Germans were then strong in Italy, the German equivalent word, *bank*, came to be used alongside of it and instead of it. It meant this common contribution of the citizens to the wants of the State, represented by the mass of the certificates, and came to be applied also to the *place* where the commissioners paid the interest and transferred the shares. Two other such loans were contracted there afterwards, and an English writer, in 1646, quoted by Macleod, speaks of the "*three bankes of Venice*," meaning these three public debts, including the evidences of them and the place where they were managed.

The Bank of England also was in its origin in 1694 an incorporation of those persons willing to subscribe to a public loan in time of stress, as "The Governer and Company of the Bank of England." The subscribers to a loan of £1,200,000 became an association, or bank, on the condition that the Government should pay interest to the lenders at 8% annually, and also £4000 a year in addition for the management of the bank, that is, of this debt of £1,200,000 which was the sole capital stock of the new Company, which was authorized to issue an equivalent amount of bank bills to circulate as money. The capital stock was of no use, so far as redeeming these bills was concerned, the stockholders must furnish other money for that purpose besides what they have loaned to the State, but the ownership of so much of the public debt divided among the shareholders, made the Bank respectable, and tended to give public credit to its bills, which at first were paid promptly in coin on demand, and thus the Bank, by increasing the volume of money and by showing confidence in the stability of the State, strengthened the revolutionary position of William and Mary, and consequently the Whigs were the friends and the Jacobites the enemies of the Bank. This function of issuing bills or promissory



notes designed to circulate as money, thus begun and still continued by the Bank of England, is much less important in modern banking than the other two functions of receiving Deposits and making Discounts, but it was the function on which the turn began to be made from the older to the newer modes of Banking. All that is needful to be said on this tertiary or money-issuing function of Banks has been already urged under the last head.

The two Banks of the United States in succession, as they were more or less modelled after the Bank of England, gave the same prominence to the function of issuing paper money, under the belief that government bonds afford the best security for the redemption of bank bills, an idea that underlies our present system of National Banks also; and, moreover, those two great banks began to teach the people of the United States something of the mysteries of *Deposit-banking*, the point that we have now in hand. One-fifth of the capital stock of the first Bank, $2,000,000 out of $10,000,000, was subscribed by the national Government; and besides, the proceeds of the national taxes as they were paid in were passed over to the Bank as *Deposits*, that is to say, the Bank bought this money of the Government, paying for it with a Credit; and then properly used the money as its own in paying expenses and in discounting paper. Bank deposits do not belong to the depositors, but to the bank; which has thus bought money with credit; and when Andrew Jackson suddenly removed from the second Bank of the United States the national moneys deposited there, and placed them "in the custody," as he expressed it, of certain selected State banks, these amounted at the moment to $10,000,000, and the discount line resting in part on these deposits was at the time over $60,000,000, he removed them under a strong misapprehension *of the nature of such* *deposits;* and their *removal* affected credit, and disarranged business to a remarkable degree, and caused intense excitement all over the Union. Depositing those national moneys with the Bank was a *trade* between the Government and the Bank for the time being. The Government took in return for the moneys a Right to demand of the Bank in future by cheque or otherwise sums at its convenience to the aggregate of the sums deposited; the moneys became the property of the Bank to be used at its discretion in its ordinary business; the Government took its return-service for the moneys in a Credit, that is, a right to draw out at its convenience in the future corresponding sums; there was a commercial understanding in that case between the Government and the Bank underlying the buying and selling involved in the Deposit, as there always is between depositors and their banks; the banks are always bound to order their business in such a way as to be able to respond to every depositor's call for money, when it comes; but banks in general find practically that a cash reserve of one-third of their Deposits is ample to answer the current demands of their depositors, and the remaining two-thirds may be safely used in discounting short-time commercial paper to their own profit; Deposits, accordingly, are not placed "in the custody" of the banks receiving them; they are really bought by the banks of their customers, who receive in return certain privileges and credits that they prefer to the "custody" of their own moneys; and under these general motives on both sides, there has grown up in all commercial countries an immense line of Bank Deposits so-called, and perhaps we may say that the principal function of banks at present is to buy these deposits with their Credit, and then to handle them in further operations to the convenience of their customers and to their own gain.



