

ialy knee.

M/K. \$2.50:

Dhananjayrao Gadgil Librar



GIPE-PUNE-010451

100% MONEY

100% MONEY.

Designed to keep checking banks 100% liquid; to prevent inflation and deflation; largely to cure or prevent depressions; and to wipe out much of the National Debt.

By

IRVING FISHER, LL.D.

*Professor of Economics
Yale University*



NEW YORK

An Adelphi Publication

COPYRIGHT 1935
THE ADELPHI COMPANY

X 6
G 5
10451

PRINTED IN THE UNITED STATES OF AMERICA
BY THE VAIL-BALLOU PRESS, INC., BINGHAMTON, N. Y.

CONTENTS.

	PAGE
Preface	vii
Foreword by A BANKER	xv

PART I

A SHORT OUTLINE

CHAPTER

I Summary in Advance	3
II Outline for a Statute	20

PART II

HOW THE 100% SYSTEM WOULD WORK

III The Reserve Problem	27
IV How the 100% System Would Work as to Deposits	52
V How the 100% System Would Work as to Loans	71
VI How Money Management Would Work Under the 100% System	86

PART III

THE SIGNIFICANCE OF THE 100% SYSTEM

CHAPTER	PAGE
VII Booms and Depressions	105
VIII Significance to Business	121
IX Significance to Banking	137
X Unjustified Ideas in Business and Banking	155
XI Significance to Government	183
Appendix I Bibliography	202
Appendix II Comments of Two Bankers	205

PREFACE

The "100% Money" proposal—to raise reserve requirements against checking deposits from 10%, or thereabouts, to 100%—may at first seem startling. But it is an historical fact that, in the earliest days of deposit banking, a 100% reserve was required.

The revival now of this ancient 100% system, with the readjustments demanded by modern conditions, would effectually restrain the monetary inflation and deflation incident to our present system; that is, would actually stop the irresponsible creation and destruction of circulating medium by our thousands of commercial banks which now act like so many private mints. For these and other reasons, the 100% system would be a great boon, even to bankers.

That this is true is recognized by a few bankers who have studied the economic effects of the system under which they now operate and who see that the 100% system would largely save them from great depressions.

Some of these bankers have helped in the preparation of this book. I wish, in particular, to thank Mr. F. R. von Windegger and Mr. W. L. Gregory, President and Vice President, respectively, of the

Plaza Bank of St. Louis. Both of them have read two successive drafts of the manuscript. Though, at first, they were doubtful about the merits of the plan, they have, after further study, endorsed it fully.

I wish also to thank the many other bankers who have read and criticized parts of the manuscript, not all of whom, however, have as yet accepted its conclusions.

Among those bankers who do approve the 100% principle is Mr. George Le Blanc, who was Vice President of the Equitable Trust Company of New York City before its merger with the Chase National Bank, and who, I am informed, was the first man to whom President Wilson offered the Governorship of the Federal Reserve Board. Mr. Robert H. Hemphill, former Credit Manager of the Atlanta Federal Reserve Bank, has, he tells me, advocated the 100% principle for many years. Mr. Hemphill has kindly supplied a foreword to this book, which, with Appendix II, extracts from letters of Mr. von Windegger and Mr. Gregory, should be of special interest to bankers. Likewise Mr. Irving B. Altman, who has had a long banking record in the Federal Reserve, has been in favor of the 100% idea for many years. Mr. Robert D. Kent, formerly President of the Merchants Bank of Passaic, N. J., a bank executive for over fifty years and one who worked out the principles of the Aldrich-Vreeland Act, has long favored stable money and has endorsed the 100% plan.

I am also under obligations to several economists, including especially Professor Henry C. Simons, Mr. Aaron Director, Professor Frank H. Knight, Professor Garfield V. Cox, Professor Lloyd W. Mints, Professor Henry Schultz, Professor Paul H. Douglas, Mr. A. G. Hart, and others, all members of a group at the University of Chicago from whose "memorandum" on the 100% plan I originally obtained many of the ideas embodied in this book. Professor Simons, in particular, has given generously of his time in personal consultation, as well as in going over parts of the manuscript.

