Citizens' Money

A Critical Analysis in the Light of Free Trade in Banking

Alfred B. Westrup

1891

Contents

INTRODUCTORY BY THE FORMER PUBLISHER.

In no popular idea does the unevoluted tail protrude farther from beneath the covering of civilization than in that regarding money, and in no case does the donkey faculty of following a beaten path more seriously injure the material welfare of all than in this.

Gold and silver were malleable, glittering, and scarce, therefore to the savage mind of primitive man they were more desirable and precious than any of the few things he possessed and were in that degree more exchangeable. The glitter, that which because of its loudness holds the attention of the infant mind, naturally constituted its greatest desirability, and is almost the only use it would have to-day but for this primitive fancy growing into a "time-honored" superstition which gave these metals the monopoly of our medium of exchange. On this crude, frog faculty, the love of glitter, then, is based the popular idea of the only means by which we may effect an exchange of the products of our multitudinous division of labor. This childish fancy, through the brute force of political authority, has posited the average intelligence of this age as maintaining that all kinds of property must be exchanged for one particular kind before its value can be had in some other kind different from it and also from this peculiar kind for which the original was exchanged; this must be done whatever be the cost of this particular kind. If an individual wishes to use his property as security for a fractional mortgage to obtain credit of various amounts among his neighbors or others, he must first resolve it into this one kind of property, no matter how much more of the original property is required to procure a sufficient amount of the needed credit, nor how willing his friends he to receive his original security instead. There is no escape, he must use this particular kind or be deprived of capitalizing in exchangeable form the unconsumed product of his labor. All this is due to a "representative" tyranny which prohibits the use of such fractional mortgage by imposing a tax of ten per cent on any currency not secured by the peculiar metallic property, which necessarily gives the holders of this favored kind a monopoly over all exchange, and with which they may tax industry as near the verge of extinction as they may desire, and thus absorb all other kinds of property without any exertion save that of keeping this monopoly intact. That this is the case we have but to look around us to see.

The remedy lies in the abolition of this monopoly, and the adoption of something like the credit or money system set forth in the following pages by Alfred B. Westrup, in a lecture delivered in Chicago in reply to a defense of the National. Banking System by Banker Lyman J. Gage. This lecture was printed in "Liberty," of Boston, in 1888, under the title," The National Banking System," from which journal it is reprinted in this pamphlet. It is the most popular exposition of the subject in a short space of which the publishers know, and as it is next to impossible to get an indifferent public to read economic literature at all, it is believed that this short treatise, printed in large type, will be more attractive to beginners than the longer ones and lead them to read all the excellent matter on the subject of Free or Mutual Money. Among this is "Mutual Banking," by William B. Greene; "A New System of Banking," by Lysander Spooner, and "The Principles of Monetary Science," by the author of this lecture.

In denying the claims of the National Banking System as the best means for furnishing an exchange medium, Mr. Westrup has affirmed another system which the publishers are interested in propagating, and, in order to give it the positive form, have taken the liberty to publish it under the title of CITIZEN'S MONEY—a money which, under freedom, the citizen could have issued on his security without being subjected to monopoly's toll, or tyrannical dictation as to kind, so long as it be ample.

It is earnestly hoped that the reader will carefully study this idea, which is believed by the most advanced students of social science to be the first step in the direction of industrial emancipation—the breaking in of the formidable wall of privilege, which robs labor and crushes liberty.—[THE PUBLISHERS OF EGOISM.]

PRELIMINARY REMARKS.

Mr. Chairman, Ladies and Gentlemen:

The subject upon which I am to address you this evening is one that is generally considered dry and uninviting, one that tires and affords little satisfaction. However this may be, it was never so to me, and I hope that on this occasion I shall be able to make it interesting to you.

From the time my attention was first called to the questions involved in the subject of banking and the supply of money, I felt a desire to solve it, and the more indifferent I found people generally the more determined I became to get to the bottom of it. I could not switch off from the idea that the furnishing of an instrument of such universal necessity, exerting, as it undoubtedly does, a powerful influence in every phase of social life, and especially as those whom it concerned the most were the most unconcerned, presented an inviting field for investigation.

I had not proceeded far in my search for light before I was impressed with the conviction that there had been no attempt to formulate a science of money. That of the multitude of writings on the subject, most of them are labored arguments in defense of the system that makes gold or gold and silver the exclusive basis of currency, and are not even attempts at scientific inquiry. Others of more recent date propose new systems based upon their author's peculiar views of how business should be conducted and are decidedly procrustean in their tendency, totally ignoring the rights of the individual.

My aim from the first has been to formulate a science of money, a corner-stone, as I conceive it to be, of economic science. Recognizing as an immutable principle, the right of the individual to private property, as the starting point, I formulated three propositions as the basis of a correct monetary system, as follows:

First. Money being a representative of wealth, a money system must provide a sufficient volume and facilities to enable all wealth to be represented by money.

Second. As interest for money loaned is not "compensation for the use of capital," the borrower possessing the capital (wealth), and needing but the representative (except in cases where money is loaned without security) a money system must provide for the loaning of this representative at cost.

