

# Stabilization by Specie Payments

By Edward Tuck

*In SCRIBNER'S for January, 1934, appeared Edward Tuck's "Honest Inflation," an article which attracted international attention. It preceded by only a few weeks the government's action on silver. Here are presented the views of the famous financier on stabilization*

THROUGHOUT the world there is at the present time a universal demand, on the part of governments, chambers of commerce, and mercantile bodies, for the stabilization of currencies. Even as recently as in December last, a leading Conservative speaker, during an important monetary debate in the British House of Commons, declared:

We shall never get international trade going on a wide scale unless we have currency stabilization. The whole future of our economic system, and possibly civilization, depends on the cooperation between this country and the United States, and if we cannot get that we may as well throw up the sponge.

These are strong and truthful words, but how is it proposed to effect this great reform? Thus far it has been planned to accomplish it only by the establishment of so-called stabilization funds to buy and to sell the different paper monies (which are really not money at all but only dishonored promises to pay money on demand), under the control of government committees or agents seeking to regulate the exchange markets at fixed rates in accordance with their personal judgment and direction. This would be a monetary experiment unique in the world's history, having no scientific basis. There never has been complete stabilization of the currencies, there can be none, except with countries which are on a specie-paying basis, when it is fixed by the comparative weight of the precious metals—gold and silver coins. Stabilization of irredeemable fiduciary money, which is the only currency in use the world over today, the varying, uncertain product of the printing press, is a mathematical impossibility. In the United States, Government notes called greenbacks, and bank notes, specie payments being suspended, were our na-

tional currency from 1862 till 1879. A "Gold Room" was established in New York alongside the Stock Exchange, where the metal was bought and sold daily, at fluctuating premiums in currency value, to satisfy the demands of merchants in payment of their foreign importations, and for duties at the Customs.

On January 1, 1879, we resumed specie payments "in coin," under Acts of Congress passed in January, 1875, and in February, 1878. The latter contained the following important provisions as to the part that Silver should take in accomplishing resumption:

Section 1. There shall be coined at the several Mints of the United States silver dollars of the weight of Four Hundred and Twelve and One-half grains Troy of Standard Silver as provided in the Act of January 18, 1837, which shall be legal tender at their nominal value for all debts and dues, public and private.

Section 2. That immediately after the passage of this Act the President shall invite the Governments and countries composing the Latin Union, and of such other European nations as he may deem advisable, to join the United States in a conference to adopt a common ratio between gold and silver for the purpose of establishing internationally the use of bimetallic money and securing fixity of relative value between these metals. The President shall appoint three Commissioners to attend such conference.

The President called the Conference as the law required. It was held in Paris in 1878. France was ready to join the United States and England in an international agreement for the monetization of silver; but England refused and the conference was a failure.

In partial fulfilment of Section 1, the Bland-Allison Act was passed in 1878, under which two million silver dollars were coined each month. In 1890 the Sherman Law increased the silver coinage to something over four million



dollars monthly. Later on, however, President Cleveland, a bitter and uncompromising opponent of silver, secured a repeal of the latter Bill, and this limited silver coinage thereupon ceased. Meantime the unprecedentedly severe panic of 1893 took place, and its ill effects continued hopelessly until the prodigious development in the late 1890's of the newly discovered gold mines of the South African Rand, and of Alaska and Cripple Creek—the production of the Rand increasing yearly with great rapidity until 1915—filled the void in the world's needed additional metallic money, and general prosperity ensued. This certainly was inflation, but only in proportion to the constantly growing requirements of increasing population, industry, and commerce in all countries.

It is estimated that the Rand mines have produced up to date at least five thousand million dollars of gold, the bulk of which was added during twenty years to the existing money in circulation, thereby maintaining values and prices. Since that period, however, while public and private debts have been augmenting enormously, uncounted tons of gold have gone and are continuing to go into government and individual hoards, where the metal is of no more benefit commercially and financially, in raising prices, than when previously embedded in the bowels of the earth. Gold has ceased to be a current medium of exchange, which is the first requisite of money. Values have continuously declined, and idleness and suffering have increased to the danger point.

The monetary system of the United

States was established, not upon gold or silver alone, but upon the two metals, at a fixed ratio to each other, with no limitation upon the coinage of either, each standing on an equal footing before the law. This bimetallic system (then called the "double standard"), prevailing at that time in both England and France, adopted by Hamilton, sanctioned by Washington and Jefferson, its wisdom and justice questioned by none, endured until 1873, when the coinage of silver dollars at the Mint, under its new regulations, was stopped, and bimetallism in our country thereby unwittingly destroyed.

