A NEW BANKING SYSTEM;
THE NEEDFUL CAPITAL FOR REBUILDING THE BURNT DISTRICT
By Lysander Spooner, 1873

NO INFLATION OF PRICES.

Section 1.

In reality there is no such thing as an inflation of prices, relatively to gold. There is such a thing as a depreciated paper currency. That is to say, there is such a thing as a paper currency, that is called by the same names as gold—to wit, money, dollars, &c.—but that cannot be redeemed in full; and therefore has not the same value as gold. Such a currency does not circulate at its nominal, but only at its real, value. And when such a currency is in circulation, and prices are measured by it, instead of gold, they are said to be inflated, relatively to gold. But, in reality, the prices of property are not thereby inflated at all relatively to gold. It is only the measuring of prices by a currency, that is called by the same names as gold, but that is really inferior in value to gold, that causes the apparent, not real, inflation of prices, relatively to gold.

To measure prices by a currency that is called by the same names as gold, but that is really inferior in value to gold, and then—because those prices are nominally higher than gold prices—to say that they are inflated, relatively to gold, is a perfect absurdity.

If we were to call a foot measure a yard, and were then to say that all cloth measured by it became thereby stretched to three times its length, relatively to a true yard-stick, we should simply make ourselves ridiculous. We should not thereby prove that the foot measure had really stretched the cloth, but only that it had taxed our brains beyond their capacity.

It is only irredeemable paper—irredeemable in whole or in part,—that ever appears to inflate prices, relatively to gold. But that it really causes no inflation of prices, relatively to gold, is proved by the fact that it no more inflates the prices of other property, than it does the price of gold itself. Thus we say that irredeemable paper, that is worth but fifty cents on the dollar, inflates the prices of commodities in general to twice their real value. By this we mean, that they are inflated to twice their value relatively to gold. And why do we say this? Solely because it takes twice as many of these irredeemable paper dollars to buy any commodity,—a barrel of flour for example,—as it would if the paper were equal in value to gold. But it also takes twice as many of these irredeemable paper dollars to buy gold itself, as it would if the paper were equal in value to gold. There is, therefore, just as much reason for saying that the paper inflates the price of gold, as there is for saying that it inflates the price of flour. It inflates neither. It is, itself, worth but fifty cents on the dollar; and it, therefore, takes twice as much of it to buy either flour or gold, as it would if the paper were of equal value with gold.

The value of the coins—in any nation that is open to free commerce with the rest of the world—is fixed by their value in the markets of the world; and can neither be reduced below that value, in that nation, by any possible amount of paper currency, nor raised above that value, by the entire disuse of a paper currency. Any increase of the currency, therefore, by means of paper representing other property than the coins—but having an equal value with the coins—is an absolute bona fide increase of the currency to that extent; and not a mere depreciation of it, as so many are in the habit of asserting.

Practically and commercially speaking, a dollar is not necessarily a specific thing, made of silver, or gold, or any other single metal, or substance. It is only such a quantum of market value as exists in a given piece of silver or gold. And it is the same quantum of value, whether it exist in gold, silver, houses, lands, cattle, horses, wool, cotton, wheat, iron, coal, or any other commodity that men desire for use, and buy and sell in the market.

Every dollar's worth of vendible property in the world is equal in value to a dollar in gold. And if it were possible that every dollar's worth of such property, in the world, could be represented, in the market, by a contract on paper, promising to deliver it on demand; and if every dollar's worth could be delivered on demand, in redemption of the paper that represented it, the world could then have an amount of currency equal to the entire property of the world. And yet clearly every dollar of paper would be equal in value to a dollar of gold; specie payments—or the literal fulfillment of contracts—could forever be maintained; and yet there could be no inflation of prices, relatively to gold. Such a currency would no more inflate the price of one thing, than of another. It would as much inflate the price of gold, as of any thing else. Gold would stand at its true and natural value as a metal; and all other things would also stand at their true and natural values, for their respective uses.

On this principle, if every dollar's worth of vendible property in the United States could be represented by a paper currency; and if the property could all be delivered on demand, in redemption of the paper, such a currency would not inflate the prices of property at all, relatively to gold. Gold would still stand at its true and natural value as a metal, or at its value in the markets of the world. And all the property represented by the paper, would simply be measured by the gold, and would stand at its true and natural value, relatively to the gold.

We could then have some thirty thousand millions ($30,000,000,) of paper currency,—taking our property at its present valuation. And yet every dollar of it would be equal to a dollar of gold; and there could evidently be no inflation of prices, relatively to gold. No more of the currency could be kept in circulation, than should be necessary or convenient for the purchase and sale of property at specie prices.

It is probably not practicable to represent the entire property of the country by such contracts on paper as would be convenient and acceptable as a currency. This is especially true of the personal property; although large portions even of this are being constantly represented by such contracts as bank notes, private promissory notes, checks, drafts, and bills of exchange; all of which are in the nature of currency; that is, they serve for the time as a substitute for specie; although some of them do not acquire any extensive, or even general, circulation.

