, in a rightly constituted banking system all currency requirements are immediately and directly met with Bank Credit Currency, and not indirectly by the banks rediscounting their paper with some other institution like the Federal Reserve Banks which issue the currency.

The Total Cost of Creating the Federal Reserve Notes is All Wasted

In this age of economy and efficiency, the astonishing, the amazing, the unfortunate and deplorable thing about it is, that every single cent that has been expended in rent, in management, in clerk hire, and in express and postage, in keeping these $3,000,000,000 of Federal Reserve Notes in circulation has been thrown away—it has been literally wasted. Because, if Bank Credit Currency were substituted for the Federal Reserve Notes, note issuing would become a mere matter of bookkeeping by each individual bank. *However, we would indeed be fortunate if this waste were to be our only loss; but the worst is still to come, as already pointed out.*

Increased Bank Capital is a Gain to Commerce

During the year of 1920, the Banks of the United States paid the Federal Reserve Banks seven per cent for the use of more than $3,000,000,000 Federal Reserve Notes; or a total interest charge of $210,000,000. This was a tax upon production, because a burden upon the facilities of trade. It has indentically the same effect upon business as the excess profit tax has.

Amount of Profit to the Banks

If a tax of 2 per cent should be imposed by the Government on the Bank Credit Currency, the profit would be identically the same as upon the same amount of deposits. Let it be remembered that deposits and credit note issues are identical in principle and therefore that each bank would be able to increase its deposits to the amount of its capital.

A Gain to the Government

At the same time, the 2 per cent tax upon the Bank Credit Currency will net the government $60,000,000 annually, or a sum greater by $38,858,182 than the government has received upon the *average* from the Federal Reserve Banks during the past three years.

Therefore the government income will be greatly increased by substituting Bank Credit Currency for the Federal Reserve Notes, to say nothing of the other incomparable advantages.

The total amount received by the United States Government from the Federal Reserve System, since the Federal Reserve Banks were organized, is only $64,562,870.

If an annual tax of 2 per cent. had been paid the Government upon Bank Credit Currency equal in amount to the Federal Reserve Notes outstanding, the Government would have received about $225,000,000.

The United States Government Furnishes a Perfect Model for the Proposed Organization of The United States Reserve Bank

A government usually reflects the genius of its people and the character or wisdom of its laws, and the fidelity with which they are executed constitute the truest index of its stage of civilization.

Under our constitution we have within the borders of forty-eight states independent local self-governments, and the independence of the respective states in all local matters is the best possible guarantee of advancement throughout the whole nation by the sure and ever-safeguarding processes of evolution. And yet, while these forty-eight states are independent within their respective borders, they are all united and bound together for the common interest and the common protection of all in one indissoluble union, and each state is thereby made as strong individually as all are combined, united and bound together under the constitution of the United States.

In perfect harmony with this organic life of the nation, the fifty or more commercial zones will be absolutely independent of each other and yet economically and organically will be united and bound together for their common interest and their common protection in The United States Reserve Bank.

A more perfect counterpart to our national government could not be imagined. Nor can any national institution be in more perfect accord and complete harmony with the genius and spirit of our people. This is the very first principle to be observed in all social, political, and economic legislation, if it is wise.

Experience and Demonstration the Only True Test

There is not a single proposal made in The Commercial Zone Plan that is not in strict accordance with, and in perfect keeping with the laws of banking economics, and that has not been proved and demonstrated over and over again by long experience and under almost every conceivable kind of circumstances or conditions. Every step proposed bears the stamp of approval earned or acquired by trial and is justified by the test of time.

Conclusion

Every intelligent and thoughtful man, who will give this subject the attention and consideration its importance demands, must be convinced that if the principles of banking economics laid down in The Commercial Zone Plan are recognized and followed, and the bank practices therein proposed are adopted and put into execution, *the United States will have the simplest, the soundest, the most efficient and at the same time the most economical banking system in the world.*

To this conclusion I challenge the attention of all my countrymen, everywhere, and of all classes—the farmers, the manufacturers, the transportation interests, and the laboring men in all lines of work. For let it be remembered that the cost of our financial and banking system, which lies at the very foundation of all production, in the last analysis, must always be paid by labor. Therefore, there is no subject or question, excepting only our political liberty, in which every individual citizen of the United States is so deeply interested as the financial and banking system of his country.

A Supplement

IN order that I may illustrate the immutability of those laws of banking economics to which I have called attention, and of demonstrating, with mathematical certainty, how those bank practices referred to have worked wherever tried, I am introducing three charts or diagrams, which to any intelligent and candid mind must preclude the necessity of any further discussion or thought even about what this government should do at the earliest possible moment, if it would escape consequences that are more dire than any that have yet visited us.

First, I wish to call your attention to a chart or diagram prepared by the statistical department of the New York Federal Reserve Bank, and published by that institution in its sixth annual report. This chart covers the combined operations of the twelve Federal Reserve Banks from January 1, 1915, to January 1, 1921, or for a period of six years, and gives (a) their total earning assets, (b) the relation of the notes of the twelve banks outstanding to their total earning assets, and (c) the amount of the deposits of those banks.

Second, I wish to call your attention to a chart or diagram that I had prepared several years ago covering the movement of currency from and to the Canadian banks during the crop moving period for five successive years—from 1902 to 1906 inclusive.

Third, I wish to call your attention to a chart or diagram covering ten years—from 1852 to 1862—of the operations of the Suffolk Banking System, which completely covered all of the New England States, from 1819 to 1865 a period of forty-six years and included upwards of 500 banks with capital varying from a few thousand dollars—several of them less than $25,000—up to $500,000.

Concurrent Opinions of Students

A short time ago, when visiting the statistical department of one of the Federal Reserve Banks, I remarked, "It is my deliberate judgment that the Federal Reserve Act, together with the utter ignorance of the Federal Reserve Board of the laws of banking economics, have cost this government from forty to fifty per cent of its entire war debt, or approximately $20,000,000,000." To my utter amazement the statistician in charge replied, "You are about right."

As a result of that conversation I discovered that four different students of prominence had arrived at exactly the same conclusion, and entirely independent of each other,—a fact of profound significance.

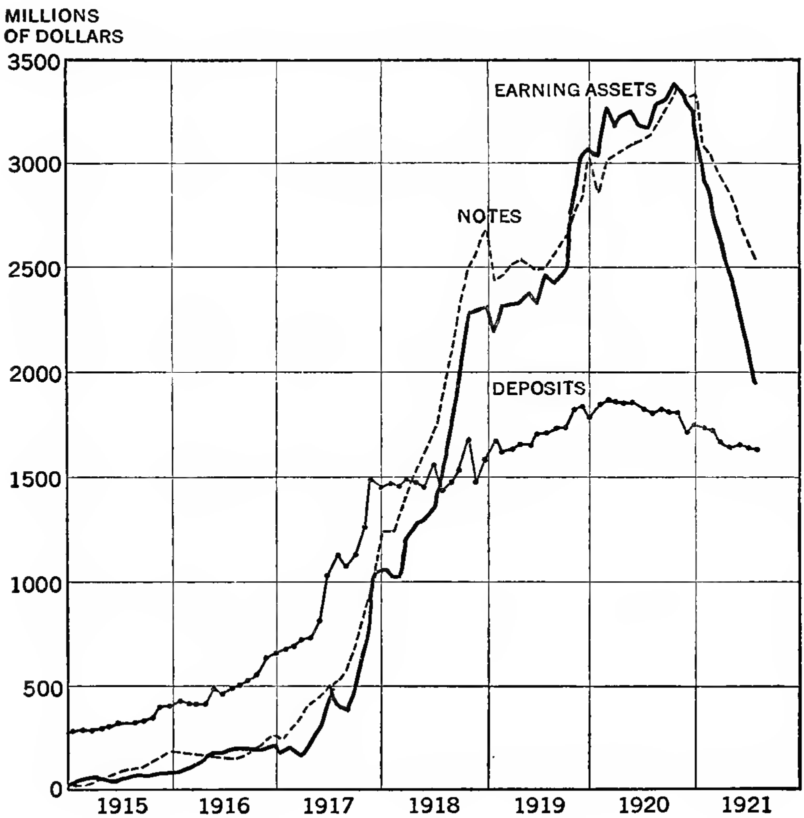
The chart upon the opposite page, which was prepared by the New York Federal Reserve Bank, demonstrates one fact beyond all peradventure of a doubt, and that is, that the notes of the twelve Federal Reserve Banks, with the slightest possible variation have, from the first day of January, 1915, down to January 1, 1921, been always just equal to, and identical with, the total earning assets of the twelve Federal Reserve Banks.

From the establishment of this fact all must conclude that upon the return of normal times, and the coming of a period of expanding credits, the notes of the twelve banks will continue to equal the ever increasing assets of the twelve Federal Reserve Banks; *for it was equally true before the War, through the War, and has been true ever since the War.*

As the earning assets of the Federal Reserve Banks increase from $3,000,000,000, to $4,000,000,000, to $5,000,000,000, to $6,000,000,000, their notes will also increase to $4,000,000,000, to $5,000,000,000, to $6,000,000,000; but, what do you think will happen to the country before these notes reach the $6,000,000,000, mark.

1. Will any one say that the assets of the Federal Reserve Banks will not go on increasing?

Federal reserve notes, earning assets and member bank reserve deposits of all federal reserve banks.



The above diagram or chart was prepared by the statistical department of the federal reserve bank of New York.

2. Will any one say that the notes will not go on increasing, *pari passu?*
3. Can any intelligent person doubt what the result will be?

Let every student of banking economics, yes, let every simple, clear minded, sane man ask himself what he thinks will happen if we continue as we are going, with mathematical certainty, to that fatal goal.

Some Prophetic Opinions of the Federal Reserve Act

An eminent banker, and distinguished citizen, upon the passage of the Federal Reserve Act, in a public interview, remarked, " The act is ninety per cent good, and ten per cent bad." Asked to express my opinion, he having called my attention to what this eminent banker had said, I replied, "It is just the other way round, ninety per cent bad and only ten per cent good, if indeed it is even that much."

