

from the imposition of a high tariff, from the demands of war, of great migrations, of the opening of new countries to trade, the discovery of mines, and the like, always adds new intensity and activity to business. But such periods of intense activity are pretty sure, by over-production, to be followed by a general stagnation. Thus, from natural causes in man and in nature, there is a continual flux and reflux in the business of every country.

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LESSON XIII.

EXCHANGE.

1. EXCHANGE IN KIND.—One of the great departments of productive industry is exchange. One can obtain nothing which he does not produce himself, except by exchange. Without exchange, therefore, every article of this kind is just as useless to him as though it were not produced. It may be near the one who wants it, or it may be far off, but it is of no avail to him unless it is his, and in his possession. And were there no accepted medium of exchange,—*i.e.*, some article which all are ready to receive and pay out at a fixed value for other articles,—the only way in which one could obtain what he wants for what he has to spare, would be to look up some one who has what he wants, and at the same time wants what he has. To do this literally, he might have to go five, ten, a hundred, or even

thousands of miles; to cross oceans and traverse continents. So that to obtain some of the commonest articles now in use, such as tea and coffee, would be practically impossible. This mode of exchange, since the articles themselves are directly exchanged one for the other, is called *exchange in kind*, or *barter*. Under such a mode of exchange, indeed, there would spring up middle-men, or traders, who would assist in mediating the exchanges; but even with their assistance it is quite evident that such a mode of exchange is entirely inadequate to the wants of a civilized community, and that wherever it is in vogue the exchanges can be but few, and the people must live almost entirely on what they produce themselves.

2. EXCHANGE BY MEANS OF A CIRCULATING MEDIUM.

—The inconveniences attending exchange in kind are sure, at a very early period in a nation's progress, to lead to the adoption of some circulating medium which every one will take and give in exchange for other articles. At different periods and in different communities, as we know, almost

every article has served in turn for such a medium; as salt, iron, shells, Indian corn, tobacco, gold, silver, etc. It is called a circulating medium because it is a medium or means of exchange which is continually passing from hand to hand. Its functions are obvious. It is a mere "go-between" or instrument in effecting exchanges. Finding that it takes so long to exchange off their surplus products directly for what they want, men readily agree to receive some representative article for all others at certain rates. The principle of exchange, however, still continues to be that of labor for labor. If it is agreed that a pound of tobacco, or an ounce of iron, or a pennyweight of gold shall be received for a bushel of corn, it is because, at the time, the labor of obtaining these articles is equal to that of raising the corn. The only exception to this is the use of paper as a medium, which will be considered hereafter. But the representative article being once obtained, it may pass through thousands of hands without any further labor being bestowed upon it. Henceforth its only use is to represent the value of other articles, and by being received

and paid out as such, to save the labor necessary in exchanging off things in kind, and the perplexity in determining their relative value without some established standard of value to which they may all alike be referred.

Now, relying upon the universal receivability of this article, men who have a surplus of means furnish themselves with a supply of it, which they are always ready to give for articles that others have to exchange off; while the same men, or others, keep on hand articles which their neighbors want, which they are equally ready to part with for a certain amount of the established medium. Thus we obtain what we want by two exchanges on the spot, instead of effecting the same thing by a single exchange after a long search for a customer. The trader thus does us a real service, for which he receives his compensation by paying enough less for the articles which he takes of us, and charging enough more for those furnished us, to pay the cost and risk of providing what we want and exchanging off what we have to spare.

3. LAWS OF EXCHANGE.—Exchange, like all other

productive labor, is conducted upon the principle of gain. Men trade for gain, just as they perform any other irksome labor. All voluntary exchanges are made upon this principle. Hence men will always trade where they can trade to the best advantage, and goods will always flow to the best markets. These laws are in active and constant operation, and we may count upon their effect in every case. When allowed their free and unobstructed course, the whole business of trade flows on smoothly; but attempts are often made to interfere with them by forcing men to make exchanges which they deem against their interest. Thus governments, in want of means to carry on war, or for some other purpose, often issue paper money and declare it to be equal in value to gold, and enact that it shall be exchangeable for gold, and for other articles at the price of gold. In such a case, as men deem it to be no longer for their interest to exchange their gold and other articles for the government paper, if required to do so, the only effect is that gold and other articles disappear from the market; and if exchanged at all, it is only done

clandestinely for other things which they prize, or at a greatly enhanced price for the government paper. But if the government paper be merely declared a legal tender, then exchanges will continue indeed, but at much higher prices than when gold was the medium,—prices such as to satisfy the seller that it is for his interest to part with his articles. Trade, then, like every other species of industry, if let alone, will regulate itself.