Third. As the holder of a bank bill or government note is not thereby the possessor of wealth, a money system must provide absolute security against loss to the holder of paper money.

This philosophical method of reasoning upon the subject of money, necessarily brings one to regard the idea of the application of the mutual feature to the issue of paper money as the only possible solution. This is my reason for advocating the Mutual Bank system proposed by Colonel Green some thirty or forty years ago; the incomparable advantages and practicability of which I have endeavored to explain, both by writing and speaking, as occasion offered, during the last sixteen years.

My subject this evening is “Citizen’s Money, at critical analysis in the light of Free Trade in Banking.” I have aimed to cover as much ground as possible, but the time that can be allotted to an evening lecture is necessarily very limited compared with its importance and magnitude.

Mr. George Esterly, of Whitewater, Wisconsin, has recently (1887) issued a pamphlet entitled, “Review of the National Bank System,” as to how and why it should be continued.

In his preface he says: “This question of finance has received comparatively little consideration. Within the last few years the press and a few members of congress have attempted to discuss it to some extent, not always, however, with much skill. The business world, as a rule, have not given it much attention.” It is strange that the experience that results in such an admission should not have prompted a more profound research than we find in his essay.

Mr. Esterly falls into the error common with most political reformers in supposing that natural laws have nothing to do with the question; that human rights are created by and subject to constitutional provisions and legislative enactments, instead of constitutional provisions and statutes being subject to human rights.

The present or National Bank system is founded upon this idea,—that congress is authorized by the constitution to regulate the issue of paper money, and hence had the right to establish it, and that the individual must shape himself to the system thus provided.

This is virtually the position assumed by Mr. Lyman J. Gage in his recent lecture at the Economic Conference.[1] A critical analysis, however, requires that its *raison d’etre* as well as its methods be duly considered.

I shall not discuss the question as to whether the constitution does or does not confer such power upon congress, for, if it can be shown that the operations of supply and demand will furnish a safer and a better money than the arbitrary system established by the State, it is but additional evidence that progress and institutions are ever at war, and that to attain the one we must sacrifice the other.

It would seem as though a “free people” would hardly have allowed such a mixture of “royal prerogative” and “in fallibility” to be dressed up in a republican garb and imposed on them as “majority rule.” How can a majority of the people be said to be intelligently in favor of the existing system, when, as a matter of fact, they are utterly ignorant of this, as well as all other systems, and do not even know the laws by which it is kept in force, much less the effect that it produces?

What right, I ask, has the State to regulate the supply of the medium of exchange we call money any more than it has to regulate the manufacture and supply of bricks, bread, cloth, or any other commodity, or how much a man may buy on credit? It was one of the “functions of royalty” when the people of this country threw off the yoke of British rule, and as the question of finance had received even less attention then than now, it was easy for the error to insinuate itself, and become a part of the constitution, that the State should supervise and regulate the coining of money; but does it necessarily follow that, because the constitution says so, therefore it is right? Suppose that after twenty years more of continued and increasing monopolies on the one hand, and poverty on the other, the people should realize that, after all, the State is powerless to effect a remedy, or that its interference is the direct cause of these evils. How shall we undo the wrong that has been done? How shall we make amends to the unfortunate victims? How shall we justify the stupidity that failed to question the dogma? What will be the anathemas of the next generation, with whom forbearance will cease to be a virtue? Let me remind my hearers that

[1] April 15, 1888.

neither constitutions nor supreme benches, but JUSTICE, as voiced by the human conscience, is the court of final appeal.

The idea of the coining of money and the issue of currency by the State being borrowed from the despotism from which the people were emancipating themselves when they drove out the British tyrant; and since it is irreconcilable with the Declaration of Independence, which proclaims the right to freedom of exchange (liberty and the pursuit of happiness), how dare congress deny that right by restrictive and arbitrary legislation? If we are not to take the chances of this idea being wrong and of perpetuating the present evils in case they are caused by State interference, then we must fully investigate this question. If the business world, as a rule, has given this subject no attention now, it had given it less when the constitution was framed; hence, no one was prepared to question the wisdom of the clause in that document that relates to money; and "as the business world as a rule has given it no attention," and "bankers are no exception to the rule," how do they know that the State should exercise this power? Mr. Esterly says: "I have talked on this subject with governors, judges, lawyers, members of congress, bankers and business men, and almost universally, after a little conversation, hear them say, 'This is a subject to which I have not given much attention.'" How can men who have not given a subject much attention "legislate wisely" upon that subject? How does Mr. Esterly know that it is proper or that it is best for the State to control the currency?

On page 14 of his "Review" he says: "It is entirely safe to say that we have now the best currency in the world." This does not constitute an argument in favor of its continuance in view of the ignorance which he confesses is almost universal. To be the best that exists, and to be the best that can be devised, are two very different things. It can be the best that exists, and yet be very defective. Is this all the evidence he can produce to justify State control of money? How does he know that the operations of supply and demand, if allowed full scope, would not be an improvement on paternalism? The present system gives the banks control of the volume of money, "which," he says, "I admit should be obviated," but for which he gives no remedy. Before the present system came into operation, the cormorant corporation was unknown. On what, then, doth it feed that it hath grown so great, if not on the effects produced by the control of the volume of money?