Among the many other economic students who have especially helped me, and who are known to favor the 100% principle, are Dr. Lauchlin Currie of Harvard University, now with the Federal Reserve Board, whose recent book, *The Supply and Control of Money in the United States*, has treated of this subject; Mr. H. H. Edmiston, also with the Federal Reserve Board; Mr. Richard A. Lester of Princeton University; Professor Frank D. Graham of Princeton University; Professor John R. Commons of the University of Wisconsin; Professor C. O. Hardy of the Brookings Institution; Professor F. Cyril James of the University of Pennsylvania; Professor Willford I. King of New York University; Mr. Luther A. Harr, Professor of Finance, Pennsylvania University and Secretary of Banking, State of Pennsylvania; Dr. Royal Meeker, formerly Chief of Division of Scientific Methods and Results of the International Labour Office;

Dr. Warren M. Persons, Consulting Economist, formerly Professor in Harvard University; Dr. Robert Eisler, author; Dr. Walter Adriance, formerly of Standard Statistics Company; Ex-Senator Robert L. Owen; Hon. T. Alan Goldsborough; Hon. Wright Patman; Mr. J. Calvin Shumberger, President, Controller's Institute of America and Controller, Lehigh Portland Cement Co.; Mr. Hans R. L. Cohrsen, who assisted me in writing *Stable Money, a History of the Movement*; Mr. Edwin Newdick, Senior Economist of Agricultural Adjustment Administration; Mr. H. B. Brougham, Executive Secretary, Sound Money League; Mr. Robert B. Wolf, Manager, Pulp Division, Weyerhaeuser Timber Co.; Mr. William C. McCreary, President, First National Brands, Inc., Chicago; Mr. Robert W. Pomeroy, investment expert; Mr. Spruille Braden of Parker, Braden and Armstead; Mr. Charles E. Duryea, automobile inventor; Mr. Richard A. Staderman, research student.

In order to get criticism from every angle and to test every feature of the plan by such criticism, this little book has been in preparation for over a year. At one state in its evolution the book was mimeographed and sent to one hundred and fifty persons for criticism. It would therefore be impossible to make complete acknowledgment of all the help received; but among the many whose suggestions have been very helpful are Professor Joseph Schumpeter of Harvard University; Professor G. H. Bousquet of the University of Algiers; Professor Harry

G. Brown of the University of Missouri; Professor Harold L. Reed of Cornell University; Dr. John Bauer, Director, American Public Utilities Bureau; Mr. Frank A. Vanderlip, formerly President of the National City Bank; Colonel Leonard P. Ayres, Cleveland Trust Company; Mr. John R. Stewart, Vice President of the First Wisconsin National Bank of Milwaukee; Mr. Ralph W. Manuel, President of the Marquette National Bank of Minneapolis; Mr. Evans Woolen, formerly President of the Fletcher Trust Company of Indianapolis; Mr. Gibbons Poteet, Cashier of the First National Bank of Roxton, Texas; Mr. Herman Waldeck, Executive Vice President of the Continental Illinois National Bank and Trust Company of Chicago; Mr. Maximilian B. Wellborn, formerly Governor of the Federal Reserve Bank of Atlanta; Dr. W. F. Gephart, Vice President of the First National Bank in St. Louis; Major C. H. Douglas, author; Mr. J. S. Cullinan, retired corporation official; Mr. M. K. Graham, capitalist; Mr. E. L. Wiegand, President, Edwin L. Wiegand Company, Pittsburgh; Mr. Owen D. Young, Chairman, Board of General Electric Company; Mr. Marcus Goodbody, broker; Mr. Grier Hersh, President, York National Bank and Trust Company of York, Pa.; Mr. Michel A. Heilperin; Mr. Ezra Pound, author; Mr. H. S. Gilbertson, Director of Personnel, Lehigh Navigation Coal Co., Judge Philip Troup; Mr. John D. Pearmain; Mr. Gardner Means, Economic Adviser on Finance to the Secretary of Agriculture; Mr. Ralph W. Wes-