4. SLOW AND RAPID EXCHANGES.—Almost every article, in the regular processes of production, passes through several hands before it reaches its final destination. Even the grain of the farmer has to be ground and cooked, as well as raised, before it is ready for consumption. Often, too, it has to be transported to distant parts of the country, or even exported to foreign lands, thus greatly increasing the number of hands which it passes through. And most other articles pass through a much larger number of hands before they are consumed; and this all in the natural course of things. But not unfrequently, articles in the course

of their progress toward their final destiny, are bought and sold, and transported many times on speculation, which still further increases the number of hands that they pass through. And where this happens to almost every article, it greatly increases the number of exchanges in a country. Now does such an increase of exchanges indicate a desirable state of things? We sometimes hear the proverb quoted with approbation, that “a quick sixpence is better than a slow shilling.” Perhaps it is for speculators and cunning persons who are engaged in running up prices artificially; but not, I must believe, for the community at large. When a large proportion of a community are engaged in buying and selling, to the neglect of productive industry, it always indicates an unhealthy state of things. It has been thus during and since our civil war. Money has been plenty, and hence easily commanded for the purposes of speculation. Not only have men been engaged in speculating in worthless stocks, which, without any real present value, and depending for their reputation chiefly upon their specious names of “gold stocks,” “coal stocks,” “copper

stocks," and "oil stocks," they have cried up or down, according as they wanted to sell or buy; but they have speculated also in all the ordinary articles of life, thus in many instances doubling their price. Whoever likes this state of things may prefer the quick sixpence to the slow shilling, but for my part, I prefer the latter.

5. FOREIGN EXCHANGES.—Our wants, being numerous, can not all be supplied by articles produced in any one country. If we look over the list of articles in use in this country, we shall see that a large number of very important ones come from abroad. These, of course, like all articles which we do not produce ourselves, can be obtained only by exchanges. We may give in exchange for these articles other articles which we produce, or we may pay for them in gold and silver, the common money of civilized nations. Paper money, even when redeemable in gold and silver, will not suffice for foreign exchanges. If we import silks, teas, coffee, and the like, from foreign countries, we must pay for them in real values; as gold and silver, agricultural or

manufactured products, bonds, or some other article which they want. And if we do not produce the articles which are wanted in exchange for them in the countries where they are obtained, we must first obtain these articles by exchanges with those countries which do produce them, and send them thence to places where they are required. Thus, if sugar be required to settle our balances in Europe, we can send lumber to Cuba, and exchange it for that article and forward it thence to the point desired. If it be gold that is required, we can obtain that in the same way from some gold-producing country, if there be none to spare in our own. Foreign exchanges, like other exchanges, are made, of course, for profit. They may sometimes, indeed, as in other cases of exchange, prove not to be profitable, but when they are profitable they are always well made. It matters not where the articles exchanged go to or come from, if only a profit is made; and the larger the field from which the articles are selected, the greater the chance for profit.

6. BILLS OF EXCHANGE.—If all the exchanges of

products and merchandise between different countries and different cities were made directly backward and forward between the same individuals or parties, they would be very easily adjusted. If, for instance, all the cotton purchased in Boston at New Orleans were purchased by and of a single firm, and all the manufactured goods purchased in New Orleans at Boston were purchased by the same firm in New Orleans and of the same firm in Boston, they would merely have to offset one purchase against the other, and settle the balance, if there were any, by cash. The exchange would be merely an exchange in kind. And such, in reality, it generally is; since one community is able to purchase of another only by means of what it produces itself, either directly or indirectly. If, then, the claims in one city or country against another can be brought together, they will in a great measure balance each other. This is done by bills of exchange. If A in Boston owes B in New York \$1000, and C in New York owes D in Boston the same sum, then A can purchase of his fellow-citizen D his claim against C (called a bill of exchange), and send it to his cred-

itor B, who can collect it of his fellow-citizen C, and the whole will be settled without the transportation of any money, it having been reduced to a mere exchange in kind. And in the same way the exchanges between different countries are settled.

Exchanges are continually going on not only between cities in the same country, but between different countries as well. When the exchanges are equal between two cities or countries, they may all be settled by bills of exchange; but when not, specie must be sent to meet any excess of indebtedness on the part of either. In such a case, the balance of trade is said to be against that city or country, and bills of exchange there, of course, will be high, since there will be more persons wanting to make payments in the other city or country than there are who have funds there to draw against. During our late war, our imports from England being greatly in excess of our exports, exchange on London was high, and much of the gold which was driven from the circulation by our legal-tender notes was transported to that country and bills of exchange drawn against it to be sold at a high premium to our

importers. But the rate of exchange can never exceed the cost of obtaining and transmitting the gold to the place where the balance is due. It should be recollected, however, that the value assigned to English and French coin by our laws is considerably below their real value, so that when exchange on London is at $9\frac{1}{2}$ per cent. advance, and 5 per cent. on Paris, it is really at par,—this advance being merely equal to our under-estimation of the value of their coin.

LESSON XIV.

MONEY, METALLIC AND PAPER.

1. THE AMOUNT OF MONEY REQUIRED FOR THE BUSINESS OF A COMMUNITY.—The amount of money required for the business of any community will depend, of course, upon the extent of the business to be transacted and the extent of territory over which it is spread. Though one community may economise the use of money more than another, by using checks and drafts instead, yet, the greater the number and the amount of its exchanges, the greater will be the amount of money required to make them. So, too, if these exchanges are made at a distance from each other, it will require more money to make them than if made near each other, since exchanges at a distance are more independent of each other, and can not so often be made with the same money. As already explained, in the