In what does the best system of money consist? In the fact that its currency does not suffer discount in different parts of the country, and that it does not become worthless by failure of the bank that issued it? What other advantage has the present system? On the other hand, is not the question of the rate of interest as well as of the volume of currency vital in the consideration of a money system, and does not the present system give the rate of interest as well as the volume of currency to the control of the monopoly? Has it prevented banks from failing? May not monopoly and failure be associated in the relation of cause and effect? Of what consequence is it whether you lose a hundred or a thousand dollars by a depreciation in the purchasing power of the paper money you hold, or whether you deposit that much in the bottomless pit of a broken bank? If the State is a potent remedy, why do banks fail in spite of its supervision? The fact is that, whenever the State stops one leak it causes two.

If security to the holder of paper money and uniformity in its purchasing power are attained at the expense of low rates of interest and a sufficient quantity of the circulating medium, can we be said to have solved the problem of money and established the best system? Is there no other way of securing uniformity in the purchasing power of money than by State regulation? Can the question of security and moral obligation be settled by law? Does the State know how much money is needed? If so, how did it find it out? If it does not know, how does it presume to limit it? All these questions must be definitely settled before we can boast of having solved the problem and established the best system.

And is the intelligence that can erect these grand structures in our cities; that can annihilate time and distance by the telegraph and the telephone; penetrate yonder space and determine the size and composition of celestial bodies, their distance and their movements; that can photograph organisms that can not be felt, or seen by the naked eye; aye, that can construct engines of war so destructive that they are afraid to use them,—is an intelligence, I say, so subtle, and a genius so profound, not capable of solving this problem, be it ever so complex? Let us boldly assume the task of contributing our best thought and earnest co-operation in so important a reform.

Mr. George Esterly believes we have now the best system of currency in the world. Mr. Britten A. Hill asserts that we must have an irredeemable money—"absolute money"—a money that shall depend for its acceptability upon the fiat of the State. Neither of these gentlemen seem to favor impartial investigation. On the contrary, they assert dogmatically, and then, like the attorney who has a bad case, construct an argument to justify their position. If paper money is amply secured, it needs no fiat; it will circulate on its merits. To force people to take currency that is not secured is as much a despotism as a forced loan, and is unjustifiable on any grounds whatever. In scientific analysis nothing is taken for granted. If we are to form an opinion as to any institution, we certainly must first know what is the method and object of such institution. Have we observed this course in choosing our money system?

It may be stated in general terms that the object of a money system is to furnish money; but here we are confronted with the question, "What is money? How is it defined?" We must also know what kind of money it proposes to furnish; of what mate- rial it is to be made; how it is to be issued; how it secures those who take it in exchange for commodities, and what is to be the cost to those who borrow it. First, then, as to the definition of money. The Encyclopedia Britannica gives Francis A. Walker's definition of money as follows: "That which passes freely from hand to hand throughout the community in final discharge of debt and full payment for commodities, being accepted without reference to the character or credit of the person who offers it, and without the intention of the person who receives it to consume it, or enjoy it, or apply it to any other use than in turn to render it; to others in discharge of debt or payment for commodities." This definition is applicable to coin as well as currency, and is acceptable so far as it goes, but it refers only to the office of money,—its function in facilitating the exchange of the products of labor or commodities.

In order to do this, money must have some qualities that are recognizable. For instance, coin may pass freely from hand to hand and purchase as much for a beggar as for an aristocrat, and so may currency, but the nature of coin is different from that of currency. It has market value, at least, to the extent of the quantity of metal it contains, while currency contains no market value whatever; hence, its acceptability in exchange for commodities must be on other grounds than those on which coin is accepted.

Coin money is made of metal, which is a product of labor, and therefore has a market value. It is true, the natural limit to the metal and the fact that it is made a legal tender gives it an increased value artificially, but it is nevertheless market value. This is one quality. The fact that the stamp on it enables one to know how much of this market value it contains is another quality. The recognizable qualities of coin money then are, that it contains market or exchangeable value and that we are able to realize how much of this market value it contains by means of the stamp impressed upon it.

Paper money has no market value, or, to state it more correctly, the market value of the material contained in paper money is too inappreciable to be considered; but it is, or should be, a representative of market value, as is the case when it is issued in place of an equal amount of coin pledged to redeem it. I therefore define the nature of coin money to be wealth, and that of paper money to be a representative of wealth when wealth is pledged to secure those who take it. State paper money which rests solely on the promise to redeem in taxes may, I think, properly be defined as State scrip, but when, in addition to this promise, it is made a legal tender for private debts, fiat money would be a more proper definition.

Having arrived at a conclusion as to the correct definition of money, in regard to its nature as well as its office, I will now proceed with the main question,—in what does the best system of money consist?

