Coin's Financial School

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"Quid coniuratio est?"

Synopsis

(Based on *Coin's Financial School* by William Harvey (1895))

Coin, a young financier living in Chicago, established a school of finance. The school opened on May 7, 1894. The school was dedicated, "To those trying to locate the seat of the disease that threatens the life of the nation."

Professor Coin begins with a quote from "The Report of the U.S. Monetary Commission of 1878."

> History records no such disastrous transition as that from the Roman empire to the dark ages... [In the Roman era] the metallic money of the Roman empire amounted to $1.8 billion. By the end of the fifteenth century it had shrunk to $200 million... The discovery of the New World by Columbus, restored the volume of precious metals [and] enabled society to reunite its shattered links, shake off the shackles of feudalism, and to relight and uplift the almost extinguished torch of civilization.

In money there must be a unit. In arithmetic, the number "1" is the unit. All countings are sums or multiples of that unit. A unit, in mathematics, is a necessity as a basis to start from.

In making money it was equally necessary to establish a unit. In 1792, Congress fixed the monetary unit at 371.25 grains of pure silver. That much silver was to constitute a dollar. Gold was made money, but its value was counted from these silver units or dollars. The ratio between silver and gold was fixed at 15 to 1, and afterward at 16 to 1.

This continued to be the law up to 1873. Up until then, no one could say that the silver in a silver dollar was only worth 47 cents.

Up until 1873, we were on what was known as a bimetallic basis, but what was in fact a silver basis. (Silver fixed the unit, and the value of gold was regulated by it.)

Our forefathers showed much wisdom in selecting silver, of the two metals, out of which to make the unit. Silver was the most favored as money by the people. It was scattered among all the people. Men having a design to injure business by making money scarce, could not so easily get hold of all the silver and hide it away, as they could gold.

On February 12, 1873, Congress passed an act purporting to be a revision of the coinage laws. This law repealed the *unit* clause in the law of 1792, and in its place substituted a law in the following language:

> That the gold coins of the United States shall be a one-dollar piece which at the standard weight of twenty-five and eight-tenths grains shall be the unit of value.

It then deprived silver of its right to unrestricted free coinage, and destroyed it as legal tender money in the payment of debts, except to the amount of five dollars. President Grant said later that he would not have signed the bill if he had known that it demonetized silver.

An army of a half million men invading our shores could not have made us surrender the money of the people and substitute in its place the money of the rich. A few words in fifteen pages of statutes put through Congress in the rush of bills did it.

Silver was demonetized secretly, and since then a powerful money trust has used deception and misrepresentations that have led tens of thousands of honest minds astray.

Credit Money

The science of money is an exact science. As much so as mathematics.

The primary value of all property is its exchange value. If we had no money, one kind of property would be exchanged for another. Money is a medium of exchange to facilitate this exchanging of property.

If there were no money, and we had to depend on exchanging property for property, we could find a subsistence, but there would be no such thing as our present civilization or anything like it.

As stagnation and depression to business would result from having no money, then a part of these evils can be brought about by having money insufficient in either *quality* or *quantity*.

It was best to select something for money which was valuable within itself. By stamping it as money, and making it legal tender in the payment of all debts, it then became money and possessed two qualities:

1. It had value of itself. If the government went to pieces, it was still valuable property and would have an exchange value;

2. The stamp of the government upon it became a certificate of its *quality* and *quantity*.

It was considered that silver and gold were sufficient in quantity for use as primary money, but if at any time their combined quantity should become too small, then some other metal would have to be adopted and added to these two.

After a nation has fixed what its *money* shall be, it then issues different forms of *credit money* all of which are directly or indirectly redeemable in the commodity (silver and/or gold) to which a fixed and stable value has been given.

All money may be a medium of exchange, but primary money *only* is the measure of values. Credit money is not a measure of values; it is a medium of exchange only.

There are two kinds of *credit money*, as to the material out of which they are made. One is made on paper and embraces all forms of government and bank notes. The other is *token money*. Token money is made from some metal that does not enjoy free coinage.

Credit money of all kinds circulates by reason of its being redeemable directly or indirectly in primary money. A piece of paper money, or token money, is a promise of the government to pay so much primary money. Hence it is called *credit* money.
It circulates on the credit of the government, on the confidence of the people that the government will be able to redeem it if it is presented.

