

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

natural course of production most articles change hands several times before they reach their final destination. These may be called natural and legitimate exchanges. Now the question is, how are we to ascertain the amount of money necessary to make these exchanges in any community? The answer is at hand. When the circulating medium of a community is gold and silver, only natural and legitimate exchanges are made, since the money-equivalent, or price, always represents the same amount of labor as the article for which it is exchanged. In such a case, the prospect of gain by a rise in the price is not sufficient to stimulate men to make many exchanges on speculation.

A certain amount of gold and silver money, then, is necessary to transact the business of a community with convenience. If at any time there be more than this amount in circulation, it will flow off to other countries, or be manufactured into jewelry; and if less, the deficiency will soon be supplied, like a deficiency in any other article. Now, such an amount of coin being necessary for this purpose, if paper money be substituted for it and accepted as

the medium of exchange, the same number of dollars will be required, and no more. If there be any more put in circulation, its value will depreciate in the same proportion, so that the *value* of the whole will be no greater, however much increased in volume. In Great Britain, the note and coin circulation together is about \$460,000,000; and it is estimated that the amount of currency based upon specie required in our country is about \$300,000,000, which is about one-fiftieth of the whole property of the country; and however much there may be in circulation, it can never be worth more than this number of gold dollars.

2. PAPER MONEY.—Coin, as we have seen, possesses a real value, like any other article which is produced, depending upon the labor bestowed upon it in preparing it for use. Paper money, on the contrary, possesses but little value in itself—barely that represented by the amount of rags and printer's ink required to manufacture it. Its chief value, therefore, is conventional, arising from its being agreed upon or accepted as the circulating medium.

As stated above, a certain amount of money must be had to make exchanges with, and if paper money be accepted, it will be used. But as it has no value of its own, every dollar beyond what is actually required for the legitimate business of the community is perfectly worthless, and only increases the volume of the currency without enhancing its value. Any excess, therefore, in the amount of a paper currency shows itself in a general rise in prices. Dollars being more abundant than the business actually requires, they are estimated at less, and hence a larger number of them is demanded for an article. This depreciation goes on with the increase of the volume of the currency, and will exactly keep pace with it, unless the parties issuing the money are regarded as responsible and as likely in the end to redeem it in real values. If the circulating notes bear the promise to pay of a strong and well-established government, they derive a certain value from the probability that the government will at some future time fulfil its promise. Still, any mere promise to pay at some indefinite future time, by whomsoever made, can not prevent a

Note, if issued in excess of the amount required in specie, from depreciating, though it may retard somewhat its downward progress. The value of a paper dollar, then, depends partly upon its being needed as a medium of exchange, and partly upon the prospect of its being ultimately redeemed in real values.

3. PAPER MONEY REDEEMABLE IN SPECIE.—The only sure way to keep paper money from depreciating is, by the party issuing it standing ready to redeem it at any moment on demand in the precious metals. Then, if there be any considerable excess in the circulation, it will flow in for redemption. It is not sufficient that it should be redeemable in ordinary articles of value. Such articles fluctuate too much in price, and are not universally receivable in exchanges. All persons are not desirous of obtaining them at all times, and hence, to be required to receive them in redemption of notes would be like deferring their redemption for a longer or shorter period; since it might be some time before we should be able to exchange off these articles to our liking. But gold and silver

have great uniformity in value, and are always in demand. Every one wants to get as much of them as he can. Being comparatively rare products, beautiful in appearance, and easily wrought into beautiful forms, they are the universal money of all commercial nations, and besides, are valuable for plate, jewelry, and other ornamental purposes. They are thus just fitted to be the basis for the paper circulation of any country, and they are the only articles which are precisely fitted for this, requiring only that the different pieces be coined and stamped by the government according to their real value, that this may be readily known.

At the present time (1867) our paper money is redeemable in the bonds of the United States, bearing semi-annual interest at six per cent. in gold, and payable at different periods in the future. But notwithstanding the undoubted ability and disposition of our government to pay, this has not prevented the great depreciation of our money. And that it is our notes which are worth less, and not the gold that is worth more, is evident from the fact that gold is no more diffi-

cult to obtain from the mines now than formerly, nor is it any dearer in other countries. Indeed, even specie-paying notes sometimes become depreciated by being issued in excess in times of public confidence. This was often the case under our system of State banks, and when so, was invariably indicated, as any depreciation always is, by a spirit of speculation rampant in the community. But in such cases the suspicions of some shrewd persons are at length aroused, and the specie demanded, which leads to a run upon the banks, and their failure, if not sound.

