prophecy except in a quite subordinate sense. Congress is loudly threatening at this very moment to more than double the enforced monthly coinage of silver dollars at the public expense for the sole benefit of a comparatively few miners of silver. If this threat be executed upon a long-suffering people of tax-payers, who will have no one to blame but themselves if they tolerate the outrage, Science is willing to venture the prediction, that the monetary standard here will drop from gold to silver within a twelvemonth or two; that general prices will rise much beyond the appreciation of money implied in that drop, though they will be illusory and gainless; that prudent debtors will hold high carnival for a time at the expense of their creditors; that the country will become as empty of gold as a contribution-box is of other money between Sundays; that foreign trade (soon to be explained), already in a sickening decline, under restrictions and prohibitions, will hasten to a practical demise; and that the United States, at once the laughing-stock and the victim to the superior intelligence of other nations, will come through alternate fever and chills to a position of common sense and ultimate recovery.

CHAPTER VI.

FOREIGN TRADE.

WONDERFUL is the continuity in the growth of any great Science, and equally so the persistency of any radical error that once gets fairly imbedded within it. As we saw fully in the last chapter Money is nothing in the world but a convenient, intermediate, equivalent, and easily measurable merchandise; but almost as soon as men began to analyze Sales and to generalize from their data, a notion nestled way down in their work, that Sales against Money were somehow or other different from Sales against other merchandise; and thence sprang up, particularly among the Romans, what we have called the Bullion Theory. The broad and the true view was held indeed from the beginning, and was maintained even among the Romans, as we learn from an interesting passage in the Roman Law, — "*Sabinus and Cassius think Value can dwell in another thing than money too, whence is that which was commonly said, Buying and Selling is carried on in the exchange of goods, and that view of purchase and sale is very old; but the opinion of Procullus has deservedly prevailed, who says, Exchange is a particular kind of transaction different from Selling.*"

Science has indeed sloughed off this old and vital error, and most of its sequels; but Public Opinion in many countries is full of it still; and Legislation, in our own country at least, is all the time trying or threatening to

transmute merchandise (say silver) into money, as if that could raise its value or change its nature.

It was but a single step from the Bullion Theory to the Mercantile System. If money be somehow different from and better than merchandise, then each nation should strive to handle its foreign trade so as to get back from other nations more money than it renders to them in exchange: in other words, each nation must try to sell to the rest more goods than it takes goods back in pay, so as to have a "*balance*" come in of gold and silver. How natural the transition from Bullionism to Mercantileism! And it was a step of genuine progress too. Goods are good, and there is profit in their exchange; but gold is somehow better than goods, and we must manage somehow to get a "balance" in that! If this position had only been sound, and one nation only been in possession of the precious secret, how nicely it might have worked for that nation! But all the leading Nations of Europe made the transition from Bullionism to Mercantileism at one and the same time, and they vexed and impoverished each other for three half-centuries, and went to war with each other besides, under the double illusion, (1) that gold could be practically gotten in that way, and (2) that if gotten it were one whit better than the goods for which it would have been at once spent.

Economics as a Science is now free from every taint of Mercantileism also, but it lingers on more or less in half-informed minds, and in the less-experienced nations; and the system itself merged itself three half-centuries ago into another, which is not another, namely, into Protectionism. If nation A must sell more goods to nation B than it takes back in goods, so as to get the coveted "balance" in gold from B, would it not help that cause along to put obstacles in the way of restrictions or prohibitions against the introduction of goods from B to A? Less goods, more gold, argues A. A forgets that the same mental processes are going forward in B's mind towards the same conclusion in relation to A. Now, cogitates A, what kind of goods from B had we better restrict or prohibit? A, by the way, consists of some millions of individuals, some of whom are always on the watch to get their axes ground at the government grindstone. What kind of goods shall we prohibit from B? Why, of course, those kinds which we are now making or growing. We can supply these for ourselves. It does not escape the notice of these makers and growers, that the restriction or prohibition of similar goods from B will raise the price at home of their own goods. Scarce is ever costly. On go the restrictions, ostensibly at first in behalf of an imaginary "balance" in gold, which fragile reason soon passes out of mind in the presence of a very real reason for such restrictions, namely, artificial high prices for certain domestic goods, paid indeed by the entire home community to the comparatively few makers or growers of the goods now "protected," as the current phrase is. Mercantileism has passed over into protectionism. The feeble friends of a "balance" have now become the strong friends of a "monopoly." Personal greed to grow rich at the expense of one's own countrymen thus becomes the single or combined force that puts on and keeps on and piles up the so-called "protective" restrictions and prohibitions.