A Prophecy that Came True

In a speech delivered in 1901 I pointed out the utter unfitness of the German banking system to our conditions, and then declared that, if Germany should continue as she was then going, she must declare the Imperial Bank Notes, legal tender. It took just ten years—a short time in the life, or affairs of a nation—but in 1911 Germany was compelled to make the notes of the Imperial Bank legal tender. That, of course, was the beginning of the end.

It may not be generally known, but it is a fact, that the system of note issue of the Imperial Bank of Germany was imported and incorporated bodily, almost word for word, in the Federal Reserve Act; and, we are now travelling over identically the same road that Germany was travelling when I made that prophecy in 1901, and, the result must inevitably be identically the same. *Are we ready and willing to take the plunge? That is the question.*

Shortly after the passage of the Federal Reserve Act, I wrote these words,—

First:

" The Federal Reserve Act is the most stupendous economic blunder ever committed in the life of this nation because, while it lays groundwork for practically unlimited expansion of credit, it also sets in motion forces which will ultimately drive gold out of the those country by the gradual substitution of paper credit, in the form of United States Federal Reserve Notes, for gold coin. No better device could possibly have been contrived and constructed to put Gresham's Law into operation."

That paragraph was written seven years ago, and in the light of seven years' experience with the Federal Reserve Act, I would not now change a single word of it even if I could.

Second:

" Willford I. King, a member of the Research Staff of the National Bureau of Economical Research, Inc., 175 Ninth Avenue, New York, in the *American Economic Review* of December, 1920, used this language,— " The Federal Reserve Act was enacted chiefly as a safeguard against panics. Even its ardent supporters hardly contend that it will entirely prevent the periodical readjustment in business known as depressions. They do, however, insist that it renders a money panic practically impossible. But, granting that this contention is correct, it by no means follows that the new system is to be commended. The principal evil of a money panic is that it unjustly transfers much wealth from one person to another.

" It is, however, highly improbable that all the panics in the history of the nation have together caused the unwarranted transfer of more than a small fraction of the 60 billions of dollars' worth of goods, the ownership of which has been arbitrarily shifted by the workings of the Federal Reserve Act and its Amendments.

" The system as established has proved to be merely a new model, producing results very similar to those yielded by its numerous predecessors of the past—the cheap money devices which have so often dominated the financial policies of the nations and always with untoward results." * * * * * * * * * * * * * * * * *

"While it will be impossible to repair most of the damage already wrought, steps should at least be taken to transform the Federal Reserve system from its present status as a mechanism for inflation into that beneficent regulator of credit which its originators sought to establish, thus preventing in the future an extension or repetition of the policy, which has upset the whole financial structure of the nation, and has changed property rights from reality into phantoms."

A Striking Contrast

Occasionally you hear some one exclaim "But how could we have carried on the war without the Federal Reserve Act?" If as a matter of fact through its perfectly marvelous facilities for unlimited inflation the War actually cost us twice as much as it should, or 20 billions more than it should, we had much better have gotten along, in some way, without it. We would have muddled through somehow." All the other countries did.

The Nature of the Beast Exposed and Revealed

Seven years ago I also wrote this paragraph:

"Second: It is the most gigantic, complete and potential political machine ever constructed. A legislative enactment that makes it possible for the President to subject, dominate or even influence the commercial interests of the country by removing every member of the Federal Reserve Board, at any time, without cause and by empowering the Federal Reserve Board, in turn, to remove at any time without cause [amended afterward to read upon cause stated] all the directors of the twelve Federal Reserve Banks should not be tolerated."

In support of this allegation I will submit only two bits of evidence:

First, a letter written by one of the leading citizens of one of our great States and a man prominent even in the whole United States.

July 12, 1920

"Dear Mr. .. ..

"Your letter of June 29th, commenting on the Federal Reserve Bank management, at hand and noted.

"I was a Director of the .. ..District ( ) Federal Reserve Bank at the start of the system for I think three years. I withdrew from my connection with the bank because the Directors were merely 'rubber stamps' for the administration of affairs by the Federal Reserve Board in Washington, which in its turn was dominated by the administration through the ex-officio members of the Federal Reserve Board as was perfectly obvious. In other words, the Federal Reserve Board in Washington was itself not free-handed to apply sound banking principles to co-ordinate the banking system of the country under the Federal Reserve System along wise lines but it was politically, governmentally administered central bank, the very thing above all things that the Democrats ranted against in attacking the banking plan started by the very distinguished Rhode Island Senator who spent the last years of his life in digesting the banking systems of the leading countries of the world.

"My feeling is that the Federal Reserve Board in Washington should be freed from the 'collar' of the administration and that it should be composed of men of conspicuous banking and business ability. It will be difficult enough for the best of men to keep the Federal Reserve system, which in its essence is good, and which in its essence is the plan of the monetary commission gone wild and run for political ends.

"Very truly yours,

"Signature( )"

Since this letter was written by a man who is obviously a Republican I will now give some evidence from the lips of a Democrat who is one of the leading bankers in the United States.

I submitted all there is in this book preceding the supplement to this Democrat whom I regard as one of the very best economic scholars in the United States as well as the president of one of our largest banks, outside of the cities of New York and Chicago and asked him to give it his best consideration and severest criticism.

After studying and considering it for more than three months, reading and rereading it several times, once, with me, paragraph by paragraph and line by line he said:

" I can not find a flaw in this thing from beginning to end and I would like to find some one who can. I would like to have the judgment or opinion of some good business men who have analytical minds."

I then asked him, whose judgment or opinion he would like to have and he named three men, conspicuous in the business world. But no one of them, upon my solicitation, could, then, find time to consider it.

I then asked this leading banker and Democrat to write me a letter of approval and join me in this great reform. Surprising and appalling as it may seem this was his reply:

" I am president of this bank and we owe the Federal Reserve Bank.........................millions and if I should become identified with this movement in a public way *that gang* would ruin this bank. Under the circumstances, you can not expect me to take a hand in it."

Here is one of the leading economic minds (a very rare talent and one greatly needed just now) in this country and standing at the head of one of our great banks literally blackmailed into abject silence through fear of " the most gigantic, complete and potential political machine ever constructed." And, as a consequence the Government of the United States and the American people are alike deprived of this man's great ability and vast experience just at the time when and where they are both most needed. What a deplorable situation this is.

The Fight to Enforce the Par Clearance of Checks a Most Reprehensible Conspiracy

The story of the campaign of the Federal Reserve System to force the banks of the country, in various sections, both national and state, to adopt the par clearance of checks discloses the most shameful and shameless, the most tyrannical and the most brutal as well as morally the most disreputable and damnable acts that have ever been committed in the history of American banking, including all the so-called devilish tricks and wicked practices of Wall Street.

If the reader wants the evidence, the indubitable proof, write either to Hon. Philip P. Campbell, Washington, D. C. for the hearings of the Committee of which he was Chairman upon that investigation. Or, write to "*The National and State Bankers Protective Association*," Atlanta, Ga.

It would seem, from the proof submitted as though the Federal Reserve System was quite as well worthy in its practices as in the principles of its progenitor—*The Imperial Bank of Germany.*

Need anything further be added to unearth and disclose the nature of the beast and the peril of the situation?

Do we really want it in this country?

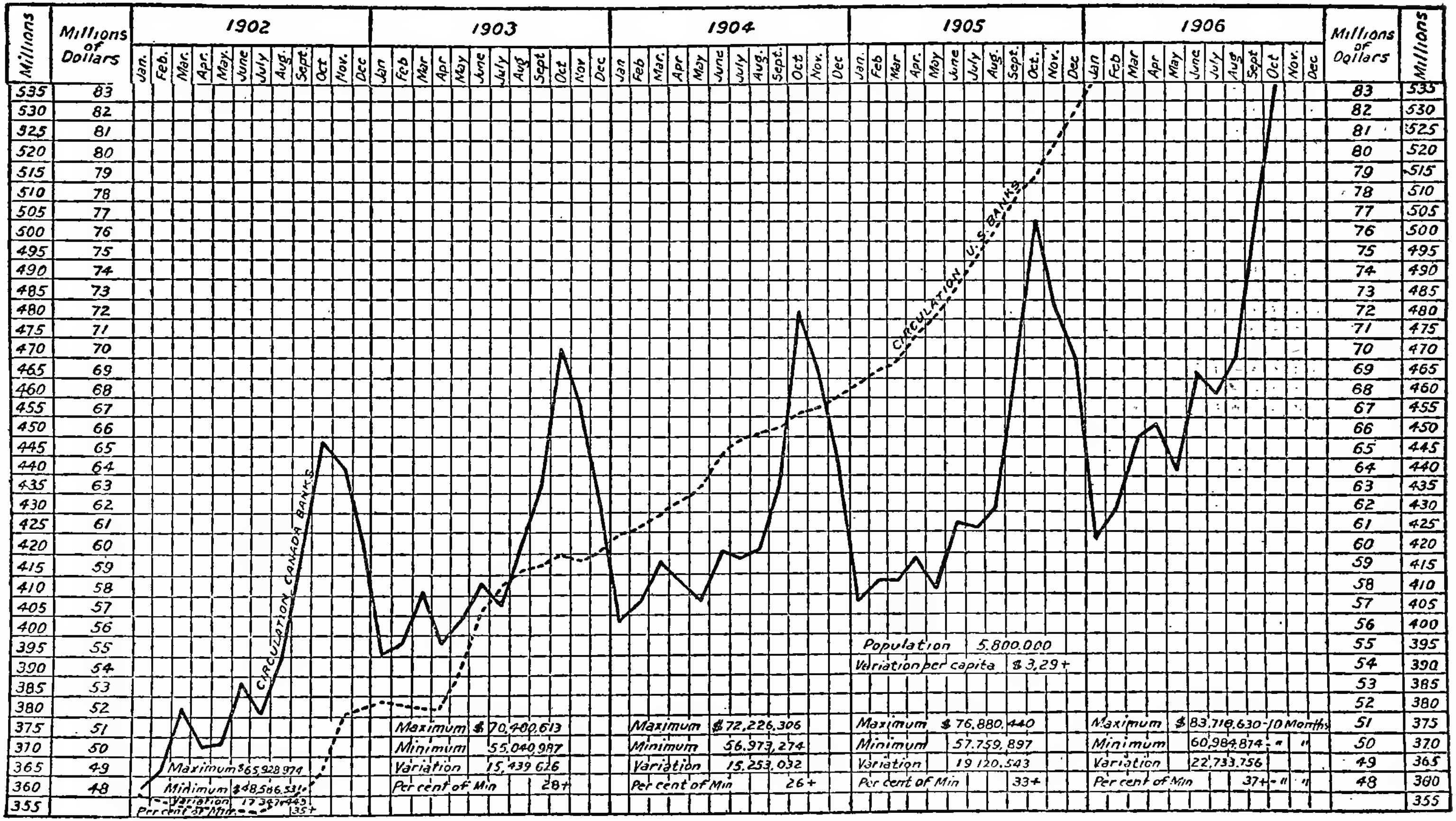
To illustrate one principle of finance differing widely from that followed in the United States, by a single fact, *but a major fact*; the banks of Canada did not buy a single government obligation when Canada was financing the war, although Canada sold as large an amount of her obligations to her people, per capita, as the United States did.

