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THE SUB-TREASURY.

An Unbiased Analysis of the Bill

By a Successful Business Man Who is a Financial Authority—A Strong Document Upon an Important Subject.

[Atlanta Constitution.]

The effort to belittle the Sub-Treasury plan presented by the Farmers Alliance has failed. No measure has in years commanded so much attention in this State. In spite of the denunciation of those who pronounce it undemocratic class legislation, wild, impracticable, revolutionary and calculated if passed to debase the currency, and the ridicule of those who declare they want no money based on "pumpkins and corn shucks," it has won the support of the farmers to a remarkable degree. Neither denunciation nor ridicule has weakened its supporters. No mere absurd and ill-timed proposition could make such headway. The very reception of this measure evidences in a high degree that the conditions surrounding the farming class demand improvement. But we have no need for evidence on this subject.

EVILS OF CONTRACTION.

That the business of the whole country is suffering through the contraction of the currency is admitted by all parties. The recent silver legislation is the direct outgrowth of this admission. From the very nature of their business the contraction of the currency bears with special weight upon the farmers. The leading products of their labor are harvested during a few months of the year, while the whole year is necessary to their consumption. The year's supply of their products cannot be drawn out day after day, as with the manufacturer, but they must prepare and sow and cultivate and harvest, and then force their crops upon the markets of the country at a time when every line of business, stimulated by the marketing of these very crops, is most active. Thus the great bulk of their crops, gathered within three or four months, must be sold by the farmers, owing to the necessities of their conditions, at a time when money is most in demand, to those who are able to carry them until required for actual consumption. The result is a stringency in the money market, high rates of interest and a corresponding depression in the prices of the productions of the farm and of nearly all classes of securities. In the midst of an era of great prosperity we have seen money lending within the last thirty days, in the city of New York, the financial center of the country, at the rate of 188 per cent. per annum. The country has been saved from a panic, and thousands of honest business men from bankruptcy, only by the Secretary of the Treasury offering to pay for $40,000,000 of 4½ per cent. bonds, principal and interest to date of maturity, more than twelve months before they fall due, and by offering to prepay a year's interest on all the public debt, aggregating more than $600,000,000. Several times during the past three years the Secretary of the Treasury has only prevented a panic by the purchase of government bonds at enormous premiums. Think of it, more than $50,000,000, in round figures, of the people's money have been paid as premiums on 4 and 4½ per cent. bonds, and this payment rendered necessary by the scarcity of money, in order to prevent bankruptcy!

To meet the evils from which they suffer in common with all producers, the farmers have presented a remedy. Neither ridicule nor denunciation is the proper weapon for its discussion, but a careful, patient and thorough investigation, a calm and unprejudiced study. As I understand it, the farmers are allied to no special details; they want a flexible currency, issued by the Federal government that can be made to meet the increased demands of business due directly to the great staple crops being forced upon the market within a short period of time. This is the great principle for which they contend. The method they suggest for carrying this principle into practice, is to base any increased issue of currency upon the great staple crops, and to issue it, not arbitrarily by the government, but only upon the demand of those who will deposit ample security for it. They simply demand a safe, stable and flexible currency. Is that wild, or visionary, or impracticable? The method by which this currency shall be issued, the way in which it shall be secured, they have expressly declared a willingness to leave to the best sense of the whole country. Is that extreme, radical or undemocratic?

Now, as the evils of contraction confessedly exist, as every intelligent man admits them, and every business suffers from them, the part of wisdom is to stop denunciation and ridicule, to quit carping over and criticising mere details, and to unite all classes with the Alliance in a cordial effort to provide a remedy. As the fight against the farmers' measure has been directed chiefly against the methods they have suggested, I will pass to their consideration immediately, merely noting that I will reply later to the arguments against the principle of flexibility.

The important questions which underly the methods proposed are:

THE PRINCIPLE OF THE SUB-TREASURY PLAN.

1. Can a safe, sound and flexible currency, which will readily pass on its parity with gold, be based upon the great staple crops?

2. Is it possible to devise a method for the issuance of this currency that will be constitutional and in conforance with the genius and spirit of our free and democratic institutions, which are opposed to all forms of paternal government, and to an increase beyond due limits of Federal patronage?

Pause and reflect upon these propositions. If these methods proposed by the farmers cannot be made to conform fully to them, they should not be adopted; if they can, do they not deserve, and should they not receive, the support of all classes?