But that it is perfectly practicable to represent nearly all the real estate of the country—including the railroads—by such contracts on paper as will be perfectly convenient and acceptable as a currency; and that every dollar of it can be kept always at par with specie throughout the entire country—that all this is perfectly practicable, the author offers the system already presented in proof.

Section 2.

To sustain their theory, that an abundant paper currency—though equal in value to gold—inflates prices, relatively to gold, its advocates assert that, for the time being, the paper depreciates the gold itself below its true value; or at least below that value which it had before the paper was introduced. But this is an impossibility; for in a country open to free commerce with the rest of the world, gold must always have the same value that it has in the markets of the world; neither more, nor less. No possible amount of paper can reduce it below that value; as has been abundantly demonstrated in this country for the last ten years. Neither can any possible amount of paper currency reduce gold below its only true and natural value, viz.: its value as a metal, for uses in the arts. The paper cannot reduce the gold below this value, because the paper does not come at all in competition with it for those uses. We cannot make a watch, a spoon, or a necklace, out of the paper; and therefore the paper cannot compete with the gold for these uses.

That gold and silver now have, and can be made to have, no higher value, as a currency, than they have as metals for uses in the arts, is proved by the fact that doubtless not more than one tenth, and very likely not more than a twentieth, of all the gold and silver in the world (out of the mines), is in circulation as currency. In Asia, where these metals have been accumulating from time immemorial, and whither all the gold and silver of Europe and America—except what is caught up, and converted into plate, jewelry, &c.—is now going, and has been going for the last two thousand years, very little is in circulation as money. For the common traffic of the people, coins made of coarser metals, shells, and other things of little value, are the only currency. It is only for the larger commercial transactions, that gold and silver are used at all as a currency. The great bulk of these metals are used for plate, jewelry, for embellishing temples and palaces. Large amounts are also hoarded.

But that gold and silver coins now stand, and that they can be made to stand, as currency, only at their true and natural values as metals, for uses in the arts; and that neither the use, nor disuse, of any possible amount of paper currency, in any one country—the United States, for example—can sensibly affect their values in that country, or raise them above, or reduce them below, their values in the markets of the world, the author hopes to demonstrate more fully at a future time, if it should be necessary to do so.

Section 3.

Another argument—or rather assertion—of those who say that any increase of the currency, by means of paper—though the paper be equal in value to gold—depreciates the value of the gold, or inflates prices relatively to gold, is this: They assert that, where no other circumstances intervene to affect the prices of particular commodities, such increase of the currency raises the prices of all kinds of property—relatively to gold—in a degree precisely corresponding with the increase of the currency.

This is the universal assertion of those who oppose a solvent paper currency; or a paper currency that is equal in value to gold.

But the assertion itself is wholly untrue. It is wholly untrue that an abundant paper currency—that is equal in value to gold—raises the prices of all commodities—relatively to gold—in a proportion corresponding to the increase of the currency. Instead of doing so, it causes a rise only in agricultural commodities, and real estate; while it causes a great fall in the prices of manufactures generally.

Thus the increased currency produces a directly opposite effect upon the prices of agricultural commodities and real estate, on the one hand, and upon manufactures, on the other.

The reasons are these:

Agriculture requires but very few exchanges, and can, therefore, be carried on with very little money. Manufactures, on the other hand, require a great many exchanges, and can, therefore, be carried on (except in a very feeble way), only by the aid of a great deal of money.

The consequence is, that the people of all those nations, that have but little money, are engaged mostly in agriculture. Very few of them are manufacturers. Being mostly engaged in agriculture, each one producing the same commodities with nearly all the others; and each one producing all he wants for his own consumption, there is no market, or very little market, for agricultural commodities; and such commodities, consequently, bear only a very small price.

Manufactured commodities, on the other hand, are very scarce and dear, for the sole reason that so few persons are engaged in producing them.

But let there be an increase of currency, and laborers at once leave agriculture, and become manufacturers.

As manufactured commodities usually bring much higher prices than agricultural, in proportion to the labor it costs to produce them, men usually leave agriculture, and go into manufacturing, to the full extent the increased currency will allow.

The consequence is that, under an abundant currency, manufactures become various, abundant, and cheap; where before they were scarce and dear.

But while, on the one hand, manufactures are thus becoming various, abundant, and cheap, agricultural commodities, on the other hand, are rising: and why? Not because the currency is depreciated, but simply because so many persons, who before—under a scanty currency—were engaged in agriculture, and produced all the agricultural commodities they needed, and perhaps more than they needed, for their own consumption, having now left agriculture, and become manufacturers, have become purchasers and consumers, instead of producers, of agricultural commodities.

Here the same cause—abundant currency—that has occasioned a rise in the prices of agricultural commodities, has produced a directly opposite effect upon manufactures. It has made the latter various, abundant, and cheap; where before they were scarce and dear.

