THE ECONOMIC CRISIS AND ITS CAUSES.

THE economic crisis, which has already lasted ten years, is becoming yearly more and more acute. In every direction workshops are closing, blast furnaces are being put out, and factories and dockyards are dismissing half their workmen. The latter, whose lot is often said to be improving, finding themselves without employment, clamour for either work or for pecuniary assistance. None, I think, will deny that the immediate cause of all this suffering is the excessive fall in prices. The price of agricultural produce, and more especially of manufactured stock, is, as Mr. Mulhall recently demonstrated in his "History of Prices," now lower than in 1850.

But what is the reason of this extraordinary fall in prices? Many economists and statisticians—among others, Mr. Mulhall in England, and M. Paul Leroy Beaulieu in France—attribute it to improved methods of transport, to better machinery, to the telegraph, to different modes of fabrication, and to fresh soil being laid open to cultivation. But, in the first place, it would be strange that all this progress, which brings with it an increase of riches, should result in universal distress and want; secondly, the fall in prices affects all produce, even when the supply has increased but slightly, or even not at all; and, thirdly, between the years 1850 and 1870 this progress was far more marked than between 1870 and 1886; and yet, as Messrs. Soetbeer and Jevons and the *Economist* show, prices increased during the twenty years which succeeded 1850 from 18 to 20 per cent. How can the same cause produce a precisely opposite effect after 1870 to that produced during the preceding period?

It is quite certain that the intense crisis from which the entire world, with the exception of India, is now suffering is induced by several causes; but, amongst these, chiefly by one to which England has, I think, not sufficiently turned her attention, although the *Edinburgh* and other reviews have published several excellent articles on the subject. This cause is the ever-growing scarcity of gold, and the monetary contraction thence resulting; it was remarked long before the crisis broke out, not only by bimetallists, such as Wolowski, Seyd, and myself, but also by the monometallist *Economist*, which, now that these predictions are realized, either forgets or denies them.

In 1869 the *Economist*, reviewing the previous financial year, wrote as follows:—

"It may be safely affirmed that the present annual supply of thirty millions sterling of gold is no more than sufficient to meet the requirements of the expanding commerce of the world, and prevent the pressure of transactions and commodities on the precious metals, which means, in practice, prices and wages constantly tending toward decline. The real danger is that the present supplies should fall off, and among the greatest and most salutary events that could now occur would be the discovery of rich gold deposits in three or four remote and neglected regions of the earth."

Unfortunately, instead of the discovery of new gold-fields, there ensued a falling off in the production of the old ones, and at the same time, after the victory of Germany over France, and the payment of the war indemnity of £200,000,000, the latter country at once adopted the gold standard. In the financial review of 1872, published in March, 1873, the *Economist* predicted the inevitable consequences of this measure in these terms:—

"By the present Bill the German Government is certainly paying England the compliment of adopting its single gold standard, but the cost of the measure to the London and other money markets cannot but be great. As the annual money supply of gold throughout the world is reckoned at little more than £20,000,000, and the usual demand for miscellaneous purposes is very large, it follows that, if the German Government perseveres in its policy, the strain upon existing stocks and currencies will be most severe. Unless the annual production of gold should suddenly increase, the money markets of the world are likely to be perturbed by this bullion scarcity."

Could the facts now taking place have been foretold in language more precise? The scarcity of gold was predicted also by Bagehot, who wrote thus in 1877:—

"During the eighteen years which elapsed between 1858 and 1875, the importations of gold into England amounted to £331,179,000 sterling, the exportations to £251,413,000 sterling. The total absorption during that period was therefore £79,766,000 sterling, or about £4,432,000 a year, or, in other words, one-fifth of the total production. If Germany and America and, let us say, the Latin Union were to adopt the gold standard, the supply of this metal would scarcely suffice, and the money markets of the world would in all probability be seriously affected by this scarcity."—*Depreciation of Silver*, pp. 79, 80.

Since these lines were written, not only has the production of gold fallen to £18,000,000 per annum, but also, as all civilized countries, including even South America and Japan, are closing their mints to the coining of silver, they are, in point of fact, establishing a single gold standard.

The following are a few quotations which also prove how clearly the disadvantages of monetary contraction were foreseen:—

"The United States might take the single gold standard like ourselves, and this is what, till very lately, every English economist would have advised them to do. The evils of this plan had not then been seen."—*Economist*, Sept. 2, 1876.

In a speech pronounced at Glasgow in November, 1873, Disraeli thus expressed himself:—

"I attribute the monetary disturbance that has occurred, and is now to a certain degree acting very injuriously to trade—I attribute it to the great changes which the Governments in Europe are making in reference to their standard of value; our gold standard is not the cause of our commercial prosperity, but the consequence of our commercial prosperity. It is quite evident we must prepare ourselves for great convulsions in the money market, not occasioned by speculation or any old cause which has been alleged, but by a new cause with which we are not sufficiently acquainted."

