ARTICLE VII.

WHAT GOVERNMENT CANNOT DO.

BY Z. SWIFT HOLBROOK.

[The substance of the following article has been put out by the Republican National Committee as a campaign document in the form of a catechism, constituting Leaflet No. 7. The present more elaborated form has also appeared substantially in the *Advance* for August 13th. But it seems desirable to put it in the more permanent form of reference which it will have in the BIBLIOTHECA SACRA.—G. F. W.]

THERE are some things no government can do. It cannot change the laws of nature, the laws of mind, nor the laws of markets. It cannot make milk out of water, alter the principles of Euclid, nor fix the values of commodities in the markets of the world. The utilities and their relative power to satisfy human wants are not matters controlled by legislation. Eternal laws and principles defy governments as easily as they do individuals.

SUPPLY AND DEMAND

fix the relative values of gold and silver in the world's markets. The fact that these metals are used for money as well as in the arts, seems to confuse many good people who imagine that gold and silver have some quality of magic in them that makes them different from ordinary products like wheat, oats, eggs, or iron. But the fact that gold and silver are the most convenient to be used as money enhances their value as metals only because it increases the demand for them.

The value of these metals is twofold: the intrinsic or bullion value, called the market value; and their value as legal tender, called their money or mint value. Silver is dug and smelted at a profit, at the market value—53 cents for 371¼ grains, which is our silver dollar. If it were not profitable to produce it at that price its production would gradually diminish instead of increasing as it does. Mine owners would not continue to produce it at a loss.

THE COST OF GOLD,

on the contrary, is relatively 100 cents for each 23.22 grains, our gold dollar; otherwise miners would not produce silver, but would mine gold because it would be more profitable.

The former director of the mint made exhaustive calculations from the statements of 155 mines in California, Arizona, Colorado, Montana, and Utah, and found the cost of producing silver was about 52 cents for each ounce, or 480 grains. This was exclusive of all allowances for capital account or for amortization. This would make the real cost of our silver dollar about 40 cents, measured in units of labor and compared with gold.[1]

PROFESSOR AUSTEN OF ENGLAND

made a searching and exhaustive study of the cost of silver production and testified before the Royal Commission that the actual cost of an ounce of silver was two shillings, or about 50 cents. But the director of the mint discredits Professor Austen's figures and says (p. 103): "Indeed, it does not appear to me that the cost of producing the precious metals determines their market value, or that this is affected by their cost of production, except in a manner incidental to the condition of supply and demand."

Adam Smith, Ricardo, Rossi, Roscher, and Mill maintain that, as a general principle, cost of production constitutes the essential condition of market price, while Malthus, Say, Mac Leod, and others that it only indirectly influences it. The director of the mint says it is a nice question but he thinks the latter writers more nearly correct.

[1] See Sociological note on Cost of Production of Silver.

THE MARKET PRICE OF GOLD AND SILVER

is the truest test of relative intrinsic values. The reason why silver depreciated in the market was not because the United States government limited its output for purposes of money, or dethroned it from its time-honored position by the side of gold, for the government did not really do anything of the sort. Silver depreciated in the market because the production of it increased and the demand diminished by suspension of its free coinage by the Latin Union. Then Germany went to a gold standard, followed by Sweden, Norway, Denmark, and Holland. The ratio of decline in the market price of silver was not even then equal to the ratio of the increase in production. In 1888 the increase in production of silver had been 65 per cent and its decline only 29 per cent.

A CHANGE IN THE RELATIVE VALUE

of gold and silver has not in the least restricted their natural supply, nor diminished their uses as money, nor in the arts, nor has it had any logical or magical power to affect market prices of other commodities or wages. To charge this lowering of prices upon any "crime of 1873," falsely so-called, or to charge it to Wall street or England, or the Rothschilds or the bankers, is simply unjust. Government did not put silver and gold in the earth, nor determine the amount of labor required to dig and smelt them, nor fix the demand for their use in the arts, nor make the ratio of abrasion, nor in any other way make the laws of supply and demand. But governments have followed nature's laws, and when the fact became known that the two metals could not be sustained at a parity, for silver was multiplying too fast to keep at a uniform ratio with gold, then the civilized nations photographed the passing fact in laws that did not make the fact but simply expressed it. This helped to send the market price of silver down, but only because it dashed to the ground false hopes of silver that have been discounted in the world's markets. The maxim, *post hoc ergo propter hoc* (after this, therefore because of this), expresses the current philosophy as to the causes for the decline in the real value of silver.

