Speculators in Money, and Debts---How Bondholders Legislate Against the People.

SPEECH

OF

HON. WILLIAM M. STEWART,

OF NEVADA,

IN THE SENATE OF THE UNITED STATES,

Monday, January 6, 1890.

The Senate, as in Committee of the Whole, having under consideration the bill (S. 1417) to amend an act entitled "An act to provide for taking the eleventh and subsequent censuses," approved March 1, 1889—

Mr. STEWART said:

Mr. PRESIDENT: When this bill was last under consideration some suggestions were made in regard to ascertaining the facts in relation to the public indebtedness, and believing that investigation of more importance than almost any other, I desire to make a few remarks upon that subject.

THE CREDIT SYSTEM

which has come into operation within the last few years is a radical departure from the principles of political economy heretofore accepted. It is undoubtedly an important factor in the rapid development of material resources. Industrial enterprises, particularly in the United States, for the last twenty-five years have been largely conducted with borrowed money. The advocates of the modern system of pledging the proceeds of the future for the benefits of the present point to the wonderful industrial development now taking place as a result of the new departure. Others, who are more conservative, recall to mind such unfortunate experiments of unlimited credit as the gigantic trading company of John Law and the *assignats* of France, and predict similar results in the near future. The enemies of the system overlook the fact that a large percentage of the money borrowed, after deducting commissions and unearned profits absorbed by middle-men, is actually used in developing material resources and creating property.

This was not the case with the South Sea Bubble and the various other credit bubbles. They were mere speculations, created no property, and exploded as soon as their real character was discovered. It would be impossible, if it were desirable, to stop or even to materially check the extension of credit. It must go on. The question is, how will it end—

IN BANKRUPTCY, ANARCHY, AND LOSS OF LIBERTY,

or continued development and prosperity? Which of these results is to follow this unparalleled extension of credit depends upon the supply of standard money upon which it is based.

Before considering the question of an adequate supply of money attention is called to the rapid growth of debts. It is impossible to collect accurate information as to the volume of private indebtedness.

THE NATIONAL DEBTS OF THE CIVILIZED WORLD ARE OF RECORD,

and have been tabulated by Professor Adams in his learned work on Public Debts. The following, with an addition from the American Almanac for 1889, is Mr. Adams's table showing the growth of national debts for stated periods:

According to Mr. Adams:	Capital sums owed.
1714	$1,500,000,000
1793	2,500,000,000
1820	7,750,000,000
1848	8,650,000,000
1862	13,750,000,000
1872	23,025,000,000
1882	26,970,000,000
According to American Almanac;	
1889	32,317,336,421

The public debt of the United States is $1,608,595,583.23. The debt of the several States is $238,270,978.56. The debt of the counties and municipalities is $822,000,000. The debt of the railroads is $4,481,625,187. Loans by national banks amount to $1,805,729,738.94. Loans by savings banks, which are reported, equal $865,088,672. Loans by State banks, private banks, and savings banks not reported, will probably exceed a thousand millions. Insurance companies and private capitalists loan vast sums of money, probably more than the banks. A vast amount of debt is also created by the purchase of real and personal property on credit.

AN ESTIMATE OF EIGHT THOUSAND MILLIONS

for these unknown debts may not be unreasonable. The above facts and estimates are summarized as follows:

National debt	$1,608,595,583.23
State debts	238,270,978.56
County and municipal debts	822,000,000.00
Debts of railroads	4,481,625,187.00
Debts to national banks	1,805,729,738.94
Debts to other banks	1,865,088,672.00
Debts to insurance companies, capalists, and others	8,000,000,000.00
Total	$18,821,310,159.73

Of course the last two items are a mere conjecture. They are, however, probably no exaggeration.

Dr. Denslow quotes, in a note on page 448 of his work on Political Economy, an estimate of the entire indebtedness in the United States, published in the Iron Age. The aggregate of debts, public and private, contained in this estimate is $27,969,247,048. This may be an exaggeration. But however that may be, the debts of the people of the United States are simply enormous.

