

Money Doctrines and the Current Place of the Peso

By R. B. Blackman*

Trade, savings, and active capital have more to do with a money's stability than so-called gold bullion reserves

The proximate advent of the commonwealth government in the Philippines has aroused discussion as to what to do with the peso. The best answer is, do nothing with it at all—leave it where it is, firmly tied to the dollar, and give your real attention to commerce. The theory that a country's prosperity and security depend on its possession of huge stocks of coined or volume gold is a relic of the old commercialism of past centuries. It has been completely discarded by economists.

Ancient nations acquired gold, other than that from their own mines, chiefly by pillage, indemnities, tribute and taxation. But as their vitality declined, citizens, and merchants from other countries and in other countries, with interest therein, converted their goods into gold, silver, jewels and like chatels, for secreting or sending or carrying out of the country. The exhaustion of metal money and bullion stocks was provoked by political uncertainty, military decline, or other factors; but in itself it was not a cause of national decline.

Under the old mercantile theory, it was believed that trade of one country with others must show a favorable balance, that exports should exceed imports as much as possible, and that the balance must be collected in gold and held. A rich nation was believed to be so only because of its large gold stocks. But we know now that nations may develop prosperously and securely on very small gold stocks, and are, indeed, much more likely so to do than if their metallic money were plentiful. The factors for development are natural resources, freedom, political ability, industrious habits and general confidence.

These are also the essentials of stability after development has matured into steady production and trade.

When a country is being developed by foreign capital, there must, during all that period, be an unfavorable balance of trade. Goods are imported for consumption and production, capital for investment. But later, when production is on its feet, the trade balance must be the other way. Exports must exceed imports, and the favorable balance be used for payment of interest and principal on the debts until they are liquidated. Then exports slow down and imports increase, the latter being largely luxury goods which can be afforded

because the debts have been paid. There will be, under favorable conditions, a period during which the favorable balance will continue and may be converted into gold reserves—by demanding and getting (if possible) this metal in settlement of the balances of trade.

A nation may be fairly prosperous and amply secure, yet may not be able to command or obtain large stocks of gold. In such case it can't afford a gold-base currency, but has to tie itself to a stronger country with a gold-exchange currency.

Gold exchange service is the true service, and has to be paid for, but, at least in peace, the cost of this service is less than the loss that would result were gold to be held as actual reserve, and, moreover, is safer.

This truth points the argument for a bank of international settlements where all the world's stock of gold would be centralized. By means of it international payments could be made without transfer of the gold in its physical form. The yearly loss of gold in various ways, especially the irrecoverable losses at sea, would more than repay the cost of such a bank.

Two facts favor the plan; first, we know of no other practical base for our currencies, whatever gold's shortcomings may be; and second, the nations face exhaustion of their natural supplies of gold, and new gold mined year by year falls behind the actual monetary demands for the metal, and as business expands will fall steadily farther behind, thus appreciating in value.

We now know that a country needs no more gold than is required to support its credit by free redemption of its subsidiary and paper money in gold. There may wisely be added a certain amount

for normal expansion of commerce and for emergencies. Gold in excess of actual needs is not only superfluous but is a real danger to the holding nation. We know our daily money needs, and also the probable limits of fluctuation. In the percentages fixed by law, a certain amount of gold supports this money. The danger of a greater supply of gold than this is the expansion of credit, based on it, to more than prudent

*Mr. Blackman, who has retired, is a student of money. From his recent work trip he brought me back "Kemmerer on Money." Dr. Kemmerer's latest case for gold. Captain Heath's tables and letters to me about gold induced Mr. Blackman to submit this paper to accompany the Heath tables.—WR.

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H. L. HEATH'S GOLD AND SILVER TABLES

World's 1932 Silver Production in Ounces 1000 Fine

Districts	U. S. & Poss.	U. K. & Poss.	All Others	Total
N. America	23,831,642	18,356,393	69,303,054	111,491,089
S. America			4,300,000	4,300,000
C. America			11,190,340	11,190,340
Europe	149,131	16,043	12,922,940	13,088,983
Asia		6,027,854	7,691,657	13,882,628
Oceania and Australia		9,492,726		9,492,726
Africa		1,328,323	76,899	1,405,222
TOTALS	23,980,773	35,221,339	105,554,890	164,757,002

NOTES.—America's silver production in Asia was in the Philippines, incidental to gold production. Her 1932 silver production was 14.5% of the whole; Britain's 21.3%; others 64.2%. The ratio of North America's total silver production in 1932 to her total gold production during that year was 19.4 to 1; the world's ratio of silver production to its gold production was 88 to 1; and the ratio of the silver production of the United States to its gold production 16.6 to 1.