Bank Credit Currency in Canada

The chart upon the following page illustrates the marvelous facility with which bank credit currency moves from and to the Canadian banks during the crop handling season; how bank book credits are converted into bank note credits to move the crops every fall; and, how these bank note credits are in turn, converted into bank book credits, as the crops are disposed of, the bank credit in its various forms adapting and adjusting itself to the current and ever-changing needs of the people. The amount of currency the people use upon the average, it will be observed, is 33 per cent greater every November than during the average of the year. The notes of the

CANADA.

Diagram exhibiting fluctuations of Canadian bank currency, by months, 1903 to 1906, inclusive, compiled from the monthly returns of the chartered banks of the Dominion of Canada, also indicating increase of United States national bank circulation from circulation statements for first of each month, same period.



Canadian banks go to the clearing houses to be redeemed precisely as checks and drafts do, and it is by this daily current redemption through the clearing houses that the readjustment takes place, and it could take place in no other way. Otherwise the notes would become a fixed, sodden mass of circulation precisely as the Federal Reserve Notes have.

How did Canada come by this bank credit currency System? A prominent Canadian banker stated in a public address that Canada got it from the United States, following the charter of the Second United States Bank.

Second United States Bank

The charter for the Second United States Bank was granted in 1816, and was practically indentical with the charter of the first United States bank with the single exception that the capital was increased from $10,000,000 to $35,000,000.

It is interesting, and all important, to note that while the charter of the Second United States Bank provided that the bank could issue an amount of bank credit currency, or bank notes, equal to its capital—$35,000,000—the highest amount of bank notes ever outstanding at any one time was $23,076,422 or about 60% of the permissive issue. There were 25 branches literally covering the whole union and James Parton, the historian, says, "Its bank notes were as good as gold in every part of the country. From Maine to Georgia, from Georgia to Astoria, a man could travel and pass these notes at every point without discount. Nay, in Sweden, Paris, Rome, Cairo, Calcutta, St. Petersburg, the notes of the Bank of the United States were worth a fraction more or less than their value at home according to the current rate of exchange." *The reason was that they were currently redeemed in gold.*

In 1823, seven years after the charter of the Second United States Bank was granted, the people of Canada, observing its operation, adopted the same principle, and there it has been in operation for almost 100 years.

The principle laid down by Hamilton is simple, but fundamental, and absolutely essential to sound, efficient and economic banking operations—*the current redemption of all bank credit in gold. There is no such redemption of the Federal Reserve Notes. The redemption, so called, of the Federal Reserve Notes is precisely and identically the same as that of the National Bank Notes. Economically speaking, there is no redemption of either of them. There is no redemption, payment and liquidation of them as checks and drafts are redeemed, paid and liquidated.*

Hamilton's Law

"*Every loan which a bank makes is, in its first shape, a credit given to the borrower on its books, the amount of which it stands ready to pay, either in its own notes or in gold or silver at his option.*"

Following the Hamiltonian principle through to its logical conclusion, in practice, three distinct facts or truths are to be noted, which involve sound economics and are essential to sound banking.

First, it is the office or function of the government to establish a standard value; to fix a unit of value; to compel the banks which are quasi-public institutions, to furnish the people that form of bank credit that will best serve their purposes, and to compel the banks to keep all bank credit as good as the standard of value by current redemption in that standard of value.

Second, it is the right and privilege of the people, farmers, manufacturers and all producers of wealth, to convert their products, *and their credit, also, whenever they have been granted credit by the banks,* into that form of bank credit which will best serve their purposes in the processes of production, transportation and the distribution of commercial commodities of whatsoever kind — from an ounce of radium to a pound of cotton, a bushel of wheat or a ton of iron, or a physician's fee.

Third, it is the duty of the banks to give to their customers that form of credit that will best serve their purposes—a draft upon a distant point, a book credit subject to check, or a current credit in the form of its own notes (since this is the cheapest, most economical and best form of currency), and to keep all these various forms of credit—the draft, the book credit, and the note credit—as good as our standard of value by their daily current redemption in that standard of value.

A Most Marvelous Development and Most Successful Achievement in the Evolution and Operation of the Hamiltonian Principle Without the Aid or Intervention of any Statute

In the early days of New England banking, the circulation or note issues were established by the State Legislature in the case of each individual bank and varied widely, not only from state to state, but also the different charters in the same state. The note issues generally exceeded the deposits and constituted the major part of the medium of exchange. This has always been true of the Bank of France.

The Suffolk Banking System

In 1819, without any statutory authority for that purpose, the Suffolk Bank was organized at Boston to compel the New England banks to redeem their notes at Boston in gold. The operation of the Suffolk Bank extended and covered all the New England states and was universally acquiesced in over all that territory now included in the First Federal Reserve Bank District, and more.

I hereby assert that the Suffolk Banking System was the most perfect banking system that has ever existed in the world and that it demonstrated more economic truths, that are of practical value to us today, if we will only take advantage of them, than any banking system that has ever existed.

In the light of all the banking experience of the world the Suffolk System lacked only three requisites to make it as perfect as is humanly possible.

First, It lacked uniform supervision over the entire territory covered by its operations.

Second, It lacked a uniform system of currency, such as our national bank notes are. Each New England bank then designed and printed its own notes, and it has been stated, upon good authority, that some of them were printed by the banks themselves in their own offices.

Third, It lacked the establishment of a guarantee fund for the protection of the note holder, although he had almost perfect protection through the daily redemption of the notes through the Suffolk Bank at Boston in *gold.*

Slight Cost of Guarantee Fund

Indeed, the protection of the note holder was so nearly perfect, through this daily redemption of the notes in gold, that from 1840 to 1860, a period of 20 years, a tax of only 1/8 of 1 per cent upon the whole note issue would have been sufficient to pay the notes of the failed banks, *including the panic of 1857*, without any reference whatever to their participation in the distribution of the assets of the banks.
A guarantee fund of 5%, such as Canada has would have lasted 40 years, or covered their losses for 40 years.

Compared with the National Bank Note System

How much better the notes of the 500 banks under the Suffolk Bank System were, *inherently* and without any reference to the Government Bonds deposited to secure their payment, is demonstrated by the fact that commencing with the National Banking System, in 1864, down to 1901—a period of 36 years—it would have taken a tax of *one-fifth* of one per cent each year upon all the National Bank Notes outstanding to pay the notes of the failed banks (omitting, of course, the Government Bonds deposited to secure them); or a Guarantee fund of 5%would have lasted only 25 years, under the National Bank Note System, while under the Suffolk Bank Note System, it would have lasted nearly twice as long or over 40 years.

The Actual Never Exceeded 40 Per Cent of the Permissive Issue

To demonstrate beyond any peradventure of doubt that the bank credit currency of New England, under the Suffolk System, never exceeded the demands of trade, was never too great, was never too small, but always just equal to its requirements, I want to call attention to the following facts:

First, in 1840 the permissive or possible issue was $70,323,000; but the actual issue of notes outstanding was only $16,570,893, or only 23% of the possible issue.

Second, in 1850 the permissive or possible note issue was $75,533,000; but the actual note issue outstanding was only $31,799,031, or only 40% of the possible issue.

Third, in 1860 the permissive or possible note issue was $131,310,000; but the actual note issue outstanding was only $47,539,877, or only 36% of its possible issue.

A Mathematical Demonstration

Here is a mathematical demonstration through the actual operation of a complete banking system,

(a) Including over 500 individual independent banks.

(b) Covering all of the six New England States (considerably more territory than is now covered by the First Federal Reserve Bank District).

(c) *During a period of 46 years, which proves beyond all question of a doubt that Bank Credit Currency contracts just as quickly and just as much or completely as it expands.*

The same fact is illustrated and demonstrated up in Canada every fall, during the crop moving season (see the Canadian Diagram).

In normal times, prior to the War, the Bank Credit Currency of France, which averaged something more than $1,000,000,000, often contracted or expanded more than 10%, or more than $100,000,000, in a single week. Indeed at times, this occurred in a single day.

By a parity of reasoning if the Federal Reserve Notes were directly related to current business, as Bank Credit Currency always is, the contraction as well as expansion of Federal Reserve Notes, at times, ought, *pari passu,* to be 10% or from 300 to 350 million a week; but it will be observed and remembered that the Federal Reserve Notes are always practically equal to and identical with the total amount of the earning assets of the twelve Federal Reserve Banks, a fact that proves conclusively that they are as utterly unfit for the purpose of currency, as the National Bank Notes and the Greenbacks, or United States Notes proved themselves to be; *and a thousand fold more dangerous because of the certainty of a practically unlimited expansion, without any contraction, except through financial disturbances and commercial disasters when the earning assets of the Federal Reserve Banks will necessarily be reduced.*

Should the Federal Reserve Act remain upon the statute books, it must be conclusively clear, therefore, to every student of economics that we shall have far more frequent commercial disturbances, reactions, panics or crises in the future than we ever have had in the past (until the final complete smashup comes) because of the very nature, character, expansibility and permanency of the Federal Reserve Notes.