At the fore front of the argument it is demanded that the proposed currency must be sound and stable, and that it shall pass at all times on a gold basis; this is fundamental. The body politic abhors a depreciated currency. Business congests beneath its blighting influence, and serious financial catastrophies must follow in its baneful wake. No paper money can permanently perform useful service in the present condition of commerce and finance throughout the world that does not pass readily on a parity with gold. If, therefore, it can be shown that money based upon the great staple crops will not so pass, there is no further room for argument, and the whole fabric must fall; there would be no use to consider ways and means, government warehouses and Federal patronage. The whole fabric being viciously defective, it would make no difference how simple were the means of the execution, they ought not to be set in motion. But, on the contrary, if it can be shown that a sound and stable currency can be based upon the great crops which will readily pass on a parity with gold, then we should look for the means by which it might be safely and wisely issued, even if the search were arduous and the best methods difficult to ascertain. It would be poor statesmanship to denounce a whole measure, the correctness of whose principles were admitted, simply because the means suggested for its execution were clumsy or defective. The wisdom and correctness of the principle once admitted, it becomes the duty of the legislator to find some proper mode by which it may be carried out. During this part of the discussion, therefore, I ask my readers to dismiss entirely all questions as to whether or not the plan proposed by the Alliance is practical, but simply to determine whether a sound currency can be based on the great staple crops. If they can be convinced of this proposition, the task of showing how it can be issued is easy. The main question, therefore, to repeat myself, is:

CAN A PAPER CURRENCY BASED UPON THE GREAT STAPLE CROPS BE ISSUED BY THE GOVERNMENT

That will readily pass on a parity with gold? To determine this we must consider the essential elements of paper money. Every one now concedes that it is not only more convenient than specie, but in modern times absolutely necessary for the conduct of business. A great part of the money in the country to day, exclusive of gold and silver certificates, consists of paper, and the silver certificate passes more readily than the silver dollar. There has been since 1878, in round figures, $346,000,000 Treasury notes in circulation, and during that whole period they have readily passed on the gold basis. In addition, there are millions of national bank notes, which in the financial analysis, are chiefly based on the government promise to pay; and these. too, readily pass on a parity with gold. It is true that behind the national bank notes stands the bank issuing them and the government bonds deposited for their redemption, but behind the Treasury notes stands simply the plighted faith of the government to pay in coin on demand, and the coin reserved in the Treasury. Why do these notes pass on a parity with gold First, because the public has confidence in the government's ability to redeem them in coin at any time; second, because they are receivable for public dues, except duties on imports, and are a legal tender for private debts. The annual demands of the government for which they are receivable at par with gold are very great. They combine in the highest degree two essential elements—public confidence in their convertibility into specie, and receivability at par with gold in payment of enormous annual dues. The first element of strength is doubtless founded in a large measure upon the second. But to what extent could they be increased? Would an arbitrary increase of one thousand millions so shake public confidence and exceed public demands that they would fall below gold? Certainly there is some point at which this would be the case. If this is true, can it be said that $500,000,000 or $100,000,000 would not exceed public demand and shake public confidence? If there is a point beyond which public confidence and the demands of business would not go, how is that point to be ascertained? Here lies the greatest difficulty in the issue of paper money. Should the government arbitrarily issue so many millions of Treasury notes and trust to luck not to exceed the demand, or should it devise some plan by which the supply can be regulated by the demand? The latter is undoubtedly the correct method. "Currency," says Jevons, in his work on "Money and the Mechanism of Exchange," "must be supplied like all other commodities, according to the free action of the laws of supply and demand." [Page 23] In this view John C. Calhoun fully concurred. Perhaps the essential element of paper money were never more clearly stated than by him in his speech in 1837 on the bill to establish the Sub Treasury. He said: "On what, then, ought a paper currency to rest? I would say on demand and supply simply, which regulates the value of everything else—the constant demand which the government has on the community for its necessary supplies. A medium resting on this demand, which simply obligates the government to receive it in all of its dues, to the exclusion of everything else, except gold and silver, and which shall be optional with these who have demands on the government to receive or not, would, it seems to me, be as stable in its value as those metals themselves, and be as little liable to abuse as the power of coining. It would contain within itself a self-regulating power. It could only be issued to those who had claims on the government and to those only with their consent; and, of course, only at or above par with gold and silver, which would be its habitual state; for, so far as the government is concerned, it would be equal in every respect to gold and silver, and superior in many particularly in regulating the distant exchanges of the country."

PAPER CURRENCY REPRESENTS DISTRIBUTIVE MERCHANDISE.