Under our present national banking system the Government is still a depositor of public moneys in some of the banks designated as "depositaries." At the close of the fiscal year, 1888, there were 290 of such depositary national banks, and the Treasurer held United States bonds of the face value of $56,128,000 and the market value of $68,668,182 in trust for these banks to secure public moneys lodged with them. This system of national deposit with the banks began in 1864. The total held by the banks June 30, 1888, was $58,712,511, an increase during the year of $35,395,633.

But our concern is especially with the Bank Deposits of individuals, with their motives in making these, and with the motives and the methods of the bankers in handling them. In order to draw the confidence of the people in its locality, a bank must not only be, but also *seem* to be, well-to-do and prosperous. Most bankers find it to their account to become known owners of public stocks; and in many cases, as in the present national banks of this country, are required by law to own such stocks, and this gives them a kind of credit and public standing scarcely to be reached by the ownership of ordinary property. Thus the Bank of England held at the outset £1,200,000, and now holds £15,000,000 of securities, mostly of the public debt of England. As merchants begin by laying in stocks of goods of the kinds they purpose to deal in and offering them for sale, so bankers begin by bringing together money and credits of their own in order to attract to themselves in the way of buying and selling the money and credits of other people. In order to deal successfully in credits the banker must have *credit*, that is, he must have the reputation of having property of his own, and of being an honest and careful manager of his own affairs and of the affairs of others so far as they are intrusted to him.

Each of our present national banks, now (1890) 3150 in number, must have by law a paid-up capital of not less than $100,000, and in cities of 50,000 people their capital must not be less than $200,000 each, except that in places having less than 6000 inhabitants banks with not less than $50,000 capital *may be* organized at the discretion of the Secretary of the Treasury. The main purpose of all this is to secure strong financial organizations fitted to draw the confidence of the communities in which they are placed, and in this manner and by means also of constant national supervision to attract the Deposits of the people to the banks.

Now, as was said a little while ago, perhaps the central function in banking is for the banker to receive his customer's money and also his credits falling due, and to render to him in return for these *a credit*, that is, a right to demand from himself an equal sum at a future time or times. The evidence of this right is entered on the banker's books, and usually too on the customer's pass-book, and thus becomes what is called a DEPOSIT. The ownership of the money and of the credits deposited passes over completely from the customer to the banker. It is a complete case of buying and selling to the mutual profit of the parties. The banker has the right to do just what he pleases with his deposits, and the customer has a right to draw cheques on his credit as and when he pleases; only the banker's entry of the transaction on his books is a virtual and a legal *promise* to pay that amount to his customer, and therefore he must be ready to respond to his customer's call, whenever the latter demands, not his own money, but so much of his banker's money. *A deposit, accordingly, is not the very thing deposited, but a credit.* It is the banker's promise and the depositor's property. It is in this way that a banker buys ready money with a credit.



The motive, then, that leads the depositor to intrust his money to the banker is the desire, not to have that specific money kept safely for him, for he lost possession of it absolutely when it passed the counter, he *sold* it and took his pay in something else, but rather to have the unquestioned right to call on the banker for such sums (not to exceed the deposit in the aggregate) and at such times as may suit his own convenience. He has such confidence in the integrity and solvency of the banker, finds it so practically convenient to have dealings with him, and comes to have certain minor privileges at the bank in other relations over non-depositors, that he quite prefers a credit on the banker to the possession of the money itself.

The corresponding motive of the banker to receive his customer's funds on these terms is that he finds by experience (his own and others'), that he can safely use a large portion of these moneys deposited in other operations in credit profitable to himself, and at the same time be practically sure of meeting all his customer's calls for money as they are made. Every good banker finds out, that many of his customers wish always to leave a balance in his hands; that while some of them are constantly drawing cheques on him for cash, others of them are as constantly depositing with him in cash; and that consequently he can properly and safely use a large part of the money he has purchased with his credit to purchase other credits with. Deposit-banking, therefore, is not only convenient and profitable for the depositor, but also excellent and profitable for the banker.