GOVERNMENT CANNOT SAY

what the relative cost of wheat, oats, or corn shall be, nor can it fix, arbitrarily, the nutriment in beans compared with rice. Nature does all that. This has been recognized as a principle so true and fundamental that all governments, not tyrannical, recognize as sacred the natural rights of the individual, such as life, liberty, property, and reputation, because governments did not give them and cannot take them away. Metals have a nature of their own that the markets recognize and fix the value of unerringly, and a government is as powerless to change them as is a babe in the cradle, for the markets follow human wants and the utilities of products. Otherwise iron or potatoes could become a legal tender and be kept at parity with gold.

AS ELSEWHERE SHOWN, THE REASON WHY

53 cents' worth of silver bullion passes for 100 cents is because the government has stamped it "one dollar"; has made it a legal tender for taxes and duties and payment of debts; and has promised to make up the difference between it and gold. This action of the government has created a confidence in the silver dollar that keeps it at par. The real value in a silver dollar is bullion, 53 cents; confidence or credit, 47 cents; total, $1. This is not to create value out of nothing, for credit has value, as every merchant knows who gives notes or buys goods on the strength of it. Over 90 per cent of the business of the country is done on confidence or credit. But it must have genuine worth back of it or it will vanish. This was seen during the Civil War when

lack of confidence sent the greenback down to 40 cents as measured by gold.

TO REPEAT A FAMILIAR ILLUSTRATION,

if a paper dollar burns, 100 cents' worth of confidence is lost; if a silver dollar is melted, 47 cents' worth of confidence is gone and 53 cents' worth of bullion remains; if a gold dollar is melted, the bullion that remains is worth 100 cents, for it would cost that to reproduce it at the mines, hence nothing has been lost. Any mint in the world will buy it for 100 cents. Thus it will appear that money is founded on confidence and upon intrinsic value. The attempt of any government to issue fiat money in unlimited quantities and command confidence in it will surely fail, and the rule holds absolutely in the case of silver to the extent of 47 per cent of credit value in it.

FREE AND UNLIMITED COINAGE

of silver at the ratio of 16 to 1 will not increase the volume of money in the United States for a long time, but will at once destroy confidence in the ability of the government to maintain gold and silver at a parity. It destroys quantity and quality in the hope ultimately of unlimited quantity. Its immediate effect would be to drive gold out of circulation, rob silver dollars of their 47 per cent of credit value, and diminish confidence in paper money to the extent of 47 per cent of its promise to pay. It would frighten foreign investments away and produce a financial panic. The immediate result would be to diminish the volume of currency.

THE ATTEMPT TO CHANGE

from one standard unit of measure to two standards, can never succeed. It is as impossible as it would be to have two yard sticks of different lengths and keep them both in use, or to have two bushel measures of different sizes and have them both legal. All civilized countries are using gold as a unit of measure, and our commercial relations with them are so intimate that gold is certain to remain the unit in the United States even if it is driven out of circulation. Such was the fact during the Civil War.

The practical effect of the free and unlimited coinage of silver at the ratio of 16 to 1 therefore will be not bimetallism but silver monometallism, and this no one has the hardihood or temerity to advocate, for it degrades us as a nation to the commercial level of China, India, Japan, Mexico and the other silver countries.

IF ONE DOUBTS THIS

let him verify it in this way. Gresham's law stands unquestioned, that "with unlimited coinage of both metals at a fixed ratio, the metal that is overvalued at the mint will go to the mint and will circulate as money, while the metal that is undervalued at the mint will retire from circulation." This law has been found to be fundamental and absolutely true in the history of finance. If a farmer can pay a debt in apples or turnips he will pay it in what is cheaper and keep the better. Enlightened self-interest and not selfishness regulates this. For the former trait is commendable and the latter unworthy. The laws of commercial life assume this as axiomatic and the world's markets are founded upon it. Only fanatics, whether in religion or finance, decry self-interest as a proper motive of action. The attempt to increase the volume of our currency, therefore, by going to a silver monometallic basis is simply suicidal, for, in the end, it increases quantity at the expense of quality. Its effect will be to disturb our financial affairs to such an extent that four years will be all too short to recover from such a radical change, and the party that with brass bands and booming cannon is ushered into power on such a philosophy would go out of power at the end of its first term "to the music of hisses."