An important fact that is frequently overlooked is that paper currency, when sound and stable, must in its final analysis represent the distribution of merchandise. Mr. Poor, in his work, "Money, its Laws and History," states this proposition most admirably. The fact is so important and Poor is so clear and forcible on the point, that I quote from him at some length, even at the risk of being tedious. In discussing the operation of a bank in the conduct of its business and the issuance of its notes, he says: "The pivot upon which all these operations turn is merchandise. That provided, the instruments which represent it, and which entitle their holder to a corresponding amount of the same value, or to the proceeds of the same, and which, by their transfer, that which they represent, are paper money currency. As soon as they are issued their movement commences automatically in their appropriate spheres, and continues until they have accomplished their circuit and work. It is merchandise that calls them into being; it is merchandise that gives them their value; it is merchandise that gives them their impulse, and it is merchandise that, by its purchase for consumption, returns those who issue them, not to be re issued, but in making new loans. So far as merchandise is provided, they proceed noiselessly and beneficently in their proper orbits. So far as it is not provided, their course is as erratic and destructive as would be that of the planets without the guidance and control of that central mass around which they now so harmlessly move.

"All local currencies, therefore, are based, not on gold and silver coin, but on merchandise, for which they serve in the place of coin, instruments of distribution. Coin is itself money, and needs no symbol for its transfer or distribution. Except a small quantity by way of change, the precious metals are no longer used as currency. They are held and used chiefly as reserves for the discharge of such paper currencies as are not discharged by merchandise in the manner described."

As long as the notes issued by the bank represented merchandise, he shows that they would pass on a parity with specie: "The holders of merchandise, therefore, would receive them equally with coin in its sale, as they would pay their bills equally with coin. As they would be accepted in the sale of merchandise equally with coin, they would be taken by the public, the consumers of merchandise, equally with coin. As the object of all currencies, no matter the form or material of which they may be composed, is to reach by their exchange some other article or articles, the holders of the notes and credits of a bank would have no adequate motive to exchange, nor would they exchange them for the coin to be used as currency, so long as they would perform, as currency, all the functions of coin. Producers consequently, in whose favor the bills were discounted, would, from the greater convenience of their use, prefer to receive in their discount, notes and credits to coin, as they would pay them out equally with coin in the purchase of labor and material, in the prosecution of their industries, to the very parties who would be the consumers of the merchandise which they had produced and put upon the market."

Again, after discussing the causes of the failure of all banks which have issued currency based on real estate, he says: "From what has preceded the reason of the failure of all banks, the capital or reserves of which have constituted of real estate or securities, will have been made sufficiently evident. All currencies, to be accepted as such, must be instruments for representing and serving for the distribution of merchandise. If they will not secure to their owner merchandise, their eqivalent in value to coin, they will always be immediately drawn, or attempted to be drawn, in coin. The holder of a note issued by a real estate bank does not want that which it represents, but merchandise, or the absence of merchandise, coin. Such a bank has neither. Should it seek to discount nothing but business paper, an impossible supposition (for all such banks are got up to supply the lack of business paper, that is, of merchandise, he basis of business paper) no one would take its notes and credits to any considerable extent, as it would be seen by all that no proper provision had been made to carry forward its operations or to meet the losses to which it would be subjected. Such banks, therefore, from the very nature of things, have never been able to make even the first successful start. The moment they have attempted to issue notes and credits as currency, these have always been presented for immediate redemption in coin. As they can pay neither merchandise nor coin, they have no other alternative but to go into immediate liquidation.

"That a currency may at all times be convertible, the means of its redemption must always be provided previous to its issue, not by the bank, but by the public, the producers of merchandise. With such provision, the currency from the moment of its issue would take care of itself. The attempt to make such provision after issue would be certain to defeat itself. When merchandise is provided, the necessities of consumers compel them to purchase it, piece, by piece, for consumption. Their necessities and purchases will have the effect to maintain its price, so as to render it adequate to the discharge of the currency issued against it. But neither real estate nor securities can be taken for consumption, piece by piece; they must be sold in gross, or not at all."

Real estate and securities, he ably shows, can be neither eaten, drank nor worn, and cannot, therefore, form so safe or stable a basis for currency as merchandise, which is daily and hourly distributed throughout the country for consumption.

ESSENTIALS OF SOUND PAPER CURRENCY.

Now, let us briefly sum up the essential elements of a sound paper currency:

1. It must be backed by the public confidence that it is at all times convertible in specie of its equivalent.

2. To secure this confidence there must be such constant public demands, for which it is receivable on a par with specie, as will enable its prompt convertibility into specie, or its equivalent.

3. To insure this, its volume must be regulated by supply and demand; and

4. This can only be accomplished by making it the representative of the distribution of merchandise for consumption, which would prevent its volume from ever reaching a point beyond which it could not be immediately converted into specie or some necessary article of merchandise on a specie basis.

TREASURY NOTES SECURED BY STAPLE CROPS.

The plan of having the federal government issue treasury notes based upon the great staple crops fully meets these prerequisites to an increased issue of paper money.