Scientifically Protectionism is as dead as Mercantileism and Bullionism. There is not an Economist in Christendom, of any international or even national reputation, who now undertakes fairly and squarely by means of analysis and induction, to propound or defend a scheme so contrary to common sense and common honesty as this is, and which, universally applied, would annihilate the commerce

of the world. But many of the nations are still tinctured more or less by the old subtlety, and powerful classes within them and specially within the United States, classes grown rich and powerful by what is nothing else than public plunder, are strenuous and successful advocates, not in open discussion and fair debate but by clandestine and corrupting methods and combinations, to maintain in the light of the nineteenth century an outworn and decrepit "something" worthy only of the dark ages. The old and foolish cry for a "balance of trade" is merged now in the United States into the insane and hateful clamor for the destruction of public trade in the behalf of private gain.

This is the sole reason why we must now undertake a careful chapter on Foreign Trade. There is no reason in the nature of things, or in the nature of trade, why Foreign Commerce should be treated of separately from Domestic Commerce. The two are precisely alike in all their principles and in all their results. In one as in the other, in every case and everywhere, there are (1) two persons, each of whom has a Service in his hands to sell against a Service in the hands of the other; (2) two reciprocal estimates, by which each owner concludes that he prefers the Service of the other to his own; (3) two mutual renderings, by which each Service comes into the possession, present or prospective, of the new owner; and (4) two personal satisfactions as the result of all, constituting the ultimate motive and the sole reward of Buying and Selling.

There are two possible differences in certain cases between Domestic and Foreign trade, both superficial and but barely worth the mention here. Foreign countries engaged in trade *may* be more remote from each other than places exchanging products within the same country. The distances, however, between Bangor selling ice to New Orleans

for sugar, and Boston selling boots and shoes to San Francisco for fruits and wine, are much greater than those between Liverpool and St. Petersburg, or those between Stockholm and Palermo; so that, it may be said in general, that the trade between all the European countries confronts less distances, and presumably less costs of transportation, than the trade within the United States. And another thing is to be said in this connection: Foreign trade as a general rule is conducted by water-routes, and domestic trade under the same rule is carried on by land-routes; and, therefore, the costs of transportation by the latter are much more expensive.

The other possible difference is more considerable, and considerably more in favor of Foreign as compared with Domestic trade. We have learned perfectly already, and the point is fundamental, that all trade proceeds on the sole basis of a relative Diversity of Advantage as between the two parties exchanging. This relative superiority of each exchanger over the other at different points depends in domestic trade partly upon divergent natural gifts to individuals, partly upon their concentration of mind or muscle or both on a single class of efforts each, and partly upon the use and familiarity in the use of the gratuitous helps of Nature aiding that class of efforts. But in foreign trade there are commonly some additional grounds of Diversity, since the various countries of the earth have received from the hands of God a diversity of original gifts, in climate, soil, natural productions, position, and opportunity. And besides these original international differences, there has been developed of course in the history of the inhabitants of these countries a diversity of tastes, aptitudes, habits, strength, intelligence, and skill to avail themselves of the forces of Nature around them. International trade, accordingly, is somewhat more broadly and firmly based than the

home trade can be, inasmuch as these international differences are apt to be more inherent and less flexible than domestic differences between individuals; it is on these diversities, original, traditional and acquired, that international commerce hangs; it could never have come into existence without them; and it would cease instantly and completely were they to fade out. Men engage in foreign trade, — not for the pleasure of it, — but for the sake of the mutual gain derivable to both parties; they desist from it so soon as that mutual gain disappears; and there is no gain in any series of exchanges, unless each party has a superior power in producing that which is rendered, compared with his power in producing that which is received.

