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The Practicability of the Mutual Bank and Absurdity of the Idea of a “Measure” or “Standard” of Value

Alfred B. Westrup

1891

Let us suppose a community where there is only one bank and that each individual in that community secures an account current by depositing collateral to a greater or less extent with the bank. Is it not clear that in such a system of payments money would not be needed, every individual would pay by checks, the account being adjusted by offsetting on the books of the bank; the monetary unit we call “dollar” answering the purpose of a conventional denominator or dominant.

We will suppose also that this bank is conducted on the mutual plan, and therefore, charges are made to cover cost only. Gold and silver bullion, like any suitable commodity, could be used as collateral, but no coin would be necessary and none would be used. It would therefore seem to be sufficiently clear that a unit to act as a measure or standard of value is but a fiction, a fetich.

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It is admitted that the proposed bank, for various reasons would be an impracticable method of effecting exchanges, but the absence of a coin unit-measure-standard would not be one of them. Not everyone can have a bank account; the inconvenience of paying small amounts by checks as well as the uncertainty, in many instances, as to the acceptability of checks at the bank are insurmountable difficulties, but one can hardly contemplate the foregoing and yet conceive how the advocates of a coin basis to paper money would defend their theory of its necessity. It is not difficult to comprehend the nature of the error they have fallen into. A monetary unit (a conventional denominator or denominant) to facilitate the expressing of amounts in the realm of value is apparently so similar in its function to that of the units employed in physics such as the inch, the pound, etc., especially as certain coin is made legal tender that the notion has become well nigh universal that this monetary unit must be a definite quantity of some commodity just as the inch is a definite and unvarying length or the pound is a definite and unvarying weight; but this notion is utterly devoid of reason. As there is nothing definite or permanent in value, a unit of value is a physical impossibility. The monetary unit is as near a unit or measure of value as the "x" in an algebraic equation is a known quantity. You can ascertain the exchangeable value of a gold dollar in any commodity by inquiring the price of that commodity; so also you can find the quantity "x" by ciphering out the equation.

The value of the gold dollar varies with every change in market price, just as the quantity "x" differs with every change in the equation. The gold dollar is a certain quantity of gold. It is not the gold however, but the value of the gold that is supposed to do the measuring, and it is the value of the gold that is the uncertain quantity. How can an uncertain quantity be a unit or measure? And if it is not a measure, what is the object of a coin basis? If it is answered that it is not a measure, but a "standard" of value if by "standard" is meant denominant,

then the use of the term “standard” is equivocal and therefore sophistical or dishonest. If it is claimed that it is more than a denominant there is no escaping the dilemma that confronts the paragram “measure.” If paper money is issued as proposed by the Mutual Bank Propaganda with ample security but not legal tender nor redeemable in any special commodity, the monetary unit dollar, will simply be a denominant. Its purchasing power could not be affected by a rise or fall in the price of any commodity any more than an order for a pound of butter would command more than a pound at one time and less at another. The Mutual Bank paper dollar will buy more butter at one time than another, but this will take place in consequence of the operation of supply and demand in regard to the butter; and so with regard to all other commodities; the Mutual Bank paper money will have no more effect on the price of commodities than the order for the butter will affect the price of butter; whereas when the monetary unit is a legal tender commodity dollar, variations in the price of any commodity are affected not only by supply and demand in that particular commodity, but also “supply and demand” in the arbitrarily limited legal tender commodity dollar, which limit enables a class to own and control it, the scarcity or abundance of which (dependent upon combinations among this class) must affect the price of all other commodities. Under any system therefore, which recognizes any special commodity as a legal tender basis for its paper money, especially as that commodity must necessarily be one that is limited by nature, fluctuations in prices become complicated by compound causes resulting from the limitations to credit through this control of money. No such effect can occur under the Mutual system, the volume of money being unlimited except by the quantity of collateral offered, and the rate of interest being the same to all borrowers.

Of course it is not contemplated that this system shall remain as it must necessarily start—each bank independent of all the others, although any bank may remain so as long as it

considers it to its interest to do so—but as the Mutual Bank is not a speculative institution, but rather an institution to defeat speculation, the system can best subserve this end by the banks becoming a general co-operative institution throughout the entire country, establishing headquarters and clearing house at some central point.

The association of the Mutual Banks thus guaranteeing each individual bank, their bills would circulate as free from discount as do those of the National Banks. What objection then could a mutual bank have to joining the national organization, since its purpose is to carry out generally what each mutual bank is established to accomplish locally; namely, the supply of an abundance of reliable exchange media.

The capitalists form trusts and combinations and seek protection in law. Repeal the law and their protection ceases. It is liberty, therefore, that affords protection to the people. Both are prompted by selfish motives, but if liberty prevails no monopolies can be possible, while at the same time there is opportunity to discover by experiment the best and most economical methods, a result not obtainable where systems are established by law.

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