Besides these two parties benefited, there is a gain, too, for the community at large in deposit-banking; inasmuch as a new capital as such has been thereby created, a series of new values, which would not otherwise have existed at all. Were there no deposit-bank in that locality, every man now a customer of it would of course keep his own reserves for himself for prospective contingencies: now, all these little reserves are aggregated in the bank, the convenience of them for each customer's contingencies is just as great as if he kept his own in his own safe or wallet, but the banker finds that he can use, say two-thirds of the whole, and still answer each customer's call. Here is a new capital. Here are scattered valuables brought together to be loaned out to a profit, which were otherwise barren and useless for the time being. Industry is quickened in a wide circle, products are created and brought to market, wages are paid and profits are gained, in direct consequence of bringing together under favorable auspices for safe loaning the little hoards and driblets of many individuals, which were practically useless in isolated hands.

It may easily be objected at this point, that it is entirely possible that any banker might be called upon to pay off all his deposit-liabilities at once in money, which, if it happened, would break him of course; so it is abstractly possible that all the lives insured in a Life Insurance Company might terminate in one day, in which case no Company in the world could meet its obligations; and so it is abstractly possible that all the houses insured in a Fire Insurance Company might be burned up in a single night, which, if it happened, would cause the collapse of the soundest company; but in all these cases of possibility there is a *certainty* that the possibility will not become a fact. *Ex nihilo nihil fit.* A supposition practically impossible to become a fact can yield no logical inference whatever. The Greek language has a special grammatical form for a hypothesis impossible to be realized in fact: would that the English had also such a form of speech! It would save us a mess of bad reasoning. If, however, any banker may have misjudged for his locality at any time the proper ratio of reserves kept



to deposits received, and be crowded in consequence, he must sell some of the securities bought with the excess, or borrow money on them.

Surprisingly large is the amount of bank deposits in all the leading commercial nations of the world. The average public and private deposits of the Bank of England, on which no current interest is paid by the Bank, amounts to about £40,000,000 all the time. The ten joint-stock banks of London carry about £80,000,000 in private deposits, of which those to remain some time *draw* an interest, but those lodged on current accounts and on call *draw* none. Scotland has carried deposit-banking further and to greater advantage than any other country in the world. There are now no private banks in Scotland, but the ten joint-stock banks with their numerous branches scattered to every village in the land hold constantly about £70,000,000 as individual deposits, on which current interest is allowed, and so the habit of keeping one's account with a banker has become universal with the people. No one thinks of keeping money to any amount in his house or about his person, and consequently house-breaking and highway robbery have almost ceased. Bankers even attend all the great fairs in the country to receive deposits and to pay off cheques. Credit in this form and in another form soon to be described treads its utmost verge in Scotland. Although in the United States the custom of keeping deposits with bankers and drawing cheques against them has not gone nearly so far as in Scotland, and not nearly so far as it will go in the immediate future, yet the aggregate of individual deposits in the national banks alone, Oct. 4, 1888, was $1,350,320,861, an increase in just seven years of 26%.

*e.* Bank Discounts. The credits that are discounted by bankers may be either the promissory notes of individuals and corporations already characterized, or the Bills of

Exchange soon to be characterized, but the entire function of discount is so peculiar, that the paper subjected to it ought to be enumerated in a classification of the instruments of Credit. The discounting of commercial paper is the second essential function of banking, as the buying and handling of deposits is the first; and it is more in accordance with genuine *banking* to pass the price of the paper discounted to the seller's credit in the form of a deposit, that is, to buy one credit by creating another, than to pay the money over the counter at once, and thus to buy credits with money. Those who do the latter are called *bill-discounters* rather than bankers, but most of our bankers do both, though there is a tendency towards the separation of the two in this country also.