CHANGING THE UNIT OF MEASURE

has no effect on the value or on the quantity of the goods measured. The amount of cloth in the United States is not increased or diminished one inch by making six inches a foot. The size of the farm is the same if a rod is eight feet; and a cart load of apples has no more nor less apples in it whether a bushel is 32 or 16 quarts. The boy's conundrum was: "How many legs has a dog if you call his tail a leg?" The answer was: "Four, for calling the tail a leg does not make it a leg." The farmer does not get more real value for his crops, nor the wage-earner more for a day's labor, by changing the unit of measure or by making 371¼ grains of silver the standard instead of 23.22 grains of gold. It will simply take twice as much bullion to buy goods or pay debts, but its purchasing power will remain unchanged.

WHAT IS MONEY?

It is simply a medium of exchange, and to increase the volume of the medium will not in the least increase the real value or the bulk of the commodities to be exchanged. The volume of money must be large enough to do the business of the country with ease, and its stability must be sufficient to do it with confidence. The present volume of our currency is sufficiently large, and the confidence in it we are fighting to maintain.

The desire to enter into a compact with other nations to give universal currency to silver at some agreed ratio is commendable, but the United States must work in harmony with other nations in order to accomplish it. It will increase the demand for silver and thus enhance its value somewhat, and will find a foreign market for our silver bullion. But it will not add one cent to the purchasing power of our silver dollar, for it passes now at a parity with gold. It will enlist the sympathy and help of other nations to restore silver to its place of dignity and power, not in the United States, for it has never been dethroned, but foreign countries will make greater use of it.

MONEY IS SIMPLY A BRIDGE

that the farmer drives over in going to market. The bridge must be large enough and strong enough to cross over with convenience and safety. The volume of our currency is sufficient in size and strength to carry over the products of the country. It does not add one cent to the value of a farmer's load to build two bridges instead of one. If an army must cross a bridge to get into battle, the bridge might be too small to carry it over in time; but, if it were large enough, not one man is added to the army by increasing the number of bridges or size. To enlarge the bridge at the expense of its stability, is the height of folly, for a hundred weak bridges are not as good as one strong one. We must have implicit confidence in a bridge or the people will not use it. To increase the volume of our circulating medium at the expense of its stability is unwise, for it is simply watering the milk. The ethics of the case we do not here discuss but only the expediency.

TO DESTROY CONFIDENCE

in our currency will bring on financial ruin and distress such as the country has never seen. Money will be difficult to borrow or buy; prices will fluctuate daily to keep pace with the markets of the world and to keep pace with the varying prices of gold. With confidence gone, which is now the equilibrium, money will not be lured forth from its hiding places and poured into the channels of trade because of its timidity and the fear of a falling market; another four years of our national life will be squandered in a futile attempt to fight the eternal laws of nature which are the laws of God. We shall become the laughing stock and a by-word among the civilized nations of the earth. Let us vote that the town pump shall give milk; that veal shall be mutton; that a horse shall drink beer and a dog shall drink whisky, for such laws will be construed simply as American humor; but let us not enact laws that shall attempt to regulate the world's markets when the laws of supply and demand are doing it regardless of the laws of any nation. And especially when we proceed forthwith to destroy the only ground upon which gold and silver can be maintained at a parity, namely, confidence in the integrity and stability of the American Republic. The surest and quickest way to destroy that confidence is to determine upon the free and unlimited coinage of gold and silver at the ratio of 16 to 1.

A boy asked the doctor how to distinguish a toadstool from a mushroom; he replied; "Eat it; if you die it is a toadstool." But the American people do not need to swallow the free silver idea to learn that it is a toadstool, for other nations have tried it and we have their experience from which to learn lessons of wisdom. The wisdom of the farmer can be relied upon, in going to market, not to exchange his cart with its two wheels of equal size, gold and silver, for an old-fashioned wheelbarrow with its one wheel of silver, simply because that wheel is larger. To learn eternal verities and build thereon is the only duty of man. The wise man will build his house upon a rock.