On March 29, 1879, Lord Beaconsfield spoke thus:—

"All this time the produce of the gold mines of Australia and California has been regularly diminishing, and the consequence is that, while these great alterations of currency in favour of a gold currency have been made, notwithstanding an increase of population, which alone requires always a considerable increase of gold currency to carry on its transactions, the amount every year diminished, until a state of affairs has been brought about by gold production exactly the reverse of that which it produced at first. Gold is every day appreciating in value, and as it appreciates in value, the lower become the prices. It is not impossible that, as affairs develop, the country may require that some formal investigation should be made of the causes which are affecting the value of the precious metals, and the effect which the changes in the value of the precious metals has upon the industry of the country and upon the continual fall of prices."

The first point to be examined is this: Can the scarcity of gold be the cause of a general fall in prices? On this subject Mr. Mulhall expresses a very extraordinary opinion, wholly opposed to facts. "The best authorities," says he, "except Jevons, maintain that the supply of the precious metals has no perceptible effect on prices, a fact which the last thirty years fully confirm" ("History of Prices," p. 11). He should not except Jevons only, but all English and European economists who acknowledge that prices are dependent on the ratio existing between the exchanges to be accomplished and the existing amount of metallic or other means of exchange. I think the question is nowhere more clearly explained than in Mill's "Principles of Political Economy," book iii. chap. viii. § 3, where we read: "The value of money depends, *cæteris paribus*, on its quantity, together with the rapidity of circulation;" and again, farther on: "An increase of the quantity of money raises prices, and a diminution lowers them. This is the most elementary proposition in the theory of currency, and without it we should have no key to any of the others" (People's edition, p. 301). Mill, after this, devotes a paragraph to the explanation of the limits of this principle.

This theory has been most violently attacked in Germany, where it is known as the *Quantitäts-Theorie*. Even some bimetallists, and among others M. Otto Arendt, have joined in the attack. It seems to me that, if due weight be given to the words "*cæteris paribus*," which Mill says should be added to every economic proposition, it will be found at once that his theory cannot be assailed. The "*cæteris paribus*" condition no longer exists—first, if means of credit be more largely employed, and, secondly, if the volume of the exchanges to be accomplished varies. For instance, after the discovery of America, between the years 1493 and 1544, the production of gold and silver rose, according to Soetbeer, to £1,500,000 per annum—*i.e.*, ten or twelve times the previous production—and yet prices rose very slightly, owing to a concourse of circumstances having increased the demand for cash: first, the substitution of payments in money for payments in kind; secondly, the maintenance of permanent armies, lengthy wars, and centralization; and, thirdly, the development of trade and commerce. The same phenomenon was observable after 1850. Between 1841 and 1850 the annual production of the two metals amounted, according to Soetbeer, to 293,252,000 marks or shillings (£14,667,600). In the five following years, from 1851 to 1855, it rose to £35,528,400, from 1856 to 1860 to £36,889,950, from 1861 to 1865 to £38,821,750, and from 1866 to 1870 to £41,533,850. Thus the production nearly doubled in twenty years, whereas prices only rose about 15 or 20 per cent. Why? Because the *placers* of Australia and California gave such an impetus to international commerce in general, and to such enterprises as railroads in particular, that, in spite of credit being more extensively used, ample employment was found for the newly discovered gold.

Apart from the rise or fall in prices resulting from the increase or decrease in means of exchange, all goods are subject to changes in value under the influence of the law of demand and supply. For example, although the purchasing power of cash has fallen to less than one-fourth of what it was in the Middle Ages, or, in other words, although prices are now four times what they then were, the price of cloth and of linen has not increased because, thanks to the invention of machinery, the cost of production of these articles has considerably diminished.

These are some examples of the restrictions which the theory of the value of money depending on its quantity necessitates, and they should be very carefully borne in mind. Nevertheless, when one sees a variation in the production of means of exchange, accompanied by a general variation in prices, it is difficult not to connect these two phenomena. For instance, I believe that no economist has ever contested that the general rise in prices which took place between 1530 and 1800, and that which followed the afflux of Australian and Californian gold after 1850, were due to an increase of monetary circulation. M. Paul Leroy Beaulieu goes so far as to affirm that, had it not been for the extraordinary production of gold after 1850, France would have been bankrupt ("Sciences des Finances," vol. i. chap. ii. p. 323). If it be true that the increased production of gold after 1850 led to a rise in prices, how is it that just the reverse—that is to say, a diminution in the production of gold, aggravated by the proscription of silver—does not induce a fall in prices now?

Mr. Mulhall and Mr. Atkinson deny the possibility of an "appreciation" of gold, because since 1850 the quantity of gold in circulation has doubled, whereas the population has only increased 40 per cent. But such general statistics as these throw no light whatever on the problem. The important point is the situation created in Europe by the decisions of the different Governments as regards money after 1873—that is to say, at the commencement of the present crisis. As Mr. Grenfell stated, in a speech delivered at Manchester on the 16th of February last, Germany coined 85 millions sterling and the United States 120 millions, while the resumption of metallic payments in Italy absorbed 16 millions. Here we have a total of 220 millions—an amount equal to the whole production of gold for the last ten years. Gold, like water, if spread over a larger expanse of territory, lowers in level at its original basin.

