

shoes, while an equal exchange would require six or seven pairs. Thus, to find purchasers of his own commodity among those whose commodities he desires in quantities corresponding to those of his desired by them, would be a protracted and tedious business.

A partial remedy for this inconvenience would be found in the agency of *trade*,—the establishment of places where all kinds of commodities would be taken by the merchant, and where within certain limits one would be reasonably sure to find whatever was desirable in return for products brought in. This might be further supplemented by book-account. But, greatly as these devices would abridge and expedite the business of exchange, it would be found that not only an *agency* is necessary, but also an *instrument*,—a medium readily receivable for all commodities, and in exchange for which all desirable commodities would be readily taken.

CHAPTER VII.

THE PRECIOUS METALS.

1. THE great majority of political economists agree as to certain characteristics which should belong to any substances used as the medium of exchange. The mere enumeration of these indicates the reason why certain metals have been almost universally accepted for this purpose. 1. It is said that the material should have value, aside from its use as money. 2. It should be generally uniform in value; that is, the value should not be greater in one place than in another. 3. It should comprise much value in small bulk. 4. It should have some close approximation to constancy of value. 5. It should not be easily destructible. 6. It should be divisible into small portions, which can be re-united without loss. 7. It must be of universal use. 8. It must be capable of receiving and retaining stamps and marks indicating its current value.

These characteristics are attributed to gold and silver. 1. They have a natural value, aside from that implied in their use as money. They are employed in the arts, though to a less extent than for the purpose of money. On this account, should either of them be demonetized to any considerable extent, the value would greatly diminish. 2. Being simple substances, and, in proportion to their value, easily transportable, it has been generally held that they were of the

same value in every part of the world. This, however, is denied by several eminent writers. It is not practicable to fully discuss this question, but I will refer to an authority or two. Professor Cairnes, one of the ablest of recent writers on political economy, in speaking of the doctrine that the value of gold is the same all the world over, says, "Now, if this be so, as the value of gold is merely another expression for the gold prices of commodities, it must follow that a high or low scale of general prices existing in any country, and not shared by every other, is an impossible occurrence. As there is no local value of gold, there can be no local scale of prices. I have no hesitation, however, in expressing my opinion that the doctrine in question, with whatever confidence advanced, is totally destitute of foundation."¹ Ricardo had some time before said, "The value of money is never the same in any two countries; depending, as it does, on relative taxation, on manufacturing skill, the advantages of climate, natural productions, and many other causes." Other writers, while substantially admitting the truth of the above statements, claim that the variation is not of large amount. Yet obviously it must vary with the scale of general prices.

3. That these substances comprise much value in small bulk, is sufficiently palpable. 4. It has also been generally held, that gold and silver are constant and uniform in their value. Yet it has of late been evident, that, with the vastly increased production of these metals, their value has greatly diminished: but this diminution, it is claimed, comes gradually and through the lapse of years; so that the change is scarcely appreciable within the time for which contracts are ordinarily made. Most writers regard them as far less variable than any other commodity which at present exists. It

¹ Leading Principles of Political Economy, etc., p. 408.

is highly probable, however, that far too great an estimate has been placed upon this supposed characteristic. It comes in part from the confusion of price with value. The price of all other things is their value expressed in money. The price of money is its value expressed in itself. In other words, there is no such thing as *the price of money*. Where gold and silver are the basis of money, *they* have no price. But their *value*, like the value of other things, is their purchasing power. Because they are made a standard of value, and because this value is always equal to itself, we are easily deluded into the belief that it never varies.

Says M. Bastiat, an eminent economist of France, "A measure of length, size, and surface is a quantity agreed upon and unchangeable. It is not so with the value of gold and silver. This varies as much as that of corn, wine, cloth, and labor, and from the same causes; for it has the same source, and obeys the same laws. Gold is brought within our reach, just like iron, by the labor of miners, the advances of capitalists, and the combination of merchants and seamen. It costs more or less, according to the expense of its production, according to whether there is little or much in the market, whether it is little or much in request; in a word, whether it undergoes the fluctuations of all other human productions."¹ Professor Fawcett holds that "The value of gold accurately varies in the inverse ratio of the prices of commodities. If the prices of all commodities rise one hundred per cent, the value of gold falls one hundred per cent; for the same quantity of gold will exchange for, or purchase, only one-half as much of the commodity."²

¹ Essays in Political Economy (Putnam's translation), p. 166.

² Manual of Political Economy, pp. 365, 366. There is a singular error in this statement, which it seems strange that such a writer should make. If prices rise one hundred per cent, gold falls *fifty* per cent. If it should fall one hundred per cent, its value would be nothing at all.