cott, Comptroller of Customs, Philadelphia; Mr. Ludwig S. Hellborn; Mr. L. E. Eichelberg; Hon. G. W. Edmonds, Mr. Paul Anderson, Judge George W. Anderson.

I also wish to thank my brother, Herbert W. Fisher, for scrutinizing and helping with the text at all its various stages with a view to clarity of exposition.

Part I summarizes the whole proposal, and many laymen may feel it unnecessary to read the more detailed discussions of Parts II and III. These are primarily designed to meet the possible objections of bankers and of technical students of banking. I have, however, tried everywhere to stress only the principles involved rather than to insist on exact methods for applying them. In many cases alternative methods are suggested. Actually to crystallize the 100% system into law and to combine it with a plan for stabilizing the purchasing power of the dollar will require the attention of those better fitted than I to choose between the available alternatives and to formulate the legal specifications necessary to carry out any detailed plan.

Already several bills have been introduced into Congress to create a 100% reserve system. I refer, in particular, to the bill of Senator Cutting and Congressman Patman, that of Congressman Goldsborough and that of Senator Nye and Congressman Sweeney.

The last named bill has been endorsed in March 1935 by the National Monetary Conference, con-

stituted in January, 1935, and representing 16 organizations, said to embrace half the American electorate.

This book aims to present the subject from as many points of view as possible. The plan is so simple that it can be covered completely in a few pages; but it would affect the present complicated banking structure and its relations to business in so many ways that its very simplicity and its consequent generality and far-reaching character raise a multitude of questions in the minds of those familiar with the present more involved system. For these reasons there is a good deal of intentional repetition and summarizing.

My chief object is to make every possible relationship of the plan so clear that any intelligent and open-minded reader may be fully convinced as to its soundness and practicability. I suggest that my readers, after finishing the book, re-read the first chapter.

The essence of the 100% plan is to make money independent of loans; that is, to divorce money from banking. A purely incidental result would be to make banking safer and more profitable; but by far the most important result would be the prevention of great booms and depressions by ending the chronic inflations and deflations which have ever been the great economic curse of mankind.

Although the idea of a 100% reserve is old and was put in practice centuries ago, it will seem to most people as brand new. One of my correspond-

ents, an authority on banking, says, it is the only "original" idea which this depression has brought forth.

I have come to believe that that plan, properly worked out and applied, is incomparably the best proposal ever offered for speedily and permanently solving the problem of depressions; for it would remove the chief cause of both booms and depressions, namely, the instability of demand deposits, when tied, as they now are, to bank loans.

IRVING FISHER

Yale University
March, 1935

FOREWORD BY A BANKER

To the "man in the street," or to one whose wages, salary or income is paid in currency or coin, banking appears to be a remote subject, in which he can have little direct interest. To such a man it may be a great surprise to read that the amount of his wages, salary or income depends on the total of loans outstanding by the commercial banks of the nation. And yet such is the case.

Certainly this is the most vital question of the moment. You who read this are not buying the things you normally purchase for the very simple reason that you haven't the money. Your friends and acquaintances seem to be in the same boat. What does all this add up to?

If your personal difficulty and that of all the people you know or know of, is lack of money, is it not obvious that the central national difficulty is but the aggregate of the difficulties of all its citizens, that the scarcity of money is our paramount national problem?

We have ample producing and distributing facilities to supply everyone with an abundance of the essentials for a high standard of living, and we are desperately anxious to produce, but we haven't sufficient money to effect the exchange of our goods and services.

