COMMONPLACE FALLACIES CONCERNING MONEY.

FEW questions have been so frequently discussed by competent writers as that of money and currency; and, at the same time, there is no other subject on which opinions so diverge. As Mr. Bonamy Price, professor at the University of Oxford, states it, "It may almost be said that every man contradicts every other man about money, about what money is and what it is not, what it can and what it cannot do. In no other subject which occupies the thoughts of men does anything approaching the same disorder exist."* I hope, therefore, I shall not be accused of presumption if I endeavour to point out that many of the principles put forward by the deductive school of political economy, and accepted by the English public as being evident truths and clear axioms, are in reality demonstrable errors, and in total contradiction to facts and events of daily occurrence. I will examine some of these axioms as they have been formulated by writers of well-deserved authority, and who may be taken best to express the generally accepted ideas.

The point which I think first needs to be elucidated is the following:— Is there an advantage in a community's possessing more or less money, or, rather, more or less of what may be styled monetary metal? It is known that the upholders of "the mercantile system" believed the principal riches of a nation to consist in the amount of precious metal it possessed. Everything, they urge, must be therefore done to increase that amount; and, to that end, a favourable balance must be created by stimulating exportations, and also by impeding, as much as possible, the importation of merchandise, so as to force foreigners to pay the difference of the commercial balance in precious metal. These notions, however, were early contested in England. In the year 1682, Petty maintained that it was an advantage to export coin, when goods of a greater value

* "Practical Political Economy," p. 360.

were secured from foreign countries in exchange for it ("Quantulumcunque concerning Money"). Again, North, in 1691, says that a fortune in coin is no gain, as coin in itself is unproductive: therefore, no State should feel uneasy about its provisions of gold or silver. A rich country, he observes, will never lack either ("Discourse upon Trade," 11. 17). Berkeley assumes that a greater error cannot exist than that of estimating the wealth of a State by the quantity of gold or silver in its possession ("Querist," 1735). If we turn to the father of the Physiocratic School, Quesney, he labours to prove that it is impossible exportation can ever permanently and absolutely exceed importation; for, he says, "*Every purchase is a sale, and every sale a purchase*" ("Dialogues sur le Commerce"). Finally, Adam Smith, in his treatise, completely overthrew the mercantile doctrine, and moulded into definite shape the ideas which have remained current from his day until the present time. But the case might even be put more strongly. J. B. Say considers the exportation of coin as still more advantageous than that of any other merchandise, for he alleges it is the value of coin which constitutes its utility, and the value of what coin remains in the country increases in proportion to the amount exported. I borrow from Mr. Bonamy Price a statement of the opinion prevailing at the present time on this subject. It is couched in the most definite terms, and may be summarized as briefly.

Professor Price first lays down that coinage is indispensable amongst civilized nations. It serves as a means of exchange, and is the common measurement of values; but it is quite useless to accumulate more of it than is necessary for this end. Gold is merchandise, and is only to be obtained by the exchange of other merchandise of equal value in its stead. In this exchange, the person who receives the precious metal is no better off than the one who receives the commodities. It is therefore absurd to believe that a nation gains when what is called the "commercial balance" is in her favour; that is to say, when she has an excess of exportation, and foreign countries are obliged to pay her by a consignment of precious metals. Gold brings no advantage to the person possessing it, except at the moment when he parts with it, to purchase an object he can consume, or in some way enjoy.

Coin is a tool, a machine, a vehicle of interchange, like a ship or a waggon. It is a means, not an end; it transfers possessions and the right of property, just as a van transports bales. Who would think of accumulating waggons in his sheds solely for the satisfaction of feeling that he possessed them? Why, then, was so much joy exhibited on the arrival of bullion from California? It did not increase the wealth of England to the amount of one single pound sterling, for she paid for it all with her produce, value for value. Would agriculturists raise shouts of joy if it were announced to them that a whole cargo of ploughs had been imported? At a given moment a country requires a certain quantity of cash to accomplish exchanges, but all in excess of

that quantity is useless, and is even burdensome; for gold, when remaining inactive, eats its own interest. It is a noticeable fact that the farther a country has advanced economically, the less requirement it has for precious metals. No country has, in comparison to the importance of her business transactions, so little of it as England. Less civilized nations have, on the contrary, a large amount of gold and silver—firstly, because they treasure it up; and secondly, because a sale is never effected save for ready money.