Of this, there can be no possible doubt. The question then is, are these disturbances, reactions, panics or crises to be desired? Or should we adopt such a financial and banking system as to prevent them so far as humanly possible?

With this mathematical demonstration, this unquestioned, unqualified proof before him, let the reader return to the chart which demonstrates the fact that the Federal Reserve Notes are always just equal to and identical with the assets of the twelve Federal Reserve Banks, a fact that must lead to certain and overwhelming disaster as already pointed out.

Life of Bank Credit Currency

The average life of a bank credit currency is in bold contrast with that of our National Bank Notes or the Federal Reserve Notes.

The note of the Scotch Banking System remains out (short distances, good railroad facilities) 15 days.

The note of the Canadian Banking System remains out (distances are great, railroad facilities fair) 30 days.

The note of the New England Suffolk Banking System remained out (no railroads then) 45 days.

The note of the National Banking System remains out (the best of railroad facilities) 730 days, or more than two years, which is about the time the paper itself lasts, when it must be returned of necessity for renewal.

It will be found upon investigation that the life of the Federal Reserve Note is also the life of the paper upon which it is printed. The frequent redemptions of the Bank Credit Currency reflect its relation to business transactions, while the return of the National Bank Notes, and the Federal Reserve Notes as well, reflect little more than the life of the paper upon which both are printed.

National Bank Notes and Federal Reserve Notes Are Identical

I assert that there is no such thing as an economic redemption either of National Bank Notes, nor of Federal Reserve Notes; but, that they are identical in principle and character—a combination of government and bank credit—and that, *either directly or indirectly*, both are the absolute obligations of the government, plus or with bank credit added. They are both government debts guaranteed by banks.

All the true credit character or nature of both has been, literally and utterly destroyed, and both have been made the deadly enemies of gold. Both are hybrids; both are nondescripts; and, neither of them is fit to find a place, nor will find a place, in a rightly constituted banking system. Both of them in the same way, and to the same degree, are an ever-increasing, practically permanent sodden mass of credit, by which the peril of our financial and banking system, in a broad economic sense, is now growing weaker by the hour; for from several points of view, *we are far weaker today than we have been at any time since the passage of the Federal Reserve Act.*

And, should it remain on the statute book, we must inevitably continue to grow gradually, but certainly, weaker and weaker until the whole structure of our credit system goes down in overwhelming and indescribable disaster.

The Suffolk System Recognized Everywhere

The Suffolk Banking System was known and recognized all over the United States. The bank notes of the New England banks redeemed through the Suffolk Bank, *without any reference whatever to the size of the capital of the bank issuing them, whether $10,000, or $25,000, or $250,000, or $500,000, were at a premium at Buffalo, Chicago, Milwaukee and all other western centres, simply and only because they were redeemed through the Suffolk Bank at Boston in gold.*

Fundamental Principles Do Not Change

Economic principles do not change. They are as immutable as the law of gravitation, and the penalties for their violation will always be exacted by nature as certainly, and as relentlessly as any violation of the law of gravitation.

Permissive or Possible and Actual Issues of Bank Credit Currency

Need any further evidence be adduced to demonstrate the fact that bank credit currency always adjusts itself to the current demands of trade?

The assumption that a system of bank credit currency means only expansion and not a corresponding contraction as in the case with National Bank Notes and Federal Reserve Notes is completely refuted by the operation of the Suffolk Bank System, the annual expansion and contraction of Bank Credit Currency in Canada, and by the following table comparing the permissive and possible with the actual note issues wherever Bank Credit Currency has been in use, or is in use today:

		Permissive Issue	Actual Issue
France (1 bank)	1908	$1,160,000,000	$929,000,000
Canada (25 banks)	"	94,000,000	83,000,000
Scotland (10 banks)	"	148,000,000	40,000,0000
1st U.S.Bank (1 bank)	1811	10,000,000	5,000,000
2ndU.S.Bank (1 bank)	1836	35,000,000	23,000,000
Bank of Indiana (1 bank)	1862	6,600,000	4,900,000
Bank of Iowa (1 bank)	1865	2,096,000	1,400,000
New England Suffolk System (506 banks)	1860	$131,310,000	$47,539,877

From this comparison of the permissible and possible issues of Bank Credit Currency with the actual issues in every instance, every intelligent and fair minded man must conclude that a natural and perfect relation must necessarily exist between a true Bank Credit Currency and the work it is called upon to perform.

Please note that it is wholly immaterial whether Bank Credit Currency is issued by one bank as in France, or ten banks as in Scotland, or twenty-five banks as in Canada, or one bank as in Indiana or Iowa or one bank in the whole United States, or by more than five hundred banks covering all the New England States, the result has always been identically the same; and, always must be identically the same, *because it is issued and redeemed in accordance with a fundamental principle of economic law.*

Why Bank Credit Currency Always Contracts As Well As Expands and Is Always Just Equal to the Demands of Trade.

A Bank Credit Note is a cashier's check. It is the direct obligation of the bank issuing it, without the deposit of government bonds or any other collateral to secure its payment; but like a National Bank Note and also a Canadian Bank Note it should be a first lien upon all the assets of the bank issuing it. Public policy demands this.

A 5% guarantee fund, such as they have in Canada should be established, to meet the *immediate* payment of notes of any failed banks. But, with the organization and supervision herein proposed, it is very doubtful whether a single penny of it would ever be needed, as there never has been a bank failure where clearing house bank examinations were in force.

If a bank had the right to issue Bank Credit Notes to the amount of its capital, it would be interested in sending home the notes of every other bank for redemption and keeping its own notes out or in circulation; for (a) Upon a 6% rate of interest, after paying a tax of 2% upon its bank notes outstanding, a bank would make 4%. (b) By sending the notes of all other banks home a bank would get gold for them or reserve money which would be worth ten times as much to the bank as the notes of the other banks were.

Business Based on Selfishness

All business is based on selfishness and banking is the very refinement of business. Banking is the quintessence of trade. Whenever profit, or advantage, which is the equivalent to profit, disappears from human effort, business or trade will disappear. Business will die. Human effort will cease, as so strikingly illustrated, so conclusively demonstrated, in Russia at this very moment.

Why Federal Reserve Notes Will Not Contract But Always Expand, Except In Disturbances, Reactions, Panics, or Crises, Which They Themselves Will Inevitably Breed

There is no selfish motive such as there is in the case of checks and drafts, no reason whatever, measured in terms of profit or advantage, why any State Bank (all National Banks are practically, though not theoretically, in identically the same position) should send home for redemption and payment a Federal Reserve Note or a National Bank Note or a United States Note or Greenback. All three of these obligations—mere promises to pay, debts, just I.O.U.'s—are identical in nature and character. All are Government paper, differing only slightly in form. And, it will be found upon an exhaustive examination that all three are treated precisely alike by all banks—treated as reserves. And this is true, notwithstanding the fact that not one of them would find a place, either as a reserve or as currency, in a rightly constituted financial and banking system.

There are $346,000,000 Greenbacks, $730,000,000 National Bank Notes and $3,000,000,000 Federal Reserve Notes or $4,076,000,000 of this *Government Paper Money*; which, under present conditions is bound to constantly increase, when as a matter of economy, wisdom and prudence, Bank Credit Currency should be gradually substituted for every dollar of it.

It is the dual nature or character of this $4,076,000,000 of *Government Paper Money*, this double use of it for both reserves and currency, *when all reserves should be 100% gold and all currency should be 100% bank credit instead of this mongrel mess of 40% gold and 60% government bank credit combined;* that will, sooner or later, lead to the complete collapse of our financial and banking system; and, at a time of seemingly very great, but in fact, false prosperity. We have just had one of these illusive delusions; and are now headed for a still greater one.

Number of Banks in the Suffolk System

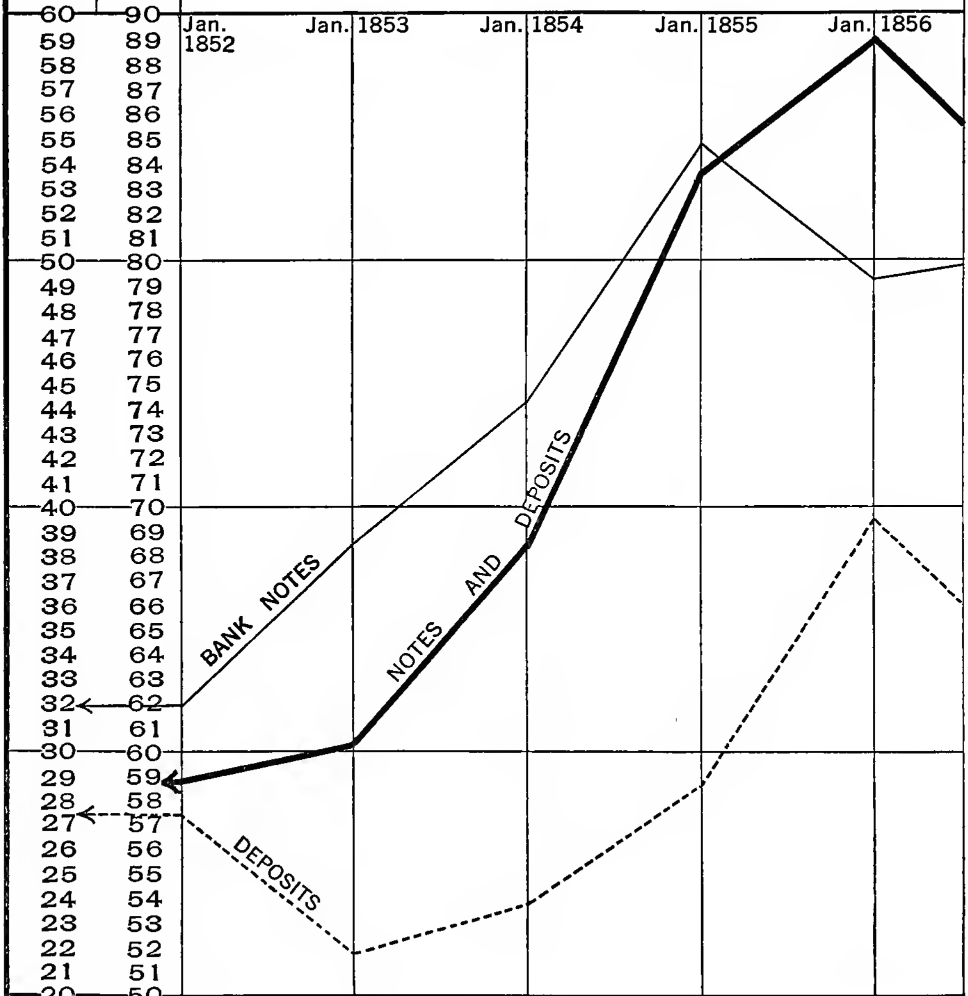
In 1857 there were 510 banks. In 1858 there were 499. In 1860 there were 504 banks. The capital ranged from only a few thousands—several having less than 25 thousand—up to 500 thousand.