5. These metals are among the most indestructible of substances, and the wear and tear of them is inconsiderable and inexpensive.

6. They are divisible into small portions, to suit the convenience of users; and can be readily re-united by melting, whenever desirable. In this respect they differ from diamonds, which comprise even greater value in the same small bulk; but when the latter have been once divided into fragments, they cannot be re-united. Another difference is, that gold and silver have a value proportional to their quantity; while, in the case of diamonds, the larger are usually of proportionally greater value, — that is, a diamond twice as large as another may be of five times the value.

7. Gold and silver are also of almost universal use, and can be transported from one country to another at slight expense.

8. Finally, they are capable of receiving stamps and marks in the way of coinage, by which their character and value are indicated.

2. These characteristics of gold and silver have made them media of exchange from very early ages, even before men were fixed in permanent habitations.

When and where coinage began, is not known; but probably it was somewhere in Western Asia, about 800 B.C. Though gold and silver are the most widely adopted media of exchange, they are not the only substances which have been used for this purpose: iron, cattle, wheat, tobacco, shells, beads, the skins of animals, and other articles, have officiated in this capacity.

3. The relation of government to money is a matter of some importance. It is to be observed, that gold and silver became the recognized instrument of exchange in the early civilizations, not by any arbitrary edict of rulers, but by the

spontaneous consent of society, growing out of a general perception of their natural fitness for this office. But it by no means follows that government has nothing to do in relation to it. Government must, for one thing, determine what shall be a *legal tender*; that is, what, when offered in payment of a debt, shall be a legal discharge of that debt. A vital object of legislation is, to prevent uncertainty in the interpretation of contracts. Accordingly, it must prescribe what shall constitute the fulfilment of a contract, or a discharge of its obligation. Otherwise there might be contention and costly litigation. Thus, one man owing another for a barrel of flour, the former might offer to pay in oats, of which the latter is not just now in want; or in glass bottles, which he will never want. Or the creditor might refuse to receive money of any kind, and demand some commodity difficult or impossible for the debtor to obtain. Government may prevent all liability to this trouble by determining, in cases where no commodity is designated, what shall be regarded as a fulfilment of the contract. But it will, at the same time, leave the contracting parties free to designate any material as the medium of payment; and, when so designated, both parties will be held to the terms of the agreement.

Government has also a function to exercise in determining the kinds of coins, their names, their weight, and the degree of purity of the metal; what shall be the monetary unit, and the stamps and marks to be put upon the several pieces to distinguish them. It may also punish any corruption or counterfeiting of the coin. It must fix the monetary standard, and determine whether it shall be one or the other, or both, or neither, of the precious metals. These have been regarded by most writers as the main functions of the government in relation to money; and it has generally been

taught, that much beyond these it is not possible for the government to go without transcending its sphere.

4. What shall constitute the monetary standard? is a question open to some discussion. Three different standards have been in use in different modern nations, and at different times. Some have fixed upon gold, others upon silver, and others still upon both. As between gold and silver, the preference depends chiefly upon the stability of their respective values, but subordinately also upon the convenience of handling. There is not only a difference among the several nations concerning the standard adopted, but the same nation has changed its standard, and sometimes more than once. Many years ago, Germany adopted silver: within the last few years it has changed to gold. In 1858, Holland adopted silver, having previously had the double standard. She also has recently changed to the gold standard. What is called the Latin Monetary Union — comprising France, Belgium, Switzerland, Italy, and Spain — nominally adheres to the double standard, though the coinage of silver in all of them has been restricted, and for a time prohibited. Greece and Roumania have the same system, as do also Peru, Ecuador, and New Granada, in America. The single silver standard is maintained by Austria and Russia, though in these countries specie payment has been for a long time suspended. Nearly all the vast population of Asia make silver the legal standard, as do several nations on the American continent, — about one-third of the inhabitants of the world altogether.

Great Britain adopted the gold standard about sixty-seven years ago, — the first nation ever making the experiment. The same standard now exists in Portugal, Egypt, Turkey, the Scandinavian kingdom, a portion of South America, and the English colonies of Australasia and South Africa. Ger-

many adopted gold about 1870, and the United States in 1873; but the latter returned to the double standard in 1878. In all these countries, silver is used as a subsidiary coin, and is made a legal tender for a limited amount.