It is only in very recent years that we have collected sufficiently accurate data to calculate the amount of money which must be in circulation to make possible a given national income. We find that this ratio is about one to three, and persists at that figure with remarkable constancy, under widely varying conditions.

To bring the significance of this important fact home to you—there must be one dollar in money or some usable substitute in circulation for each three dollars of your annual wages, salary or income, and there must be an additional dollar in circulation for each three dollars of the annual income of every other individual in the nation.

According to my estimates, which are in substantial agreement with those of other students, we had in circulation in 1929 twenty-seven billions of dollars in cash and demand bank deposits, exclusive of an estimated amount employed in stock speculations. Our national income for 1929 was eighty-one billions of dollars. This eighty-one billions was but the total of your wages, salary or income and that of all other individuals in this nation.

In 1932 the volume of currency, coin and bank deposits in circulation had shrunk to approximately sixteen billions of dollars, and our national income had shrunk in precisely the same proportion, to approximately forty-eight billions of dollars, and of course this means that the average personal income had shrunk proportionately.

Currency and coin, issued by the government,

play a minor part in the transaction of our business. The vast majority of our transactions are paid by checks drawn against the demand deposits, or checking accounts, in commercial banks. These deposits are created by the commercial banks and the people who borrow from them. The borrower gives the bank his note and the banker credits the face value of this note as a "deposit" on the books of the bank. Checks drawn against this deposit are charged against the borrower's account and credited to the account of the persons who receive them. This person again "spends" this "deposit" and it continues to circulate through an average of the accounts of twenty-five or more persons or firms per annum. In this way, these book credits operate as a synthetic substitute for money, performing every monetary function.

The total business of the nation is simply the aggregate of the transactions we effect by means of these borrowed credits and of the trifling amount of cold cash that circulates.

Neither the banker nor the borrower ordinarily realize that a loan just completed, is putting into circulation that much new money, or, as our reactionary friends would say, "inflating the currency," by the amount of the loan. Neither the banker nor the borrower ordinarily realizes that he is starting an endless chain of successive transactions which will continue as long as this credit substitute for money remains in circulation.

When a bank loan is paid, someone draws on one

of these deposits to pay it, and of course so much of that deposit goes out of existence, and a train of successive transactions which would otherwise have been made with that portion of that deposit ceases.

If all bank loans were paid, no one would have a bank deposit, and there would not be a dollar of currency or coin in circulation.

This is a staggering thought. We are completely dependent on the commercial banks. Someone has to borrow every dollar we have in circulation, cash or credit. If the banks create ample synthetic money we are prosperous; if not, we starve. We are absolutely without a permanent monetary system.

When one gets a complete grasp upon this picture, the tragic absurdity of our helpless position is almost incredible—but there it is.

If all the 14,500 banks of the nation begin calling their loans simultaneously, the aggregate destruction of this synthetic money is enormous. Almost immediately, practically no one seems to have the normal amount of money to spend. The business of the nation decreases so rapidly that merchants and manufacturers are suddenly compelled to decrease their forces and lower the wages of the remainder. This is a "depression." Its severity depends on how many of these loans are called and paid—how much of our principal money is destroyed by the payment of these loans.

It is a baffling and mysterious disappearance of money—mysterious because, of course, the general public is unaware that the 14,500 banks of the na-

tion are all busily destroying our principal substitute for money—bank deposits.

As the depression deepens, prices and values decline and the banks are forced into further and more drastic efforts to preserve their solvency. Ruthless foreclosure becomes the only doctrine consistent with their self-preservation.

Our statesmen have consistently declined to study this question and provide a sound monetary system, an adequate permanent currency, scientifically calculated to expand consistently with our increasing population and our increasing ability to produce.