The Diagram of the Suffolk Bank Note System Analyzed

The diagram upon the following page, covering the operations of the Suffolk Banking System for a period of 10 years demonstrates that in a rightly constituted banking system, bank book credits and bank note credits are identical in principle, *and that the life of each is determined wholly by the function it performs in trade and commerce.*

Let the reader note the movement or increase and

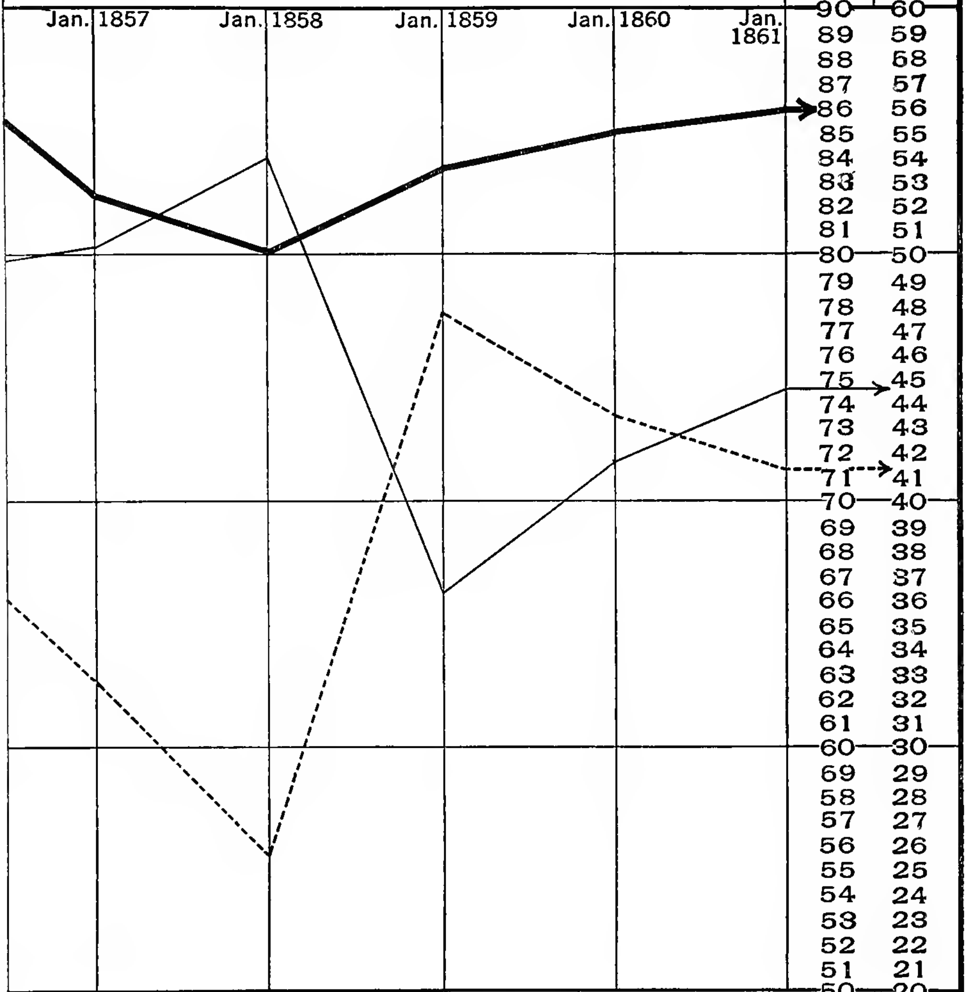
Bank book credits and bank note credits are identical in principle, the one being order credit and the other current credit and therefore both should be subject to gold redemption through our Clearing Houses. This diagram shows the operation of the



Circulation 31,700,000	38,500,000	44,300,000	54,800,000	49,400,000
Deposits 27,200,000	21,900,000	23,800,000	28,700,000	39,400,000
Total of both 58,900,000	60,400,000	68,100,000	83,500,000	88,800,000

Suffolk System of New England from 1851 to 1861, and demonstrates the perfect interplay of bank book credits and bank note credits, or deposits and bank notes, both having been redeemed daily at the Suffolk Bank in Boston. *in gold.*

Dep. & Notes combined — Even | Dep. & Notes issued — Mlns.



50,000,000	54,900,000	36,200,000	41,700,000	44,700,000
32,200,000	25,100,000	47,600,000	43,300,000	41,200,000
82,200,000	80,000,000	83,800,000	85,000,000	85,900,000

decrease of the deposits and notes during the ten years covered by the diagram upon the preceding page.

(a) At the outset there was a difference between the bank notes and bank deposits of only $4,000,000; the notes amounting, on Jan. 1, 1852, to $32,000,000, and the deposits to $28,000,000.

(b) During the next year, the deposits fell $7,000,000, while the notes increased $7,000,000, and on Jan.1, 1853, the difference between the amount of the bank notes and the deposits was $18,000,000.

(c) From Jan. 1, 1853 there was a gradual and almost equal increase in both deposits and bank notes; the deposits standing on Jan. 1, 1855, at $28,000000, and the notes at $54,000,000.

(d) During the following year, ending with Jan. 1, 1856, the bank notes fell $5,000,000, or to $49,000,000, while the deposits increased from $28,000,000, to $39,000,000, and the difference between the two was then only $10,000,000.

(e) From Jan. 1, 1856 to Jan. 1, 1858, the movement of both deposits and notes becomes most interesting, *because this period covered the paralyzing panic of 1857*. The notes constantly increased reaching the highest point they ever attained—$55,000,000, while the deposits fell to $25,000,000, showing that cash was necessary for the liquidation of accounts. Bank book credits were converted into bank note credits to meet the emergency growing out of the panic.

(f) From Jan. 1, 1858 to Jan. 1, 1859, occurred a correspondingly interesting episode of the panic. The notes fell from $55,000,000, to $35,000,000, or $20,000,000, while the deposits rose from $25,000,000, to $47,000,000, or $22,000,000. Bank note credits to the extent of more than $20,000,000, were converted into bank book credits, showing that when cash had done its part of the liquidation, the bank notes became or took the form of bank deposits.

(g) It will be noted that the bank note and bank deposit lines again crossed each other a second time in the spring of 1860, the amount of each being then the same, or $43,000,000. And finally, that at the end of ten years the bank note credits and bank book credits were relatively exactly where they were ten years before, or only $4,000,000 apart; the notes now standing at $45,000,000 and the deposits at $41,000,000.

(h) The heavy black line which includes both the bank notes and bank deposits combined shows an increase in bank assets of $28,000,000, during the ten years.

Let it be noted and remembered that the currency of a country, outside of that coined out of its standard of value or its representative, such as Gold Certificates, should be subjected daily to redemption in that standard of value. Our standard of value is Gold; therefore the touchstone of all our currency or bank credit is daily redemption in Gold.

There is no such redemption and payment of the Federal Reserve Notes any more than there is of the National Bank Notes, or of the Greenbacks—United States Notes. They are all reserves and are all treated as such. But these, aside from the silver, constitute our currency system.

Neither the United States Notes, nor the National Bank Notes, nor the Federal Reserve Notes are ever returned to their makers unless, either the paper is too rotten or too filthy to be used; or, being in excess of their needs, the bank must get rid of them in some way. What a fine Currency System this is!

Not a Theory But a Complete, Well-Nigh Perfect, Tried and Approved Banking System

Let it be noted and remembered that I am not now discussing a mere theory but a principle proved and justified wherever tried and here more particularly, a complete, nearly perfect, tried and approved Banking System, that covered all of the six New England States, including more territory than the First Federal Reserve Bank District now does, was composed of more than 500 individual, independent banks, and was in successful operation from 1819 to 1865, or for a period of 46

All bank notes will be redeemed by numbers; so that identification will be instantaneous. The zone number will point the way home. The bank number will designate the account to which the note is to be charged.

To secure a perfectly uniform bank note, both in quality and character the United States goverment will provide the bank notes for all banks precisely as it now furnishes all National banks with their bank notes.

years; and, until it was destroyed by the 10% tax imposed on Bank Note issues; and, that it was marvelled at and appreciated all over the United States and was approved and commended without any qualification whatever by the Bank Commissioners of every New England State of that time.

Contemporary Comments of Official Reports on the System

" The currency of this State is of the first order and can not be improved, being equal to gold and silver. This is strong language, we admit, yet perfectly true, for every bill holder can on demand convert his bills into coin." (Connecticut Bank Commissioner's Report, 1841.)

" If there was no check upon circulation there might be some danger, but the frequent redemptions at the Suffolk Bank and the rapid communications between different parts of the country will prevent any greater circulation than the natural business wants of the country will sustain. * * * Indeed, this system of par redemption seems to be a most perfect regulator upon all the New England banks. It would seem somewhat surprising that something has not been adopted in other parts of the country that should produce the same beneficial results." (Connecticut Bank Commissioner's Report, 1848.)

" We believe there is not a more sound and safe currency in existence than that furnished by the banks in this State. We know of no better system of banking than ours." (Connecticut Bank Commissioner's Report 1849.)

