He's Got the Whole World in His Hands

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This is a story of conflict between two cultures started more than a century ago. That conflict is on-going, sustained in our times by fundamental beliefs and the impassioned mythology arising, perhaps, with the maturation of the Roman Empire.

It is the ideological conflict between the self-reliant "citizen farmer" (Cincinnatus, Thomas Jefferson, or Curt Flood) and organized power (Julius Caesar, Alexander Hamilton, or Major League Baseball).

To begin, recall the legend of Cincinnatus. A wealthy farmer, he twice became Dictator of the Roman Republic to suppress uprisings by lesser persons seeking codification of rules and regulations. After his military victories, Cincinnatus chose not to be the Roman strongman, but instead returned to his farm.

Thus was civic virtue defined. No term limits for the virtuous man. No term limits for George Washington. Two terms and you're out. Back to Mt. Vernon, to the farm and to the slaves. The simple life was embroidered by service to the state, but grounded in the land.

In our country, Thomas Jefferson serves as a role model. A learned gentleman with exquisite taste and creative practicality.

In early 19th century America, opportunities for farmers and merchants were plentiful. Citizens could see themselves as a strong, independent breed whose parents stood up to tyranny. In time, by their own sweat, battling forests and natives, disease and distance, they met their fate. As the dream fades, they discover they do not possess the wealth, reputation, or honor previously anticipated. Cincinnatus and Jefferson both ended life without great wealth, their assets limited to their land and the color of their skin.

Julius Caesar and Alexander Hamilton were both killed by enemies. They both stood for a centralized power dominating small centers of importance. Caesar favored military control and Hamilton financial control. Their concepts were based on a belief in the virtues of limited independence.

<u>The entrepreneur vs the corporation</u>

The entrepreneurial portions of society, the farmer and the mechanic, would come to be seen as wasteful with ruinous competition, over-production, and unstable, downward trending prices.

By contrast, the stock corporation and the trusts, with professional management, could avoid inefficient competition, excessive production, and assure steady-to-moderately rising prices.

Into this arena of clashing configurations came the labor unions representing the disenchanted workers. This essential part of production was populated by people who saw themselves as journeymen on their way to being honored craftsmen. But these workers also saw that the corporate structure promised a new route to success.

Instead of being a solitary worker facing a corporation with multifaceted professional capabilities (for example, lawyers and accountants), the union offered solidarity, resources, and structure to combat the company, as well as a hierarchy through which one could advance.

To make life more complicated, in 1886, the U.S. Supreme Court ruled that corporations had rights to equal protection under the 14th Amendment as if they were natural persons. However, the corporation simplified the succession of ownership and hence enjoyed perpetual existence.

In our own day, corporations gained the right to sponsor political candidates and causes as free speech. Now these legal entities, soulless inventions of man, could stand beside man or even in front of him.

We continue in an era of conflict between the idealized, independent entrepreneur (the kindly country doctor) and the upwardly mobile "wage slave," (the doctor under contract to a hospital). This is not only a battle among men with separate visions of the economic world; it is also an internal struggle for identity within the souls of men.

Money matters

Economies of scale, particularly the railroads, made products less costly, but required funding beyond the resources of individual workers. Most workers did not have savings to buy superior equipment. Even aggregating the savings of family and friends did not provide enough to build a canal or railroad. Most workers did not have the education or training to understand the workings of machinery and could not afford the necessary expertise of others.

Corporations, however, could aggregate the savings of many persons by offering partial ownership though the sale of stock and accepting debt with loans and bonds from banks and other financial intermediaries.

As corporations grew, as the stock market and the banks increased in importance, as the threads of business became more intertwined, so did the role of the federal government grow. The commerce clause of the Constitution (Article 1 Section 8) invites regulation of trade and of the entities engaged in interstate commerce. The canals and the rails enabled interstate commerce on an increasingly large scale.

Trade is facilitated by standards and regulations. A yard of cotton is easier to sell, if the parties agree on a yard being 36 inches. So too is trade simplified if the buyer and the seller agree on the value of the currency exchanged.

What gives value to currency? Acceptance.

My chicken is not as readily accepted as my check. Cash is even more acceptable and now credit cards have replaced cash in most transactions.

But what stands behind that money? Chickens? Their eggs? Geese or their golden eggs?