The assessed valuation of property in the United States, for the purposes of taxation, was, according to the census of 1880, $16,902,993,-543. In 1888, according to the American Almanac, the assessed value of the property of the thirty-eight States then in the Union was $22,637,383,298. Whether or not the debts of the people of the United States

EQUAL OR EXCEED THE ASSESSED VALUE OF THEIR PROPERTY

is immaterial for the purposes of this argument. But it is undoubtedly true that the aggregate of debts very nearly approximates in amount the assessed valuation of the real and personal property of the United States. This enormous indebtedness indicates great activity and enterprise in the development of the vast resources of the country. The productive power of the people is probably sufficient to pay it with interest, if nothing more is required. It is quite possible, however,

TO SO ENHANCE THESE VAST OBLIGATIONS BY LEGISLATION

and administration as to force the country into bankruptcy. Both debtor and creditor are interested in avoiding such a calamity. If these debts are to be paid, the creditors must be willing to accept in payment money of the same value, with interest, as the money they loaned. The people can pay no more.

It is necessary for a correct understanding of the just obligation of a contract to pay money, to bear in mind that the value of money depends upon the law of supply and demand While money measures all things and fixes the price of property, the aggregate of property measures the value of money. When property is dear, money is cheap; and when money is dear, property is cheap.

The creditor is entitled to the same value of money which he loaned, together with interest, and nothing more. Most authors on political economy are confused as to the meaning of the term "value." They confound it with "utility." Dr. Amasa Walker is one of the few authors who has accurately defined value and adhered to his definition throughout his entire work. He says:

> What, then, is value? When does an article or commodity possess value? When it is an object of man's desire and can be obtained only by man's efforts. Anything upon which these two conditions unite will have value; that is, a power in exchange. Value is the exchange power which one commodity or service has in relation to another.
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> Again let us remark that the term "value" always expresses precisely power in exchange, and no other power or fact. Desirableness is not value. Utility is not value. No objects are more useful and desirable than atmospheric air, the light of day, the heat of the sun; yet these have no value. They will exchange for nothing, because any one may have all he wishes without effort. (Walker's "The Science of Wealth," page 8.)

The value of a given quantity of money at any particular time is the amount of property which it will command according to the existing range of prices. It is not what it will buy of any particular commodity, because that will depend upon the supply and demand of the article in question, but how much it will buy of an article the price of which is according to the general range of the price of commodities. In other words,

THE VALUE OF MONEY DEPENDS UPON THE QUANTITY OF PROPERTY

or services the owner can obtain for it, taking into consideration the market price of property and services generally.

The exchange power or value of money must rise or fall as the volume of money expands or contracts. John Stuart Mill tells us that—

> The value or purchasing power of money depends, in the first instance, on demand and supply. * * * The supply of money, in short, is all the money

in circulation at the time. * * * The demand for money, again, consists of all the goods offered for sale. But in considering the relation between goods and money, it is with the causes that operate upon all goods whatever that we are especially concerned. We are comparing goods of all sorts on one side, with money on the other side, as things to be exchanged against each other. * * * If the whole money in circulation was doubled, prices would be doubled. If it was only increased one-fourth, prices would rise one-fourth. There would be one-fourth more money, all of which would be used to purchase goods of some description. When there had been time for the increased supply of money to reach all markets, or (according to the conventional metaphor) to permeate all the channels of circulation, all prices would have risen one-fourth. But the general rise of price is independent of this diffusing and equalizing process. Even if some prices were raised more and others less, the average rise would be one-fourth. This is a necessary consequence of the fact that a fourth more money would have been given for only the same quantity of goods. General prices, therefore, would in any case be a fourth higher. * * * That an increase of the quantity of money raises prices and a diminution lowers them is the most elementary proposition in the theory of currency, and without it we should have no key to any of the others.

All writers on political economy substantially agree with Mr. Mill as to the effect of an increase or diminution of the volume of money upon the general range of price, however much they may differ in a given case as to whether the rise or fall of price was due to the volume of money or the cost of production.