With these few preliminaries, we pass now, in the first place, to unfold in order the COMMON AND UNIVERSAL PRINCIPLES OF FOREIGN TRADE. For the sake of illustrating these, we will now take a simple supposed case, a trade between England and France in cottons and silks, and follow it through clearly to the end.

1. When will it be mutually profitable for England, that is, for certain English merchants, to send cottons to France to buy silks with, and for France, that is, for certain French traders, to send silks to England to buy cottons with? Money and all other commodities except these two, silks and cottons, are wholly out of the question now and should be wholly out of our minds the while, though for simplicity's sake we shall use the *denominations* of money for comparing the respective efforts, translating pounds and francs into dollars. The answer is easy: the trade will be mutually profitable, when efforts bestowed in France upon silks will procure through exchange with England more of cottons than the same amount of efforts bestowed in France upon cottons will produce of cottons directly; *and* then, when efforts bestowed upon cottons in

England will procure more of silks through exchange with France than the same amount of efforts bestowed in England upon silks will produce of silks directly. It is not a question of the absolute cost of either commodity to the parties producing it, or of a comparison of those absolute costs at all, but a question of the relative cost of that produced in either country compared with what would be the cost of the other commodity were it to be produced in that country. So long as there is a difference of relative efficiency in the production of the two commodities in the two countries, so long, setting aside the costs of carriage, may there be a profitable exchange of the two. A demand in each country for the product of the other is of course presupposed in the illustration.

Suppose now, that Efforts in England on certain cottons be gauged at $100, and that Efforts in France on certain silks be gauged at $80, and that these finished commodities then exchange even-handed against each other: is that a losing trade for England and a gainful trade for France? That is more than we can tell yet. That depends upon the further decisive question, whether the Efforts gauged at $100 if expended in England in the manufacture of silks will procure as many and as good silks as the same obtain in exchange with France; and whether the Efforts gauged at $80 if expended in France on cottons directly will secure as many of them as if expended on silks directly and then traded off for cottons. In effect the Frenchmen ask, Can we get more and better cottons by working on silks and then trading them off for English cottons than we can get by equivalent Efforts in working on cottons at home? Likewise the Englishmen ask, Can we get more and better silks by working on cottons at home and then trading with France for silks than we can get by trying to make silks directly? France by climate and soil and habi-

tudes is better adapted to silks than cottons: England by virtue of the same is better adapted to cottons than silks.

2. How does the Diversity of relative Advantage practically work in foreign trade? Let us suppose that while the cottons cost $100 in England, it would cost $120 to manufacture there as good silks as can be made in France for $80; and that while the silks cost but $80 in France, it would cost $96 to make cottons there as good as the English can make for $100. On this supposition France can make both the silks and the cottons at a cheaper absolute cost than England can. What of it? Does that destroy the motive and the gain of an exchange between the countries in these two articles? Let us see. By an exchange with England, France gets for $80 in silks, cottons which would otherwise cost her $96, which is a handsome gain of 20%; while England gets for cottons costing her $100 silks which would otherwise have cost her $120, which is another handsome gain of 20%. Although France can make each commodity for less absolute money than England can make either of them, there is a Diversity of relative Advantage; and, therefore, there might be in this case, as there is actually in many such cases, a very profitable trade. The efficiency of France in making silks relatively to the efficiency of England in making silks is in the ratio of 80 to 120, namely, a difference of 50%; while the aptitudes of France in making cottons relatively to that of England in making the same is only in the ratio of 96 to 100, namely, a difference of 4⅙%. So long as England offers in cottons a good market for French silks, how utter the folly and large the loss of France in going to work to make cottons!