Somehow, the intelligent public of this nation must learn the fundamentals of this question. We can no longer depend upon our banking system to furnish all the money we have to do business with. The principal reason this depression continues is that the banks are not lending, and as a result, the money with which to expand business does not exist. It is so simple that business men largely overlook this fundamental situation and continue to search for some economic "fourth dimension" to explain our distressing situation, but there is no mysterious force defeating our efforts to exchange goods and services. We haven't the money nor any substitute in circulation, and that is the essence of the story.

In Professor Fisher's book, he presents in lucid detail the operation of this erratic banking-monetary system, and the obvious remedy. It is the most

important subject intelligent persons can investigate and reflect upon. It is so important that our present civilization may collapse unless it is widely understood and the defects remedied very soon.

It is *your* problem and *mine*.

ROBERT H. HEMPHILL

*Former Credit Manager of the
Federal Reserve Bank of Atlanta*

APPENDIX I

Bibliography

- Joplin, Thomas, *Outlines of a System of Political Economy . . . to suggest a plan for the Management of the Currency*, London, 1823. (See p. 62 and pp. 198 ff.)
- , *Analysis and History of the Currency Question*, London, 1832. (See p. 101.)
- Tellkamp, Johan Ludwig, *Die Prinzipien des Gold- und Bankwesens*, Berlin, 1867, pp. 1867 ff.
- , *Erfordernis voller Metalldeckung der Banknoten*, Berlin, 1873, pp. 23 ff.
- Geyer, Philip Josef, *Theorie und Praxis des Zettelbankwesens*, 2nd ed., Munich, 1874, p. 227.
- von Mises, Ludwig, *Theorie des Geldes und der Umlaufsmittel*, Munich, Dunker & Humblot, 1912, IX, 476 pp.
- Soddy, Frederick, *Wealth, Virtual Wealth and Debt*, New York, E. P. Dutton & Co., 1926, 320 pp. (See p. 198 and p. 298.)
- von Mises, Ludwig, *Geltwertstabilisierung und Konjunkturpolitik*, Jena, Gustav Fischer, 1928. (See p. 81.)
- Hayek, Friedrich A., *Preise und Produktion*, Vienna, Julius Springer, 1931, 124 pp.
- Machlup, Fritz, *Boersenkredit, Industriekredit und Kapitalbildung*, Vienna, Julius Springer, 1931, XI, 220 pp. (See p. 169) No. 2 of Beiträge zur Konjunkturforschung.
- Soddy, Frederick "Wealth, Capital and Money, A Résumé of My Theories." *Economic Forum*, Summer 1933, pp. 291-301.
- Simons, Henry C. and others, "Banking and Currency Reform"; a memorandum (with a supplement and appendix) circulated in mimeographed form, without

- designation of authorship, in November, 1933, 26 pp.
(Editorial), "100 Per Cent. Liquid," *The Wall Street Journal*,
September 20, 1934.
- Fisher, Irving, "100% Liquidity," *The Wall Street Journal*,
October 9, 1934.
(Editorial), "Professor Fisher's Funny Story," *American
Banker*, October 18, 1934.
- Fisher, Irving, "Monetary Cure for Depression," *The Con-
troller* (published by Controllers Institute of America),
October, 1934, Vol. II, No. 11, pp. 155-159, 168.
- Hemphill, Robert H., "Coming Changes in Money and Bank-
ing," *The Magazine of Wall Street*, Nov. 10, 1934, pp.
66-68, 108-9.
- Fisher, Irving, "The '100% System' of Bank Credit," *Ameri-
can Banker*, December 7, 1934.
- Currie, Laughlin, *The Supply and Control of Money in the
United States*, Harvard Economic Studies, Cambridge,
Harvard University Press, 1934, 199 pp.
- Simons, Henry C., *A Positive Program for Laissez Faire: Some
Proposals for a Liberal Economic Policy*. Public Policy
Pamphlet No. 15, Chicago, University of Chicago Press,
1934, pp. 40.
- Soddy, Frederick, *The Rôle of Money*. London. G. Rutledge &
Son, 1934, pp. X, 222.
- Platt, Edmund (Vice President, Marine Midland Corp.,
former Vice-Governor of the Federal Reserve Board),
"100% Banking Reserve Idea," *New York Herald
Tribune*, Jan. 2, 1935.
- Reed, Harold L., A Memorandum on "The 100% Reserve
System" in mimeographed form, January, 1935.
- (News Item), "100% Reserve Plan Developing Strong Sup-
port," *Wall Street Journal*, February 19, 1935.
- (News Item), "Many Withhold Opposition to Present Bank-
ing Bill Lest Legislators Put Forward Measure Requiring
100% Reserves for Demand Deposits," *New York Herald
Tribune*, February 25, 1935.