The present law, under which our government is coining monthly a limited amount of silver dollars, will never re-establish true bimetallism. It has become manifest to all competent authorities that gold alone is insufficient to maintain the world's monetary currency upon a metallic basis. To ensure the resumption of specie payments in the United States, which has now become an economic necessity, and is within our reach, we must ourselves return to the full and unlimited monetization of silver, as of old.

It is gratifying to know that the people of the United States are now going through a process of re-education on the whole question of monetary standards, although it is still considered in hide-bound banking circles, and even in colleges and universities, that it is bad form to introduce the subject of bimetallism for discussion, the conspiracy of silence still persisting. The *vis inertiae* of banking and academic public opinion on the question of money since the Bryan campaign has been astounding. It is encouraging, however, that thinking business men generally are becoming more open-minded and receptive of the thought that their fixed ideas in favor of a single gold standard are subject to revision. It is most significant, too, that Walter Lippmann, an eminent exponent of intelligent public opinion, should have declared:

Make silver legal money exchangeable for gold, and it will produce the same effect as if the world had discovered new gold. It will cheapen gold, raise world prices, make further paper inflation unnecessary, and restore solvency.

All this is very true, and it is the only enduring remedy for the universal "monetary morbus" with which the

world was afflicted in the later 1880's and for ten years thereafter, until the new South African gold furnished the needed curative. The same monetary morbus now endangers the entire world again, with much greater severity than before, and threatens to lead to disastrous political consequences.

Silver monetization, once re-adopted and established in the United States, restoring full specie payments in both metals, the two coins, or coin certificates, having the same debt-paying power, would be of identical value, as is now the case. There would be no flood of silver to fear from abroad or from the mines, as predicted by the gold monometallists. India and China have from time immemorial been annual absorbers of silver and will never cease to be such. They could no more divest themselves of their silver money than they could of the clothes on their backs. As regards silver mines, those of the United States have been very largely exhausted, with no important new discoveries, and this is likewise true of the world at large.

Forty years ago the United States was heavily indebted to Europe, and the adoption of bimetallism by our country alone at that time might have been hazardous. Today the reverse is the case. We are a creditor nation as regards the world. We owe virtually nothing abroad. The trade movement is in our favor. Our independent action would be successful, and a blessing to all the nations, by furnishing the vitally needed large augmentation of the world's metallic real money, accompanied by a considerable diminution of the paper assignats which are now afloat in all countries.

Our purchases of silver for full legal tender coinage should at once be largely and rapidly increased, with the consequent result of an approaching legal parity in market value of the two metals, in preparation for the passage of the final Resumption Act, under which our present depreciated and dishonored paper money would be stabilized at par in coin and in the foreign exchanges.

It was Salmon P. Chase who said, in an oft-quoted phrase: "The way to resumption is to resume." We are now abundantly prepared for resumption as regards gold, but the amount of silver coin, at the present rate of purchase, will be totally inadequate. Its coinage

must be free and unlimited. We cannot have too much full legal tender money of the precious metals, money of ultimate redemption, provided by nature's mines, and not by the unlimited fertility of the printing press.

The legal weight of the silver dollar will be a most important problem to be decided upon. The old ratio of 16 to 1, based upon the world's estimated comparative annual production of the two metals, exaggerates the proportion of silver production. It is today probably nearer 13 to 1, and very rarely if ever has been as high as 16. The statistics of all the great mints confirm this.

The present is a crucial moment in our history and also in the affairs of the entire world. Europe, almost in despair, is turning more and more to the United States as the predominant power which can, with its enormous wealth and progressive spirit, solve this vital problem. We are given an opportunity to lead in this great movement for monetary reform. Let us not allow the occasion to slip past us. I doubt if our people, even the keenest silver protagonists, are fully aware of the sympathy and support Mr. Roosevelt's action as regards silver coinage is meeting with in Europe. In England, Lord Desborough has written:

I believe America can do this great thing alone, and other countries will be obliged to follow.

Numerous financiers, economists, and leaders of public opinion have expressed themselves to the same effect. Lord Greenway, the head of the Anglo-Persian Oil Company, a great authority on financial affairs, especially of the East, wrote shortly before his lamented death in December last:

Now that America has made a definite start in the direction of bimetallism, I hope it will not be long before concrete proposals are made to this country to follow suit, with a view to securing greater stability in international exchanges.

