

25. I will give another postulated truth, which, together with the foregoing, will cover the whole business capital dealt in by a banker, beyond his own trading margin: "Floating capital, or 'trading power' other than that specified in the last postulate, consists of money, the savings of industry, and the surplus income of capital, not yet invested in more permanent things, or in lands, houses, factories, steam and other vessels, or in the shares of steamships and railways and all manner of continuing undertakings, which perpetuate themselves, when prudently managed, or in things not destroyed in use."

26. It must, in order to reach a clear comprehension of the power of banks for inflating the industrial pursuits of the people, be borne in mind that a large part of the latter description of capital is held on deposit by bankers and is loaned, along with the "proceeds" of bills representing goods. It must also be kept in view that the proceeds of discounted bills are entered in bankers' ledgers as "deposits," and are not distinguishable in the published accounts from other, or what are called "cash deposits." I suggest that such a distinction should be required by law. It is true an estimate can be made by comparing the "discounts" and "deposits," but what I suggest is, that the facts shall be made apparent on the face of the statements, so that we can detect where and when business inflation begins, and how it fluctuates. I have now demonstrated that inflation is caused by excessive issues of paper money and excessive discounts. Q. E. D.

27. It will be seen how the magic power of the banker turns goods into "trading power," or floating capital, from the moment the raw material is ready for the market until it passes through the hands of the various dealers and manufacturers, and finally reaches those of the numerous distributing agents or retail dealers. Each, in turn, gives a bill to his predecessor in ownership, in the chain of transfers; and each, in turn, takes such bill to his bank, to be turned into trading power, to which category belongs money, but which forms only an insignificant three or four per cent. of the vast pool of trading power or floating capital. It therefore happens that the same bale of goods is represented several times in the loan market before it reaches the final distributor—the retail merchant.

28. Again, it very commonly happens, when inflation has set in, that the same bale of goods or cargo passes through several hands in a few days or weeks, while in transit or in warehouse, each seller realizing a profit on a rising market; and, in regular and not purely speculative transactions, each buyer giving his bill in payment, to be passed through the "discount mill" and turned into trading power. Thus the sum total of trading power becomes enormously expanded. The market value of the same products is represented several times in the loan market, and as about 95 per cent. of the "operators" in these industrial pursuits "trade" on margins of only about 10 per cent., it is perfectly obvious how a panic, stopping the sale of goods and the "discount mills" all over the country, wipe out, as with a sponge, all the weaker operators "for a rise," and numerous others who have been imprudent in the matter of giving credit.

This is a true and in no degree exaggerated description of what happened between the years 1830 and 1837, when the loans of discount banks, which were mostly banks of issue, rose from \$200,000,000 to \$525,000,000, to say nothing of the increase of paper money, which went out through the discounts. It is what happened during the seven years immediately preceding each of the panics of 1857 and 1873; and these panics, and the succeeding crises, and all others like them, are perfectly natural consequences, resulting from excessive bank speculation; and we are just now commencing another era of similar inflation, to be followed, sooner or later, by another panic, and another long and agonizing period of stagnation. Congress, in its ignorance—I am afraid to say "wisdom," for that would be what Mark Twain calls "sarkasm"—has passed an act to provide for the "resumption of specie payments, and for the establishment of free banking," the effect of which, if it remains unrepealed, must be to work enormous evils in our industrial system; to some of which I must now direct your attention.

30. This law authorizes the use of the whole of the outstanding national securities, bearing interest, and amounting to over one thousand eight hundred million dollars, as the basis of issues of paper money to banking associations. This is called "free banking," as if the issue of notes formed any part of the legitimate business of banking—which it most certainly does not. No educated economist will claim that the issue of paper money is a legitimate part of a banker's business. In England about 80 per cent. of all banking, and in France all but that conducted by the Bank of France, is conducted by banks that issue no notes at all; and even in this country, according to Mr. Spaulding, the non-issuing banks outnumber those issuing paper money more than two to one. See Centennial address, last page. This so-called "resumption act," over which there is such a fuss and such a partisan fight just now, is simply a premium offered by the government for the expansion of bank capital, and bank notes—of which there is already a large excess beyond legitimate business demands.