But can a country suffer through a lack of cash, diminishing its economic activity? By no means; it is not with cash as with other necessary instruments of production. If there were fewer ploughs some agricultural land would remain unploughed; harvests would diminish there, and the well-being of the country would be affected. Were there less cash there would be no diminution whatever in the production of commodities. Exchanges would be accomplished as before, either because credit would become more general, or because the gold remaining in the country would be enhanced in value, and would, therefore, serve to transfer the ownership of a greater quantity of goods. A fall in the value of any special merchandise—tea, for instance—increases the well-being of a community, for a larger amount of it is consumed. A fall in the value of cash, as a result of its superabundance, would be productive only of difficulties. The cheapness of precious metals would entail, as a necessary consequence, the being obliged to tender a heavier weight of them. Money would thus become very inconvenient to carry about, and bank notes and cheques would be largely substituted in its place.

When, after a bad harvest, gold is seen to emigrate abroad, people get alarmed; doing so quite unreasonably. This gold brings in exchange what supports our workmen and labourers. Far from seeing a calamity in this, we should rejoice at it as a benefit for the nation. It is supposed that a drain of gold would thus cause a scarceness and "depreciation" of the monetary metal, and that a fall in prices would ensue as a natural result. These are unjustified fears. The power and the value of gold are about equal in all civilized countries, and the fall in prices would soon bring back the gold, and in that way re-establish the former level in prices.

The language of our merchants, of our bankers, of our financial papers, is still tainted with mercantile error; they always speak of "favourable and unfavourable balances," "favourable and unfavourable exchanges." One would almost say that Adam Smith had published in vain his book, "The Wealth of Nations." The exportation and importation of gold are watched by attentive and, frequently, by anxious eyes, as if it were the one riches, *par excellence*. If we export much iron or coal there are rejoicings. If we export much gold it is just the reverse: we find lamentations and fears expressed in every financial paper. Whence this difference of opinion? Is not gold just as much

merchandise as iron or coal? Those who propagate these ridiculous ideas really deserve to be buried, as Midas was, beneath the gold for which they clamour so madly. There is no necessity for uneasiness concerning the circulation of gold; it will distribute itself in different countries, according to the needs and requirements of each. It is even true that the more a country imports gold, the poorer she becomes. For, says Mr. Price, "what becomes of it when brought in by an excess of exports? So long as they remain, let us say, in England, they are locked in the Bank of England's vaults; they are wealth annihilated for the time. Meanwhile, how has it fared with England in respect of the exports for which there is so much rejoicing. They consumed a vast amount of wealth in making; food and clothing for labourers were used up, and all is gone. What has England in return? Some metal locked up in cellars. As long as it remains in England she is the poorer for these exports. The wealth returns only when the buried gold goes abroad to buy, and when the imports will exceed the exports, and the country is made the richer. Imports alone enrich a country, not exports. To buy gold which cannot be used is as pure an impoverishment for the time as if the purchasing goods had been given away for nothing."*

The above is a short statement of what Mr. Bonamy Price teaches us on the subject of currency, summarizing, as clearly as possible, the doctrine of the deductive school. Can a more complete contradiction be conceived than that existing between these doctrines of speculative political economy and the language of the writers of the money market articles in the daily and financial papers? In spite of the remonstrance of Mr. Bonamy Price, and of other economists, they follow with the greatest attention every movement of the precious metals. When they flow in excess towards foreign countries, cries of alarm are raised; when, on the other hand, they return, or come in fast, they at once announce prosperous times. It is sufficient to have read the columns of the *Economist*, the *Statist*, the *Bullionist*, or the financial report in the *Times*, or any other daily paper, during the last two months, to be struck by this strange contradiction.† Who is right, and who wrong?