- Hart, Albert G., "The 'Chicago Plan' of Banking Reform," with comments by Mr. Walker and editorial note, *Review of Economic Studies*, London, February, 1935.
- Gregory, W. L., "Pay Your Debt Mr. Banker," *Mid-Continent Banker*, St. Louis, February, 1935, pp. 12, 13, 24.
- Lester, Richard A., "Check-Book Inflation," *American Scholar*, Winter 1935, Vol. 4, No. 1, pp. 30-40.
- Whittlesey, Charles R., *Banking and the New Deal*, Public Policy Pamphlet No. 16, Chicago, University of Chicago Press, 1935, p. 25.
- Woodlock, Thomas F., "A Few Things Wrong with the '100% Reserve' Plan," *Wall Street Journal*, March 4, 1935.

APPENDIX II

Comments of Two Bankers

The two bankers who first studied the manuscript of this book were Mr. F. R. von Windegger, President, and Mr. W. L. Gregory, Vice-President of the Plaza Bank of St. Louis, St. Louis, Mo. I have their permission to quote the following from their numerous letters:

My first impressions, I think, naturally were to disagree with you on several points, but I would like very much to have an opportunity to think about your plan some more, and if it is not too much of an imposition, I would like to have you send me the draft of your complete manuscript.

* * * *

I ought to tell you that we have always conducted a commercial bank and that our deposits are nearly 90% demand deposits and that we have very little chance of developing a savings business. However, I think you will find that we can give you honest opinions despite this handicap.

* * * *

In my last letter I told you that we would send on our impressions of your plan just as soon as possible. During the interval since we wrote you, Mr. von Windegger and I have thoroughly discussed your 100% System and this letter will represent our joint opinions after we have thrashed out some minor differences that we had. I might say that Mr. von Windegger read the book first and then gave it to me and that we both studied the plan independently until we thought we had it pretty well in mind and not until then did we talk over any part of it. Whether or not we are able to assist you by our remarks, I think you will find that our opinions were honestly

conceived and that they are not now flavored by our selfish point of view. We realize, of course, that any knowledge we might have of this subject would come from experience and that our deficiencies in theory may lessen the value of our opinions. We have tried to avoid raising points which have already been answered by you. Because of the necessity for giving a large part of our time to active operation, we still feel that we have more thinking to do on this subject and we should like to be able to write any future thoughts we have to you at a later date, only on the principle that some of them may be of value to you.

Both of us have largely agreed that the present monetary system and the organization of our banks have been deficient. We have, I think, both approached the problem in the past from the social point of view rather than the economic, and our hopes for correction have largely been in the thought that our existing system should be placed in the hands of more honest administrators and that the evils could be largely overcome with the existing machinery (I think we had hoped that more men of Governor Strong's admitted ability would miraculously appear as saviors of our system.) Not because we were selfish but because we overlooked it, we did not conceive such a system as the 100% System. Realizing that we lived a lie, we did not see the obvious thing that the correcting of this lie would, at the same time, correct most of our evils. From this you will understand that although we were at first reluctant to admit that banks, good and bad, had definitely failed to control their credit system, on deliberation we have finally agreed on practically every major point in your system.