On the other hand, when the currency contracts, manufacturing industry is in a great degree stopped; and the persons engaged in it are driven to agriculture as their only means of sustaining life. The consequence is, that manufactured commodities become scarce and dear, from non-production. At the same time, agricultural commodities become superabundant and cheap, from overproduction and want of a market.

Thus an abundant currency, and a scanty currency, produce directly opposite effects upon the prices of agricultural commodities, on the one hand, and manufactures, on the other.

The abundant currency makes manufactures various, abundant, and cheap, from increased production; while it raises the prices of agricultural commodities, by withdrawing laborers from the production of them, and also by creating a body of purchasers and consumers, to wit, the manufacturers.

On the other hand, a scanty currency drives men from manufactures into agriculture, and thus causes manufactures to become scarce and dear, from non-production; and, at the same time, causes agricultural commodities to fall in price, from overproduction, and want of a market.

But whether, on the one hand, agricultural commodities are rising, and manufactured commodities are falling, under an abundant currency; or whether, on the other hand, manufactured commodities are rising, and agricultural commodities are falling, under a scanty currency, the value of the currency itself, dollar for dollar, remains the same in both cases.

The value of the currency, in either of these cases, is fixed, not at all by the amount in circulation, but by its value relatively to gold. And the value of gold, in any particular country, is fixed by its value as a metal, and its value in the markets of the world; and not at all by any greater or less quantity of paper that may be in circulation in that country.

Section 4.

But it is not alone agricultural products that rise in price under an abundant currency. Real estate also, of all kinds—agricultural, manufacturing, and commercial—rises under an abundant currency, and falls under a scanty currency. The reasons are these:

Agricultural real estate rises under an abundant currency, because agricultural products rise under such a currency, as already explained. Manufacturing real estate rises under an abundant currency, simply because—money being the great instrumentality of manufacturing industry—that industry is active and profitable under an abundant currency. Commercial real estate rises under an abundant currency, because, under such a currency, commerce, the exchange and distribution of agricultural and manufactured commodities, is active and profitable. Railroads, also, rise under an abundant currency, because, under such a currency, the transportation of freight and passengers is increased.

On the other hand, all kinds of real estate fall in price under a scanty currency, for these reasons, to wit: Agricultural real estate falls, because, manufactures having been in a great measure stopped, and the manufacturers driven into agriculture, there is little market for agricultural products, and those products bring only a small price. Manufacturing real estate falls, because, manufacturing industry having become impossible for lack of money, manufacturing real estate is lying dead, or unproductive. Commercial real estate falls, because commerce, the exchange and distribution of agricultural and manufactured commodities, has ceased. Railroads fall in price, because, owing to the suspension of manufactures and commerce, there is little transportation of either freight or passengers.

Thus it will be seen that an abundant currency creates a great rise in agricultural products, and in all kinds of real estate—agricultural, manufacturing, and commercial, (including railroads); and, at the same time, causes manufactured commodities to become various, abundant, and cheap. While, on the other hand, a scanty currency causes agricultural commodities, and all kinds of real estate, to fall in price; and, at the same time, makes manufactured commodities scarce and dear.

It is a particularly noticeable fact, that those who claim that an abundant paper currency inflates the prices of all commodities, relatively to gold, never find it convenient to speak of the variety, abundance, and cheapness of manufactures, that exist under an abundant currency; but only of the high prices of agricultural commodities, and real estate.

The whole subject of prices—a subject that is very little understood, and that has been forever misrepresented, in order to justify restraints upon the currency, and keep it in a few hands—deserves a more extensive discussion; but the special purposes of this pamphlet do not admit of it here. But enough has probably now been said, to show that the great changes that take place in prices, under an abundant currency, on the one hand, and a scanty currency, on the other, are not occasioned at all by any change in the value of the currency itself—dollar for dollar—provided the currency be equal in value to coin.

Enough, also, it is hoped, has been said, to show to all holders of either agricultural, manufacturing, or commercial real estate (including railroads), that the greater or less value of their property depends almost wholly upon the abundance or scarcity of currency; and that, inasmuch as, under the system proposed, they have the power, in their own hands, of creating probably all the currency that can possibly be used in manufactures and commerce, they have no one but themselves to blame, if they suffer the value of their property to be destroyed by any such narrow and tyrannical systems of currency and credit as those that now prevail, or those that have always heretofore prevailed.

By using their real estate as banking capital, they can not only get an income from it, in the shape of interest on money, but by supplying capital to mechanics and merchants, they create a large class who will pay high prices for agricultural products, and high prices and rents for manufacturing and commercial real estate; and who will also supply them, in return, with manufactured commodities of the greatest variety, abundance, and cheapness.

It is, therefore, mere suicide for the holders of real estate, who have the power of supplying an indefinite amount of capital for mechanics and merchants—and who can make themselves and everybody else rich by supplying it—to suffer that power to be usurped by any such small body of men as those who now monopolize it, through mere favoritism, corruption, and tyranny, on the part of the government, and not because they have any claim to it.