Manufacturers and wholesale merchants usually sell their goods *on time*, as it is called, say three or six months. Debts are thus created, or to say the same thing in other words, Credits are thus given. The manufacturer or wholesaler is creditor and the jobber or retailer is debtor. But a debt is property; and the creditor in this case wishes to avail himself of his property at once for further production; so he either takes a Promissory Note from his debtor, or draws a Bill of Exchange upon him, and this piece of property is ready for sale. Neither piece mentions *interest* expressly, but the face sum virtually covers it as contemplating discount. Banks have been organized for the express purpose of buying for their own profit and for the convenience of business such pieces of property; some banker, accordingly, buys this particular piece, that is to say, this creditor passes over to this banker the commercial right to demand payment from this debtor at the end of three months, and receives in return from the banker either money direct or so much of the banker's credit, that is, a deposit in favor of the creditor on the banker's books.



For furnishing this creditor either with ready money or a more available credit in lieu of his mercantile paper, the banker charges of course *a percentage*. This is *Discount. Discount is the difference between the face and the price of the paper.* This percentage called discount is the chief source of profit in ordinary banking. It is virtually compound interest on the sum advanced till the maturity of the paper, when the banker realizes from the debtor its full face.

The following is a common form of a bankable note:—

$1,000 WILLIAMSTOWN, Mass., Nov. 10, 1889.
Three months after date I promise to pay to the order of JOSHUA SWAN, one thousand dollars, payable at the Williamstown National Bank, value received.
Due Feb. $^{10}/_{13}$. LEANDER ALLEN.

When Swan has put his name on the back of this note, that is in bank phrase, has *indorsed* it, in token that he thereby at once sells and guarantees it to the bank, it is then discounted on the strength of the two *names*, Allen and Swan. As Allen technically takes the advance from the bank for his own benefit, he is technically expected to take up the note when it matures, and if he do not, the bank falls back on Swan, who is equally bound with Allen to see that it is paid at the proper time. Two names are nearly always, not always, requisite to a note acceptable for discount at a bank; and more names merely strengthen the note, since it is discounted on the combined validity of all the names upon it.

One obvious advantage of discount is, that it tends to make all capital active and thus productive. It enables the banks to sell their credit and make a gain, to use a part of their money deposits to buy mercantile paper with, and so get a bank interest on them; it enables dealers in commodities to realize in cash *minus* the discount the sum of what they have sold *on time;* and by means of *accommodation* notes or bills, which only differ from the others in that there is no *actual* debt between the parties, business men may swell the volume of their business temporarily, and non-business people may borrow small sums for convenience or emergencies. Bankers have not always credit enough or money enough from their depositors to buy in either mode all the good paper that is offered to them, in which case, they raise the rate of discount unless the law forbids, or by easy evasions even when the law forbids; or else accommodate regular customers and large depositors first, or buy of all that are "good" a certain proportion only.

The discount line of 3140 national banks reporting Oct. 4, 1888, was $1,674,886,285.29.

It is thus through the purchase of discountable notes for money, that banks derive their partial character as money-lenders. Also, such reserve sums as they do not wish to invest in negotiable paper, on account of the time involved before such paper matures, banks frequently loan *on call* to those customers who have good collateral securities to pledge for the repayment of such loans. The terms of such a contract give the bank full authority to sell such collateral "*at the Brokers' Board or at public or private sale, or otherwise at said bank's option, on the non-performance of this promise, and without notice.*" So far forth banks become direct money-lenders. It ought also to be added, that promissory notes with a single name (or more) are often discounted by banks partly on the strength of collateral securities deposited to fortify the names upon the notes.

*f.* Bills of Exchange. A Bill of Exchange is a written instrument designed to secure the payment of a distant



debt without the transmission of money, being in effect a setting-off or exchange of one debt against another. It is in form and in several technicalities different from a promissory note, inasmuch as it is an *order to pay* instead of a *promise to pay*, and inasmuch as the maker of a note is always *debtor* and the drawer of a bill of exchange is always *creditor;* but all this makes practically very little difference between the two as instruments of Credit, since nearly all bills of exchange come into banks in the way of ordinary business, either for discount or collection, and as the banks care nothing except for *names*, the *form* of the purchasable paper is a matter of indifference to them. The following is the essential form of an inland bill of exchange:—

$3,000 PITTSFIELD, Mass., Oct. 16, 1889.
Four months after date pay to the order of JOHN KENT three thousand dollars, value received, and charge the same to account of
To ELI TRIPP, Boston, Mass. DAN STORRS.