Messrs. Mulhall and Atkinson do not take sufficiently into consideration the amount of gold consumed in jewellery and art. They seem to ignore the valuable researches recently made on this subject by M. Soetbeer, and published under the title of "Materialien zur Währungsfrage" (Berlin, October, 1885). This volume ought to be translated into English, and certainly should form a basis for all discussions on the monetary question. According to these researches, jewellery and the arts, after due allowance has been made for the re-employment of old gold, absorb yearly 90,000 kilograms of pure gold, or about £12,000,000. As Mr. Moreton Frewen remarks, this great mass of gold, far from relieving and expanding the currency, must have caused still further appreciation of gold, because more gold would be required in the currencies to measure and effect the exchange of this volume of the metal sucked into commodities. Cliffe Leslie also demonstrated this point most clearly.

As regards the use of the precious metals in art, there is one very important phenomenon which has not yet attracted notice, and which proves to how great an extent money differs from other merchandise. In the case of all other goods, when production diminishes and consumption augments, a rise in prices prevents a too great increase of demand. For money metals this is not the case, because trade can always obtain the metal from the monetary stock at the fixed mint value by melting coin. The very last kilogram of gold in France may be procured by any jeweller for 3,100 francs, and everywhere else in the same way. Messrs. Mulhall and Atkinson, on the contrary, consider the mass of gold to be met with under the form of jewels and gildings, &c., as playing the same part as money. And this is a grave mistake.

It can no longer be concealed that the gold budget presents a really alarming aspect. We have just seen that, according to M. Soetbeer's calculations, £12,000,000 are annually absorbed by the arts. The employment of gold for jewels, &c., is everywhere on the increase, and especially in the United States, where, according to the statistics of Mr. Burchard, Director of the Mint, 14,459,464 dollars in gold were absorbed during the year 1885. The amount of gold imported into India is also notably on the increase. Between the years 1881 and 1884 the excess of imports over exports of gold was £18,913,370 sterling—a yearly average of £4,728,342. If losses and wear and tear are taken into consideration, there remains only *one million sterling* to cover the monetary requirements of the entire world, with all its growing population and trade. Should not this single fact suffice to open the eyes of English statesmen, if they could, for a single instant, turn their attention in this direction?

The quantity of gold available for currency being insufficient now that silver is proscribed, it is quite certain that we are approaching a universal *régime* of paper money. In England it is already proposed to make a first step in this direction by the introduction of one-pound notes, which would have the effect of banishing from the circulation a quantity of metal equal to the value of the notes emitted.

If all who deny the scarcity of gold would but take the trouble to closely study this question, they would very quickly convince themselves of the reality of the phenomenon. It is only necessary to cast a glance at the amount of money coined in the principal countries of Europe. Formerly so important, it has now almost wholly ceased. In England, £4,000,000 sterling used to be coined yearly. Here is a list of the coinage there since 1878:—1879, £35,050; 1880, £4,150,052; 1881, £0; 1882, £0; 1883, £1,403,713; 1884, £2,324,025—during six years an average of £1,318,805, inclusive of the recoinage of sovereigns under weight, which, of course, adds nothing to the monetary stock. France, between the years 1850 and 1870, annually coined an average of about 300 million francs. Here are some more recent figures:

1879, 24 million francs; 1880, none; 1881, 2 millions; 1882, 3 millions; 1883, none; 1884, none—an average of less than 5 millions. It should be observed that the five millions coined in 1881 and 1883 were 100-franc pieces for the gaming-tables at Monaco. Belgium coined as follows:—in 1879, 0; 1880, 0; 1881, 0; 1882, 10 million francs (German gold remelted); 1883, 0; 1884, 0. The Netherlands:—in 1879, 5,810,360 florins; 1880, 501,000; 1881, 0; 1882, 0; 1883, 0; 1884, 0. Italy: 1879, 2,929,320 francs; 1880, 2,590,660; 1881, 16,860,560; 1882, 139,523,040; 1883, 4,069,500; 1884, 322,100. Austria, since the adoption of paper money, has coined about five millions' worth of florins in gold yearly (the florin is worth two shillings), a great portion of which gold is from her mines in Transylvania. Russia alone, of all the European States, continues to coin extensively, but the Russian imperials make their way to Germany, where they are transformed into marks and exported, thus disappearing from European circulation. Russia coined as follows:—in 1879, 36,125,040 roubles; 1880, 31,300,056; 1881, 27,144,051; 1882, 22,735,045; 1883, 30,407,056; 1884, 23,126,038. Germany: 1879, 46,387,060 marks (the mark worth a shilling); 1880, 27,992,240; 1881, 15,521,220; 1882, 13,307,080; 1883, 88,287,470; 1884, 57,661,740. Until the year 1879, Germany annually acquired and retained additional gold; since that date she has lost every year. Her excess of gold exportations (Soetbeer's table) was for 1880, 8,883,000 marks; 1881, 31,567,000; 1882, 10,585,000; 1883, 21,278,000; and 1884, 14,659,000.