World's 1932 Production of Gold in Ounces 1000 Fine

Districts	U. S. & Poss.	U. K. & Poss.	All Others	Total
N. America	2,219,304	3,650,312	584,487	5,854,372
S. America			82,238	82,238
C. America		18,714	672,760	691,474
Europe		6	2,277,088	2,277,074
Asia	229,728	364,969	910,997	1,505,694
Oceania and Australia	(Philippines)	985,971	8,634	994,655
Africa		12,470,498	265,481	12,735,979
TOTALS	2,449,032	16,890,676	4,801,715	24,141,486
Per Cent.	10%	70%	20%	100%

NOTE.—Of Europe's total 1932 gold production Russia produced 1,990,085 ounces, 10 ounces in 11 or 90.9%. Captain Heath's comment, "So watch Russia."

Money Doctrines . . .

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limits. It is styled credit inflation, but in a gold standard country it can equally well be styled a gold inflation. Were the United States suddenly to come into possession of immense new gold stocks, and to coin this gold and use it for discharging its own obligations, for even one year, the increase of circulation would be, in effect, an inflation; the value of gold would fall and soon be reflected in rising prices of goods of all kinds. It would be purely gold inflation.

Every period in history since the general adoption of gold as money, when the production of gold has notably increased, has been a period of rising prices and higher cost of living. Under our system, that of private property and individual liberty, with its wide range of the distribution of money, a rise in the cost of living is a calamity for a large portion of the people: whose wages and income of every sort are paid in units of the depreciated currency. It would be no consolation to be paid your wages or salary in shiny gold coins, if their buying power were short of your needs and habitual comforts. The fact that we have had several such gold inflations and are now suffering from one very serious one in the United States, is simple argument against the old theory that a country can never have enough gold.

The great influx of gold into the United States after the world War created the base of a dizzy pyramid of credit that introduced a period of unguarded speculation, inevitably followed by a final crash. It was in reality a gold inflation, due to war-debt payments and trade-balance settlements in gold, and to voluntary transfers of foreign gold to the United States for security. It induced shortlived prosperity, as gold always has when concentrated in any country. We now pay for that prosperity in a good deal of community and individual unhappiness.

In another way too, centralization of the world's gold under prevailing conditions reduces international commerce to very low levels: to the extent of gold and to the extent of its utility. The United States has thus lost most of its postwar foreign trade, and most of what it has left must be supported by extensions of credit to the purchasing nations. Ironically, if not tragically, we have at once the largest share of the world's gold and the largest problems of lost commerce, unemployment and economic instability; and we are not learning that gold is not wealth, nor prosperity, nor even security.

The function of money is to carry on production, trade and commerce. Only by freely circulating can it do these things. When it is drained out of active circulation and hoarded, partial or complete stagnation of trade comes about—millions suffer for work. Bankers have always been suspect as monopolizers of money, and governments themselves fluctuate between reckless spending, resulting in inflation, and parsimonious economy, producing a drawn-out deflation. As man chooses to look upon money as a mystery, he learns about it only by means of the harshest experience. It is properly a universal agency of exchange of the products of energy, that of man and his machines, exerted in the growth and production of the goods of commerce.

A money is good as long as it passes current, and it keeps in that desirable state in all countries where demands are sufficient to the volume of energy available for the growth and production of goods. The Philippine peso will be good so long as debt doesn't run too far ahead of current production, so long as the country buys only in the amount it receives for all it sells. Tied to the dollar, the money of the United States, best customer of the Philippines now, as she must continue to be, the peso's validity is secure.

It looks as if the world may have seen its last free gold market, that of London up to the World War and London and New York since the war and up to their destruction; such markets by Great Britain and the United States abandoning the gold standard and placing embargoes on their respective gold supplies. In the case of the United States the embargo

became actual confiscation of all gold by the government—our gold stock was made; one common fund. This was really to embark on strange seas. Like Columbus, however, we must sail on; to turn back is impossible in honor or safety. Any party that should make "Turn Back!" its slogan, for immediate triumph, would pay the price of its rashness, very probably, in total destruction of its world and the country, an inestimable injury. We may change captains, we can hardly change the course.

This is precisely what Americans at home seem to feel. Few and anemic are the protests over what Roosevelt has done with gold. Instead, men have thrown the burden of recovery upon the President and are inclined to stand behind his efforts; and for their gold they accept paper currency redeemable in lawful money. Men do this because *laissez faire* played them and the country false, and dealt them all such sudden and terrific blows, that they can't forgive and go back to her.

What is wanted is restoration of trade. For this boon men concede Roosevelt his right to board the country's gold in its federal treasury.