For every dollar of treasury notes to be issued by the government, the farmers propose, in some form, to pledge their cotton or wheat to the extent of only 80 per cent. of its actual market value. This creates a debt on these staple crops, the whole, or nearly the whole of which is consumed within each year. For the payment of this debt the treasury notes issued by the government would be accepted by the government on a parity with gold. The notes which would be issued upon the crops could be made similar in all respects to the present treasury notes. They would perform all the functions performed by the present treasury notes, would be receivable for the same class of public and private dues, with the additional strength that, by their very issuance, another use for them would have been created, to-wit: the payment of the debt created by their issue. Now, the great staple crops are sold upon a gold basis. Wheat and cotton especially form our leading articles of export; their price is fixed on a gold basis in Liverpool and London, and, therefore, as the product on which the treasury notes would be issued, would have to be sold on a gold basis. The notes issued on them, which would be accepted by the government on a parity with gold, would necessarily pass on a gold basis. Again, as their issuance would not be arbitrary on the part of the government, but only upon demand and the pledge of the crop, no note would pass out of the treasury except on a gold basis. If it could be conceived that these notes would depreciate at all, their depreciation would necessarily occur at the point of time when most of them were outstanding, and as there would be a gradual contraction of the currency as the yearly consumption of the crops took place, no man would be fool enough to take from the government on his crop a depreciated currency—a dollar that would not pass on a parity with gold—when his cotton or wheat had to be sold in the markets of the world on a gold basis, and the debt he owed to the government paid after the volume of currency outstanding had been contracted by the consumption of the very crops themselves.

COTTON AND WHEAT SAFER THAN SILVER BULLION.

Which is the safer currency, that based upon cotton and wheat, which must be consumed within a year, on a gold basis, to only 80 per cent. of their value, or that based upon silver, purchased in the open market at the fixed rate of about $70,000,000 annually, and stored in the treasury, where it can be neither consumed nor distributed? It is clear that in the case of the currency based upon cotton or wheat, an equivalent in gold or the currency itself issued on the wheat or cotton would flow back into the treasury as the wheat and cotton were consumed, and that gradual expansion and contraction would result; while in the case of silver, an arbitrary expansion takes place yearly while the commodity accumulates in the treasury. At the end of a decade there will be outstanding about $700,000,000 of silver certificates based upon a commodity whose price has been advanced and regulated by the government's own purchases, and which, if the government undertook to sell, would enormously depreciate. In the one case the holder of the government's note would know that within a short time gold or its equivalent would pass into the treasury; in the other, he would know that there was a comodmity steadily accumulating in the treasury, which, by the very law under which the note he held was issued, was scarcely any farther advanced towards consumption or distribution than it was when unmined in the western hills.

It may be safely assumed that no paper currency in the world would be more stable, more sound, or more certain to pass on a parity with specie, than the treasury notes of the United States Government based upon the great staple crops, provided the method of their issuance was properly hedged about and protected. It is impossible to present all the arguments in support of this position in an article necessarily limited in space, but before passing from this branch of the subject under discussion, there is one other point to which attention should be called. As has been before stated, more than $356,000,000 of treasury notes now pass readily at par with gold, with nothing behind them but the government's promise to pay. Why then would not additional notes of the same character, secured on the great crops, representing their distribution for consumption, and issued only to those who accepted them voluntarily on the gold basis, continue to pass readily on a parity with gold? That eminent Georgian, Judge Crisp, who has so ably represented the State in Congress, in his letter to the farmers on the sub-treasury plan, declared himself unqualifiedly in favor of an increase of treasury notes. To this position the Democratic leaders have been committed for more than twenty years. How is it more conservative and more safe to issue these treasury notes arbitrarily, and without any security pledged for their payment, than it is to issue them voluntarily on demand with the great staple crops pledged for their payment?

FLEXIBLE CURRENCY DESIRED.

But it has been contended that flexibility in the volume of currency would tend to disturb business interests and render uncertain business obligations. There is an apparent plausibility in this argument. But it is based on a misconception, and evidences great ignorance, of the real conditions surrounding commerce. Nothing would tend to render prices so stable or business obligations so sure, as the certainty that the supply of money would exactly correspond at all times to the volume and requirements of trade. If it were possible to perfect a system of finance under which this would be the case, the cost of money, interest, would always remain the same, and two important elements of uncertainty—possible stringency in the money market and varying rates of interest—would be removed from commerce. Stability in prices, therefore, is promoted to elasticity in the volume of currency, and not by rigidity, that allows for no expansion and contractions in accordance with the demands of trade.

[CONTINUED ON FOURTH PAGE.]