The best system of money is the one that will furnish money made of the most suitable material; that will provide a sufficient quantity; that will afford the greatest security to those who take it; that will maintain the most unvarying uniformity in its purchasing power; that will furnish it at a just rate of interest and with the least partiality. It does not seem necessary to discuss these points, for there will hardly be any one who will dispute them. A money system that will come up to all these requirements would certainly be a most perfect one; but as to the questions, what is the most suitable material, how much is a sufficient quantity, what constitutes security, purchasing power, a just rate of interest, and impartiality in a money system, we must fully determine before we can judge of the merits of the present system or suggest a better, which is the special object of this essay.

First, then, as to the question of material. There are very few materials that are suitable for money, and, if we confine it to such products as are limited by nature, we thereby fix the limit to the amount of such product, and this, as we shall see when we come to the question of volume, is an objection. Paper, as already stated, is the material which, of all others, contains the smallest quantity of market value. It is the most convenient to carry. Its quantity is without limit. It offers greater protection against counterfeiting than any other material. It costs less than any other material to put it in the shape of money, and the wear and tear to paper money is far less in cost than that which results to coin. “Te have, then, in paper the best material for money that we know of. Of the items that remain to be considered, it will be found upon reflection that volume, security, and purchasing power, are so intimately related that they must necessarily be considered collectively. To determine volume we must consider security, which is also the basis of its purchasing power. This, I think, can be readily demonstrated.

What is it that makes a man’s promissory note acceptable to those who sell on credit or have money to loan? Is it not the quantity of security he can furnish? Does the number of promissory notes that have already been issued in the same or other localities in itself have anything to do with the individual responsibility of each? Would not all the goods that are for sale on credit and all the money to loan be immediately disposed of if the price or rate of interest were agreed upon, without any halt in the proceedings on account of the large number of notes, and would not the only question he the same in each case,—namely, *ample security?* Now, if ample security makes the individual’s promissory note good, why will not ample security make paper money good? If a certain amount of collateral, differing in quantity as it differs in kind, is good security for one paper dollar for a longer or shorter period, why would not a thousand or a million times that security be a good basis for the issue of a thousand or a million dollars in currency? Indeed, if this relative proportion of security to paper money be observed, why should there be any limit to the issue of currency? If some citizens can get money issued on collateral, why may not all citizens have the same advantage? If paper manufacturers and printers can furnish money fora certain class of security-holders, why can they not furnish money for all security-holders? If they can, why is it prohibited? If they can not, why can they not? Does the fact that some citizens borrow gold and silver certificates of other citizens on good Security in any way diminish the risk of the holder of this kind of State money? Would the issue, direct to the borrower of additional similar currency, on the same security that these citizens are willing to loan their gold certificates on, in any way increase the risk to the holders of these certificates? Can this security be good collateral to loan on, and yet be poor collateral to issue on? Does the security furnished the national bank by its patrons have anything to do with securing the holders of its notes?

Let us summarize: we are considering the volume of paper money in relation to its purchasing power, and the question is: would its purchasing power be affected by the volume issued regardless of the *security that is pledged to redeem it*, or would ample security maintain its purchasing power regardless of the *volume issued?*

Let me consider for a moment what is meant by redemption, in order that the question of volume, security and purchasing power may be fully understood. The term redemption, as it is generally applied, means the exchange of currency for coin. Specie basis means that provision is made for the exchange of currency for coin *on demand*. This is what it is said to be, but what is it in reality? In reality not more than one in five can obtain such a result; partly because there never is as much coin as there is currency, and partly because of the obstacles intentionally put in the way of accomplishing it. Nevertheless, it is solemnly asserted that, unless we have specie basis, the purchasing power of paper money will not remain uniform. No wonder people do not understand the money question. It certainly takes a peculiar kind of intellect to comprehend that the stability of a currency depends upon false pretense!

But redemption of paper money, correctly speaking, means to retire it from circulation by rendering an equivalent for it; and can this not be done with any other product just as well as with gold and silver, if the money system is adapted to that end? The question to determine at this particular point of the discussion is whether redemption on demand is essential. We have seen that in practice it is a delusion, and I repeat that it is impossible; but it is well to go a step farther and inquire if it is at all necessary!