So many nations embargoing gold in the hands of their governments and trying to do so with that in vaults and banks, little free gold is left for international payments. We effect international exchanges practically on the commodity-value ratio of foreign exchange, but at the same time we test the new weapon of equalization funds by which means each commercial nation hammers down the international exchange value of its own monetary unit and raises the value of its rivals' units. Advantage is thus sought for exports. As the domestic value of the home currency can't be lowered too much, the trick is to bull the currency of rivals by supporting it on the exchange markets. England sundered the international market, making them deeper and keeping her pound as cheap as possible: the advantage enables her to scale some of the tariff walls in other countries—a game that others too can learn to play. Roosevelt learned quickly, and refused to peg the dollar on the world exchanges until America had learned the approximate way and the manner in which to pegging ought to be done, and it was a surprise to its chancelleries that America would do such a thing. But we now have an equalization fund of our own, more than 2 billions, a weapon only for our defense, but one that may be used equally for the offensive.

The old question "What is a dollar?" was never satisfactorily answered. But now we have a new one, "What about gold?" And every 20 years or so we revive the one that frequently seems to play out, though never quite, "What about silver?" All of which ties in nicely with Captain Heath's bullion tables.

Looking . . .

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votes they went to work instead of at the polls; and where they thought that at their votes they would win, they went through the candidate to victory, they thought it useless to cast them; and finally, in the depths of practical politics, an 11th-hour trading of a candidate off might keep many voters home. The Philippine people have acute political sense, and in politics are realists.

A very competent experienced observer gives three factors that explain the majority's triumph: the personal magnetism of Quizon, their leader; their power over patronage; and, *this most of all*, their name. And. The appeal with their opponents, to what has proved to be a conservative electorate respecting the main issue of the campaign; namely, final and complete separation from the United States. For this campaign, before such an electorate, they had the better word, *anti*. On Luzon it comported with public opinion. Elsewhere too, it went far from public opinion; and while on the basis of districts represented the majority in the new government will be sectional, in all it represents a majority of the people.

Another Adams reference will be pardoned in touching briefly upon Mr. Quizon's magnetic popularity. His arguments, not always con-

sistent, invariably capture his audience. His disquieting are vulnerable; his matter, he carries on and wins; his platform is often enough incongruous, planks by no means fitting, but it serves him better than perfection serves another. And so (without at all comparing man and man, for personal comparisons are odious, nor career and career, but characteristics only) it was with John Adams that began as a republican and turned federalist, who helped James Madison and the rest impose the constitution on the several states.

"True eloquence, indeed," said Daniel Webster, describing John Adams' forensic power, "does not consist in speech. It can not be brought from far. Labor and learning may toil for it, but they will toil in vain. Words and phrases may be marshaled in every way, but they can not compass it. It must exist in the man, in the subject, and in the occasion. After the past, intense expression, the pomp of declamation, all may aspire after it—they can not reach it. It comes, if it comes at all, like the outbreathing of a fountain from the earth, or the bursting forth of volcanic fires, with spontaneous, original, native force. The graces taught in the schools, the costly ornaments and the artificial ornaments of the stage, do not disgust men, when their own lives, and the fate of their wives, their children, and their country, hang on the decision of the hour. Then words have lost their power, rhetoric is vain, and all elaborate oratory contemptible. . . . The dauntless spirit, speaking on the tongue, beaming from the eye, in firm, even, and unshaken words, the whole soul onward—right onward to his object—this, this is eloquence; or rather, it is something greater and higher than eloquence—it is action, noble, sublime, godlike action."

Webster, of course, meant the word *godlike*, that slipped too quickly from his tongue, in no (usome sense, but only in the sense of exerted power; he referred to the gods of achievement: the task of the Federalists in America, when she was establishing constitutional federation, was indeed Herculean; and a similar task confronts the Philippine people now, and must involve momentous decisions one after another. The Philippine people tried to bring the hour and the man together. Adams was tried and not found wanting. Quizon is still to be tried.

Immediately the majority and the minority are in vital combat again, this time for control of the constitutional convention. The general elections gave the majority first blood, distinct advantage. They may now say to the voters, "Don't bungle things by having the convention one way and the legislature another. We have the legislature, which ought to work harmoniously with the convention; and so, for the convention, seat our delegates." They will work, naturally, for every one of their delegates. They will get some seated, probably a majority. But the public again has the assurance that the convention, as it is the new legislature, will be substantially revised, and there will be a new, with a powerful wide awake minority, and able and persistent leadership on both sides.

It is important. The convention begins the government that is to last at least 10 years, perhaps the government that will be the permanent one. To restore confidence, to revive business in which life everywhere is primordial dependent, these are concomitants of a successful constitutional convention. As has been suggested, the election, either way, could not have failed to put into the legislature and the convention good and competent men.

There the country will soon see them, making use of their greatest opportunity for genuine fame, never to come again, and discharging the gravest responsibilities of their respective careers. So went the general elections of 1934 in the Philippines. Dictatorial power, but still vicariously got from the people; and no civil power, no nazism, fascism, communism. While so much of the world is turning its backs toward the panacea of cults, the Philippines achieve a pacific general election and turn to the merely democratic task of making a constitution in accordance with lawful authority granted them by congress.