But in England this change is far more disquieting than in any other country. According to Bagehot's table, to which I have already referred, between 1858 and 1878 England annually absorbed £4,432,000 of gold. Since 1878 exactly the contrary phenomenon is observable, as the following statistics clearly prove. Excess of gold exports (−) or imports (+):—1877, − £4,919,401; 1878, + £5,902,903; 1879, − £4,210,143; 1880, − £2,373,961; 1881, − £5,335,831; 1882, + £2,352,755; 1883, + £664,435; 1884, − £1,268,431. Thus between 1877 and 1884, instead of absorbing, as previously, £4,000,000 per annum, we see that she lost £7,940,408. Add to this the £2,000,000 yearly consumed by the arts, and we find that the monetary stock in England has diminished since 1877 to the extent of £24,000,000. As Mr. Fremantle, the Director of the Mint, estimates that the amount of gold coin in England is about £120,829,000, it is evident that about one quarter of the stock has already disappeared.

There is one important and recent phenomenon which merits special attention. It is this: the principal gold-producing countries, America and Australia, are rapidly developing as regards population, riches, and industrial and commercial activity, and they consequently retain for themselves an ever-increasing share of the gold extracted from their mines, and also absorb a portion of the European circulation. Whereas in the Old World the coinage of gold is reduced almost to a minimum, it is increasing rapidly in Australia, and in the United States still more so. In England between 1879 and 1884 the gold coined amounted to £7,922,830; in Australia during the same period the coinage of gold was £24,112,000, and in the same length of time the United States coined 381,955,000 gold dollars. The mines of the United States produced 231,000,000 dollars during these seven years; the coinage of the country therefore exceeded the production by 150,000,000 dollars, and this excess was of course supplied by gold from the outside world.

The diminution of the quantity of gold sent by Australia to England is also a noteworthy fact, and is a confirmation of the foregoing conclusions. From 1871 to 1875, England received annually from Australia an average of £7,000,000; from 1876 to 1880 this average fell to £5,000,000; in 1881 it was further reduced to £4,470,186; in 1882 it amounted only to £2,996,549, in 1883 to £2,256,128, and in 1884 to £709,388. A more extraordinary fact still is that at the commencement of 1884 £920,000 in gold was sent from London to Melbourne.

But, it is argued, considerable economy of the metallic instrument of exchange has been effected by the ever-increasing use of credit; and statistics showing how widely the credit system has spread during the last thirty years are referred to. But comparisons at such remote dates prove really nothing. It is recent facts, dating from the commencement of this monetary contraction, which began to make itself felt in 1875 or 1876, to which we should turn our attention, and it should be observed that since that date the use of credit has rather decreased than otherwise. For the last few years, the clearings in London have been regularly diminishing, and the most competent living authority on the subject (Mr. Giffen) himself writes: "I much doubt whether any serious economy has been effected with regard to exchanges accomplished, by the substitution of credit for gold."

There are two certain and important facts which in themselves demonstrate the worthlessness of the general statistics referred to by Messrs. Mulhall and Atkinson. Already every country is lacking in the amount of gold requisite to effect exchanges. France, although richer in cash than any other land, only contrives to maintain a sufficient balance of gold at the national Bank by employing artificial means. On the one hand, the *receveurs généraux* send to the Bank all the gold paid them, and, on the other, the Bank directors and the State do their utmost to keep more silver in circulation. Belgium was forced to continue to form part of the Latin Union, in spite of the onerous conditions imposed, because she was not possessed of sufficient gold to dare to face the consequences of defection, and because about three-fourths of her metallic payments are made in silver. In Holland, Soetbeer affirms, there is not more than 35,000,000 florins' worth of gold coinage, and at one moment the balance in gold at the Bank did not exceed 5,000,000 florins. A law has consequently been voted there empowering the Government to sell silver for the purpose of buying gold, if such a measure be deemed expedient. In Spain, silver has so thoroughly replaced gold, that for gold payments abroad 3 or 4 per cent. premium has to be paid when they are made in silver, which is a cause of great loss to all companies having to pay dividends in foreign lands. Germany has in circulation only 1,500,000,000 marks in gold coinage and 72,000,000 marks in gold bullion. This is insufficient for a country with 45,000,000 inhabitants. At all events, Germany does not consider herself possessed of sufficient gold to establish a single standard!

According to the Director of the Banca Nazionale, Italy does not possess more than 555,000,000 lire in gold—not a third of the amount requisite. It is not surprising, therefore, that the yellow metal is so frequently at a premium at Genoa and Rome. Last year, exportation deprived her of more than 100,000,000 lire. In Eastern Europe there is no gold whatever in circulation; consequently, when these States, or companies, or individuals inhabiting them, have to make a gold payment elsewhere, their loss is considerable. The premium at Bucharest is 20 per cent. and at Buenos Ayres 40.

England alone, who rules the world by her commercial power, succeeds in attracting sufficient gold by raising the rate of discount; and yet she of all countries in the world suffers the most, both directly and indirectly, from the present monetary crisis. The direct loss for India alone amounts to £4,000,000 sterling annually.

