20. I have shown what constitutes "a proper currency," namely, a currency issued by a national department, to all comers, for gold. I have shown that bankers cannot on any pretext be allowed to trade and speculate on such issues at the expense of the whole people, besides, and to the injury of non-issuing banks, which conduct a large amount of the legitimate business of the country.

21. Before proceeding to point out other causes of inflation, arising from bad banking, I respectfully suggest, as the next step towards the prevention of the ascertained causes of crises, that your committee consider the plan I have briefly outlined, of constituting a national issue department, independent of Treasury and political party influences. We have already an excellent working-model in the national issue office and Comptroller's Department, which have always been honestly and ably managed. But such a department should not be under the influence and control of the Minister of Finance, and should be restricted to the issue and sale of notes for gold, after the manner of the Bank of Amsterdam.

There is a substantial distinction between currency and finance. The one is a *tool* of industry, the other a *process* or *method* of conducting the business affairs of nations, states, corporations, and individuals. The temptation to use the *issue* of paper money to create resources must sooner or later be wholly removed from the thoughts and purposes of those who manage the business affairs of nations and banks. If, after ample experience, the managers of the issue department find themselves possessed of a larger supply of metal than is needful to insure the convertibility of the national notes, beyond peradventure, they should have power to invest such surplus in public securities bearing interest, and to reissue the same, or new ones in their place, for temporary purposes in case of any unforeseen emergency demanding the purchase of gold to maintain specie payments. To put such a system into operation would require time and the best practical and theoretical knowledge of the country and the trained skill of those already in the employ of the Treasury issue department. The currency question has, next to slavery, been the most agitated and discussed of any of the great national issues, and is now by far the most prominent before the people. Hence, regarding it as I do as one of the leading elements involved in industrial crises, I hope I shall be excused for the prominence I am giving it in this communication. The time is, I trust and believe, at hand when it will be divested of all fundamental errors and the passion that enters into public discussion whenever it is mentioned. The moment the nation cuts loose from all connection with banks of issue, as such, the inflation dogmas will yield to common sense. The opinion gains ground that the issue must be made by the nation and for the nation's benefit, and not for the special profit of a mere handful of bankers.

22. I have here to remark on an important example to show how much a well-regulated note issue has to do in averting inflations leading to crises. France has been especially free from these "financial cyclones" for half a century, under the issue of notes by the Bank of France. During the great panic of 1857, when the Bank of England nominally suspended under an authorization of the government, and made a wreck of a vast number of business houses by running up the rate, there was scarcely a ripple produced on French financial waters. There was no run on French bankers, and the general industries remained undisturbed. That and other examples show the difference between a single issuer, and two thousand competing national banks, in 1873.

23. It has been testified before your committee, truly, that crises are developed under circumstances showing that other causes than inconvertible paper currency have produced them. I now propose to point out what are these causes. Mr. Spaulding, in one of the quotations I have made from his Centennial address, states the fact that, "In seven years from January 1, 1830, to January 1, 1837, the loans [of the banks] increased from $200,000,000 to $525,000,000." When we come to analyze the operations of a bank of discount, we reach a great fundamental truth, of supreme importance in monetary economy, namely, that by far the larger proportion of bank discounts rests on goods in course of production and distribution. I have put this important truth in the form of a postulate, as follows:

24. "Commodities, in course of production and transmission from producers to consumers, or ultimate purchasers, represented by bills of exchange, bills of lading, warehousemen's receipts, bank credits, checks, and other devices invented by bankers and merchants to facilitate the transference of debts and credits, constitute the bulk of floating capital dealt in in the loan, improperly called the 'money' market."*

* As this postulate embraces a most important fundamental truth, I take the liberty of quoting an extract from a letter I received in the winter of 1875–'76 on the method I have adopted for stating in a concise and striking manner leading principles of monetary economy, from the pen of an able writer on economic science, Prof. Bonamy Price, of Oxford. The professor says: "So many thanks for your letter in the American Times. It is exceedingly good, and I rejoice over it much, especially the postulates and principles. The '(35th in my forthcoming work)' is capital. I had the thought, but not definitely and vividly expressed. The meaning jumps on the reader and masters him, and it is most true."