" The bills of any country bank, redeemed at par in any commercial city, will always be current throughout the extent of region whose business channels flow to that city. Hence, New England money is worth more in the cities of New York and Philadelphia than the bills of their own country banks. Vermont bills have uniformly borne a premium in the eastern cities without loss, while bills of their own States are at a heavy discount." (Vermont Bank Commission's Report, 1852.)

"The 'Suffolk System,' though not recognized in our banking law, has proved to be the great safeguard to the public. Whatever objections may exist to this 'system' in theory, its practical operation is to keep the circulation of our banks within the bounds of safety. No sound bank can have any well-founded reason for refusing to redeem its bills in Boston, and a bank that is not sound can not long do business under that system and ceases to be in good credit when it is 'thrown out at the Suffolk.'" (Maine Commissioner's Report, December 31, 1857.)

" It is by no means wonderful that a system which has stood the test of time and struck its roots so deep as to have become incorporated with and formed a part of our banking system should be abandoned with hesitation for one which is new and untried." (Maine Bank Commissioner's Report, 1865.)

" The charters of the banks have been renewed. If the laws by which they are constituted the agents of the people to provide a currency, and by which their faithfulness in the discharge of such agency is secured, remained unchanged, there is every reason to believe that the currency of Massachusetts will be for the next twenty years what it has been for the twenty years past—as perfect as any in existence, as perfect as in the nature of things it can be. No reasonable man, no practical man, no man who is not bound hand and foot in the fetters of mere theory, can desire for the people a currency better adapted to meet all the circumstances of a business community than that which has been furnished by the banks of Massachusetts for the last quarter of a century." (James B. Congdon, cashier Merchant's Bank, New Bedford, in memorial to governor of Massachusetts, 1851.)

" The anomalous feature of the case is that the well-secured bond-protected bank issues of New York are at a greater discount at this point than the apparently unsecured circulation of New England, including places hundreds of miles off, and inaccessible, in a measure, for compulsory redemption. * * * * * * * *

" We said that the Massachusetts currency was apparently unsecured. In reality their bank paper is well secured. The experience of the last fifteen years has demonstrated that the losses from bank issues in the State of New York are four or five times greater than in Massachusetts. The system of the latter is better than our own." (New York Courier and Enquirer, 1854.)

" The State parts with these objects of her care and solicitude with many regrets, but with a just pride in their career, inspired by the belief that their capital has been highly instrumental in promoting the prosperity of the State, and that they have furnished as good a paper currency, based on individual credit, as any part of the country has ever enjoyed." (Massachusetts Banking Report, 1865.)

What Does the Gold Standard of Prices Mean?

It Means the Exchange of Work or the Products of Work for Gold or for Gold Values.

IF, upon the average, a man, by working ten days, produces an ounce of gold the price of which the United States Government has fixed by law at $20.67, (and, therefore must remain invariable) and another man, *of equal skill*, by working ten days, produces an amount of coal which sells for $20.67; then these two men can *exchange their work*, expressed in gold and coal, upon equal terms, or upon the gold price level which has been established by the Government.

But, if the man mining coal, produces, *in five days, or only one-half the time*, coal which sells for $20.67, then the work that produces the ounce of gold and the work that produces the coal can not be exchanged on equal terms, or upon the gold price level which has been established by the government; because the cost of the two commodities expressed in work is not the same; for the man mining the coal is getting twice the wages of the man mining gold, and as a result, the man mining gold is paying twice as much as he should pay *or a double price*, for his coal.

The Gold Standard for Wages and Prices of Merchandise

" If the same profits are made producing all commodities as in producing gold, the value of all commodities in terms of gold (that is, prices) must be related through wages to the gold standard; for it is self-evident that otherwise gold would not be produced in exactly the required amount. This means that the wages of labor producing gold and wages of the same kind of labor producing any other commodity, on an average, must depend relatively on the amount of gold that can be produced by labor in a day. The more gold that can be produced by a day's labor, the more gold or money, labor of this class will receive for a day's work, and the higher the wage scale will be in terms of money. Gold is thus the medium by which the value of a day's work is measured, and after wages are thus set in terms of gold, the prices of commodities produced by labor are automatically controlled by the same standard."

Why All the Commercial Nations of the World Have Chosen the Gold Standard

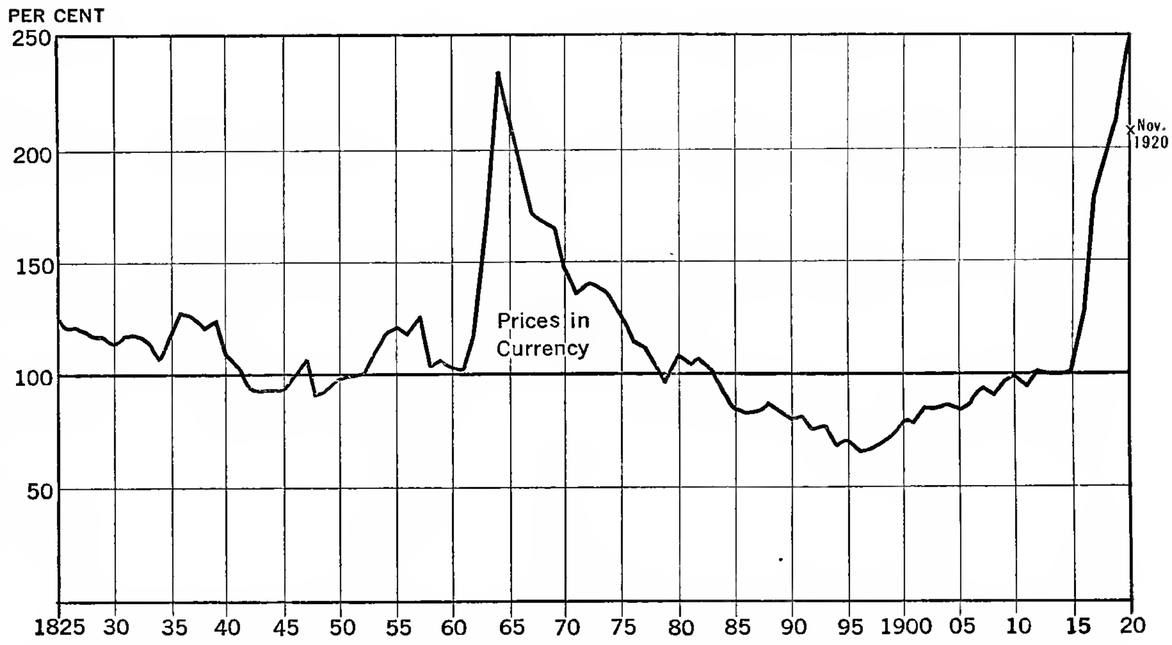
" Gold is still used as the world's basis of all permanent values because (a) no better substitute has been found; (b) all permanent wealth is now founded upon it and measured by it; (c) it has an intrinsic value in the arts aside from its value as a basis of credits; (d) it does not oxidize and is thus almost permanent; (e) a large value can be represented in a small weight and bulk; (f) it is widely scattered and no one country has an abnormal advantage in its cheap production; (g) it is not susceptible of quick over production."

Prices and Gold for One Hundred Years

The graph upon the opposite page should be studied carefully, because the variations from the price level of 100 are, except as a result of the Civil War, from 1861-1879 and the World War, from 1915 to date have been comparatively slight; and it can be reasonably inferred, that, if we had had a central bank, like the United States Reserve Bank, under the control of an intelligent body of independent men, much of the speculation of 1837 and 1857 and the consequent misfortunes, as well as the trouble of 1893 would certainly have been greatly modified, if indeed, not entirely eliminated.

To control expansion and to prevent inflation is the peculiar function of the economic rate of interest.

Our price of gold is fixed at $20.67+ per ounce. Our unit of value – the gold dollar – is fixed at 25.8 grains of gold .9 fine. Allowing for those variations in individual cases growing out of the law of demand and supply, all commercial commodities should become interchangeable or interconvertible with gold at the average gold price level of the last one hundred years, if we hope to compete successfully in the markets of the world and hope to lay the foundation of a sound and continuing prosperity. Every intelligent and patriotic citizen of every walk of life – laborer as well as capitalist – will strive for this and do his part. When this gold price level is approximated, the gold production of the world will again reach the $480,000,000.00 mark of 1915; but not until then. In 1920 the gold production amounted to only $350,000,000.00; because, while the price of gold was fixed, the price of labor was not upon the same level but was much inflated, and therefore many gold mines could not be worked except at a loss.



Average Wholesale Commodity Prices in the United States each Year from 1825 to 1920 in Percentages of the Figures for 1913

Present Prices and Wages Compared

The following data were furnished by the Bureau of Labor Statistics of the United States Department of Labor, Washington, D. C.

The combined retail prices of : sirloin steak; round steak; rib roast; chuck roast; plate beef; pork chops; bacon; ham; lard; hens; butter; cheese; eggs; milk; bread; flour; cornmeal; rice; potatoes; sugar; coffee; tea; rose from the price level of 100 in 1913 to 203 in September, 1920, or 103%.

In August, 1921, these combined retail prices had fallen to 155 or a total of 48 points, leaving a reduction of 55 per cent, based on the price level of 1913, to be made when all these commodities will again be upon the gold price level of 1913, which is the gold price level of the last one hundred years.

In other words, the total inflation of 103% will then have been eliminated.

The combined wholesale prices of; farm products; food, etc.; cloths and clothing; fuel and lighting; metals and metal products; building materials; chemicals and drugs; house furnishing goods; miscellaneous, rose from the price level of 100 in 1913 to 272 in May, 1920, or 172%.

In August, 1921, these combined wholesale prices had fallen to 152, or a total of 120 points, leaving a reduction of only 52 per cent based on the price level of 1913, to be made when all these commodities will again be upon the gold price level of 1913, which remember is the gold price level of the last one hundred years.

In other words, the total inflation of 172%, will then have been eliminated.

The wholesale prices of all the following commodities except anthracite coal alone have been greatly reduced; coal, bituminous; iron ore; steel billets; structural steel; copper ingots and wire; tin, pig and plate; lead; cement; brick; lumber; cotton; print cloth; wool; silk; cattle; beef, mess; hogs; pork, salt mess;

sheep; lambs; wheat; flour; corn; oats; coffee; tea; butter.