"Now," says Mr. Grenfell, "the total amount of Council drawings to pay the sterling Debt is, as I have already said, £4,000,000 sterling. Add to that the loss that all Anglo-Indians have to submit to when making payments in Europe, the loss on the dividends of foreign loans paid in silver, and, what is graver still, the uncertainty and variability of exchange, which completely disorganizes commercial exportation to countries which admit a double standard—all these are most serious considerations, and merit deep reflection. They are causes of losses quite peculiar to England, and perfectly independent of the present crisis and of the misery now assailing the British Isles in common with the world in general. And why are all these evils now afflicting humanity? Solely because there has been an endeavour to establish what Mr. Goschen calls a mischievous Utopia."

A great change has taken place in the London money market, formerly so powerful. The *Economist* mentions this in the following terms:—

"Ten years ago the sum at the disposal of the London Stock Exchange was estimated by a competent authority to be about £4,000,000 sterling. At the present time it is far below this; when a demand for a million of gold absolutely carries off that sum from the market and detains it elsewhere, there is a sensible pressure on the exchange."—*Economist*, Feb. 4, 1886.

The objection offered on all sides is that, instead of money being scarce, it is a drug in the market; it overflows the banks; interest falls to 2, or even 1½, per cent.; all the public Funds of Europe are unusually high, and the various States hasten to take all advantage they can of this plentiful supply by lowering the interest of their debts. I must here ask some attention from my readers, as there is a most delicate point to be studied—namely, the connection between the purchasing power of money and the rate of interest on loanable capital. Even Mr. Jevons does not appear to have thoroughly grasped this problem, which is admirably discussed in the number of the *Edinburgh Review*, already referred to, for January, 1886. "Let any person," it is here said, "consult his memory, or banking or commercial records, and he will find not only that high prices and a high Bank rate may go together, but that, *as a rule, they do go together*." The reason of this is evident. When business is brisk and there are many new enterprises undertaken, money is earned rapidly and more goods are purchased; prices consequently rise. As, also, large capitals are required to start fresh enterprises and speculations, these must be borrowed, and the rate of interest rises. At the present moment the contrary phenomenon may be observed; no transactions are effected, the spirit of enterprise is dead, and no fresh schemes are set on foot.* A fall in prices is the natural result of this lack of demand for goods.

Capital, being little needed, accumulates in banks, and is offered at very low interest. As investments in industries involve almost certain loss, the public become fearful, and, for safety, money is placed where there is no risk, chiefly in the Funds. These of course rise, and Government takes advantage of this rise to convert the Debt so as to pay less interest. All incomes diminish, whether they be drawn from land, from industry, or from commerce. The entire social body is in a state of decline.

* A few figures will suffice to demonstrate the utter stagnation of business. A Belgian paper, edited with great care, the *Moniteur des Intérêts Matériels*, publishes annually a list of the issues during the year. Here are some comparisons between years of economic activity and years of stagnation.

Total issues for State and town funds and industrial enterprises, &c. &c.:—

Activity	In 1871	11,000,000.000	francs
	„ 1872	12,636,000,000	„
	„ 1873	10,908,000,000	„
Depression	„ 1882	4,540,000,000	„
	„ 1883	4,180,000,000	„
	„ 1884	4,876,000,000	„
	„ 1885	3,331,000,000	„

showing a reduction of more than two-thirds in economic activity.

With respect to money a strange phenomenon is observable which occurs in the case of no other merchandise. The quantity of money has but to be lessened for there to be more than enough, and the more it diminishes, the more will the excess be felt. The reason is this: When the quantity of means of exchange decreases, two consequences result. In the first place, prices fall, and therefore less cash is necessary for the operation of exchanges and the effecting of transactions—there is therefore no insufficiency of money; and, secondly, there seems to be too much money because, as the crisis consequent on the fall in prices puts a restraint on transactions, less money is necessary, and this therefore is unemployed and appears to be in excess.

It is a very singular, but a perfectly evident, fact that if half the coin in circulation were suddenly suppressed, the other half, instead of being insufficient, would be superabundant. If an article formerly worth £1 can be purchased for 10*s*., exchanges can be effected with as much facility as before, only on a basis of prices reduced one-half. In addition to this, as there would be a terrible disturbance throughout the economic world, all business would be suspended, and a quantity of money would lie idle. This is precisely the present situation.

The fundamental error of the majority of those who treat the monetary question is that they argue about money as about merchandise. The metal of which money is composed is certainly merchandise, but as soon as this metal has become the legal means of payment for all purchases and all debts, at a rate of value fixed by law, it at once acquires special properties. In the first place, that happens which we have just mentioned: that the more rare it becomes the more it apparently exceeds the demand. In the second place, if even the gold-mines were entirely to cease to produce, an ounce of gold could still be had for £3 17*s*. 10½*d*. The whole monetary stock is like a mine from which gold can be extracted, at the value fixed by the mint, by simply melting down sovereigns. This explains the fact shown by Soetbeer and Burchard, that the production of gold is diminishing, and yet its consumption by the arts is on the increase. General misery alone could stop the increase of this consumption.