Suppose that, instead of redeeming on demand, we redeem periodically. Here the question of security again comes to the surface. If, as I have already suggested, that collateral which is safe to loan money on for a certain period of time is safe to issue money on for the same length of time, and we devise a system that shall issue money direct to all borrowers who can pledge such collateral, we shall have periodical redemption instead of, possibly, no redemption at all; but which goes by the name of "redemption on demand." Gold certificates are receipts for so much gold that has been delivered to the State for "safe keeping." Would not currency issued on other products of labor which have been delivered for safe keeping, or pledged by mortgage to be redeemed at a specified time not to exceed one year, be practically receipts for other products, just as the gold certificate is a receipt for gold? And if the amount of paper money issued on any particular product did not exceed the amount that money-lenders would be willing to loan on such product in gold certificates, would not such currency be as good a circulating medium as are the gold certificates? The answer that a large number of people are likely to make to this reasoning is that gold does not fluctuate in market value as much as other products do. But such an answer shows a disposition, on the part of the individual who makes it, to avoid the trouble of thinking. Laziness is one of the contending forces of nature, and it seeks the line of least resistance. It is easier to raise an objection without thinking than it is to reflect long enough to know whether the objection is well taken; and if we wish to guard against being in the wrong, we should beware of its tendency. It is supposed that gold does not fluctuate in market value as much as other products; but even if this were true, it would only bean additional argument why currency should be issued on other products as well as gold. If the artificial advantage established by the legal tender act is withdrawn from gold, and all other products (always excepting those that are too perishable) may be made use of as well as gold as a basis for the issue of currency, there can be no fluctuation in market values, except such as is caused by the *uncontrolled* supply and the *natural* demand of each product; and with sufficient margin over the amount of paper money issued to allow for possible shrinkage in value, the fluctuations of any one product can have no effect whatever on either the purchasing power of such currency or the market value of other products, because the manipulation of market values by speculators will be impossible.

We have now considered the question of the volume of currency in relation to its purchasing power and security to those who take it. Its purchasing power is determined by the means of redemption: the borrower is compelled to get the amount be borrowed from the institution that issued it, from those who now hold it. He can do so only by selling something be has that they want, or by accepting it in payment of debt. He can not depreciate this paper money and get it back on better terms, for that would be the same thing as selling his commodity for more than its market value, and this he is not able to do, if free trade prevails, because of competition; others will undersell him. Moreover, there is no more anxiety about this currency in the minds of those who hold it than there is with money-lenders about the mortgages they hold on good real estate on which they have loaned money only to the extent of one-third of its market value; hence, there will be no effort to get rid of this currency, except in the ordinary course of trade. We are, therefore, justified in concluding—that in the issue of currency, on ample security actually pledged to redeem at a definite period, a provision is made whereby it can be redeemed by *compelling the borrower* to return an equivalent for it at the expiration of that period. Therefore, by such a system, the purchasing power of currency *can be maintained regardless of the volume issued.*

We now come to the question of interest. What is a just rate if interest? In order to answer this question intelligently, we must know something of the cost of issuing currency. We must also have a clear and a correct idea of the nature of the transaction that takes place when currency is issued directly to the borrower who pledges collateral. We will therefore first make some inquiries in this direction. There is the paper and the printing on the paper that is to be used as money; compensation for services to the clerks, officers and directors of the institution; the rent, fuel, stationery, etc; and the expense attendant upon taking care of the security. Colonel Greene, in his pamphlet called "Mutual Banking," gives it as his Opinion that one-half of one per cent. per annum would cover all these items in the system he proposed. Of course it would depend on the amount issued. An institution that issued one hundred millions of dollars could cover its expenses with one-half of one per cent. better than an institution that issued only one million. In the former it would amount to five hundred thousand, in the latter it would be only five thousand dollars. According to information received from the comptroller's department at Washington, it has cost about one-fifth of one per cent. to make the paper money furnished the national banks for the last ten years.

This fact gives some idea of how far a half million of dollars would go toward paying the expenses of a bank of issue. From the information I have gathered and the calculations I have made, I am willing to risk the statement that a bank that issued fifty millions of dollars could pay all its expenses with less than one-half of one per cent. per annum; and when such institutions as Col. Greene proposed become the source of currency instead of the State, they certainly will issue as much as that in all large cities, and in some many times that much. But the question under consideration not only involves the item of cost of issuing this currency, but also as to whether the borrower should be called upon to pay more than cost.

Let us analyze the transaction, to see what it is that actually takes place when an individual borrows paper money on good security of which he is the owner. Paper money we have defined to be a representative of wealth. Whose wealth does it represent? It represents the *wealth which has been pledged* to secure those who may take it until it is wanted again by the owner of the wealth in order that he may get his property (wealth) released from pledge by returning it to the institution that issued it. We may define the transaction, then, by saying that the borrower *makes use of his credit;* for he assumes an obligation and pledges his property as a guarantee that he will fulfill that obligation. He obtains printed pieces of paper (which might, not inappropriately, also be called certificates of credit) which are given him in exchange for his promise to pay back the same amount at a definite period, which promise he guarantees he will fulfill by pledging collateral in the form of some product, deposited, if movable, or mortgaged if immovable. Now, if the borrower pays the cost of the transaction, he in no way makes use of that which belongs to another; and as no one is entitled to compensation for that which he does not furnish, may we not conclude that a just rate of interest would be the actual cost of issuing paper money?

Finally, we come to the question of impartiality. What do I mean by the issue of paper money with the least partiality? A money system that proposed to issue currency on any product except gold and silver would certainly be regarded as very partial by the bullionists; but why is not the system equally partial which issues currency only on gold and silver? Obviously, impartiality in the issue of paper money means that any product of labor may be a basis for the issue of currency, which would not, from the nature of the product itself, involve a risk to the holder of the currency issued on such product.