Mr. David A. Wells and others who advocate adherence to the single, gold standard contend that the decline of prices, amounting to about 30 per cent. in the last sixteen years, is mainly due to cheaper and more abundant production; that modern inventions and superior skill in workmanship have greatly reduced the cost and increased the supply of commodities. This, they claim, has produced most of

THE DECLINE OF PRICES

which Soetbeer, Pixley, and other statisticians inform us has taken place.

I maintain that the annual supply of money metal from the mines, of about two hundred millions, consisting of gold and silver, was reduced more than one-half by the demonetization of silver, and that such reduction of the supply increased the demand for money, raised its value, and reduced the price of commodities. This was substantially the conclusion arrived at by the British Royal Commission appointed to investigate this very question. It is true the commission regarded increased production as an element tending to reduce prices, but found that the demonetization of silver was the principal factor. If it be true—and the general proposition has not been questioned—that, other things being equal, an increased supply of money will increase prices and a diminished supply will reduce them, then a reduction of one-half of the supply by the rejection of silver must necessarily have had a marked effect.

In view of the vast extension of credit to which I have alluded, taken in connection with the continued decline of prices, it is evident that the creditor has been largely benefited while the debtor has been injured by this decline. The debtor is compelled to exchange from 30 to 50 per cent. more property to procure money with which to pay his debt than the creditor expended in obtaining the money which he loaned. In other words, the creditor, by reason of this decline of prices,

RECEIVES IN PAYMENT MORE VALUABLE MONEY THAN HE LOANED

in addition to the interest stipulated in the contract, because the value of money has advanced and the value of property has declined.

John Stuart Mill tells us that—

> When one person lends to another, as well as when he pays wages or rent to another, what he transfers is not the mere money, but a right to a certain value of the produce of the country, to be selected at pleasure; the lender having first bought this right, by giving for it a portion of his capital. What he really lends is so much capital; the money is the mere instrument of transfer.

The capital which is borrowed is a right to select at pleasure from the produce of the country certain articles, the price of which equals the value of the money at the time the loan was made. An equitable adjustment of the contract at the time of payment would seem to be an amount of money sufficient to buy the same quantity of property which the money borrowed would command at the time the loan was made. This would return to the creditor the capital loaned without increase or diminution. In other words, if money were dearer, he should receive less; if cheaper, he should receive more. All the creditor is equitably entitled to is his capital with interest. He ought not to suffer a loss or make a gain of capital beyond the interest stipulated to be paid. A creditor will not be justified in conniving with other creditors after the loan is made to diminish the supply of money for the purpose of obtaining from his debtor a greater value for the principal of his debt than he loaned.

INTEREST IS SUFFICIENT COMPENSATION FOR THE USE OF MONEY.

It must be admitted that a willful change of the contract by legislation is dishonest and ought to subject the offender to punishment. This is the view entertained by the producing classes of the clandestine acts which demonetized silver. They are unable to distinguish them from any other pooling or cinching process invented by the knaves of stock boards to swindle the unwary.

Mr. Wells tells us, as before stated, that the demonetization of silver is not the only cause of decline of prices; that improvements in machinery and skill in production have increased the supply and thereby diminished the price. If this be so, who should have the benefit of such increased supply—the producers who invented and perfected the improvements in machinery and applied to production their superior skill, or the non-producers who loaned money upon condition that their original capital should be returned with interest? How are the producers benefited by their skill, energy, and enterprise, if the non-producers are to reap all the advantages of increased production? This becomes an important question in view of the fact that

THE NON-PRODUCERS IN THE UNITED STATES HAVE A MORTGAGE, so to speak, upon the production of the country which is supposed to about equal the assessed value of all the property of the people. How will this vast indebtedness be paid if prices continue to decline? The nominal amount of debts will not diminish with the decline of prices. That, unfortunately, is fixed in the contract. The vast income paid annually in interest to the non-producers will be reinvested in new loans so long as there is any security left in the country for such investments. How long this will last, with the rapid growth of debts and contraction of standard money, can not be definitely predicted.