In the majority of cases, doubtless, foreign trade takes place in articles, in the production of one of which each of the respective countries has an absolute advantage over

the other; but an every way advantageous trade may be carried on in commodities, in the production of *both* of which one nation shall have an absolute superiority over the other, provided only that this superiority be *relatively diverse* in the two commodities, as has just been shown. This is an effectual answer to the ignorant clamor of some, we take it, who make objection to importing articles which might be made at home for the same sum of money as foreigners expend in making them; admitted, that they might be so made, does it follow that the country importing them would get them as cheaply by making them itself? *By no means does that follow.* Let no nation, then, be in haste to drop a trade, because it thinks it can make the goods received in exchange as cheaply as the other nation makes them, so long as it has an advantage absolute or relative over the other in making the goods rendered in exchange; and when that advantage ceases, it may be sure that the trade will drop of itself; because it always takes *motives* to make the mare go.

3. What are the extreme limits of the Value of cottons and silks in the case supposed, and when will a third nation be able to undersell either in the ports of the other? This is the answer: the extreme value of French silks in English cottons will be 80 and 96; they cannot fall below 80 because they cost the French that to manufacture them; they cannot rise above 96, because at that rate the French can make cottons, and there would be no motive, that is, no *gain*, in their exchanging for cottons. Nations, that is to say, individuals, will never get themselves served at a greater effort than that at which they can serve themselves. If a given effort does not realize more through exchange than it would do directly, then that exchange ceases of necessity, as fire goes out for lack of fuel. The extreme limits of the value of English cottons in French silks will

be 100 (lowest) and 120 (highest) for reasons precisely similar in the case of the English. Therefore, the highest profits possible to both nations under the conditions of the trade are 20% each. France would be glad to take the cottons at a return of 80 in silks, at which rate her gain would be 20%, and she cannot under any circumstances offer quite 96, at which rate her gain would disappear.

No third nation, accordingly, in a trade of silks for cottons can expel the French from the English ports, until it is prepared to offer nearly 96 (or more) in silks in return for English cottons; that is to say, until its efficiency in making silks relatively to that of England in making them presents a greater difference than the difference of efficiency between France and England in making silks, which is a difference of 50%. England would be glad to take the silks from France at a return of 100 in cottons, at which rate her gain also is 20%, and she cannot possibly offer quite 120 in cottons, because at that rate her gain would wholly vanish. England could be undersold in the French ports, when somebody is ready to offer nearly 120 (or more) in cottons against the French silks, whose *quantum* in the exchange may vary from 80 towards 96. Here is the whole doctrine of one nation underselling another in the ports of a third nation. Silks stand here for sample of all French commodities of whatever name and cottons for all English goods whatsoever; and England and France stand in the illustration for any and all nationalities. Any nation obtains any share or a greater share in the commerce of the world solely in virtue of a greater relative efficiency in producing *something* valuable, as compared with some other nation's power in producing something *else* that is valuable.

4. How does the varying play of International Demand affect the value of articles in foreign trade? The answer is clear and easy: if the demand for French silks in England just answers to the demand for English cottons in France, so that the silks offered by France just pay for the cottons offered by England, then, cost of carriage aside, the gains of the trade will be equally divided between the two sets of merchants, and each will realize 20% profits, because neither will have any motive to lower the value of its commodity below its highest value. The Frenchmen from their point of view will offer 80 in silks and take 96 in cottons: the Englishmen from their standpoint will offer 100 in cottons and get 120 in silks. Demand and Supply are equalized at a point of value most favorable to both parties, and one really determined by the relative cost of production.