Let us now review the various conclusions we have arrived at.

We have concluded that the definition of paper money is a representative of wealth as regards its nature. That the best system of money is the one that will furnish money made of the most suitable material, that material being paper; that will provide a sufficient quantity, a sufficient quantity being such an amount as will afford a representative of wealth to all those who can pledge wealth as collateral; that will afford the greatest security, such security being only attainable by pledging actual wealth in sufficient quantity, deposited if movable, mortgaged if immovable; that will maintain the most unvarying uniformity in its purchasing power, the paper money that is best secured varying the least in its purchasing power; that will furnish it at a just rate of interest, a just rate of interest being cost; that will issue it with the least partiality, so that, to obtain it, one must pledge collateral in the form of wealth, not through favoritism or influence.

Now compare these conclusions with the present system. The present system, like all its predecessors, fails to provide the means whereby property owners may use their property for purposes of credit without submitting to the tax called interest, imposed by the monied class. A single illustration will demonstrate the truth of this assertion. An individual who has property, but no money, wishes to buy some commodities. If he buys them on credit, he has to pay more than if he buys for cash. If he borrows money, giving a mortgage on his property, in order to buy for cash, he is confronted with interest. It is either interest on the merchandise or it is interest on the money; and this interest is enforced by prohibiting the issue of the currency directly on the property mortgaged to secure the money-lender instead of the money-holder.

And now let me point out to you the blunder at the door of which can be laid all the error that has confused the mind of every thinker, puzzled the brain of every financier, and defeated the efforts of every economist to solve the financial problem. It is the failure to recognize the difference between coin and currency. I have shown you that coin is wealth, and currency is but the representative of wealth. When the borrower borrows coin, some one is deprived for the time of that much wealth, and he is entitled to whatever compensation free competition will allow him when he consents to part with his property; but when the borrower obtains currency issued directly on his wealth, he is depriving no one of the use of his property. Therefore, no one is entitled to compensation. The human conscience was right, after all, in its repugnance to interest, for now we see its abolition realizable, not through philanthropy, but through the effect of a principle; and this simple method of making use of one's credit, or obtaining money without depriving one of his wealth, changes the whole philosophy of political economy through the universal application of that element so obnoxious to our State Socialistic friends,—namely, *competition*!

Before summing up what has been accomplished, at least in theory, by a research deeper than most writers have made into this question; and lest I should be assailed for not providing, or for having overlooked the supposed necessity for a "measure of value," or "standard of value," I will in a few words give it a passing notice.

If we never had used money and had no conception of what was a common denominator or monetary unit, but which is improperly called "measure of value," and "standard of value," such as the dollar in this country, the pound sterling in England, or the franc in France, etc.; if, I say, we had no generally accepted term by which we could convey the idea of a monetary quantity of any commodity, it might be sometime before we could all agree and understand how much of any commodity was meant by a dollar's worth, if we should adopt that term, or how much was meant when we should mention whatever term was proposed or agreed upon. We might possibly, under such circumstances, even be compelled to coin pieces of gold and silver, although I am so rash as to think that perhaps some other way might be devised that would involve less labor. But such is not the case. The price of every commodity in this country that can be obtained with money is expressed in, and every individual who has anything to exchange for money, uses the term dollar and its subdivisions, and there is no misunderstanding or complaint as to what is meant. Yet, notwithstanding this, and the fact that for a period of about seventeen years in this country, and at other times for longer or shorter periods, and in England for a period of twenty-five years, and in the same and other countries for periods of many years at a time, in no place could coin be obtained on demand in exchange for currency at its face value, yet, I say, notwithstanding these facts, it is solemnly asserted by the bullionists, as I previously stated, and also by many of the learned professors, that a stable currency can not be had unless it is based on gold, or at least on gold and silver. What more need I say than what has been said as to the real object in limiting the circulating medium?

In summing up my criticism of the National Bank System, I ask your earnest consideration to the following points.

I commenced this essay by calling your attention to the extent of the ignorance that prevails in reference to the nature of money by quoting Mr. Esterly's statement of his experience, which corroborates my own for the last fifteen years, during which time I have given this subject constant, earnest and careful study. The general idea is entertained that, since the ablest men in the world have been occupied with this subject, the present system must be the best that could be devised, and, therefore, to devote one's self to its study is a waste of time. This position is further strengthened by the very absurdity of prevailing notions; being so enshrouded in mystery, impossible of rational explanation, and irreconcilable with common sense, failure to comprehend is attributed to the profoundness of the subject rather than to its errors and inconsistencies. Thus we have been deprived of an intelligent popular verdict on this interesting and important subject. The very fact that there has never been any popular discussion of the idea of free trade in money,—which means the entire abolition of all State control,—or of the application of the mutual feature to the issue of paper money, is proof of how far we may yet be from a solution in the adoption of paternalism.