Mr. Mulhall is of opinion that experience proves that "the supply of precious metals has no perceptible effect on prices." Facts demonstrate quite the reverse of this. According to M. Soetbeer, the value of gold and silver produced annually between the years 1801 and 1810 amounted to 210,547,000 marks or shillings; and between 1811 and 1820, only to 129,271,000 marks; and from 1821 to 1830, to 122,564,000 marks; and merely rose between 1831 and 1840 to 163,967,000 marks. Tooke, and especially Jevons, call attention to a general fall in prices during this period. Between 1850 and 1870, the average production was 735,000,000 marks, and prices rose from 18 to 20 per cent. according to Jevons and Soetbeer, whose statistics so alarmed Michel Chevalier and Richard Cobden that they proposed to suspend the coinage of gold, and that the silver standard should be adopted everywhere. After 1873, silver being proscribed from European mints, gold alone regulated prices, and its production gradually diminished, so that the circulation, instead of being annually fed by an afflux of nearly 800,000,000 marks in gold and silver, after a few years only received 390,300,000 marks in gold, the present production, which is to a great extent absorbed by the arts, by India, and by the producing countries, the United States and Australia, themselves. The consequence of this is a considerable fall in prices, which Mr. Mulhall illustrates in his diagram on p. 1 of his new book, "History of Prices," by the difference between the figures 135 and 84.

It is true that it may be maintained that this lowering of prices is not wholly attributable to monetary contraction; but it cannot be denied that the fall in prices, then the rise, followed by the recent fall, exactly corresponded with the diminution, the increase, and the recent diminution of production of the metals used for coin.

Let us just cast a glance at the monetary revolutions that have been carried out by Governments. Until 1870 silver was the principal and, as Locke said, the true monetary metal all over the world; England alone had a gold standard. A few countries, like France and the United States, retained a little gold in circulation by the bi-metallic system; after 1873, suddenly and universally, save in India, the free coining of silver is prohibited, and gold coin, heretofore a luxury, becomes all at once the sole means of international exchange. And this change takes place simultaneously with a decrease in the production of gold and an increase in the activity of trade. The result of this is an unexampled fact in economic history. The mints in several large countries suspend coinage. Can it be admitted for a single instant that such revolutionary measures could be without effect on the economic world?

Another fact which further confirms the opinion that the present crisis is due to monetary contraction, is that between the years 1820 and 1830 a disturbance in trade precisely similar to what we are now suffering from took place. It may be truly said that the crisis is now general, India, which *alone* still coins silver, being *alone* spared. Here are two quotations taken at random. I read this in a letter from Paris in the *Indépendence Belge,* March 5, 1886:—"The decline is complete. No purchases are made, dancing is abandoned, money is lacking, and people close their *salons*. It is needless to insist on the part the industrial crisis plays in all this."

Here is a Report of the Belgian consul in Japan (July 5, 1885) :—"The commercial history of the year 1884 in Japan is very far from encouraging. The Board of Trade at Yokohama reports as follows: 'If the losses have been less in number and less considerable than in preceding years, the profits have also been exceedingly limited. The figures for the past year show, on the whole, a marked decrease, even when compared with the very poor statistics for 1883.'"

It is useless to describe the miserable state of trade in Europe. The daily papers are full of details on this subject; iron-works and factories are closing on all sides, bankruptcies are frequent, companies fail to pay their dividends, workmen strike either because their wages are reduced or because they cannot succeed in finding employment, factories are burnt or sacked, farmers give up cultivating their land, which they let lie waste. Between 1820 and 1830 the world presented a similar picture! The fall in prices was so severe that Brougham proposed to reduce taxes proportionately; and in 1822 the idea was even put forward of reducing the sovereign to fourteen shillings. Agriculture and industry alike suffered. The distress of the labouring classes was evinced in England by bread riots, by threatening Chartist processions, and by demands for help addressed to Parliament. Armed repression had repeatedly to be resorted to. Sismondi speaks of "this great European calamity" in his work "Nouveaux Principes d'Economie politique," published in 1827, as follows (ii. 226) :—

> "A cry of distress is raised from all manufacturing towns of the Old World, and all the fields of the New World re-echo it. Everywhere commerce is struck with the same languor; everywhere it encounters the same impossibility of selling. It is five years, at least, since the suffering began; far from being allayed, it seems increasing with time. . . . . The Protective system now prevailing in the public mind has been produced by the distress everywhere visible."

The price of agricultural produce and the rent of land fell more than one-third. This is what the historian Alison says on this crisis :—

> "The distress among the mercantile classes for years after the dreadful crisis of 1825, of the agricultural interest during the lowering of prices from 1832 to 1835, was extreme. The investment of capital in agriculture was, during this distress, everywhere grievously abridged, and, in many places, totally annihilated. Ireland, during the whole period, had been in a state of smothered insurrection. The heart sickens at the evidences, numerous and incontrovertible, which the parliamentary reports of the last ten years have accumulated of widespread, and often long-enduring, suffering amongst the labouring poor of England. . . . . Since the Peace, the all-important question arises: What was it that had this effect? The answer is: It was the contraction of the currency which has been the chief cause of all these effects."—*England in* 1815 *and* 1845; *or, a Sufficient and a Contracted Money*, p. 51.

