

Economic Security Associates

Room 514 217 Broadway
New York City

Jan 12 1935

Lewis L. Baxter
Executive Secretary

Hon. Charles Evans Hughes,
The United States Supreme Court,
Washington, D. C.

Dear Sir:

It is my hope that the potential value of this communication will be recognized by your secretary, to insure its receiving your personal attention. I know nothing of the proprieties regarding addressing unsolicited communications to members of the supreme court regarding matters before it for decision. Common sense tells me, however, that such members have access to all available sources of general information; and I can see no reason why a citizen, possessed of certain specific knowledge not generally available and pertinent to a case, should not volunteer it for what it may be worth. In this particular instance I do not see how this particular subject can be adequately analysed in the absence of the concept which, as a matter of patriotism, I propose to supply.

Apparently the defense justifies the repudiation of the nation's promise to discharge certain existing obligations in dollars of a stated weight and fineness largely on the grounds of expediency, rather than abstract justice. And if our highest court approves such action, as I view it, it can only be because it too concedes that the emergency was of such nature that such repudiation was imperative.

I will not take space to quote the statements of the attorney general which are underscored in the enclosed clipping; and need only to point out that "supreme necessity" is cited as justification for an act designed to stop "the terrible consequences of deflation". My claim is that such consequences might have been counteracted in an entirely legal manner that penalized no one, and would have been had those in control understood the fundamental cause of the condition of acute deflation which existed and had been, as a result of possession of such knowledge, in a position to remove such cause. In ignorance of the true nature of such underlying cause, and acting upon the advice of theorists also groping in the dark, an abortive effort was made to restore an abstractly-deflated price level and render debts more tolerable by reducing the size of the accustomed unit of value.

The apparently-inflated value of gold, and actually-deflated value of wealth in other than liquid form, were the inevitable effects of the working of the fundamental economic law of supply and demand; and only that. On one side of the equation we have a condition of an abnormal demand for liquidity and a sub-normal supply of the liquid medium of exchange -- mainly so-called "credit money". With values of all tangible wealth declining and a general effort being made to liquidate all holdings before the decline further progressed, the calling of loans as collateral values declined tended to make the available supply of money least when the

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demand for same was greatest. This meant a “scarcity premium” for wealth in liquid form, including gold.

The required remedy, obviously, was to increase the available supply of the medium of exchange itself -- a need since recognized, and supplied by expansion of credit through governmental borrowing.

But that is only one side of the picture -- and something quite generally understood. Far more important is a view of the other side from a proper vantage point of understanding. Tangible wealth, other than gold and promises to provide gold upon demand, consists mainly of what might be called crystalized human labor, manual and mental. Coincident with a condition in the realm of finance tending to put the market value of gold up and of everything else down, there prevailed a situation in the industrial realm tending greatly to accentuate the disparity. Abstract human productive ability was being offered in an entirely inadequate “buyers’ market” for whatever it would bring, with its value adversely influenced by a huge unmarketable over-supply. And when the market value of the very basis of all values is deflated by supply in excess of effective demand, all that human effort is producing, can produce, and has produced, must be priced accordingly.

The required remedy, obviously, was to increase the effective demand for human productive energy; as the supply cannot well be restricted.

Had these two required correctives been intelligently and adequately applied, the disparity between the value of gold expressed in terms of other things, and of other things expressed in terms of gold, would promptly have been corrected. Parrot-like claims to the contrary notwithstanding, a dollar of constant purchasing power is in no sense a dollar of stable value, and any successful effort made to keep purchasing power fairly constant in the face of varying relationships between supply of and demand for money, and supply of and demand for abstract or pre-natal tangible wealth, would be an effort to vary the value of the dollar in step with a price-level that was changing abstractly, for very definite and easily grasped causes.

I enclose a short paper filed last September with the President’s Committee on Economic Security, in which this thesis is developed. But as such paper was never published widely, I consider the writing of this communication calling it to your attention, the discharge of a patriotic duty.

Respectfully submitted,

Louis L. Baxter