The inconsistency of our political constitution with the philosophy of liberty entertained by the founders of this republic is apparent in contrasting that document with the Declaration of Independence. The one declares the inalienable right to liberty and the pursuit of; happiness; the other ignores that right by establishing a monied class that controls industry and commerce and denies the right of private property. How can such inconsistency be explained except on the ground of the ignorance that prevailed in reference to the necessity for State interference? It is a monarchical institution, and has no part or lot with a free people. The motive that prompts the thesis of State dictation is clearly *special interests*. The motive that prompts the antithesis is the interests of all. Whichever proves to be the best system of money, the people will voluntarily accept. The best and safest money is always competent to drive out inferior money, if there is enough of it.

I have shown you a glimpse of a system far superior to the present one; yet, lest it should be defective, I want *liberty*, that others may establish a better. This system would have been tried thirty years ago; but the monied power, ever alert to its own interests, ever able to command the best talent and the weightiest influence in its behalf, knew well how to secure for itself, through legislation, that which free, open, and fair competition will deprive it of, and succeeded in extending for itself a few more decades of supremacy. We profess to despise imperialism, yet we retain its essence,—the very diet on which it fattens and without which it must die a natural death.

When the State ceases to protect the banks in the control of the medium of exchange by prohibiting its issue except on certain commodities and by certain parties, and by "fixing" the value of those commodities by making them a legal tender for a definite amount, then the paper medium of exchange can be issued, as I have shown, directly to borrowers at the cost of the transaction through the mutual bank, just as you get fire and life insurance at cost from the mutual insurance company; then money lending as a speculation will cease, and with it will also cease the objectionable features of boards of trade and stock exchanges. Without you limit currency by an arbitrary money system, speculation is impossible! The right to use one's property for purposes of credit is as unquestionable as the right to sell it. The present system denies that right by compelling you to obtain the consent of a certain class of citizens who are provided by the State with certain pieces of paper which you are prohibited from obtaining directly through association at an average of one-tenth the cost.

With the greater part of the wealth in the country convertible into available capital for productive enterprise by the issue of paper money thereon, all monopolies would have to reduce profits and increase wages, because of the enormous amount of capital that would enter into competition with them, until at last the capitalist would be compelled to cooperate with labor for mutual good,—the natural result that must follow a surplus of capital instead of a surplus of labor, as now.

The prosperity that will result from the employment of all the people now idle, in addition to those already employed, at constantly increasing wages would terminate in each getting the exact proportion of what each produced. Poverty would thus be gradually eliminated and crime would cease, panics become unknown, and prisons and poorhouses no longer disgrace our civilization.

APPENDIX: THE MUTUAL BANK PROPAGANDA.

Its Declarations of Principles and Object.

At a series of meetings held to inquire into the cause of poverty and the general distress and unrest among wealth producers, it was conclusively shown that prevailing notions in regard to economies are erroneous; that interest, rent and dividends as compensation for the use of capital are inequitable and are perpetuated by arbitrary money systems which enforce this tribute from producers to non-producers by excluding the operations of supply and demand in furnishing the paper medium of exchange we call money, thus producing poverty and degradation among the masses, and abnormal accumulations of wealth on the part of a few; that this prohibition is accomplished by state and federal legislation, based upon the superstition that only authority can supply money, because of an alleged necessity for a "measure" or a "standard" of value, supposed to be established by the State coining some metal and making such coin a legal tender; that such notions have no foundation in fact, but have their origin in imperialism, which we have not entirely repudiated; that the "function of royalty" to supervise the money of this country, denied to George the Third by the triumph of American independence, but affirmed to be a function of the State as it exists here, was a transfer of an essential element of imperialism instead of its utter extirpation supposed to have been accomplished in the establishment of the republic.

To the end, therefore, that the medium of exchange may be freed from all arbitrary control, and that it be subject to the operations of supply and demand, we organize ourselves into an association to be known as the

MUTUAL BANK PROPAGANDA.

Object.

The object of this association is to lay before the public correct views on the subject of money; to show the fallacy of the idea that the State should regulate, or in any way interfere with its supply, and to aid in the establishment of similar associations in every city, with a view of organizing Mutual Banks of Issue whenever money is needed and there is collateral upon which to issue; thus putting an end to speculative interest by issuing money at cost.

Organization.

Any person may become a member of the Mutual Bank Propaganda by subscribing to its declaration of principles, and affirming his or her desire to aid in its object.

Contributions.

All contributions shall be voluntary.

Officers.

The officers of the association shall be a recording secretary, a corresponding secretary and a treasurer, who shall be elected each year.

Meetings.

The meetings shall be held once a week, and each meeting shall choose its presiding officer. For the transaction of business five members shall constitute a quorum.

The following preamble and resolutions were unanimously approved at the meeting of the Mutual Bank Propaganda, held April 18, 1889.