This case of equalization, though possible, is likely rarely to occur in practice. On any terms of exchange first offered, there is likely to be a stronger demand in one country for the product of the other than in this country for the product of that. This will of course lead to a change of Value, and a new division of Profits. The product for which the demand is less will find its market sluggish, and in order to tempt further and brisker exchanges will be compelled to offer more favorable conditions. He who enters a market in quest of what is *more* in demand with a service which is *less* in demand, will have to lower his terms, or not trade. The equalization of Supply and Demand will only be reached in this case, by quickening the demand for the commodity now less in demand through an offer of better terms in trade. Thus, if the demand for French silks in the English ports be slack, in comparison with the demand for English cottons in France, at the rate of exchange first established, say, 80 for 96, the French merchant has no resource, if he wishes to continue the trade, but to agree to give more silks for the same amount of cottons, say, 85 for 96. If this actual

reduction prove sufficient to cancel the account in cottons with the account in silks, then the trade will proceed on this new basis for a while, because the equalization of demand and supply has been reached through a new valuation of the two commodities, and there is now consequently a new division of the profits. France gains less than 13% by her trade with England, while England gains 27% in her trade with France.

Under these new terms of exchange, it is quite possible that silks may again become heavy in reference to cottons, and a new decline take place in their relative value. If the French are obliged in consequence to offer 90 for 96, in order to obtain the cottons they want, their own profits will sink to 6%, while the same causes will lift the English profits to 35%. If, in any contingency, the French were driven by the state of the market to concede something near to 96 in silks for 96 in cottons, the trade would cease in that case, just as every transaction ceases when the motive for it ceases. We must remember of course, that the cottons of England are just as likely to become slack in reference to silks, as the silks are relative to the cottons; and when this happens, the English dealers will have to lower their terms, and thus surrender a larger share of the profits to the French. By this ceaseless play of Supply and Demand, within the outermost limits drawn by the relative Cost of Production at the time, is the Value of commodities determined in Foreign Trade; and no degree of complication in the variety of articles, or in circuitous exchanges, affects, for substance, these fundamental principles.

5. What are the causes deciding the exportable articles of any nation, and their order of precedence in Export? Watch a little at this point, and the true answer will loom up steady and certain. If, instead of one article, say

cottons, England sends two or ten kinds of goods to France in payment for silks or wines or whatnot, she will of course send in preference that commodity in which her own commercial efforts are relatively most efficient, so long as the French demand will receive it, because her own profits will be the greatest on that; then, when obliged to lower terms on that down to the point of relative advantage at which her next available article stands, she will send that next in quantities regulated by the demand for that; and so on down to the end of the list of possible exportables to France. France is guided as to her exportables to England by precisely the same principles and prospects of profit. So of all commercial nations whatsoever. No matter whether the articles be one or many; no matter whether the trade be a direct or indirect trade; the profits in international commerce depend in all cases, first, upon the ratio of the cost of what is rendered to what would otherwise be the cost of what is received, secondly, upon the relative intensity of the two Demands.

It follows logically and necessarily from all this, that what a nation purchases by its exports, it purchases by its own most efficient Production, and consequently at the cheapest possible rate to itself, and at the highest possible profit to its merchants. Under a decent freedom of international choice and action, of sale and delivery, only *those things* are ever exported, for the procuring of which a nation possesses decided advantages relatively to other nations, and relatively to its own advantages in producing directly what is received in return; and hence, the return cargoes, no matter what they have cost their original producers, are purchased by this nation as cheaply as if they had been produced by its own most advantageously expended Effort. This is a wholly impregnable position; and the advocates of restricting and prohibiting Foreign

Trade are challenged to try their hand a little or a good deal (as best suits them) at its bristling defences.