5. The relative value of gold and silver varies from time to time. From the earliest period of which we have any record, — that is, from about 1600 B.C., — down to the beginning of the Christian era, they stood to one another in the relation of about 1 to 12 or 13, occasionally going up to 1 to 14, and once falling as low as 1 to 8.93. From that time to 1640 A.D., the ratio varied from 1 to 14.40 to 1 to 10.50. Since 1640 it has never gone below 1 to 14, nor so high as 1 to 16 till 1872. The legal ratio adopted by the European governments for many years has been that of 1 to 15½. Since 1872, there have been marked variations in the ratio. For a while it increased greatly, at one time going as high as 1 to 22.54, though this was temporary. For most of the time it has been 1 to 17 or 18.

CHAPTER VIII.

CERTAIN DOCTRINES CONCERNING MONEY CONSIDERED.

1. THAT money is not synonymous with wealth, is a proposition requiring little discussion. At this day, to most thoughtful persons, it appears like a truism. Yet, because in former times many wise men thought differently, and because some popular fallacies have grown out of the opposite doctrine, and are still extant, it is proper to give some attention to it. Some nations were so thoroughly imbued with this latter notion, that it became an important object of legislation, how to prevent any exportation of the precious metals; such exportation being regarded as so much subtracted from the wealth of the country. The world has been some ages in learning that wealth consists not in money, — which is only an instrument for the exchange of those articles constituting wealth, — but in the abundance of those things which command money.

2. The value of the money in circulation in the community need be only a small fraction of the value of the commodities exchanged through its instrumentality. To most thoughtful persons, this will appear also as a truism. Yet we sometimes hear men reasoning as though the value of the exchanges made were somehow equivalent to that of the money used in making them. A familiar example will illustrate the fact that a small sum of money will effect exchanges

involving many times its value. Suppose you are in want of a hat: you have five dollars, which you exchange with the hat-merchant for the article desired. The latter pays it to a man of whom he has bought some wood. The latter buys with it a barrel of flour; and the flour-merchant gives it to one of his clerks, in payment for services. The clerk pays it for board to his landlady; and she puts it with other money, to discharge her quarter's rent-bill. The landlord sends it to his son at school, who uses it to pay his tuition. Here are exchanges to the amount of thirty-five dollars, though but one-seventh of that amount of money has been used. Thus it is evident that the money requisite to effect the exchanges of a community equals in value only that of a small part of the commodities exchanged through its use. As we shall see hereafter, the exchanges made without the direct intervention of money are still greater in proportion to the amount of the medium in circulation.

3. It is a commonly received doctrine, that the value of money is proportionally greater when its quantity is less, and *vice versa*. There is no doubt, that, as a general principle, this is true; yet the proposition is not to be construed too rigidly, and it is practically subject to many modifications. There is very little doubt, that, in a state of society otherwise perfectly stationary, where previously there had been *just the proper amount of money* to furnish the best facilities for exchange; where money was the sole instrument of exchange, and there was no resort to the mechanism of credit-transfers, — the introduction of a considerable addition to the amount of money in circulation would increase prices, while a subtraction from this amount would diminish prices.

The relation of the amount of money to general prices is affected by a variety of actual facts, some of which are pretty certain to be present in any state of civilized society.

1. There is seldom just the amount of money in circulation that would furnish the most nearly perfect facility of exchange. It is impossible to determine how much is needed in any given case. But it is certain that some particular quantity meets the conditions better than any other. If there be either more or less than this, commerce will be unfavorably affected. It is the doctrine of a certain school, that, if a purely metallic currency exist, "any amount is enough;" since, it is said, prices will adjust themselves to that amount. A distinguished statesman illustrates this by saying, that, if a single yardstick can measure one piece of cloth, it can measure any number of other pieces. This is true; but who would ever think of saying, that in a great dry-goods store, employing several scores of salesmen, "any number of yardsticks would be enough," since the business would adjust itself to the number? Evidently the number must be something more than a very few, or the business must suffer. If money is the instrument of exchange, there must be a certain ratio of the amount of money to the amount of exchange which is normal; and any variation from this can but be in some degree disadvantageous.

Suppose, that, in a nation where the amount of the circulating medium has been less than this normal quantity, by some means there is an increase. Now, no doubt, prices will rise. This will follow not merely because there is more money, but for other reasons as well. By the very hypothesis of there being too little previously, commerce was crippled, production was checked, labor was not fully or remuneratively employed; and the purchasing-power of the whole community was thus diminished, making the demand even smaller than the supply. The addition to the machinery of exchange would furnish a remedy for the depression: industries would revive, labor would be in demand, exchanges would be ready and

quick, the purchasing-power of the community would be enhanced, and prices would rise. They would rise even without any addition to the stock of money, if, without this, these other conditions could have been secured. So that the increase of money causes the increase of prices, not merely by its own occurrence, but quite as much by the impulse its presence has given to business. We should find an equally clear illustration of the general principle in the case of a withdrawal of a portion of the circulating medium.