For centuries, gold has been the fundamental monetary base. The value of gold, its current price, fluctuates with the volume of trade and the security felt by its owners. The more insecure, as in war or the breakdown of civil authority, the higher the value of gold and the greater the effort (cost) of keeping it secure.

In addition, gold is a metal with inherent properties useful in the production of goods, as fillings in a tooth, the ring on a finger, and the necklace worn by an athlete. It is, relative to other durable materials, scarce. Gold is an international mark of wealth and status.. It is even reported, but still unconfirmed, as the material from which the Gates of Heaven are made.

The elasticity of money

If the volume of trade increases as an economy grows, but the amount of money in circulation does not increase accordingly because the amount of gold in hand is limited, then the money supply is said to be inelastic.

Imagine an economy with a fixed amount of money. Now let the industries of the nation become more productive. There are more goods for sale than previously. Competition to sell the output will drive down prices.

You could now buy two beers with the same amount of money as you did before. Who gains from that? People with money. Who loses? People who own beer and people who owe money, because they are giving up two beers rather than one to repay their debt. We call it deflation.

With deflation there is less incentive to invest, to increase productivity, to expand employment. The gold standard did, as William Jennings Bryan claimed, "crucify man on a cross of gold."

A supplement to the gold standard was the "real bills doctrine." It was the practice of banks to make short-term loans on the basis of goods already produced for which payment was expected soon. Think of furniture made in Indiana and shipped to New England. Payment might be due upon arrival. Yet to buy more wood and employ labor for the next shipment, the manufacturer needs money now.

The goods were real. The loan was a low risk and could be listed by the bank as an asset. This practice increased the money supply, maintained a higher level of economic activity and kept prices from falling. Small banks, particularly in the Midwest, where manufacturing was developing rapidly, loved it. It made money elastic, expanding and contracting with commerce.

Big banks on the East Coast opposed the "real bills doctrine." It meant money was lent on short-term commercial paper at lower rates of interest than could be had with longer term loans (bonds) for railroads. The big banks were invested in railroads. Big bankers were on the boards of railroads. Long-term loans supported railroad mergers and the conversion of large corporations into mega-corporations or trusts (steel, oil, rail, electricity, telephone service, and sugar).

Small enterprises, run by their founders, had been the champions of gold because it offered safety for their businesses, their families, their communities. But they began to switch to elastic money as they became dependent on the railroads that offered wider trade markets.

Big businesses, corporations, did not live such precarious lives from shipment to shipment, crop to crop. As they gained economic power, they relied less on the "real bills doctrine" and valued the more inelastic gold standard.

Where the entrepreneur wanted to protect his capital, the corporate investor wanted to maximize his return.

The culture war of the "self-made man" vs the "corporate man," was being fought over the control of the money supply. The elections of 1896 and 1900, where McKinley twice beat Bryan, were battles in that conflict.

The Indianapolis Connection

As soon as William McKinley of Ohio won the presidency in 1896, backers of the gold standard went to work on "reform" of the monetary system. The demand for including silver in the monetary base had been defeated. Now the forces of J.P. Morgan and John D. Rockefeller saw their opportunity.

They adopted a program based on gold, but supporting the elasticity of money, inelasticity being a fault in the gold standard they understood full well. Now they wanted that elasticity, however, to be lodged in the control of a central bank run by bankers and for bankers, removed from political pressure.

To move in that direction, they needed wide-spread support from the traditional Jeffersonians who stood opposed to the Hamiltonian central bank. Where better to organize the movement than Indianapolis, in the heart of the Midwest, and who better than Hugh Henry Hanna, president of the Atlas Engine Works of Indianapolis. (I could find no family connection between Mark Hanna, McKinley's mentor, and Hugh Hanna.)

The Hoosier Hanna wrote a memo just after the election in November 1896 to the Indianapolis Board of Trade encouraging Indiana to lead the currency reform movement. By December 1, 1896, the Indianapolis Monetary Conference met with representatives from Boards of Trade in 12 Midwestern cities. That meeting then issued a call for delegates to a Monetary Convention in Indianapolis on January 12, 1897.

The response was significant. Twenty-six states and the District of Columbia attended. It was to be a convention of businessmen, academics, and grassroots citizens. It turned out to be bankers and their close associates. The presiding officer was the Law School Dean at the University of Pennsylvania who, by co-incidence, was a member of the finance committee of Morgan's Pennsylvania Railroad.

Hugh Hanna was named Chairman of the Executive Committee on the second day, empowered to appoint the members for that committee, which was itself empowered to act for the Convention after all the delegates went home.

