Laurance Labadie
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14. The books of these banks would always be open for public inspection, with their condition published monthly, upon investigation by public accountants.

15. These banks and the money must exist by voluntary support and therefore maintain themselves in a competitive field. This is the method of liberty.

Many thoughtful people are more and more aware that industrial depressions are caused chiefly by faulty control of money and credit. Most "reformers," or those who recommend measures to remedy this, turn to government for issue and control of money. It is my purpose here to briefly present an analysis and "cure" in the light of economic liberty.

It is hardly necessary to inform clear thinkers that legal monopoly and liberty are opposites. To genuine libertarians, there is but one way to delegate social functions, and that is *free* competition. If any individual or group believes they can perform any social function better than is being done, they should have the right and opportunity to prove it in actual operation, on their own responsibility and that of any who voluntarily join them. To erect through law a monopoly of any social activity is a sure way to promote graft and exploitation. This is the fallacy of communism, fascism, and all schemes involving government monopoly.

If, instead of arguing with one another, the various money reform groups would come out openly for *freedom in banking*, then each could go ahead with their plans with voluntary cooperators. Each one's money would circulate among those who considered the plan sound and workable. But no one would be compelled to accept any other money than he wished. The better ideas and systems would win out, having been proven sound by actual operation. There might be failures at first, no doubt. But it is by free trial and error, with only experimenters and free co-operators getting "burned," that satisfaction is finally achieved. *This is the method of liberty.* Many of those who now turn to governmental schemes for lessening man's plight may soon find themselves hog-tied by government force and violence, as has been the lot of several people in the eastern hemisphere.

Money grew out of the need to get rid of the inconveniences of barter. Money is that wealth or media that is generally acceptable in the exchange of goods of services.

Money is of two kinds: commodity and credit money.

Commodity money is that which has its value **inherent** in itself—such as skins, cattle, corn or a gold piece.

Credit money is a promise of goods of specific quantity or quality, either "on demand" or at a specified time. All paper money is credit money. Credit money may be (in honesty, *should* be) backed by, based on and redeemable in actual wealth or commodities. This is called commodity-backed money. Credit money based on government-debt is fiat or dishonest money.

A credit transaction is one in which an interval elapses between the completion of the exchange. In a credit transaction there is a complete exchange of the rights of *ownership*, an incomplete exchange of the *goods in question*. Since paper money is not wealth itself, the use of paper money means doing business on a credit basis.

Basis of Issue and Standard of Value

Money is inconceivable without both a basis of issue and a standard of value. One of the most misunderstood aspects about money is the distinction between the need for and nature of these two factors.

The basis of issue is some stable wealth like bales of cotton, bushels of wheat, ounces of gold, against which the money is issued and in which it can be redeemed, at the wish of the holder. The value of credit money is determined by the value of the wealth upon which it is based or secured, measured in terms of a standard unit of value.

The standard of value is some one thing, a unit of gold, like a dollar, ire, pound, etc. or a composite of things, of value by which the exchange value of other things is measured.[1] The function of

[1] The original text reads "A*unit of gold, like a dollar*" and "etc.Q."

really issued on the goods or wealth of the customers. It is really the labor necessary to mine gold which is the standard of value.

7. This money is not fiat money — not irredeemable paper money, not unsecured money. It is not subject to change in value which might cause inflation or deflation, which are never necessary.
8. The amount of currency is always adjusted to the amount needed, as it can be issued and withdrawn (pledges redeemed) at the will of the customers.
9. The value of the currency fluctuates no more than the value of the gold used as the standard commodity.
10. *Interest is eliminated*, so long as people are free to open this type of bank. Any attempt to charge interest would immediately meet the pressure of competition. Customers would go to the banks which only charged 1 (1%) cost of doing business and the insurance. (Bank interest in general practice is due to the fact that banks have a legal or law-created privilege to charge 5% or 6% or more).
11. "Hoarding" is not objectionable because it cannot curtail the amount of needed currency. Currency can always be obtained on monetizable wealth.
12. Since there is no governmental control of this currency, there is no possibility of bureaucratic tampering or exploitation.
13. Free competition and the possibility of rejecting currency eliminate the possibilities of favoritism, graft, irresponsibility, inefficiency, and incompetence; and the abolition of the *legal* tender privilege will have the effect of good money forcing bad money out of circulation.

Of course there is labor connected with the business of banking. Managers, tellers, bookkeepers, estimators and supplies need to be paid for. In ordinary banking business, this cost runs around one-half of one percent of the amount of "loans" made. Another small item needs to be covered: the loss sustained when the wealth which secures loans is destroyed or depreciates from unavoidable causes. For this another small percent is charged (should never be over one-half of one percent) a sort of mutual insurance. This total of one-percent should be the total cost to the bank's customers. There need or should be no other "interest" charge.