In the case of this bill, which may serve as a sample of thousands, Storrs is the *drawer*, who is creditor in relation to Tripp, and Tripp is *drawee*, but Storrs is debtor in relation to Kent, who is the *payee*. A bill of exchange is the sale of a debt, in such a way that two debts are so far forth set off against each other, and both transactions are closed without sending any money at all. Tripp owes Storrs, and Storrs owes Kent, and so Storrs pays Kent by an order on Tripp. As this is a bill at four months, Kent will doubtless send it to Tripp for his *acceptance*, as it is called, that is, his acknowledgment that he owes Storrs to that amount, and that he will pay the sum to the holder of the bill when it becomes due. An acceptance is written on the *face* of a bill, and an indorsement upon the *back* of the note: the initials are sufficient for the name of an acceptor, but the full business name is usual for an indorser.

Thus a bill of exchange is the formal sale of a debt, in order to liquidate thereby another debt, when the parties to the transaction live in different and distant places. Storrs does business in Pittsfield, and Tripp in Boston, and it is a matter of comparative indifference where Kent lives, unless there is trouble at the time of collection, for he will perhaps negotiate this bill again, that is, make use of it to pay some debt that he himself owes. It is not often that the same person, as Tripp, happens to owe another person in a distant town, as Storrs, the same amount as Storrs owes another person somewhere, as Kent; but by two bills of exchange, one drawn by each creditor on his own debtor, and then each set off against the other, through the simple and beautiful expedient of bank balances, substantially the same advantages are reached as if it always happened so. Many bills of exchange are drawn *at sight*, as it is called, in which case the payee presents it for payment to the drawee, there is no acceptance and no discount, and a bill of this kind becomes the same as a cheque.

Time bills, however, are usually discounted: the payee indorses his claim over to a fourth party by name, or, by what is called an indorsement *in blank*, that is, by merely writing his own name on the back of the bill, makes it payable to bearer: when banks buy these bills for discount, it is on the joint credit of acceptor and drawer and payee, and in that order of validity and precedence: a promissory note may be protested by a bank without notice to the maker, but a bill of exchange cannot be without notice to the drawer: a promissory note has two parties to it, a debtor and a creditor; while a bill of exchange has three parties to it, two creditors and a debtor.

Inland bills of exchange, both time bills and sight bills,



are very convenient in settling debts between distant places without the costly, and more or less hazardous, transmission of money back and forth; besides this, time bills possess the very useful function of enabling a debt due from one person to avail the creditor as a means of obtaining credit from a third party in discount; and in addition to these two points of benefit, it is plain, that the common use of bills of exchange in all their forms releases from use large amounts of money that would else be needful in trade. The less money in use in any country beyond a certain point, the better, because, if coin, it costs much to mint and maintain it, and if paper, it is difficult to make and sustain it of full value.

Bankers sometimes change what they call "exchange" for settling debts between distant places in the same country; in some cases there may be a sound reason for this, in other cases there is none, but in all cases it adds a little to the profits of the banks for handling the bills of exchange; the principle of charging an "exchange" is this, — when one place as Chicago draws more bills on another place as New York than suffice to cancel the bills drawn at that time by New York on Chicago, the point *at* which the larger indebtedness lies is the point for sending drafts *to* which banks naturally charge a percentage; perhaps the idea, which is actually realized in foreign exchange, that money may have to be sent to liquidate such a balance, may have brought in the custom of charging "exchange" in such cases; and there are instances aside from such a supposed balance, in which there may be an extra cost of collection in some form to the bank, that may justify an "exchange" charge; but there is another principle counterworking and often neutralizing entirely this alleged doctrine of a "balance" of debt as between two distant places, namely, that the chief settling place and commercial centre of a country, such as New York is, draws towards itself from the whole circuit with such force, everybody wanting a balance there and having occasion to send funds thither, that drafts on such a place are apt to bear a premium without any reference to its comparative indebtedness at the time.