It follows also from the discussion under this head, what shallow thinkers are they, who deem it needful that each nation should be able "*to compete*" with other nations in every branch of production. Why are they not consistent enough to apply their favorite catchword, "*compete*," to domestic exchanges also, and require that the clergyman shall have artificial and governmental facilities for "*competing*" with the lawyer, the tailor with the blacksmith, the farmer with the manufacturer, the publisher with the author? Will folks never learn that *all* Exchanges, domestic as well as foreign, hang on relative superiority at different points, and that any Nation trying to make its success in production equal at all points would be just as stupid as an artisan trying to learn and practice all the trades at once? Suppose the said nation to succeed, what then? It would supply its wants at a certain low average efficiency of effort; whereas, by a thorough development of all its own peculiar resources, it could command by exchange the products of the whole world at a cost not exceeding that of its own most productive and efficient Exertion. The precious metals, whether produced at home or obtained from other nations by another series of exchanges, whether coined or in the form of bullion, stand here in the same relations as other commodities, and are frequently the most profitable articles that a nation can export. In one word, whatever justifies individuals in selecting diverse paths of production according to their capacities and opportunity, the same (and even more) justifies the Nations in fully drawing out their own best capabilities under the conditions in which God has placed them; and then, exchanging what costs them little for what would otherwise cost them much, in enjoying all

that the world offers at the least possible expenditure of irksome effort. Such wise and wide action promotes the common good of all the nations, and makes the best of all accessible to all, and arms each with the power of all; while the narrow and senseless policy of drawing into one's own shell after putting up barricades against one's neighbors, by lessening everywhere the Diversities of relative Advantage, so far forth incapacitates all for profitable and progressive Exchanges.

6. How do new improvements in machinery and other enhanced facilities of Production in one country affect its foreign trade? A cheering response will be drawn out, if we now apply this question to the conditions of our old trade in silks and cottons. Suppose France by new methods of silk culture to become able to make the silk which before cost $80 for $50, cottons in France and silk and cottons in England remaining in natural cost as before, does France alone gain the entire advantage of the increased cheapness of silk? Wait a minute, and we will see. The production of silk in France is greatly quickened by the cheaper methods, more is produced, more is carried to England to buy cottons with, but at the old rate of 80 for 96, the English will not take any more silks, and the French who can now abundantly afford it, since their nominal 80 is really 50, will offer more silks for 96 in cottons, in order to tempt a brisker and broader sale. They offer, say, 96 in silks for 96 in cottons, and if that reduction of Value of silks in cottons be enough for the equalization of the respective Demands, the trade will proceed on that basis, at least for a time; and as there is now a larger difference of relative advantage than before, there will be, as always in such cases, larger profits to be divided between the two parties. The 96 now in silks to the English is really only 60 in cost to the French, so that the

French gain in the trade is largely increased; because they now get for what costs them 60 what would otherwise cost them 96, a clear gain of 60 %. Before the new methods of silk culture were introduced they could gain but 20 % at the utmost.

But the English have also reaped largely from the ingenuity and diligence of their neighbors. Before, they gained only 20 % in the exchange at best; but now they get for what cost them $100 that which would otherwise cost them $144, a handsome profit of 44 %. Indeed, it might easily happen, through the incessant changes in International Demand, that even a larger share of the benefit of the French improvements should accrue to the English than to the French themselves; the share of the French all the while being large, and much larger, than if, greedily endeavoring to keep all the benefit, they should refuse to trade at all. Thus we reach again from another outlook, a grand and universal doctrine of Exchange, *that each party is benefited by the progress and prosperity of the other.* Indeed, the only possible way in which all nations can share in the thrift and enterprise and improvements of each other, is through mutual international exchanges; and when each nation sees to it that it have a few commodities at least for which there is a strong demand among foreigners, and in the production of which themselves have a strong superiority, it may rest assured that it buys all it buys from abroad, gold included, at the cheapest rate to itself, and shares a part of the prosperity of every nation with which it trades.