Specifically we realize that check-book money is a part of the circulating medium and as such it should be carefully controlled. Our previous system did not control this circulating medium and to that fact can be ascribed much of the grief we have had. We have long realized that money should be tied to a price level but without seeing the obvious answer that it would have to be divorced from loans. Nevertheless, on this point you are correct and that is the only solution if we are to

properly manage our price structure. I don't believe that we need to confess to you, as president and cashier of a bank that has survived the bank runs of recent years, that the system of inadequate reserves has caused us more than one moment of real concern. It is not easy for a man who considers himself honest, and who tries to be honest, to realize that some day he might not be able to keep his promises to pay in full on demand.

Both Mr. von Windegger and I agree with you thoroughly that the gold standard is an antiquated and unnecessarily troublesome affair. We should long ago have outgrown that particular form of inadequate reserve. We believe that this depression should result in the elimination of the gold standard as an economic factor. Of course we all realize, as you have brought out, that for the moment at least it will be necessary to use the commodity gold in the settlement of international trade balances, and in your Chapter Six you bring out the fact that it would be so used under your plan. We presume that you would insist that the management of gold and the value of the dollar in the foreign exchange market would be a function of your Currency Commission. There is such a relation between a proper internal control and this foreign exchange problem that a division of responsibility would be extremely dangerous. I feel certain that you agree on this point but I am wondering if it would not be worth while to elaborate on this so that there might be no doubt about it in the minds of your readers.

* * * *

You say that the C. C. money would not be fiat because it would be backed by government bonds and notes of the banks. I think I detect here your wish to avoid an issue with those who dislike fiat money. Of course I understand the political value of that position. I believe however that you would not be any more afraid of fiat money than we would be, always provided that the money was based on a price level and that only a sufficient amount of money would be permitted in circulation to take care of the needs of the people as a medium of exchange. Ultimately, of course, with the retirement of our

government debt, our C. C. would become largely an unsecured currency. Please understand that neither Mr. von Windegger nor myself are alarmed by this prospect; certainly not if a properly constituted Commission, operating on a price level basis, would regulate the amount in circulation.

And so it seems that we are not as useful as we hoped to be. Our usefulness would become apparent when we could pick some definite flaws in the 100% System and call these flaws to your attention so that you could correct them. Perhaps we are too much in agreement with you to be of real value. There are a number of details in the practical operation of the system which we believe might require some attention and from this point on we shall concern ourselves with these definite matters.

* * * *

You have suggested that the Commission might purchase the good will of the commercial bank by paying a profit to that bank for the handling of C. C. I far prefer your other alternative of having the bank obtain reimbursement by direct service charge to the customers. This suggestion is made for the reason that we in the banks know how greatly our depositors differ in the use they make of their accounts and in the trouble they cause the bank. Such particular cases as checks drawn against uncollected funds, and the carrying of small balances against an active account, could best be corrected by the service charge. I think justice would be done to all customers if the checking function were handled on a cost plus basis, the charge to be assessed against the individual making use of the service.

In chapter eight, in which you discuss the "Relation to Business," we are in agreement with you. We are sure that you are correct on the matter of interest and agree that, subject to the proper direction of a Commission, as indicated above, we would have a free market for loans which would permit interest rates to serve their real function. . . . We do think it would be of benefit in presenting your plan to elaborate somewhat on the manner in which the 100% System would,

to a great extent, smooth out the business cycle. This would, in our opinion, be the major contribution of your plan to business. Of course in making this suggestion we are always thinking of your average reader. We do not have the low opinion of the average American that is responsible for the output in our movie industry but we do know from everyday contacts that we have to cover even obvious points very carefully.

. . . both Mr. Gregory and myself have a very vital interest in your "100% Book," and would appreciate some word from you regarding its progress.