Very similar to these inland bills in their nature and course and usefulness are Foreign Bills of Exchange, which, as a vastly important topic, especially in its relations with Foreign Trade, we must now study minutely and completely. Commercial relations between two countries, let us say, for instance, France and England, always give rise to a mutual indebtedness of their merchants; if these reciprocal debts were all to be paid by the actual sending of money to and from, there would have to be a constant and expensive and more or less hazardous outward and inward flow of the precious metals in respect to each country; all which necessity is neatly obviated by the use of reciprocal bills of exchange, and coin is only transmitted to settle the balances on whichever side there may happen an excess of debt at the time. French dealers are always sending goods to England, and English dealers goods to France; and for what they send to England the French merchants draw bills of exchange on the parties to whom the goods are consigned, and the English merchants draw similar bills on their debtors in France; then these bills are bought up by bankers or brokers in either country, and virtually exposed again for sale through new bills drawn against them to any parties who may have debts to pay in the other country. Thus bills on London, in other words, on English debtors, are always for sale in France; and bills on France, that is, on French debtors, are always for sale in London; the reciprocal debtors of the two countries, therefore, instead of sending coin to cancel their debts, buy and transmit these bills.



Let us take a sample instance. Pierre & Co. of Paris send a cargo of wine worth £1000 in English money to John Barclay of London. Barclay thus becomes indebted to the Paris firm to that amount, and Pierre & Co. draw at once, so soon as the cargo is despatched, a bill in francs to the equivalent of £1000. If they themselves have no debt to pay in London, they will sell this bill immediately to a Paris banker or broker (if the exchange be then at par) for its full face *minus* interest for the time it has to run, say two months; this broker is now ready to sell this bill again, or what is the same, his own bill drawn on the strength of it, to anybody in Paris who may have a debt to pay in London; and the party in London who receives it in liquidation of a French debt to him, presents it at maturity to John Barclay for payment. Thus one bill of exchange serves the ends of two creditors and one debtor: Pierre & Co. get their pay for the wine, the London party gets his pay for goods, and Barclay pays his debt, by means of it. A bill drawn in London for a cargo of hardware sent to Paris is similarly negotiated with a London broker or banker, and finds its way similarly to France in payment of some English debt owed there, and ends its course when it reaches the French firm on which it was originally drawn.

We are now in position to understand clearly what is meant by the *par of Exchange* in its commercial (not coinage) import. The merchants in Paris, who have debts due to them from London, draw bills of exchange for the amount of these debts; and, through the agency of middlemen, go into the market to sell these bills to other Paris dealers who have debts to pay in London. If the former class have a larger amount to sell than the latter have occasion to buy, in other words, if there be a larger amount of debts due from London to Paris than from Paris to London, then the natural competition of the sellers in Paris of the bills on London will lower their price somewhat in that market (Paris), in order, as usual, that the Supply and Demand may be equalized there. In this case the par of exchange is disturbed, a bill on London for £100 in francs may not sell for over £99, and the exchange is then said to be 1% *against* London, or, which is the same thing, 1% *in favor* of Paris.

The *par of Exchange*, accordingly, between two countries, depends on the substantial equality of their commercial debts. In the above example, if the exchange as against London in favor of Paris continue long, and especially if the premium of 1% on bills drawn in London on Paris be sufficient to cover the expense of the transmission of specie from London to Paris, gold will begin to flow from London to Paris, because the debtors there may find it cheaper for themselves to buy and send gold than to pay the high premium on bills; and thus the equilibrium of payments and the commercial par may be restored. Also, this par tends to restore itself, without any sending of specie, in this other perfectly natural and effectual way: if bills on Paris are at a premium in London, for the same reason that they are so will bills on London be at a discount in Paris; therefore, there will be a direct encouragement to the extent of the premium for *exportation* of goods from England to France, because on every cargo thus sent bills can be drawn and sold in London for a premium; while the more bills on Paris thus offered in London, the more the premium disappears of course, and the par will be restored so soon as the bills on Paris substantially equal the bills on London offered in Paris; and at the same time, so long as the discount on London bills continues in Paris, there is a direct *discouragement* to further exportations from France to England, because the bills drawn in virtue



of such cargoes can only be sold below par, and this too tends to *restore* the par in the commercial sense of the term.