In issuing dollar for dollar of credit money to redemption money (primary money), it is not necessary that the government should keep the redemption money (gold and/or silver) at all times in its treasury in full amount ready to redeem all the credit money. So long as sufficient redemption money is in the country, the credit of the government can be depended upon to get it. But it cannot strain the proportion beyond such amount without making the danger imminent, and the lack of confidence great.

If there is one thousand million dollars of redemption money in the United States -- in its treasury, its banks, and among its people -- then one thousand millions of credit money can be safely used and not more.

If the plan is to weaken the currency, then (a) credit money is increased *beyond* the supply of primary money; or, (b) the foundation is dug out from under the credit money by lessening the supply of primary money.

The currency was weakened in 1873, when Congress snuck in a law demonetizing silver and President Grant unwittingly signed the law. If the plan is to weaken the currency, the foundation (silver) is dug out from under the credit money by lessening the supply of primary money.

By making gold the *unit* and closing the mints to silver, it lessened the demand for silver, and its commercial value at once began to depreciate. The moment a new standard of money was set up -- only one-half in quantity to what had previously existed - silver began to fluctuate. It was then measured for its value in this new standard for measuring values and no longer possessed that fixed value which free coinage had given it. Silver had been changed from primary money to token money. With the demonetization of silver, the balance between credit money and primary money went out of whack: two-thirds of the money became credit money; one-third was primary money.

Credit money is a title to commodity money (e.g., gold, silver). In the exchange value between commodity money and all other property, credit money does not add anything -- it facilitates -- makes convenient the transaction of business.

Three lines of credits are built up on primary or redemption money (gold and/or silver):

1. Credit money -- paper bills and all forms of token money -- all redeemable in primary money.
2. Checks, drafts, bills of exchange, and other forms of like paper, payable on demand.
3. Notes, bonds, accounts, and other forms of credit, payable at a particular day in the future (debt), or upon the happening of some contingency.

Thus we have *three* categories of credit built up on primary money.

Over-confidence causes an expansion in categories two (2) and three (3). A man finds he can easily float $5,000 in debts and, since times are good, he increases his debts to $10,000. This expansion becomes contagious. Cities, counties, corporations - all increase their debts. When demonetization of silver took place (1873), the supply of primary money was reduced by about one-half, and the half that was demonetized became credit money (category (1), above). At this point there was very little supply of primary money (gold) compared to (1) credit money, (2) checks, drafts, etc., payable on demand, and (3) notes, bonds, etc., payable in the future.

The Greenback System

It is practical to maintain a purely greenback system. The only theory, however, on which a purely greenback or paper money system might be maintained would be to do away with a redemption money entirely. You cannot have both without the redemptive principle applying. The money with its own intrinsic value (e.g., gold, silver) becomes the most preferable. You cannot maintain two kinds of money at a parity, when one has a commercial value and the other has none, except by making one redeemable in the other.

But you might have a purely paper money. Limit it in quantity by fixing the amount at so much *per capita*. Maintain the volume at that as population increased, and from time to time provide for what had been destroyed. The fact that it was limited in quantity would give it a value.

The objection to the greenback system is this: So long as there was confidence in the government, it would be a sound, stable money. But as soon as confidence in the government was shaken it would depreciate in exchangeable value.

[CN: Put differently, to prop up the greenback, confidence in the government must be maintained, no matter what. Our current paper money is sort of a greenback system: what is now called "the dollar" is not redeemable for, e.g., gold and/or silver. From "greenback system" follows, *ipso facto*, that "the government can do no wrong."]

When the danger became imminent that the government was not able to enforce the greenback's legal tender character, the greenback, having no commercial value, would become more or less worthless.

Combined capital all over the world have been using (1895) professors of political economy to instruct the minds of the young to a belief in the gold standard. This is not hard to do, as these students, being young, their minds are easily molded. The error is planted deep and strong. But the gold standard, now (1895) fitted to a shivering world, is squeezing the life out of it. The workers of the country, the backbone of the republic, are delivering over their property to their creditors, and going into beggary. This is the test proof of the "beneficence" of the gold standard.