Writing in 1830, and speaking of the universal fall of prices, Jacob said (ii. 376):

"There must be some general cause producing such extensive effects, which are thus felt alike where taxation is high or low; under despotic and free government; and whether the land is cultivated by slaves, by serfs, by hired labourers, or by proprietors. What conceivable cause was there operating so universally and under the most various and opposite circumstances, save that decline of the mines and the increased application of their produce to other purposes than that of coin?'"

Previous to 1848, said Newmarch, there had been a slow, but progressive, fall of prices in consequence of the inadequate supply of the precious metals. "Between 1809 and 1849," said Jevons, "prices fell in the ratio of 100 to 41."

During a period of lowering of prices, irreparable destruction of riches takes place. At the present moment in Belgium, just beneath my eyes, coal-mines are being completely ruined and abandoned, iron-works and factories are closed and deserted, and the buildings and machinery are left uncared for to perish little by little. Nothing is more sad than this gradual impoverishment, especially when compared with such a period of prosperity as that between 1850 and 1870, years of monetary plenty. Between 1820 and 1830, as at the present day, the causes of the crisis were very widely discussed. Some exceedingly curious letters on the subject were exchanged between J. B. Say and Malthus; the latter, like many persons of the present time, attributed the crisis to a general excess of production. J. B. Say, basing his arguments on the theory of *glut,* rendered classical by Mill, shows that a universal glut is an impossibility, and tries to demonstrate that the crisis, instead of being due to excess of production, proceeds from an insufficiency of production in certain countries.

In a speech delivered in the House of Commons on July 10, 1822, Mr. Matthias Attwood shows clearly that the general fall could only be explained by the means of exchange being reduced.

"But first he desired the House to consider to what extent and how universal the fall of prices in this country had been, referring to a paper which had been delivered to the Agricultural Committee of the last session of Parliament by Mr. Tooke, and which contained a list of the prices of thirty of the most important articles of commerce and manufacture, selected as exhibiting the extent of the fall of prices which had taken place on all commercial commodities generally. The prices of all those commodities had fallen to the extent of £40 in the £100. Let this fact, then, be applied to the question as to foreign prices—was it asserted that a fall of prices as sudden, as great and universal, as this had taken place on the Continent at large? If so, it led necessarily to one of these two conclusions—either that all productions had everywhere suddenly increased in quantity, or that money had been reduced in its quantity; for the proportion between money and commodities had been altered, and one of those two conditions must therefore of necessity be admitted. Either all the productions of all industry, all climates, and all countries had suddenly increased, which it was impossible to believe; or otherwise, from whatever cause, a reduction in the amount of money generally in circulation had taken place."

From 1817 to 1827 such were the economic sufferings in the United States that an increase of Customs duties was demanded as a remedy.

The details of this persistent crisis will be found in the Reports of Mr. Fearon, who was sent by English merchants to America to study the situation. In the same debate, another member of the House (Mr. Western) said, speaking against the Act of Resumption:

"Two-thirds of the cultivators of the soil had in the course of a few years, and in a time of profound peace, been rendered insolvent. The turn of the landowners would soon come—they would soon be involved in the ruin of their tenantry."

The characteristics of the present crisis are, as we have seen, precisely similar to those of the crisis of 1820–35, and wholly different from the commercial and industrial crises which repeated themselves about once in ten years, and whose special features were their acuteness and their short duration. The excessive fall in the value of silver is a new and quite special cause of suffering for the agricultural world. Baron de Soubeyran laid this matter before the French Chamber in a speech delivered on February 8, 1886, in which he shows that Indian-grown corn attains a premium of more than 20 per cent. when imported into Europe. He thus expresses himself:—"Silver is the only legal tender in India. An ingot of silver is bought in London at the current price, 46⅝*d.*, sent to Calcutta and coined at the mint there, and with the produce of the coining of this ingot you purchase corn which you forward to London or Havre. There this is worth about frs. 13.70 the hectolitre, all expenses paid. If, on the contrary, the silver ingot instead of costing 46⅝*d.*, or frs. 170 the kilogram, its present price, cost 60¾*d.*, or frs. 220 the kilogram, its real worth, the hectolitre of corn ought then to be sold in London, Antwerp, or Havre at a price varying from frs. 18.50 to frs. 19.50—that is to say, that in all these ports it would be from frs. 4.75 to frs. 5.50 dearer than now."

