

THE NEWS OFFICE

FRANKLIN FORD, DIRECTOR

EDUCATIONAL DIVISION

NEW YORK LIFE BUILDING, 346 BROADWAY

TELEPHONE 9561 FRANKLIN



NEW YORK February 17, 1909.

Dr. Nicholas Murray Butler,
Columbia University, New York.
Dear Sir:

A friend has drawn my attention to a review of your recent book, 'The American as He Is,' in the London Spectator of January 30th. In the quotation given you say:

"Great, therefore, as is the unifying and uniting influence of the government of the United States, its policies and its activities, the unifying and uniting forces and influences outside of the government are more numerous and more powerful still. They are educational, social and economic, and they are ceaselessly and tirelessly at work."

You also indicate that in America the words 'governmental' and 'public' are no longer interchangeable.

It may not have occurred to you that the forces of which you take account have been developing a new and revolutionary government. Do you not perceive that the Industrial State, long held in a language of metaphor, is at last presenting itself in America on the plane of fact, and that its regulating centres are forming independently of the inherited or Military State? In short, that a fundamental alteration in the social constitution must soon come to general recognition. Consider the astonishing disclosure that while the talk on all sides is of extending the control of the Washington government, the actual development in commerce is in the opposite direction. Take the single example of effective control over the money or credit system which has passed from Washington never to return, all real power being now lodged in the Bank Clearing House, allowance being made for possible appeal to the Courts.

The general government of the Industrial State is comprised in the News System and the Credit System, the operating or main centre of the former being the rising News Office and of the latter the Bank Clearing House. The two centres are co-ordinate or on the same level though it will be readily admitted that no two functions can be absolutely on one level, as, were this true, the principle of division of labor could not obtain, and motion would be impossible. In this case the primacy is with the news organization, per se; that is, the power is on the side of the governing Fact. Yet neither centre can act without deferring to the other, as each is independent in its peculiar sphere. On the one hand, the Credit System cannot act save in the light of the directing fact which it receives from the News System, while, on the other hand, the News System can act freely only on the authority of a credit

which is granted by the nearest banking centre. Moreover, the credit cannot be made save on a showing of evidence that it will be returned on the date named in the bond.

Even now, the organs of commerce, or the divisions of labor in the American State, are making new political maps regardless of the old state lines; that is to say, the News System, the Credit System, the Transportation System, the Telephone and Telegraph Organization, the Insurance Exchange, and other branches of trade and industry, have found it necessary to district the country on organic lines for the purpose of commercial regulation. It all means that the national regulation of commerce is proceeding, in whole and in part, without reference to the Washington government.

Evidence abounds that the prevailing idea of government continues to be the arbitrary will, and this in spite of the much vaunted reign of law. The customary thought is that the only possible correction of real or imaginary commercial abuses lies in setting the police power over against the supposedly arbitrary rule of the corporations. Despite all sorts of investigations hereabouts, save the pursuit of the whole truth, there is little or no recognition that true direction or control must turn upon the compelling Fact. In the main, we encounter everywhere the erroneous and hurtful idea of sovereignty which was elaborated by Austin; that is, the King rather than the Individual is still regarded as the one and only governing centre in the State, and this whether the monarch be hereditary or elective. Here is President Roosevelt, and after him Judge Taft, vainly trying to carry us back to the methods of the Tudors in England as means to an improved regulation of commerce.

But, reversing the picture, it is perceived that government through the new industrial organs (e. g. the Railway Traffic Association) is constantly under the necessity of being right; that is, the decrees, say, of the Bank Clearing House to be enforceable, must tally with reality. Was ever government so limited?

I would have you note that the potentiality of the money or accounting relationship in society, regarded as an instrument of government, is infinite, and this whether as to rewards or punishments; yet the accepted books on Jurisprudence take no account whatever of this universal and mighty truth. As I read the facts, the real or effectual coercive force (police power) in the region of Contract is the Credit System, since a denial of credit is social death.

I have discovered that one has to stare at the Fact for long in order to see once clearly what the orthodox Jurisprudence of the world has forbidden us to see at all.