2. Another factor to be regarded here is that of the perpetually increasing facilities of production. These diminish the cost of commodities, and consequently cause prices to fall. The multiplication of the appliances by which the forces of nature are now compelled to do the work formerly performed slowly and painfully by man, is patent to the commonest observation. This very multiplication of production in proportion to cost would, of itself, tend to multiply exchange, and, so far forth, would create a greater demand for money to facilitate the exchanges; while, at the same time, the diminution of the cost of production would tend to depress prices. Hence, even if, other things being equal, the increase of money would enhance prices, the fact alluded to would wholly, and probably much more than, neutralize the effect.

There is yet another modifying fact to be noticed. The influence of the increase of productive facilities is felt much more in manufactured articles and finished commodities than in coarse products and raw material; so that while the former, under conditions usually existing in civilized communities, are continually growing cheaper, most agricultural and mining products, as also land and labor, tend to grow dearer. It is thus, as Mr. Carey has shown, that, in a prosperous community, the prices of raw material and of finished products more and more approximate.

3. It is evident that commerce, or at least the desire to exchange in our modern communities, tends to increase more rapidly than metallic money. Hence the various devices by which the various forms of credit are made to furnish a large supplementary mechanism of exchange, — by means of book-account, bank-deposits, bills of exchange, drafts, checks, etc. As we shall see hereafter, much the larger proportion of the world's exchanges are effected in this way. These methods would be adopted to some extent, even if the abundance of coin were ever so great. But there are limits to their profitable employment, and those limits are more likely to be overstepped when the supply of currency is scanty than when it is abundant.

It will be seen, from the foregoing considerations, that while money, like other objects of value, is subject to the law of supply and demand; and while, all other conditions remaining the same, prices are inversely as the amount of money, — yet there are so many and such complicated counter influences at work, that the rule is not only of little practical consequence, but it is sometimes false and misleading. Says Stephen Colwell, "The notion long prevalent, that prices were exactly adjusted to the quantity of currency, is shown to have long since exploded. Among the innumerable influences which go to determine the general range and fluctuation of prices, the quantity of money is found to be one of the least effective."¹

¹ Ways and Means of Payment, p. 17.

CHAPTER IX.

THE CREDIT ELEMENT IN THE INSTRUMENT OF EXCHANGE.

1. So far, the only money spoken of, except incidentally, has been gold and silver. The characteristics which have made them the almost universal media of exchange have been indicated. Yet it must be evident to the most superficial observer, that, especially in recent times, they have constituted only a minor portion of the machinery of exchange. The chief reason for this is their limited quantity. Moreover, the amount of them which would now be absorbed in making *all* the exchanges of the commercial world, would render them too costly an instrument.

It is true that the production of these metals within the last few centuries, and especially within the last thirty-five years, has been very great. But great as has been the increase, the increase of demand for them would have been still greater but for the substitution of other devices. Besides the costliness of the material, even were there a sufficiency of it, the handling and conveyance of such vast sums as would at times be necessary, would be exceedingly inconvenient and expensive, if not at times impossible.

2. The system of credit would easily suggest itself, not only as a matter of convenience in other respects, but also as an instrument of exchange. Let us take the following as an illustration. In a rural region, a farmer buys of the country

merchant from time to time, for a series of months, whatever he may need for his family or his farm, — small groceries, cotton cloth, crockery, furniture, scythes, rakes, hoes, shovels, etc.; with which he is duly debited. From time to time also he carries to the store, butter, eggs, cheese, apples, potatoes, wool, wheat, corn, etc.; with these he is credited. At the end of the year the accounts are balanced, and whatever difference there is — and ordinarily it would be small — might be paid in cash, or carried over to a new account. Thus exchange to the amount of several hundred dollars may be made, and only ten or fifteen dollars in money be used. Credit here in the form of *book-account* has been the instrument of exchange. It is to be noted, however, that reference is had, in all these exchanges, to money as the measure of values. The pound of tea is debited, not as so much tea, but as one dollar; the scythe and snath, not as such merely, but as three or four dollars, as the case may be. So the farmer is credited, not with the ten pounds of butter simply, but with three dollars; and the thirty pounds of cheese is put down as five dollars.