One more question remains yet to be examined. Is a universal fall in prices, induced by monetary contraction or other causes, really an evil? Mr. Bonamy Price, with whom I recently discussed this point, wrote to me on the subject as follows:—"This lowering of prices, if it be general, affects no one's position, and presents the advantage of rendering less coin necessary for the effecting of the same number of transactions." This proposition would be exact at the outset of a nation's career, but it is completely erroneous in reference to a society where all the transactions and the debts have been regulated on a fixed scale of prices, in which case any lowering in this basis brings about serious disturbances and considerable suffering. Distinction must be made between two periods—the first, while the fall is taking place, and the second, after it is fully accomplished, and the balance re-established at a reduced rate of prices. The evils produced during the first period were admirably described by the American Monetary Commission of 1876, which simply depicted what was taking place before its eyes:—

"The very same reasons which make capitalists refuse to exchange money, whose command over property is increasing, for property, whose command over money is decreasing, also makes them refuse to exchange it for labour. In a commercial sense, industrial enterprises are never undertaken nor carried on except with the hope and expectation of gain. This expectation, unless under exceptional conditions, falling markets destroy. While capitalists, for these reasons, cannot afford to invest money in productive enterprises, still less can anybody afford to borrow money for such investments at any rate of interest, however low, and but little money is now borrowed, except for purely speculative ventures, or to supply personal and family wants, or to renew old obligations. Money withdrawn from circulation, and hoarded, in consequence of falling prices, although neither paying wages, nor serving to exchange the fruits of industry, nor performing any of the true functions of money, is nevertheless not unproductive. It may not be earning interest, but it is enriching its owner through an increase of its own value, and that, too, without risk and at the expense of society. . . . . The peculiar effect of a contraction in the volume of money is to give profit to the owners of unemployed money through the appreciation of its purchasing power by the mere lapse of time. It is falling prices that rob labour of employment, and precipitate a conflict between it and money capital, and it is the appreciating money that renders the contest an unequal one, and gives to money capital the decisive advantage over labour and over other forms of capital invested in industrial enterprises. . . . . The labour of the past is enslaving the labour of the present; at least that portion of the labour of the past which has been crystallized into money is enabled, through a shrinkage of its volume, and while lying idle in the hands of its owners, to increase its command over present labour and over all forms of property. The labourers must make their wants conform to their diminished earnings. Consumption is, therefore, constantly shrinking towards such limits as necessity requires. Production, which must be confined to the limits indicated by consumption, is constantly tending to a minimum, whereas its appliances, built up under more favourable conditions, are sufficient to supply the maximum of consumption. Thus idle money, idle capital, idle labour, idle machinery, stand facing each other, and the stagnation spreads wider and wider. It is in the shadow of a shrinking volume of money that disorders, social and political, gender and fester; that communism organizes, that riots threaten and destroy, that labour starves, that capitalists conspire and workmen combine, and that the revenues of Government are dissipated in the employment of labourers or in the maintenance of increased standing armies to overawe them."

It is then indeed that Shakespeare can exclaim:

> "Gold? yellow, glittering precious gold? . . . .
> Thus much of this will make black, white; foul, fair;
> Wrong, right; base, noble; old, young; coward, valiant."

This same destruction of capital is now taking place everywhere. When a definite fall in prices is attained—but when will that be?—then another category of evils will become perceptible. Long-standing debtors, and more especially the taxpayers of largely indebted States—it must not be forgotten that these National Debts amount to £5,000,000,000 sterling—would be completely crushed for the benefit of the fundholders, for, in order to pay the sum owed, it would be necessary for the debtor to deprive himself of far more commodities than when money was more plentiful. For example, a taxpayer who is taxed to the amount of £1 when corn is worth £1 the hundred kilograms would have to deduct £1 from his revenue. If corn falls to half the price, he would have to deduct double the amount to pay his taxes and other calls upon him, and would probably be ruined. We see, then, that the victims of a fall in prices are the nations who are already overburdened by military expenditure. Stuart Mill explains that the consequence of this phenomenon is to despoil the active portion of a nation for the benefit of the do-nothings!

To resume our previous conclusions. At the Paris Monetary Conference of 1878, Mr. Goschen said that "every fresh demonetization of silver would produce a more disastrous crisis than any of those recorded in history." His prediction is being realized to the letter. From a gold production of £18,000,000 sterling, the arts take £12,000,000 and the East £4,000,000; losses, wear and tear, £1,000,000; there remains, therefore, just £1,000,000 for the monetary requirements of a world whose population is rapidly increasing, and especially in the gold-producing countries, the United States and Australia. Can it be admitted that such a state of things can continue without provoking unprecedented disturbance in the trade and industry of the entire world?

At the same time, this struggle for gold is the death-stroke of Free Trade. Sismondi calls attention to this in the passages previously quoted; where he says "it is the general distress to be met with on all sides at the present day which induces public opinion to incline so favourably towards Protective measures. Landowners and farmers declare themselves unable to compete with foreign produce, and they insist upon severe Protective laws." What took place in 1820–1828 is now recurring. The disastrous fall in prices has led France, Germany, Italy, Russia, and Spain to raise their rates of duty, and has given birth in England to the "Fair Trade" party, which is simply Protection in disguise. How could it be otherwise? The public in general cannot understand the complex and insidious effects of monetary contraction or of the other causes of the crisis indicated. They see one alone, and that one is perfectly clear and unquestionable: it is that foreign produce can be purchased at a very low price; and to prevent this they are logically anxious that the duty on it should be made very heavy.

England, by maintaining a single standard, imposes it in reality on all other nations, and brings upon herself and on the world at large incalculable evils; but, in addition to this, she wholly extinguishes that noble ideal from whence a general harmony of interests and the fraternity of nations should spring—Free Trade.

EMILE DE LAVELEYE.