Whereas, This association, recognizing as its basic or fundamental principle, the inviolability of the person or property of the individual (provided it has not been forfeited by the commission of crime), and

Whereas, This association views with sorrow and alarm the increasing centralization of power in the State and the constant curtailing of the rights of the individual, therefore, be it

Resolved, That in assuming control of money and declaring what shall, and what shall not be money, the State prohibited competition in banking and established a monied aristocracy; that there is no valid reason nor is there any authority in the constitution for doing so; that the right to life, liberty and the pursuit of happiness, which is the ultimate expression of right we must appeal to, includes the right to private property, and the right to property must necessarily include the right to exchange that property, and the right to exchange it includes the right to determine what it shall be exchanged for, be it any article or commodity or a piece of pa per with an inscription on it, be that inscription written or printed, and from whatsoever source; and therefore, that any restriction upon, or interference whatsoever with exchange, is a denial of the right to private property and should be resisted at any cost.

Resolved, That we affirm the following statements to be sound in theory, practicably applicable, and the most suitable to the needs of the people at this time. We therefore invite any opponent to make his statement and give us a chance to reply.

We affirm: that the application of the mutual principle to banking, including the issue of paper money and the issue of paper money on such products as bankers usually make advances or loan money on, would,

FIRST. Abolish speculative interest so far as moneylending is concerned, because the rate charged by the Mutual Bank would not exceed cost; thus a rise in wages would be possible, for there can be no increase in wages except by a corresponding decrease in "compensation to capital."

SECOND. All collateral used as a basis for the issue of pa per money would then possess the advantages now confined exclusively to gold and silver by virtue of law; the owners of such products would be released from the grip of the speculator; such products could no longer be made the object of speculation; hence, the objectionable features of boards of trade will 'cease with the advent of the Mutual Bank.

THIRD. Increase the volume of money in proportion to the amount of collateral pledged instead of confining it to the quantity of gold and silver. Thus all ledger accounts would be closed up and the "balance due" would exist in the form of CASH ON HAND in paper money of the Mutual Bank. In other words, all credits would be obtained at the bank and all business transactions would be CASH.

PLAN FOR A MUTUAL BANK.

1. The inhabitants, or any portion of the inhabitants, of any town or city, may organize themselves into a Mutual Banking Company.
2. The officers of a Mutual Bank should be a board of directors, an appraiser, a manager, a cashier and a secretary.
3. Those who propose to become members, should elect the appraiser and the board of directors, who should hold their office for one year.
4. The board of directors should first elect the manager, cashier and secretary from among their number.
5. The manager, cashier, and secretary should hold office until they resign, or are removed by the board of directors, who should require each to give bonds. They should be subject to, and not members of the board, nor participate in its meetings, except when called upon to do so; and the same rule should govern the appraiser.
6. The appraiser and members of the board may be re moved at a general meeting of the members of the bank, and others elected to fill their places, of which due notice should be given.
7. Membership ceases when a member pays his notes to the bank, and none but members should be directors.
8. The board of directors should employ a secretary of its own, and a legal adviser, and fix the salary of the officers and employee.
9. The manager should manage the affairs of the bank, the cashier the usual duties, and the secretary should have charge of all documents, see that all mortgages are duly recorded before notes are discounted by the bank, and keep an account of the printing and issue of bills.

10. Any person may become a member of the Mutual Banking Company, of any particular town or city, by pledging UNINCUMBERED IMPROVED REAL ESTATE, NEVER VACANT LANDS, situated in that town or city, or in its immediate neighborhood, or other first-class collateral to the bank.
11. The Mutual Bank should print (or have printed) paper money, with which to discount the notes of its members, and should always furnish new bills for torn or soiled ones when requested, free of charge.
12. Every member, at the time his note is discounted by the bank, should bind himself and be bound in due legal form, to receive in payment of debts at par, and from all persons, the bills issued and to be issued by the bank.
13. Notes falling due may be renewed by the bank, subject to the modification which a new valuation may require, so that the note does not exceed two-thirds.
14. Any person may borrow the paper money of a Mutual Bank on his own note not extending beyond twelve months (without indorsement), to an amount not to exceed two-thirds of the value of the collateral pledged by him.
15. The charge which the Mutual Bank should make for the loans, should be determined by, and if possible, not exceed the expenses of the institution, pro rata.
16. No money should be loaned by the bank except on the above conditions.
17. Any member may have his property released from pledge and he himself released from all obligations to the Mutual Bank, and to the holders of its bills as such, by paying his note or notes to the said bank.
18. The Mutual Bank shall receive none other than its own money, or that of similar institutions, except such coin money as the board of directors may designate, and this should be discounted one-half of one per cent.
19. All Mutual Banks may enter into such arrangements with each other, as shall enable them to receive each other's bills.
20. The Mutual Bank should publish in one or more daily papers each day, a statement of its loans the day previous, describing the property pledged, giving the owner's name and its location, with the appraiser's value and the amount loaned on it. And also a statement of the notes paid, and mortgages cancelled during the same period, which statement should be signed by the manager, cashier and secretary.

Alfred B. Westrup
Citizens' Money
A Critical Analysis in the Light of Free Trade in Banking
1891

Retrieved 03/19/2023 from babel.hathitrust.org
Lecture delivered in Chicago, Sunday, June 3, 1888 and Toledo, Ohio, Feb. 19, 1891.
Introduction by Georgia & Henry Replogle, publishers of *Egoism*.

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