Here is another instance of a magnificently comprehensive law, by which Nature vindicates her right to reign in the domain of Exchange. It is through this natural and beneficent law of automatic compensations, stimulating exportations on the one side and slackening them on the other, that most of the casual disturbances of the commercial par as between two countries are easily and perfectly rectified.

While this great law is in full possession of our minds, let us note in passing how artificial restrictions by one country on the importation of goods from another, commonly called "Protectionism," affects this commercial par as between those two countries. Besides stopping absolutely a mass of otherwise profitable exportations and importations for both countries, it makes less profitable to the country imposing the restrictions whatever foreign trade *does take place* between them in spite of the restrictions. Suppose England, as is the fact, opens her ports freely to the commodities of France, while France puts restrictions in the shape of heavy taxes upon importations from England; more French goods are likely under these circumstances to seek English ports than English goods to seek French ports, because they are more welcome; consequently, more bills of exchange drawn on London will naturally be offered in Paris than bills on Paris in London, and will so far forth be sold at a discount, while the London bills drawn on Paris will be sold at a premium; in other words, the comparatively few goods that do get out of a "protected" country, realize less to their owners than the natural value, because the bills drawn on them are extremely apt to be sold below par! With this course of things all known facts agree. Since the United States became conspicuously a "protected" country a quarter of a century ago, it has been at rare intervals and for short periods that bills drawn here on London have been at par. They have been usually much below par. The equivalent of £1 sterling in United States money is $4.8665; and when bills on London sell for less per pound sterling than $4.86, they are at a discount in New York or Boston; and exporters here are direct losers to the extent of the discount.

If, however, notwithstanding the beautiful action of this great law of commerce, the disturbance in the commercial par as between two countries continues obstinate, it indicates one of several things as true of the country, whose bills of exchange drawn on another persist in a considerable discount; (1) it has come to be a pretty steady debtor country as towards the other, by sending thither its national or State or corporation bonds, whose interest and ultimately principal also must sooner or later be remitted in exports *extra* to the exports needed to pay for the current imports of goods; (2) it has either naturally or by persistence in a bad public policy little or no shipping of its own, so that freights both ways have to be paid to foreigners in the form of exported goods *extra* to those exported to pay for those imported in transient trade, which of course increases the number and face of the bills drawn *in* the luckless country *on* the lucky country or countries; (3) it has made the vast and fatal mistake of excluding by legal barriers of taxes put on for that purpose the goods of foreigners, whose only motive in coming is to take off corresponding goods of the deluded country's own to the profit of both, and so these last-mentioned goods must seek a foreign market (if at all) at reduced rates, their natural market having been



destroyed by national law; and (4) it may have made the national money in which the bills drawn on it are liable to be paid an inferior money, either transiently by mere abundance or permanently by worsened quality, which is well illustrated in the instance of Amsterdam as cited in a preceding chapter, and which can only be remedied by raising the standard of the money to the level of the best.

Very little, if anything, can be inferred as to the prosperity of a country or even as to the real condition of its "exchanges" in this technical sense of the term, by the transient movements of gold to and from the commercial countries, in their present complex relations as gold-producing and non-gold-producing countries and as debt-settling and non-debt-settling centres. Gold moves back and forth in obedience to several other impulses than to settle the balances in an international trade of Commodities. Gold-producing countries of course export gold just as they would any other native product. If for any reason gold becomes relatively more abundant in one country than in other commercial countries around it, general prices will rise in that country in consequence; which means, that gold is then and there the cheapest article that the people of that country can export to pay their commercial debts with. Also, the imports which a nation pays for in gold, or in bills of exchange bought above par, are often bought with a high profit. Creditor nations, nations that have managed to make themselves settling-places for the world's commercial debts, and nations that welcome imports without impediment from every quarter of the earth (and England may serve as a sample for all these three), will largely pay for imports in gold or in bills bearing a premium.

It is a thousand pities, that technical terms which are