THE EVOLUTION OF BANKING: A STUDY OF THE DEVELOPMENT OF THE CREDIT SYSTEM

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BY
ROBERT H. HOWE

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Foreword

It is needless to say that this book does not contain all that might be written on the subject of money; many interesting and instructive phases of the subject have not been treated at all, for the reason that few people will read a bulky volume, and many cannot pay the cost of one. It is published with the sole purpose in view of stimulating thought and inquiry into the subject of which it treats and which has been nearly, if not entirely, neglected by the leaders of advanced thought.

There is growing up in America a strong demand to substitute collective ownership and operation of certain industries in place of corporation ownership and operation. This is evidenced by the recent passage in various states of Public Utilities Acts which empower the cities and villages to purchase or construct water works, electric light and power plants, traction systems, pipe lines for the distribution of gas, oil, heat or cold; warehouses for storage purposes, wharfs, etc., and empowering the cities to issue bonds or certificates of indebtedness which are to be a lien on the property built or purchased and which are redeemable out of the operating income.

These enabling acts will certainly be taken advantage of in the near future. The present Public Utilities owned by private interests and operating under franchises are staggering under a burden of stocks and bonds far beyond the value of their properties, and in many cases double the cost of reproduction.

In taking over these various activities an attempt will certainly be made to unload this mass of indebtedness, a large percentage of which is fictitious, upon the public at par, and issue in place thereof twenty or twenty-five year Public Utility Bonds or Certificates bearing 4 per cent or 5 per cent interest. This would place upon the public a burden of debt for principal and interest far in excess of the value of the property taken. Under the present laws it is not possible to take over these properties or build others without issuing interest-bearing obligations which will make the cost to the public from two to four times the value received.

If Congress would enact into legislation the Currency Bill found at the close of this volume, cities could take possession of these public utility properties and pay no more than their actual value and never be obliged to pay one cent of interest.

Currency is a tool which man invented for use where there was an unequal exchange of services or commodities.

Under a system of barter where each exchange was a complete and closed transaction money was unknown and unneeded. The following quotation from Homer's Illiad depicts a state where no money was used:

"From Lemnos Isle a numerous fleet had come
Freighted with wine * * * *
* * * * all the other Greeks
Hastened to purchase, some with brass and some
With gleaming iron; some with hides
Cattle or slaves."

But where there was an unequal exchange of services or commodities between two persons there would be the difference in the amount due from one to the other and some evidence or token would be required by the creditor from the debtor.

In writing of this subject Aristotle said:

"But with regard to a future exchange (if we want nothing at present, that it may take place when we do want something) money is, as it were, our security, for it is necessary that he who brings it should be able to get what he wants."

To instance this in a simple manner let us picture a shoemaker living in a house built on a low, wet piece of ground which he desires drained. He employs a neighbor to dig a ditch that will carry off the surplus water. While the ditch is being dug the shoemaker makes a pair of shoes, and offers them to the ditch digger as compensation for his work. He refuses the shoes because he has a good pair, but accepts the shoemaker's I. O. U. The ditch digger, however, needs a coat and a tailor who knows the shoemaker accepts the evidence of his debt in payment for the coat. The tailor in turn wants the roof of his house mended and employs a carpenter to do the work and transfers to him in payment for it the shoemaker's I. O. U. The carpenter needing a pair of shoes gets a pair from the shoemaker and pays for them by surrendering the evidence of the debt which the shoemaker originally owed to the ditch digger, and the shoemaker destroys it.

It will thus be seen that the debt contracted by the shoemaker was the basis for the currency by means of which the services of the ditch digger, the tailor, the carpenter and the shoemaker were exchanged, and when the debt was paid the currency disappeared. It shows also that where there is no debt there can be no currency.

McLeod, in his Theory and Practice of Banking, says: "This currency is nothing more than the evidence of service having been rendered for which an equivalent has not been received, but which may at any time be demanded. It is obvious that as soon as it has been rendered, the evidence of its being due must be given up to the debtor to be destroyed, and it will be no longer current. And if any man can render services to his neighbors, he must in return receive either other services, or the evidence of their being due; and if he renders more services than he immediately requires in return, he will accumulate a store of this evidence for his future wants.

"These simple considerations at once show the fundamental nature of a currency. It is quite clear that its use is to measure and record debts, and to facilitate their transfer from one person to another; and whatever means be adopted for this purpose, whether it be gold, silver, paper, or anything else, is a currency.