Points to Note in Above Procedure

1. It is not necessary for a bank to have capital of its own.
2. The bank performed its only legitimate function: to insure credit.
3. All money issued in this manner is amply backed, secured and insured.
4. The only sound limit to the volume of credit money is the amount of monetizable wealth in existence, which is hundreds of times more than needed to circulate the wealth in trade.
5. Irrespective of the amount of money issued, *the value of purchasing power of that money remains the same as the standard.* When gold is the standard, no gold need enter into the bank's transactions, but gold must be exchanged on the open market for other commodities in order to determine the values of things in terms of gold.
6. In this system the value of the gold returns to normal because it is stripped of the law-created privilege of being the *sole basis* for the *issue* of money. The money is

a standard of value is to serve as a yardstick for the measurement of values. Beside this it has no other influence on money. The substance of the standard need have no immediate connection with a monetary system.[2]

As long as money is based on wealth and is sufficient in quantity to carry on the necessary exchanges, its value will remain on par with the (unit) standard of value, irrespective of the amount of money in circulation. *The value of credit money is not determined by the amount of money in existence.* It does not follow the law of supply and demand as any money reformers believe. It depends upon the value of the unit used as a standard, and mostly upon the wealth on which it is based and the likelihood of its redemption in that wealth.

Any money is good if it is actually redeemable by its issuer as stated on the note. Many monetary systems today are not based on redeemable wealth, but are based on government debt. They exist only by force of habit because their users do not understand the "system" and its faults. They would collapse if it came to a showdown, if the holders of money asked for redemption. And it is this debt-based or fiat money which governments inflate and devalue, both of which are breaches of contract and partial repudiation of debt. Under these conditions it is difficult to see how even in a partially free economy, financial collapse is not inevitable in many countries today.

> Speaking of the tax which the banker who has a monopoly levies upon all commerce, Bernard Shaw says "Only by the freedom of other financiers to adopt this system and tempt his customers by offering to share the advantage with

[2] Editor's Note: Once a small group of us experimented to learn the essentials of a free money system and used a jar of homemade cold cream as a standard of value. Admittedly this was not "stable," but one member made it available and it was acceptable to all of us for redemption of our scrip money. -M.J.L. [Mildred J. Loomis]

> them, can that advantage be [d]istributed through the community." *Only*, observe. No other method will do it. Government monopoly will not do it. Nothing but laissez-faire, free competition, free money, in short, as far as it goes, pure Anarchism, can abolish interest on money. When Mr. Shaw will apply this principle in all directions, he and his anarchists will stand on one platform.
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> — Benjamin R. Tucker

To illustrate the foregoing points let us imagine ourselves starting an suitable free money system. We must have a duplicating machine or a printing press, a person who can estimate the value of property or "security", a bank toller and a bookkeeper. And we must agree on something as a standard of value, a thing of specific quality and quantity. Suppose we agree on a dollar worth 32.5 ounces of gold. Then we print our money, designating what fraction or multiple of the standard this money is to represent. Our money may read: "Good for one dollar in value, to be ultimately redeemed through the *Waverly Peoples Bank*". Then we are ready to put the money in circulation.

Now the farmer, the merchant, the manufacturer — anyone who has conmoditie: or tangible wealth which he wants to buy or sell — comes to the bank to get money with which to circulate this wealth. We commonly say such person "borrow" of the bank, though this term is really misleading. A bank's customer does not "borrow" money. He merely goes to the bank to have his honesty and reliability verified. The so-called "borrower" of money is really the *issuer* of money. He holds the wealth upon which the money is issued, by which it is secured, and with which the money can be redeemed. Even a property-less person may "borrow" money from the bank provided he has a property owner vouch for his reliability, i.e. sign his note.

Obviously anyone can issue a promissory note in payment for goods, i.e., enter a credit transaction, but his promise could not circulate very far because he is not generally known. Such a note therefore would not be money in the sense of a *generally* circulating medium of exchange. A bank eliminates this difficulty. In the division of labor, the bank assumes the work of determining the reliability of its customers and verifies that reliability by giving them notes, in exchange for the right to confiscate an equivalent part of the pledged property in case the customer should default. This requirement is necessary to protect those who have surrendered goods in exchange for money.

Estimating Value of Security.

A bank customer needing money, to circulate wealth, appears at our bank. Then our bank manager sends our estimator to look over his wealth. The estimator states its value, whereupon the bank agrees to give a loan minus a fraction of its value as a risk premium, a margin of safety determined by experience. Thereupon the exchange is made. The bank gives the bank notes, and the customer gives to the bank the right to take an equivalent portion of the value of his property at the end of the term of loan if he does not return these notes. The money is now in circulation and passes freely from one person to another in exchanging commodities. Eventually the "borrower" finishes his product and sells it on the market. Then he takes the notes to the bank to release his pledge, and *the bank then withdraws this many dollars from circulation.* Meanwhile other persons have "borrowed" and "repaid". Money was issued and withdrawn in response to the normal demands of the needs of trade. Such is the natural course of the issue, circulation and redemption of money. The final redemption of money constitutes a cancellation of pledge or debt.