* "Buying and Selling:" *Journal of the Society of Arts*, May 6, 1881.

† Here is an example of what can be read every day in all the financial papers of the world:—"In their last summary of the state of the New York money-market, Messrs. Melville, Evans & Co. mention 25 to 30 million dollars of gold as the probable import requirement of the States between August 1 last and January 1 next. This was the current estimate in New York a fortnight ago, and we think it not unlikely to prove an under-estimate should the speculation fever break out to the degree anticipated. But five or six millions sterling is a large enough sum to alarm us on this side in the present state of European bullion stores and gold requirements, for one million more withdrawn from the Bank of England would agitate our market, and cause rates to advance to at least 5 per cent.—no very serious rate for sound business, but a destructive one to much of the speculation now sustained here and on the Continent."—*Pall Mall Gazette*, Sept. 22, 1881.

Mr. Bonamy Price and all the orthodox economists tell us that the export of gold is not merely a matter of indifference, but is rather a benefit; and, on the other hand, the City say that the loss of only one million—a mere trifle, indeed—would agitate, and perhaps upset, the money market in all Europe. Can there be a more complete contradiction? How should not political economy lose its credit, as a science, when its statements are in such open opposition to the most undeniable facts?

Economists are not wrong *in abstracto;* but one should also say that financial editors must be right, for they grasp economic life in its daily reality. Is it possible that merchants, bankers, and writers of the newspaper money-market articles should all be led astray by the sophism of "mercantilism," so as to understand nothing of the transactions occurring under their eyes? On the other hand, is it possible that the most eminent economists should be completely deceived on this subject? We can allow of neither hypothesis. The apparent contradiction arises from the fact that the problem has been regarded from different standpoints. It has been viewed in the "static" condition by economists, and in the "dynamic" aspect by capitalists and men of business, phenomena being looked upon at a given moment by the first as being at rest, in their development and as in movement by the second. Let us explain this: England, for instance, could easily effect all her exchanges with £80,000,000, or with £40,000,000 in gold, instead of the £120,000,000 she now employs; for, as J. B. Say remarks, the value of gold, as compared to that of merchandise, would increase as the quantity of the former diminished; or, in other words, the prices, calculated in money, would diminish as money became scarcer. If I have one shilling instead of two, it makes little difference to me if I can now purchase as much with my shilling as I could formerly with two. Double, triple, if you will, the amount of precious metal in a country, that country will be none the richer. The number of useful objects which constitute its real wealth will have remained the same, only two or three times as high a price in money will be put on each one. All these are evident facts, and hitherto the reasoning of the economists is perfectly sound; but as soon as we attempt to carry these abstract ideas into practice, they are completely contradicted by facts which are daily reported by the financial papers accused of "mercantilism." This is what we will next endeavour to show.

In the world of actual affairs all contracts, whether for a long or short date, the terms of loans made by banks, the rate of discount, in fact all business, are based on certain prices and on the availability of a certain amount of cash. If this amount of cash, or the prices which it determines, either increases or diminishes, the basis of all business transactions becomes necessarily modified. This is the important fact that economists have neglected to examine in its consequences. What are these consequences? That is the question we must weigh with the greatest attention.