Fifteen or just one half of all these staple commodities are now at or below the price level of 1913.

Professor George F. Warren of the Department of Agriculture, formerly of the faculty of the New York College of Agriculture, in a recent study of prices published by the Department, makes the following statement relative to conditions touching the great body of our farming population:

"Compared with a five-year average before the war as 100, the purchasing power of some farm products at prices paid to farmers in June, 1921, were as follows: corn, 61; oats, 60; barley, 53; wheat, 93; rye, 101; buckwheat, 101; flaxseed, 55; beans, 81; corn, 56; cotton, 51; cotton seed, 52; hay, 68; cabbage, 111; onions, 73; potatoes, 64; sweet potatoes, 89; peanuts, 48; apples, 91; chickens,116; eggs, 77; butter,83; milch cows, 80; beef cattle, 69; veal calves, 73; sheep, 66; lambs, 79; wool, 58; hogs, 67; horses, 45.

"Practically nothing the farmer sells can be exchanged for the usual quantity of other things. It is physically impossible for farmers to absorb the products of factories. Farm prices have dropped much more than wholesale or retail prices of farm products."

Wages

In the face of all these impressive facts the attention is called to the following wage statistics as a quite full explanation of the reason why practically all of the wholesale and retail prices, more particularly, are not now upon the same price level of 1913. This does not include, of course, farm labor, because that has been practically liquidated or deflated as evidenced by the very important fact that nearly all farm products are already down to the price level of 1913, and would be completely so, *but for the war wage cost in transportation.* Certainly no one will claim that farm work is an easy job. Indeed, it will be admitted by any one who knows that it is one of the most toilsome of all kinds of work. Then why this present great inequality of compensation or wages?

Wages of Railroad Employees

In 1915 the section men on the railroads received 15 cents per hour. In the third quarter of 1920 they received 48 cents per hour. On May 1, 1921, they received 37 cents per hour.

In 1915 the passenger engineers received 82 cents per hour. In the fourth quarter of 1920 they received $1.34 per hour. On May 1, 1921, they received $1.24 per hour.

Average Union Rate of Wages Per Hour in the United States as of May Each Year

Bricklayers received in May, 1913, 69 cents per hour. In May, 1920, $1.20 per hour. In May, 1921, $1.19 per hour.

Carpenters received in May, 1913, 53 cents per hour. In May, 1920, $1.03 per hour. In May, 1921, $1.05 per hour.

Painters received in May, 1913, 50 cents per hour. In May, 1920, $1.04 per hour. In May, 1921, $1.09 per hour.

Plumbers received in May, 1913, 62 cents per hour. In May, 1920, $1.06 per hour. In May, 1921, $1.12 per hour.

Building laborers received in May, 1913, 23 cents per hour. In May, 1920, 75 cents per hour. In May, 1921, 75 cents per hour.

Anthracite Coal

The anthracite coal mine employees received in April, 1912, 42 cents per hour. In April, 1920, he received 99 cents per hour (no later data).

Anthracite coal laborers received in April, 1912, 23 cents per hour. In April, 1920, they received 60 cents per hour (no later data).

Anthracite coal, chestnut, per ton, at tidewater New York in 1913, was $5.31. In March, 1921, it cost $10.64. In August 1921, it cost $10.54.

The wages of the section men are two and one half times as high as they were in 1915. The wages of the passenger engineers are more than 50% higher than they were in 1915.

The wages of the bricklayers, carpenters, painters, plumbers, and building laborers are today just as high or higher than they have been at any time since we entered the war.

The anthracite coal miners are getting higher wages today than upon any prior wage scale. With the result that with the increased wage cost in transportation the anthracite coal now costs in New York at tidewater $10.54 as against $5.31 in 1913.

Is it fair that the millions of homes of fellow workers in the manufacturing industries should be warmed by coal costing war prices, while practically all of these workers are receiving greatly reduced wages? Indeed, many of them are receiving wages as low as they received in 1913 when they bought their coal for $5.31 per ton.

This difference is due, first, to war wages paid for mining, and second to war wages paid for transportation. Is there any justice or equity in this frightful inequality of compensation of wages of today as compared with those of 1913?

Cost of Building Determines Rent

Under these circumstances, is there any justice in the brick and cement manufacturers, the lumber dealers, the bricklayers, carpenters, painters and plumbers doubling the cost of houses and thereby necessarily doubling the rent of all their co-workers in America in all lines of agricultural and manufacturing industry?

These artisans of the building trades seem to think that their wages come out of capital, and that the capitalist is the sufferer. But capital demands a certain per cent of income to protect or maintain itself, whether loaned by our Building Loan Associations, our savings banks or our life insurance companies, all of which are mutual institutions; and, therefore, owned by the people. It is self-evident, therefore, that if a house costs $10,000 when it should of cost only $5,000 the rent will be doubled. The rent is paid by some co-worker almost universally. Of course, you can not have low rent unless you have low cost of house room.

I submit that these conditions should be equalized and that all should unite to bring about universal prosperity by an equalization of wages. As it is, one class of our laborers is greatly wronging all other classes of our laborers, not for a year but so long as the houses built at double cost stand; for the rent will run with the life of the houses unless this great inequality should be rectified. It can be rectified on the gold price level of the last one hundred years—the price level of 1913—and it can be rectified in no other way.

The Rent Payers' Fight

All rent payers everywhere are vitally interested in bringing rents down to the same level of all other commodities. And, if they are sensible and can possibly do so, they will not engage in any building operations until this level is reached; and this can only be done when the wages of those building houses are brought down approximately to the 1913 wage level, or the level of the gold standard of the last one hundred years.

If all classes everywhere should unite to achieve this all-important, this vital result, there would be no question about their getting reasonable rent rates *for no one class of American workers can make war upon all other classes of American workers and succeed in the long run.*

The time has come for a show down and a demand for equal justice so far as humanly possible between all classes of American workers. Now is the time and here is the place to apply the American principles of fair play and equal justice to all.

Business Abhors Uncertainty

Again, and every working man in the United States is vitally interested in this, all business abhors uncertainty and the sooner we get down squarely and fully upon the solid foundation of our standard of value, the sooner all commercial commodities will become interconvertible with gold and the sooner will a sound, continuing and permanent prosperity be ours to enjoy and all the people become equal participants in its great benefits.

Foreign Trade Essential to Our Prosperity

The wages paid throughout the country today to our industrial mechanics and workers in the manufacturing industries as well as those paid in our agricultural pursuits must be such as to make it possible to send American products into the markets of the world and successfully compete with other nations, if we hope for prosperity in this country. *Because a market for our excess production of both the farm and the factory is absolutely essential to our national prosperity.*

But the present wage cost of transportation will, whenever international competition is involved, destroy utterly all hope of any foreign trade which is, as just stated, absolutely essential to our national prosperity.

The question to be settled is, therefore: should the whole nation, more than one hundred millions of people, be made to suffer very greatly and indefinitely, possibly even overwhelming disaster, to the end that only one per cent or even two per cent of the people may receive the inordinate wages of war times and therefore *by comparison* get most inequitable compensation for the services they render? That is the question.

Duty of the United States Government—All State Governments—All Counties and All Municipalities

In the name and interest of justice, it is perfectly obvious that neither the United States Government, nor any State Government, nor any municipality should engage, at this time, in any undertaking of a public character which is to be paid for out of taxes wrung from the people for the purpose of relieving the unemployment situation, except upon the price level of 1913, which has already been reached by a very great part of our American producers—*the gold price level of the last one hundred years.*

Co-Operation is Patriotism

Primarily labor produces all wealth and, on the average, labor cost constitutes 95% of all our commercial commodities; therefore, generally speaking, wages must go *down before prices can fall. But, in the complicated, intimately interrelated life of today, ready responsive and hearty co-operation on the part, both of price-makers and wage earners, is essential to a just relationship, the banishment of unemployment, the return of a sound and enduring prosperity and is, therefore, the highest, the finest and the most genuine expression of patriotism—a love of country through a love of countrymen.*

Definition of Wealth and How Now Established

"Wealth has been described as 'canned' labor. The value of wealth is indicated by amounts of that 'canned' labor. All wealth, like gold in the bank, or the cost of the bank building, represents a certain amount of labor equivalent, translated in terms of the gold standard of measurement. Now that this wealth, made by labor, is translated in terms of gold produced by labor, it certainly is not fair or possible to give up the gold standard measure of that 'canned' labor, and use another standard which would represent a different amount of labor. Because we have just now gotten part of our always fluctuating values under an unusual strain of conditions, entirely out of this proper relation, by an artificial use of credits *instead of gold*, we are not in any way justified in changing the fundamental measure of our permanent values. This is unthinkable. Nor could we change from the gold standard unless all the world changed at the same time. Royalties on mines and lands, rent on properties, ninety-nine year leases, bonds and preferred stocks, insurance, bank deposits, notes and even the debt that Europe owes us, all amounting to tens of billions of dollars, are fixed on the gold standard, and any abandonment of it in order to save temporary wages and prices from reaching their true natural level, would be an inconceivable act of injustice and would destroy the confidence of the work in fairness of man and in the stability of values."

The Gold Standard and Our Banking System

The United States Government, having fixed, by law, the price of an ounce of gold at $20.67 and having declared that 25.8 grains of gold .9 fine shall constitute a dollar and be our unit of value, it follows, necessarily, that all credit—bank credit, commercial credit, and long time loans—should be based upon the gold standard.

Purposes of Our Banking System

The purposes of our banking system should be:

(a) To keep all credits within the limits or sphere of gold values.

(b) To give the greatest possible mobility and the highest degree of facility to all forms of bank credit that will aid in the exchange of commodities upon a gold basis, by expanding credits wherever necessary and by converting bank-book credits into bank notes and order credit into current credit; *providing always that all forms of bank credit are kept interchangeable or interconvertible with gold.*

(c) The effect of achieving these two objects will be to bring both wages and prices into a consistent, just, and harmonious relation with the gold standard; and, therefore, except in a few extreme instances, to bring wages and prices into a consistent, just and harmonious relation with each other.