* * * *

Of course, we realize that the 100% System, upsetting as it does banking practice which has been in vogue since the days of the goldsmiths, is so very revolutionary that a mere mention of it will scare some of the old reactionary financial men into "Fits"; but to us here the basis of it seems so simple and practical that we would at least like to see it brought out into the open for discussion, backed by an explanation from its author.

I took the book home with me and Sunday night finished the "3rd reading." Mr. Gregory took it last night and will most likely finish it by the end of the week. We will then write you another joint letter.

* * * *

"Stable Money" proved to be a very interesting and illuminating book. I congratulate you on your clear, precise and non-technical style. Any thinking man should be able to understand it, and I cannot appreciate why anybody reading it should not be convinced. With a few minor exceptions, which we have noted on the margin of your manuscript, I think the same thing holds true of the "100%" book.

I happen to be the head of the local chapter of the Robert Morris Associates this year, and intend to devote one evening to the subject of "Stable Money" and possibly later another eve-

ning to your "100% System." It is surprising to me how little bankers know of the fundamentals of their own business; also how "hide-bound" they are in their opinions.

Last winter — gave a talk before the Round Table Club on the subject of "Sound Money." His weird climax, which was a cry of "Back to gold—*back to gold*—BACK TO GOLD," reminded me very much of the story of the preachers who used to meet every Monday in Atlanta, Georgia, to argue questions of theology. At one of these meetings the Methodist was dogmatically holding forth, "I think so and so, and I think so and so, and I think so and so." The Baptist preacher said, "Brother, when you say you think so and so, and you think so and so, and you think so and so, you're not thinking at all, you're merely rearranging your prejudices."

* * * *

The method in this case is the same which we followed before. We have each read the manuscript and have then discussed the points which occurred to us individually.

* * * *

Mr. von Windegger thinks that the average reader who is not familiar with the manner in which savings are converted into property rights will jump to the conclusion that there are not sufficient savings deposits in the country to take care of the volume of loans existing at the time that the Currency Commission would begin to function. Of course we both, Mr. von Windegger and I, have understood thoroughly your explanation of the matter, but he still feels that some additional emphasis might be put on this point for the benefit of the reader who may be in possession of the Federal Reserve figures but either through laziness or inability, would not think the matter through to its conclusion.

* * * *

I wonder if it would be worth while in your book to emphasize again for the sake of the public, the fact that money or any other agent which becomes a medium of exchange is sim-

ply a convenience to bridge the barter gap, rather than an item of wealth. So long as people look upon money itself as wealth, they seem to want to tie money to some commodity, such as gold, and furthermore in periods of depression they want to convert all of their real wealth into the medium of exchange. Simply because money is used as a measure of wealth, they look upon money as the very highest form of wealth. Can we convince people, or would you want to, that money is a convenient carriage for the exchange of real wealth and that in itself it has no other value? Such a concept of money would make stamp scrip, mentioned on page 67, unnecessary and I think I have already said to you that I am sure it is not necessary to a properly managed monetary system, because an increase in the amount of paper money would accomplish the same thing.

* * * *

Both Mr. von Windegger and I were impressed with the improvement made over the first manuscript that you permitted us to read. We were particularly pleased with Chapter Eight. We notice the statement made in two or three places that the 100% System could be instituted without a managed currency. Since we have been reading and thinking about your 100% plan, we have become so thoroughly converted to the plan used in conjunction with the managed currency, that we must here express the hope that you do not permit these two things to be divorced.

* * * *

We hope that you will be able to overcome the ignorance and prejudice with which it will certainly be greeted upon its appearance in book form. We both feel that the matter contained in the book has been presented in a concise and forceful way and in language that is easily understandable. We hold little hope that you will sell the majority of our brother bankers, but we feel certain that no matter how sterile the ground may be, that some of the seeds will sprout.

If you reach the point where you believe that we can help you convey the message to our part of the country through the group contacts that we have, we shall be glad to have you give us permission to attempt to explain your System.