We cannot ourselves too often meditate upon these words of Daniel Webster, the great expounder of our Constitution, pronounced in the United States Senate in 1836:

Gold and silver is the money of the Constitution. The constitutional standard of value is established, and cannot be overturned. To overturn it would shake the whole system. Gold and silver at rates fixed by Congress constitutes the legal standard of value in this country, and neither Congress nor any State has authority to establish any other standard or dispose of this.



# Pedagogical Racketeering

By Henry W. Holmes

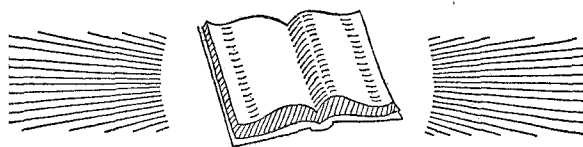


ECONOMIC distress and social uncertainty have already had a marked effect upon our schools and colleges. In larger part it takes the form of obvious material loss, but there are evidences also of more subtle changes of attitude and spirit. With recovery, when recovery comes, the schools and colleges will rise again; new buildings will be built, new staffs recruited, salary schedules restored. But the old assurances will not so readily return.

Whereas in former years the veriest academic stripling in the university might look with scorn upon our sordid politics or listen with a cynical indifference to chantings of our "dull commercial liturgies," there is a sharper realization now that science and the arts depend at bottom on political and economic health. It is no longer quite sufficient, as it used to be, for academic snobbery to ease itself in talk of Babbity, Rotarian inanities, the hapless level of the popular I.Q., and similar shortcomings of democracy. There is a haunting sense that even universities owe something to forgotten men.

And on the other hand, the easy democratic optimism of normal schools and teachers colleges and general educational gatherings has gradually been undermined. Only yesterday there was a gospel, proclaimed with unction and repeated as a creed, in which the mere expansion of the schools was hailed as national salvation; but now uncritical expansionists get less applause than formerly. Superintendents and school committees are well aware that taxpayers are fiercely set upon economy. It is even

*Universities sniff at their schools of education but keep them because they are profitable. The schools concern themselves with the mechanics of teaching. The Dean of the School of Education at Harvard calls for a new conception of educating educators which will make them something other than pedagogs*



possible that professional educators have begun to recognize the externality of what they most have urged—the quick extension of our educational program, better pay for teachers, pensions, tenure laws, state aid, and more efficiency in school administration. The depression has produced uneasy doubts as to the imminent achievement of a perfect system for the schools, a system based on scientific studies and embodied in machine-like processes conducted in imposing buildings by unionized or regimented groups of teachers.

It is therefore not unreasonable to hope that out of the depression may be born a fuller unity of understanding with respect to education. If so, there must occur as soon as may be a convergence in the educational convictions of the various belligerent groups, and all of us should hold more steadily in mind the public good for which both schools and universities exist; and this, perhaps, is what is taking place.

Scholars, scientists, students of letters and the arts, and all who deal with education in its higher forms, may reach a yet profounder recognition of the fact that culture is a fleeting, unimportant thing unless it serves to forward, in some measure or degree,

the common welfare and the common purpose of mankind. The values for which human life exists may never be defined with ultimate precision; but is it not enough for us at present, at least for purposes of education, to be made aware that history, art, technology, the sheerest abstract triumphs of astronomy or mathematics, all the truth and beauty that

intelligence, creatively applied, may yet achieve, are deeply linked with the establishment of peace, security, and justice in the lives of men? If science and the arts have no eventual relation to the coming of a world in which all men shall have the chance to share their values, those values shrink and dwindle, if they do not disappear—and this does not imply agreement with the current, superficial doctrine that all art must deal directly with the fortunes of the masses. There is a deeper, more organic need to spread the meaning of our individual achievements and to give them worth in terms of inspiration, use, and satisfaction to the greatest number possible.

And those whose work concerns the more immediate needs of individuals or nations—political leaders, "brain trusters," social reformers, educational theorists, and the general managers and directors of our public schools—may learn anew the limitations of efficiency, when the ends to which efficiency refers are fixed too sharply in the temporary scene and the material plane. The curious, persistent lesson is repeated—man does not live by bread alone. No scheme to benefit the people by mechanical contrivance can go beyond the limita-