A far-reaching, in fact revolutionary, social change is pending, being no less than the appearance of an organic banking system as function of the whole in the political body. It means the end of the 'private' capitalistic regime as historically understood, and all due

to the further progress in communication so far as relates to the immediate influence. Under the new regime, private credit will no longer be able to get a profit through 'money lending' as the entire business will be done by the bank centres at a uniform and comparatively trivial rate of interest. It is impossible to convey to you, though I were to write all day, the social amelioration that will result from this change; it will break through from a centre and reach every nook and corner of life.

The bank check has become the standard money of American commerce, money being seen as any instrument for transferring credit and varying as to its universality. In this light, the mint appears as a credit institution where one commodity--gold--has an absolute market. The Organic Bank certifies credit without having to save 'money' therefor; as example, note the action of the New York Bank Clearing House in October-November, 1907. Credits were registered and certified during the panic to the extent of \$100,000,000 at New York alone, and this without using any saved-up money for the purpose. Confessedly, the bankers had no 'money,' so they proceeded to make new money in the course of the transactions under the name of clearing house certificates. The Bank Clearing House has now original jurisdiction in money matters.

In America more particularly, the industrial organization is nearing the point where the large credits needed must be made by the bank clearing houses acting as organs of society as a whole. The system of production is moving forward on organic lines (recognizably so I mean, as the movement was always organic in point of principle) while the credit-making machinery has remained individualist, and the social necessity demands that the antithesis be done away with. The producing system has come to be at war, in fact, with the methods of exchange.

The new, organic, public Credit System is to displace the inherited individualist bank organization because the former is the more highly organized machine. The received system of private capital will give way just as the stage-coach receded before the locomotive. The old system will go into liquidation; it cannot be displaced suddenly since modern civilization is integral with the existing stock-and-bond structure. A social debt of large proportions has accrued in favor of the capitalist class, which has had the direction of production for, say, the last four hundred years. A new political or governing class is appearing in an order of men who have the scientific habit of mind; the new banker, for example, is to be the master accountant. The unified banking system is the apotheosis of the Morgans and the Stillmans. All credits will be made through the bank centres after the manner of the clearing-house registration in the Fall of 1907.

The Bank Clearing House is taking the place of the Stock Exchange.

To the general consciousness, and for that matter the world of business as well, the economic relation in society has not changed essentially since the invention of gunpowder, yet a revolution in this

respect is now impending. And the matter is so simple and clear that were it to be communicated by authority the news would spread like wild-fire and become almost at once a popular conviction, since everybody is interested in the money question. Besides, it is not commonly understood that under modern communication all parts of the social body are in the closest touch with each other, either directly or through centres; that is, a sensation received at any one point is instantly felt at every other point.

It is true that the so-called money economy long ago displaced the regime of personal service and payments in kind peculiar to the feudalism of the Landlord, and that slavery gradually passed into the modern wage system, but nevertheless the fact remains that, from the central viewpoint, no radical change in the economic relation has taken place. To obtain a large credit 'securitities' have still to be peddled to Tom, Dick and Harry.

Schmoller, the German economist, helped me to understand that the constant progress of civilization has been toward greater and greater economic unities, each taking the place of a passing individualist system. At last, the mediaeval or individualist exchange system is to pass under the rod, and the sooner the alteration is brought to consciousness the better as an infinite development in commercial or social co-operation is waiting on the revolution.

The conduct of exchanges through the intervention of money and progress in division of labor have moved parallel with each other, the one being everywhere necessary to the other. In fact, progress in freedom of exchange and co-operation through division of labor are but two readings of the one social movement. Again, in modern society production never outruns facilities of exchange, while, on the other hand, a breakdown in the exchange system halts all progress on the side of the producing interests. Free exchange and the mobility of property are one and the same thing.

Under separate cover, I am sending certain printed papers which should have interest for you. Two of them are copies of certain Bank News Bulletins which I issued through the Credit Office just before and during the panic of 1907. In the issue of December 4th I have marked a memorandum on the Future of Social Organization. You are welcome to keep the printed papers.

With this, I beg to enclose a letter received last year from one of my fellow students, Justice O. W. Holmes of the U. S. Supreme Court. Please return the letter.

Very truly yours,

Franklin J. M.