4. CREDIT SUBSTITUTES FOR CURRENCY.—Although, in one sense, currency is itself a form of credit, yet, when a legal tender, or redeemable in specie, it pays debts, which pure credit does not, but simply acknowledges a debt to be paid at some future time. The usual forms of credit are,—book-accounts, notes of hand, bonds, bills of exchange, and checks. Book-accounts simply give the purchaser credit for a certain number of months; but the goods thus purchased may be sold again

and again on credit before the account becomes due, thus creating in the community many times the original credit. Notes of hand are generally retained by the holders till they are due, and then collected in money or its equivalent. Occasionally they pass from hand to hand in the payment of debts, but to no considerable extent. However, as they are on time, the products or merchandise for which they are given may, as in the previous case, be sold and resold many times for the like credit before they fall due. Bonds being generally predicated on certain property specified in the bond, that property, of course, can not be sold till they are paid. The bonds themselves, however, may pass from hand to hand in the payment of debts, as do the United States bonds to some extent at the present time.

As to bills of exchange, acceptances, or drafts, predicated upon credit given some one for goods or other articles, they are themselves a counter-form of credit, designed to enable the creditor to raise money now on a debt due some time hence. They are thus a credit based upon a credit; but that

credit, being a personal affair, can not be again disposed of to another, and hence bills of exchange do not extend credit beyond their own amount. Checks, drafts on banks, and other drafts payable at sight, are not in reality forms of credit at all. They are received as cash because they represent cash, and can be turned into it at any moment. They thus serve the same purpose as currency. But the real forms of credit do not serve this purpose, only as far as they pass from hand to hand in the actual payment of debts. They merely have a *purchasing* power, not an actual *paying* power. They avail to negotiate exchanges, and hence enhance prices, but do not avail for their final settlement. Hence, when credit is unduly expanded, the purchases are too great for the means of payment, and consequently failures and financial ruin ensue.

5. AN INFERIOR MONEY WILL ALWAYS DISPLACE A SUPERIOR MONEY FROM THE CIRCULATION.—As already stated, a certain amount of money is necessary in order to carry on the business of a country. And it matters little what be the real value of the

dollars in use, provided their number be not greater than would be required if they were gold and silver. If, now, an inferior medium be introduced under the auspices of the government, or some controlling money-power in the State, it will necessarily go into circulation, and will inevitably displace any superior money already in circulation, and prevent any such from coming into circulation. The reason is obvious. The superior money is more valuable in itself. It has a value of its own, independent of its value as money; whereas, the inferior money depends for its value, wholly or mostly, upon its use as money. And as the worthless money, if not expanded beyond the limits indicated above, will answer the same purposes as that which has a value in itself—and, if made a legal tender, will answer many of the same purposes, even when further expanded—it is obvious that they will not long circulate side by side. The more valuable medium will inevitably be withdrawn and put to some use where it will be estimated according to its real value; it certainly will not remain where it must be on a par with a really

worthless or inferior article. If the superior money be gold and silver, it will be hoarded, or shipped to other countries, or manufactured into plate, jewelry, etc. We have seen this under our legal-tender circulation during the war, and the same thing has often been observed in the history of other countries. Indeed, under our old system of State banks, when the circulation became depreciated through undue expansion, as it frequently did, this invariably led to speculation, and hence to over-importing, and hence to the flowing of gold abroad to pay for these imports, and hence, usually, to the suspension of specie payments on the part of the banks.

6. RESUMPTION OF SPECIE PAYMENTS.—In the present inflated state of our currency (1867) every one is anxiously inquiring how and when we are to return to specie payments. I see but one way in which this can be done, and that is by a steady and persistent contraction. It may be well for the government to husband and even hoard the gold it receives for duties; and it should also, in order to encourage the introduction of gold more gen-

erally into business, immediately so modify the legal-tender act as to authorize special contracts in gold; but while the number of paper dollars in circulation is as great as it is at present there is no prospect of our being able to accumulate enough gold to redeem the surplus of paper over what is actually needed for the purposes of business. Only about three hundred millions of dollars being required for the legitimate purposes of business, all the currency in circulation which is in excess of this amount—and this at the present time must constitute a sum at least equal to that above named—would immediately, were the opportunity offered, flow in for redemption, and at once swamp the Treasury. A large part of this excess, therefore, must be drawn in by the Government, either by taxation or the sale of bonds, and destroyed before it can resume specie payments. And the banks, of course, can not resume specie payments till the Government has done so. The contraction, indeed, should not be violent, lest too great a shock be given to business; nevertheless, it should be persistent and at a rate which will permit the resumption at no

very distant period. It is vain to talk of waiting till our bonds are at par in Europe. As most of these bonds, as far as the acts issuing them are concerned, are payable in currency, they never can be at par abroad—nor at home either in gold—till the currency is at par. It is clear, therefore, that the only way to specie payments is through contraction. Let no one imagine that there is any other “natural way,” of which we hear so much, except this.