Now, let us suppose that the farmer, whom we will call A, has a balance of fifteen dollars in his favor in his settlement with the merchant, whom we may call B. A also settles with the blacksmith, whom we may designate as C, with whom he has an account of a similar character to that with B. Let us suppose that the balance here amounts to fifteen dollars against A. The latter may now give C an order on B for this amount. C takes it to B, who accepts it, and debits the amount to A. Possibly C may also have an account with B, and the balance against the former may be just fifteen dollars. In that case the amount debited to A on the acceptance of his order will be credited to C; and thus all three accounts, amounting perhaps to several hundred dollars, will

be settled, and all balances paid, without the use of any money. This is called a *transfer of credit*, and, as we shall see hereafter, is a very large element in the mechanism of exchange. The above is a very simple instance, and yet contains all that is essential to a system which is variously implicated, and extends to transactions involving the value of many millions of dollars.

3. The following definition of credit is given by McCulloch: "Credit is the trust or confidence placed by one individual in another when he assigns him money or other property in loan, or without stipulating for immediate payment. The party who lends is said to give credit; the party who borrows, to obtain credit." The importance of credit, both as an instrument of exchange and as an aid to production, is very great. In order to production, as we have seen, a man must be able and willing to work, and there must be capital with which in some way he can unite his labor. The constituents of capital he must in very many instances borrow of some capitalist before he can work to any advantage in producing means of his own to exchange for the capital needed.

4. The advantages of credit may be briefly presented as follows: —

1. *To the capitalist.*

(a) Without a credit-system, each capitalist must keep all his means in his own hands, and thus incur the liability to extend his business beyond his ability to manage it. The limits of executive talent vary greatly in various men. Some can conduct the most extensive and complicated enterprises, involving perhaps millions of capital. Some, while able to earn fair or even large wages by their labor and skill, are yet incompetent to carry on even a small business of a simple character. Between these two extremes lie all the grades

of business ability. Hence there will always be men with more capital than they can manage, while others will be competent to manage more capital than they own. It will, then, be for the interest of the former to become the creditors of the latter, if they can do so with good security.

(*b*) Again, there are those who have considerable incomes, the surplus of which, above their expenditures, it is impossible to invest in their own business. Lawyers, physicians, literary men, teachers, artists, and many others are included in this class. Widows and children are often left with property sufficient for their support, if it can be properly invested; but they cannot usually carry on business themselves. If their property can be safely loaned, both they and the community will find advantage in such a disposition of it.

(*c*) Finally, as men advance in years, they are less capable of superintending an extensive business. It is natural that there should be a contraction, rather than an expansion, of their enterprises. In some cases it is necessary for them to altogether retire. In either case it would involve the withdrawal of a part or a whole of their capital, which must lie idle or be loaned.

2. *To the non-capitalist.*

(*a*) A man works with more interest, vigor, and success, where the enterprise is his own, than where it belongs to another. Then, too, he can adapt himself to his work as to time and circumstances, as he could not were he a mere journeyman. He will thus be likely to greatly enhance his production, both in quantity and quality.

(*b*) Moreover, as we have seen, there are some men who have peculiar abilities of a high order for organization and management; which abilities, without borrowed capital, can find no good opportunity for exercise, and will thus be lost both to their possessors and to the community.

(*c*) If each retains his own property as capital, there will be accumulations in a few hands and places; whereas, with a wise credit-system, capital will be diffused more widely, and will bring the producer and consumer, as the capitalist and the laborer, into easier relations to each other.

5. It thus clearly appears, that, by a judicious system of credit, the capital of a community gets more fully combined with labor, and production is palpably increased. It is to be recollected, that what is ostensibly borrowed and lent is *money*, but really it is *material* and *implements*. Thus a man desires to set up in the business of a blacksmith. He has simply the ability to labor, and the skill and intelligence, that fit him for his vocation. But he has no shop, no tools, no coal, no iron. If some one would lend him these, with the understanding that he might pay for them under stipulated conditions, and thus become their owner, it would answer all his purposes. Possibly in some cases this would be done; but generally he would borrow the *money* with which to purchase these.

These are only some of the forms and advantages of credit. It must exist to a greater or less extent in nearly all transactions of men with men. The employer must either trust his workmen with pay in advance, or they must trust him till the work is done. In countless ways it ramifies through society, and aids in all the affairs of commerce as well as in the production of wealth. Without it, society could scarcely advance beyond the condition of barbarism. It is the essential element in all the great enterprises characterized by the combination and division of labor. In commerce, as in religion, "we walk by faith, not by sight." But we have to do with it here chiefly as supplementing the precious metals in the function of an instrument of exchange. As we shall see, credit, in one form and another, constitutes the larger part of this instrument.