The Convention called for the appointment of a Congressional Monetary Commission and McKinley, in July 1897, urged Congress to form a national monetary commission. When the Senate did not support such a commission, the Executive Committee of the Indianapolis Convention, in August 1897, selected its own Indianapolis Monetary Commission.

[Are you following? The Indianapolis Monetary Conference begat the Convention that begat an Executive Committee which gave immaculate birth to a Commission.]

This Commission then raised $50,000, opened an office in Washington in mid-September and promptly sent a detailed questionnaire to hundreds of monetary "experts". This ploy allowed the Commission to claim its recommendations for monetary reform were the views of a national panel of experts. As such they were published nationally in newspapers.

Next came the Second Indianapolis Monetary Convention in January 1898 with 486 delegates representing 31 states. This gathering had more business representation, although the prominent academic economists who attended were each representing Chambers of Commerce. These economists were all advocates of the gold standard, except when "the needs of business" indicated expansion by the central bank.

Birth of the Bank

In 1901, the Secretary of the Treasury endorsed the concept of a federal central bank. Thomas Jefferson and Andrew Jackson must have turned violently in their respective graves while Alexander Hamilton started to sing in hip-hop.

Thereafter, in Congress the contest over the gold standard was largely forgotten. The question for debate: Should the power to expand and contract the money supply be vested in the hands of a central bank?

It took another banking crisis in 1907 before the matter was settled. The lack of a central resource to protect the banks from insolvency put the onus of response once more on J.P. Morgan and friends, making the flaws of unregulated capitalism more apparent. Theodore Roosevelt and his forces had made great strides politically in advancing the interests of workers and consumers. Wise observers understood government regulation protected corporations better than the market alone could.

The idea of a central bank, nonetheless, was difficult to sell. The Federal Reserve Bank, would not be a government agency subject to the Treasury. It would be an independent agency with regional banks, capitalized by the reserves of member banks, and be governed by a Board comprised of the presidents of those regional banks.

The Chairman of the Bank would be nominated by the President to the Board of Governors.

Following that banking crisis in 1907, the Congress regained interest in the Indianapolis Monetary Commission’s recommendations. They were incorporated into the Act that was strenuously debated, but passed in December 1913.

“An Act to provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes”

The world as we know it

The Federal Reserve has been an observer when it could have been a full-fledged partner influencing the national and regional economies.

After World War I, the Fed failed to direct resources into the economy. With the sharp decrease in federal expenditures for the war, the Fed did little to make funds available to farmers and others who had prospered during the war. For much of the nation, the postwar period was not short skirts, bobbed hair and the Charleston. It was a short depression and a long disruption of economic relationships brought on by the auto, the truck, the radio, and massive population movements from the farms.

As the ‘20s progressed, keen observers saw the stock market bubble a year before it burst in October 1929. High ranking bank representatives from the U.S., the U.K. and France had met to agree on a strategy for the coming crisis. When the bubble did burst, the Central Banks followed that stagnant strategy which did little or nothing to slow or alleviate the serious hardships of the ‘30s.

Today in 2019, the consequences of the massive 2007-09 breakdown in the banking industry are still with us.. Although some blame the housing industry, it was the financial services industry that invented the means of failure.

All the home builders and buyers did was soak in the money poured on them by the lenders. It was bankers who bought and sold mixed-and-matched good-and-weak loans and thereby encouraged the making of weak loans. When the value of assets cannot be determined, wishful thinking replaces prudent opinion.

In response to the Great Recession, the Fed acted responsibly. It went beyond lowering nominal interest rates close to zero. Under the guidance of Chairman Bernanke, the Fed bought discredited assets from the banks and insurance companies. This action restored the balance sheets of lenders, substituting cash (or reserves at the Fed) for "troubled assets."

Many voices proclaimed these unprecedented actions as unwise. But, with some exceptions, the major banking institutions and the industry was made healthier. The Fed had done its job: it protected the banks.

Just as the farmers were victimized in the 1920s, the home owners of 21st Century took the brunt of the Fed's neglect and Congressional indifference..

Today, the Fed is mandated to guard against inflation and unemployment. It does not have the powers to do that.

Today, the Fed is expected to minimize fluctuations in the value of the dollar. It does not have the powers to do that.

Today, the Chairman of the Fed is presumed responsible for the economic health of all nations, as if

"He's got the whole world in His hands."

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