Expansion and Inflation

In banking economics there is a fundamental, a profound difference between expansion and inflation.

Expansion is the extension of something within itself; and in banking economics, since gold is our standard of value, it is the extension of the use of gold by basing credit upon it—a sound principle so long as the credit so based maintains the same value as the gold.

Inflation is "*to swell or distend with air or gas;*" and, in banking economics, it is to base one credit upon another credit—an unsound principle because it starts with wind and ends in a whirlwind—a wind storm—a hurricane of destruction.

An Illustration of Inflation

Today, if a State bank takes a certain amount of its customers' paper to its correspondent bank, which is a member of the Federal Reserve Bank, it can get $100,000 of Federal Reserve notes, which, in accordance with the laws of the State where located, it can put into its reserves and proceed to loan at the ratio of ten to one, or a million dollars, based upon these Federal Reserve Notes as a reserve—only 40% of which represents gold, while the other 60% represents credit—inflated credit.

Having finished this exploit, the same bank can then take some of this newly acquired customers' paper, based on these Federal Reserve Notes, and get another $100,000 of like reserves in the form of Federal Reserve Notes and so on, ad infinitum.

This is just precisely what has been going on for the past seven years—credit upon credit—wind upon wind—the wildest kind of inflation.

Federal Reserve Banks Are Doing the Same Thing

Now, let the reader observe and note that there is no difference whatever in principle, only in degree, between what the State banks are doing and what the Federal Reserve banks are doing when they absorb all the required reserves of the member banks and then in turn use them up to complete exhaustion by accepting deposits or issuing Federal Reserve Notes against them to the maximum limit.

This is inflation. True, it is subtle inflation, but the more serious and more dangerous because so subtle. Have we ever had any pyramiding of credit in this country that would compare with this for dilution, especially when you consider the slender reserve requirements of the member banks?

Now, note and remember that these Federal Reserve Notes, based upon reserves twice exhausted, twice used to the maximum limit, are the self same Federal Reserve Notes that the State banks are authorized by practically every state in the union to use as reserves.

The Federal Reserve Act was designed by its authors to pyramid credits; indeed that was its chief aim. But they built far better than they knew; for we have discovered that the sky is the limit of inflation under the act.

We have just had a full feast of this inflation carried to the nth power, and the fit of indigestion is still with us in the form of frozen credits, every dollar of which must be thawed out, and, in the last analysis, must be paid in gold or repudiated through bankruptcy proceedings and therefore lost by the creditors, which is economically the same thing.

Banking Economics

Banking economics is a science, and a highly specialized one, and nowhere in the realm of business is the expert so essential to wise action and successful operation.

We do not ask great surgeons to build bridges across the North River; nor great engineers to amputate the arms and legs of victims of serious accidents; nor do we ask in the blacksmith to administer to our children when they are stricken with typhoid. Experts are demanded everywhere today in critical cases. Certainly no one will deny that the economic situation in the United States is a critical one and therefore in need of expert guidance.

Read the opinions of only two—one English and one American—of the many recognized economists who have condemned the Federal Reserve Act.

Sir E. Mackey Edgar a leading English economist under the topic " The American Halt," wrote as follows in Sperling's Journal, August, 1921:

Defects of the Banking System

" There is no country today anything like so wealthy as the United States, and also there is none in which capital has been so effectively gagged and handcuffed by a stupid fiscal system. It has ceased to circulate and to function with anything like the freedom that the situation demands. It is manacled and tied down. The new banking system has turned out to be neither a preventive nor a remedy for the state of useless immobility in which capital has been immured. It worked well enough in the early days of the war, when everything was going America's way, and before its defects were apparent through the haze of prosperity."

Willford I. King, a member of the Research Staff of the National Bureau of Economical Research, says:

"The system as established has proved to be merely a new model, producing results very similar to those yielded by its numerous predecessors of the past—the cheap money devices which have so often dominated the financial policies of the nations and always with untoward results."

Our Financial System and Our Banking System Should be the Counterparts of Each Other

Our financial system is based upon the gold standard.

Our banking system should tie all of our production and all the factors of transportation, trade and commerce, expressed in wages and prices, to the gold standard, and keep them there, if we hope to escape the injustice and suffering that invariably follow in the wake of periods of inflation and the corresponding periods of deflation.

We do not want a banking system so organized that its very structure and practices develop and induce inflation and breed speculation through which incalculable injustice and suffering are brought upon the people.

The United States Reserve Bank

The United States Reserve Bank is organized to provide the fullest possible expansion of credit consistent with sound business conditions, and at the same time keep all bank credit liquid by subjecting it to daily redemption in gold.

The United States Reserve Bank organization stands for the highest degree of efficiency, the greatest possible economy, and the most certain and the most enduring *business conditions possible because of its principle of credit expansion and its mobility of bank credit, and its facility in the adaptation of bank credit to the needs of trade and commerce—always subject, however, to current redemption in gold.*

The Federal Reserve Banks

The Federal Reserve banking system, contrary to the intention of its framers, is organized for practically unlimited inflation as already pointed out. As the inflation proceeds, there is transferred unjustly, millions and probably billions of property or property rights from one class of our citizens to another; and, after the disturbance comes, as it must, the destruction of paper values sets in and when depression settles down upon the country, through the deflation that must follow, millions, yes, probably billions, of property or property rights unjustly, and to all intents and purposes forcibly are transferred from one class of our people to another —usually, if not invariably, from weaker to stronger hands.

Mr. King asserts that at least sixty billions have been so unjustly transferred as a result of the operations of the Federal Reserve Banks.

The Federal Reserve Banking System, by comparison with the United States Reserve Banking System, is astoundingly inefficient; wastefully extravagant; and, as has already been demonstrated, fundamentally unsound.

Conditions of American Banking under the United States Reserve Bank Compared with the Present Conditions Under the Federal Reserve Act.

Organization and Administration of American Banking Under the United States Reserve Bank

(a) One Central Reserve Bank and approximately fifty branches.

(b) A court of Finance to administer the affairs of

The United States Reserve Bank, consisting of seventeen members who shall be fairly representative of all sections of the United States.

They shall be appointed by the President for life, subject to the approval of the United States Senate.

(c) At each natural, important, economic commercial center, there shall be organized a Clearing House covering all the territory naturally tributary to that center for the clearance of all bank credit—checks, drafts and bank notes—and the establishment also of a Credit Bureau covering identically the same territory.

This Clearing House organization shall constitute and be a branch of *The United States Reserve Bank*, and the territory covered by this Clearing House shall be known as a " Commercial Zone."

(d) There shall be in each Commercial Zone a *Bankers Council* consisting of fifteen members, whose duty will be to manage the branch bank of that Zone. There will also be a Board of Control consisting of seven members whose duty will be to examine and supervise all the banks in that Commercial Zone subject, however, to the Bankers Council.

The members of the " Bankers Council " and the Board of Control will be selected as follows: Each Commercial Zone will be divided into seven geographical districts, each district consisting as nearly as possible of identically the same number of banks.

The banks of each district will appoint one business man and one banker upon the Bankers Council, making fourteen, and *The United States Reserve Bank* shall appoint a representative upon each Bankers Council, making fifteen in all.

The banks of each district shall appoint a representative upon the Board of Control, making seven in all.

Sound in principle and practice, and natural, simple and direct, yet complete, indeed practically perfect so far as human experience points the way, *The United States Reserve Bank* with its fifty branches provides the most intelligent, convenient and best possible machinery for rediscounting, while the Clearing

House examinations will be the most efficient and most economical supervision of American banking that can possibly be devised.

This constitutes the entire system. It stands for simplicity, efficiency, economy, the stability of credit and therefore sound business conditions.

Organization and Administration of American Banking Under the Federal Reserve Act

(a) Twelve central Reserve Banks, each with power to establish branches.

(b) The Federal Reserve Board—a politically controlled umbilical cord—connecting the twelve central Reserve Banks and subjecting them to the political ambitions and purposes of the party in power.

(c) A system of National Bank examinations covering the whole Unites States.

(d) A system of State Bank examinations covering the whole United States.

(e) A system of Federal Reserve Bank examinations covering the whole United States.

(f) A system of Federal Reserve Board examinations covering the whole United States and all the rest of the world.

(g) A system of Clearing House Bank examinations in upwards of twenty cities.

(h) Under the name of " Federal Reserve Notes " a practically unlimited issue of Government paper money of predetermined reserve value of only forty cents on the dollar which nearly every state in the Union has declared by statute to be a lawful reserve for all their state banks.

Basing one credit on another credit is a certain and the most prolific and most dangerous source of inflation, and yet, during the year 1920, approximately $50,000,000 was wasted, yes, literally thrown away by the Federal Reserve Banks in keeping over $3,000,000,000 of this false reserve—these I. O. U.'s, these debts, these demands for gold—in circulation.

(i) The situation is such a conglomerate one and has been so complicated by the Federal Reserve Act that it can not be unravelled and perfected by evolutionary processes; because the act is fundamentally unsound, both in principle and practice, and therefore the situation must be righted by substitution and succession.

(j) While many of the changes introduced by the Federal Reserve Act suggested things wholly right in themselves as a matter of principle or practice, nevertheless they have been *invariably* applied either only in part or altogether wrongly applied; so that, it may be asserted, without any fear whatever of successful contradiction, that there is not a single important feature of the Federal Reserve Act that can be declared to be wholly, unreservedly and unqualifiedly right either from the standpoint of principle or practice.

(k) The double, possibly triple, cost of bank examinations under present conditions in no way protects either State banks or National banks against duplicate borrowing, from which much if not most business troubles arise; and therefore necessitates the organization of a staff of credit investigators by every large bank or the employment, at great expense, of firms of accountants, all of which could be obviated by a properly organized system of Credit Bureaus covering the whole United States which would be at the service of all banks both State and National.

This constitutes the present condition under the Federal Reserve Act. The situation is almost unfathomably complicated; but obviously, most inefficient, most expensive, and the Federal Reserve Act is an ever existing peril to the stability of credit, and therefore the very foundation of business conditions is always threatened.

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