If gold is adhered to as the only material out of which standard money can be made, the end will soon come. A decline of prices of over 30 per cent. in sixteen years is alarming. The supply of gold as compared with the demand has decreased and will continue to decrease. The world to-day on a gold standard is bankrupt. There is not in existence four thousand millions of gold coin. There is more silver money in circulation than gold, and more paper than silver. If we assume that the gold, silver, and paper money are each equal to the other, and that each amounts to four thousand millions—which is not much of an exaggeration—gold will be one-third and the silver and paper two-thirds of the entire circulation. If gold is made the only standard money, the

SILVER AND PAPER BECOME SIMPLY CREDIT MONEY,

depending for their value upon a promise of redemption in gold.

Is four thousand millions of standard money a sufficient basis for eight thousand millions of credit money? If not, how will the advocates of a single standard remedy the evil? Do they propose to retire the silver and paper and use gold only? That would increase the obligation of every contract threefold, destroy all the security of the world, lead to revolution, or to a transfer of all property to the creditor class. If the advocates of the gold standard are willing to continue the present volume of paper and silver in circulation as credit money, and take the chances of bringing on a collapse, how will they provide against further contraction on account of a shrinking supply of gold? The larger proportion of the gold already produced came from the great placer fields of Eastern Asia, Northern Africa, Southern Europe, California, and Australia, all of which are now exhausted. A very large portion of the supply now comes from silver mines in combination with silver. If silver mining is stopped, as it would be if silver were no longer used as money, probably more than one-half of the supply of gold would be cut off.

The advocates of the single gold standard had better cease their inconsequential discussions as to which metal is the more convenient for money—silver or gold—and turn their attention to the question of how a sufficient amount of money can be obtained to save the world from bankruptcy, and supply the demand for a circulating medium. It is money, not any particular kind of money, that the people must have to maintain civilization. No one can enjoy the fruits of civilization unless he can command the services of others in exchange for his own.

MAN IN ISOLATION IS IN THE CONDITION OF A SAVAGE.

An interchange of commodities is an absolute necessity to civilization. Commodities can not be exchanged without the use of money. Money is as essential to civilization as the circulation of the blood is to animal life.

The plain remedy for the existing and threatened evils caused by contraction is a return to the money of the fathers. The use of all the gold and silver obtainable to enlarge the basis of standard money is the only available remedy. It is absurd to say that there is too much of either gold or silver so long as more than one-third of the money in circulation in the civilized world is paper. As long as it is necessary to use paper to make up the deficiency of metallic money the suggestion that there is too much gold or silver has no foundation in fact.

The United States should lose no time in securing all the gold and silver possible as a basis for its circulating medium.

THERE IS NO DANGER IN GETTING TOO MUCH SILVER.

There is no accumulation of silver bullion anywhere in the world. Our net export of silver last year was only twelve millions. This export should be stopped and all the silver that can be obtained should be imported.

The United States has 426 millions of paper money in circulation in excess of its metallic reserves of gold and silver. Silver will be on a par with gold long before that amount can be secured. Besides, the present decline of prices must be stopped. More money must be furnished to secure an honest adjustment of contracts between the debtor and creditor if existing debts are to be paid.

If the United States could procure fifteen hundred or two thousand millions of gold and silver as a basis of circulation there need be no more falling prices. If this could be done the security of the creditor would be safe and the debtor would not be destroyed. The senseless cry that the remonetization of silver would drive gold out of the country is most illogical. If gold is exported because it has a greater value elsewhere, the people of the United States will receive the premium. If silver is remonetized and a greater demand created for its use, its price will advance and the United States will have the benefit of such advance. In other words, by restoring silver to its place as a money metal the United States will make money in disposing of its gold and also in the enhanced price of silver, besides furnishing a sufficient volume of circulation to revive business, secure the creditor, and relieve the debtor.