The Crime of 1873

When demonetization of silver took place (1873), the supply of primary money was reduced by about one-half, and the half that was demonetized became credit money. At this point there was very little supply of primary money (gold) compared to (1) credit money, (2) checks, drafts, etc., payable on demand, and (3) notes, bonds, etc., payable in the future. (See categories 1, 2, and 3, above)

All property gradually declined in value as compared to gold. (Gold rose in value, as compared to property.) The decline was painfully steady. These conditions caused new debts to be contracted to pay old debts, and the volume of new debts increased rapidly. Money began to be borrowed on property as collateral. Falling prices continued - there was not enough *real* money behind the credit money, the checks and drafts, and the notes and bonds. Borrowing continued. By 1890, notes and bonds -- debt -- in circulation had grown enormously. Every town and city felt the weight of debt. Farms were mortgaged. Property in the cities was nearly all mortgaged. A panic began. An unprecedented financial storm was now on the country; it involved not only categories (1), (2), and (3), but primary money itself was involved under the enormous strain placed upon it.

During the last 30 years (1865-1895), our South American republics have been getting deeper and deeper into debt to England, and during the last 25 years these debts have been made payable in gold. At the present time they must pay England $2 in silver for each $1 (gold) owed. So that a bond for $100,000 executed by them when silver and gold were at a parity, must now be met by the payment in principal of $200,000 in their money. That is - to raise the $100,000 in gold, they must sell 200,000 of their silver dollars.

We are now (1895) an ally of England in depressing the price of silver and enhancing the value of gold. *We* are paying England 200 million dollars annually in gold in the payment of interest on our bonds, and to meet this annual interest *we* are giving up about 400 million dollars in property that is required in the market to secure the 200 million in gold.

The value of the property of the world, as expressed in money, depends on what money is made of, and how much money there is. (*quality* and *quantity*.) If the quantity of money is large, the total value of the property of the world will be correspondingly large (inflation) as expressed in dollars or money units. If the quantity of money is small, the total value of the property of the world will be correspondingly reduced. [CN: Inflation is *not* caused by rise in pay; it is caused by rise in quantity of money. Note current stock market inflation, caused by rise in quantity of money. In the past 6 years, ca. 1991-1997, M3, a broad measure of the money supply, has gone up by about 20 percent. According to *The Wall Street Underground*, "...the Fed is supplying enormous amounts of credit liquidity to the markets... You can see this in the huge increase in the money supply. As measured by M2 and M3, money supply is the largest it's ever been. It is growing by record amounts."]

Until 1873, the primary money of the world was both silver and gold - at a parity. Then came the abandonment of the use of silver as primary money by the United States, followed by other major nations. (England demonetized silver in 1816.) The demand for gold became greater; silver was thrown aside. The purchasing power of gold increased; prices declined. [CN: Prices declined because the quantity of primary money had been cut in half.]

Our daily expression is that wheat or some other property has declined so much. It would be a more intelligent understanding of the situation to say that the gold crop of the world had appreciated in value.

Suppose you keep adding gold to the dollar, until it takes one thousand grains to make a legal *unit* or dollar. Go on making it larger until you have all the gold in the world in one thousand *units*, or dollar pieces. Suppose you owed a note calling for $100 payable in gold -- how could you pay it? Think of the property that would have to be slaughtered to get it.

When you reduce the number of primary dollars (or, in the current situation, the number of Federal Reserve Notes), you reduce the value of property as expressed in dollars, and make it that much more difficult for debtors to pay their debts. And yet this is the kind of injustice that was committed when silver was demonetized. It struck down one-half the number of dollars that made up our primary money and standard of values for measuring the values of all property.

It is commonly known as *The Crime of 1873*. A crime, because it has confiscated millions of dollars worth of property. A crime, because it has made thousands of paupers. A crime, because it is destroying the honest yeomanry of the land, the bulwark of the nation.

It is one of the wonders of the world -- how the people have been so slow in grasping the financial problem -- in learning what it is that measures values, and that the lesson should have to be learned through an experience so bitter.

Afterword

Many years after 1895, William H. Harvey, a.k.a. "Professor Coin," was living in Arkansas. In 1924 he was building a 130-foot high concrete pyramid on a peak in the Ozark Mountains. The center of the pyramid was designed "to preserve at its center, for the benefit of the archaeologists of 10,000 years from now, a document telling why American civilization fell." (*Our Times* by Mark Sullivan. New York: Scribner's, 1926.)