7. Which party in foreign trade pays the Costs of Carriage, or do each pay them in equal proportion? It is plain, that the aggregate cost of transportation to the foreign markets is just so much added to the Cost of Production, and is a deduction of so much from what would

otherwise be the whole gain of the Commerce; but it is plainly not true, that each party necessarily pays the whole of his own freights; and, therefore, that the party carrying bulky articles is at a disadvantage compared with the other. He may or may not be at a disadvantage on that account. That will depend on the effect of the new expense for freight, however divided, on the Demand in each country for the product of the other. We will suppose, that in the outset England pays the whole cost of carrying cottons to France, and France the whole cost of sending silks to England; but as cottons are many times more bulky than silks proportionably to value, a larger bill of freights would fall of course to England; and cottons would therefore fall in value relatively to silks; but cottons and silks have both risen absolutely, that is, with reference to any given effort, or with reference to a money standard.

Suppose now that France, instead of 80 for 96, has to render 82 for 96; and England, instead of 100 for 120, now has to give 105 for 120. The French gain in the trade is reduced from 20 to nearly 17%, and the English gain from 20 to nearly 14%; but it is by no means certain, that the commerce would go on precisely on these terms; the enhanced value of silks might well deaden the demand for them in England, more than the relatively less enhanced value of cottons in France would affect the demand for them. Silks have risen in England 5%, but cottons have risen in France only 2½%; it is therefore very likely that thereafter the demand for cottons will be stronger than the demand for silks, and if so, the French will have to offer better terms, or, what is the same thing, to be obliged to pay a part of the English freights; so that there is nothing in the true state of the case to justify the conclusion jumped at by some people, that they who

carry heavy goods are at a disadvantage compared with those who carry light goods. That will depend wholly upon the Equation of International Demand as between the two kinds of goods. Nothing in the nature of things hinders, that each party shall in effect pay the freights of the other, or one even really pay the freights of both.

8. Lastly, what is the effect upon international commerce of the constant play of the Par of Foreign Exchange. This is a point of great importance, that has been but little discussed in this connection, because it has not been popularly understood or scarcely even popularly explained. In the light of the full unfolding of "Credits" in our Fourth Chapter, and in the light of these simple principles now under discussion, there will be no great difficulty to any intelligent reader in fully understanding this matter of Foreign Exchange, — a matter never before so vital to the commercial interests of the United States as now. For the sake of general illustration we will take the "Exchange" as between the United States and Great Britain, since the same fundamental principles apply as between all commercial countries.

When merchants export goods, say from New York to London, or *vice versa*, they do not wait for their pay till the goods be actually marketed abroad, but draw at once Bills of Exchange to the amount of the home value of the goods on the parties to whom the goods are sent, and then put these bills on present sale with brokers or middlemen at home. There thus becomes a market or prices current in New York for commercial bills drawn on London, and similarly a market in London for bills drawn on New York. The New York exporter, accordingly, is not certain of getting in money the full face of his bill *minus* interest for the time it has to run, because a great many such exporters may have thrown their similar bills upon the

market the same day, which always tends so far forth to depress the price of the bills in accordance with an universal law of Economics. Scarce is ever costly: plenty is ever cheap.

Who buys these bills when exposed for sale in New York? Who wants them? Clearly, only those who have commercial debts to pay in London. A bill of exchange drawn in New York on London is nothing but a debt due from somebody in London to anybody whom the drawer in New York chooses to make the payee. The debtor lives in London, and it is every way cheap and convenient for all parties, that he settle his debt with a creditor living in London. So it happens, that parties in London who have sold goods in New York and drawn bills on them for present payment, expose those bills for sale in London to the parties who have debts to pay in New York. If now, London or those whom London represents in these transactions, have sold but few goods to New York or to those whose business is settled in New York relatively to the amounts sold by New York to London, then London bills will be relatively scarce as compared with the New York bills drawn on London. In other words, New York has more debts to pay in London than London has in New York, and, consequently, the parties in London who want bills to pay New York debts with, have to buy them in a relatively scarce market. They have to *bid* for them, as it were. The effect of this is always to carry up the price of that, for which the buyers are many and the sellers relatively few. So, under perfectly natural causes, London bills on New York come to a premium; that is to say, the London sellers get more than the face of their bills drawn, and the trade with New York becomes *extra* profitable to them.

Suppose London bills of Exchange on New York are