It is manifest that the remonetization of silver is a paramount necessity. Without it the use of gold as a standard money is a delusion and a fraud. A sufficient supply of that metal is impossible. Its use can never become universal. If the world is to have a metallic basis for standard money, both metals must be used. The unlimited use of both metals must be restored. The progress of civilization must not be destroyed for the want of money. If silver is rejected as a money metal, it is idle to adhere to the use of gold. Both metals must be used or neither. If the creditor class,

WHICH CONTROLS THE LEGISLATION OF THE WESTERN WORLD.

insists upon gold alone, with its inevitable consequences of contraction, bankruptcy, revolution, or abject slavery, it is the duty of the people of the United States to demand the remonetization of silver, or, failing in that, to insist that gold shall also be demonetized and that some other material be used as money out of which a sufficient amount of circulating medium can be manufactured to secure an honest adjustment of contracts and prevent the absorption of the property of the producers by the crafty and unscrupulous devices of the possessors of accumulated capital.

If in the exigencies of a war for self-preservation, forced upon the toiling masses by the avarice of the money loaners, injustice is done, and honest debts are paid in depreciated paper money, the rich who have the control and the responsibility of legislation will have no right to complain. The history of the struggles of the people of the United States for freedom and individual rights ought to satisfy the avaricious and unscrupulous that there is danger in their attempt to establish

UNIVERSAL PEONAGE OF WHITES AND BLACKS ALIKE

in a country which has made such enormous sacrifices to abolish chattel slavery.

The people were educated to regard gold and silver as the only materials out of which standard money could be made, and they would have allowed them to continue as the basis of a circulating medium if the avarice of the rich had not demonetized silver.

The attack on silver, which for the purposes of money was more highly prized and in more general use than gold, was unfortunate for the stability of accumulated capital. The speculators in money and in debts are now demonstrating that there is nothing sacred in either gold or silver, and that metallic money is as much subject to the caprice of legislation as paper or fiat money. If the volume of the circulating medium can be contracted and expanded at the pleasure of legislators as well when the precious metals are used as money as when they are not, what reason is there for their use as money? If legislators can say when and how much of either metal shall be used, why should they not say when and how much paper shall be in circulation?

The lesson that the designing and unscrupulous few are teaching to the many may be used to avenge the outrage of demonetizing silver. It is just possible, if this agitation continues, that the producing classes may also invoke legislation to enhance the price of labor and property and reduce the value of standard money, and thereby relieve themselves of the unjust and ruinous obligations forced upon them by the destruction of half the supply of the precious metals. The bondholders have shown the people how to make money scarce and dear; they may in turn

SHOW THE BONDHOLDERS HOW TO MAKE MONEY PLENTY AND CHEAP.

The conspiracy to rob the masses by manipulating the volume of currency is a great educator. Good may come out of this apparently unmitigated evil. This cruel and wicked contraction of the currency to make the rich richer and the poor poorer may be followed by inflation. It would be amusing to hear the grasping few, whose sense of justice is not shocked by robbery of the masses, howl in despair if the standard money of the world were doubled. Imagine the cries of repudiation, dishonesty, and fraud if such a suggestion were made, and compare it with the sanctimonious, self-righteous cant which justifies the destruction of one-half of the money metal of the world for the benefit of the rich.

If the conspiracy against silver teaches the people how to defend themselves against legislative manipulation devised by the possessors of fixed capital, the world will be wiser and better. Adversity has come. Let the bitter lesson be heeded. Let it be demonstrated that the people of the United States have a capacity to learn. If manipuating the money standards is legitimate for the rich,

THE POOR OF AMERICA CAN PLAY AT THE SAME GAME.

Why should not the debtor resist contraction by inflation, if need be, to save himself and his family from robbery, starvation, and ruin? If it is honest for the creditor to destroy one-half of the world's money why should it be dishonest for the debtor to double the standard money in circulation and relieve his burdens? Let the rich and avaricious take warning. They had better restore the money of the people and stop agitation, if possible, before it is too late.