Let us suppose, first, that gold increases in quantity: what happens? Here we are by no means reduced to speculative reasoning on a hypothesis. This phenomenon occurred and assumed colossal proportions under our own eyes subsequently to the year 1850. Compared with the year 1840, the production of gold increased tenfold after the discovery of the *placers* of California and Australia, and the production of gold and silver combined is fifteen times what it then was. The

consequences of this unheard-of change have been perfectly analyzed in the well-known work of Tooke and Newmarch, "History of Prices." When this extraordinary influx of precious metal reached Europe, Michel Chevalier raised a cry of alarm, which Cobden repeated, and which greatly impressed the different Governments. Prices, it was commonly said, would double, and this would lead to profound economic disturbance; gold should, therefore, be at once rejected, a silver standard being adopted. But Newmarch explained that this danger was not at all to be dreaded, because the gold, in arriving, would stimulate fresh economic activity, and in thus making for itself greater employment, would prevent its own depreciation. What followed proved that Newmarch was right and Chevalier wrong. After some few years, prices rose a little, to the extent of about 15 per cent., according to Mr. Jevons. The rise, however, was of short duration, and a fall ensued, although the total production of gold and silver has maintained itself at about £38,000,000. Thus the predictions of Michel Chevalier and of Cobden were not borne out by facts. The banker had made sounder deductions than the economists.

From the beginning, the prodigious development of the gold-producing countries, California and Australia, brought fresh stimulus to the industry and commerce of the whole world. These new countries did not send us the produce of their labour for nothing. For every million of gold received in Europe an equal quantity of goods was returned to them. These goods had to be made and transported, and thus fresh outlets for labour were created. This new opening for trade in the gold countries and the increased production in Europe which was needful to supply the wants arising—these occasioned more exchanges and therefore led to a more extensive employment of the precious ores, which are the metallic means of exchange and the basis of all fiduciary circulation.

Gold arriving in Europe is deposited in banks where it finds its prices fixed by the mints, and so those sending it get immediate remuneration. This accumulation of cash of course leads to a fall in the rate of interest. After 1850, discount fell to 1½, and even to 1 per cent. A fall in the rate of interest stimulates the spirit of enterprise and the creation of new companies of all kinds, both at home and abroad. The surplus money must find employment for itself somewhere. Besides, when capital can be obtained at the moderate rate of 2 or 3 per cent., a great many undertakings may prosper which would never do so were the rate of interest 4 or 5 per cent. I will here borrow a very just comparison made by Mr. Bonamy Price, when he says that cash is a conveyance, but I draw from it a totally opposite conclusion.

When vehicles are plentiful they can be hired cheap, and, as a natural consequence, everybody uses them, and there is an extraordinary circulation. You see this at Naples, where the hire of a decent carriage is fivepence, and even the beggar rolls in a *corricolo*, at a penny. So, too, when the monetary mediums of conveyance are abundant, they also

are lent cheap. Circulation is active, and business is "brisk," as people say. Certainly the capital lent and borrowed is not in reality "money." Capital truly consists of all the materials requisite and necessary to production. Still, cash is the means of obtaining these materials. It is with gold that they are paid for, and it may be said to be gold which is necessary for every exchange. It follows therefore that, when gold is plentiful, the real capital is easily brought into action, and then production is developed.

The first effect of an influx of gold certainly is a fall in the rate of discount. But the phenomenon does not stop there. This fall promotes a movement of economic expansion until the demands for capital exceed the disposable quantity, and then the rate of discount rises. This was observable during the period of prosperity, from 1853 to 1870. The average rate of interest was high, in spite of the abundance of gold, because the prodigious development of production for which this period is noticeable caused an endless demand for capital. It was during this period that railways were largely made in all parts of the habitable globe; canals were opened, isthmuses cut, mountains pierced, and works, factories, and banks innumerable started. Mr. Newmarch only gives expression to general opinion when he says that the gold of the *placers* was the chief cause of this wondrous development.

The second result of an exceptional influx of the precious metals is to produce an average rise in prices. Gold, which gives facility to the creation of fresh business enterprises occasions a greater demand for everything. In works and factories, in railways, in all sorts of concerns undertaken on all hands, workmen, and iron, wood, and every kind of raw material are wanted in greater numbers and in larger quantities than previously. The increase of demand produces necessarily a rise in value. This rise takes place gradually, and the result of it is to produce that state of the market which we call "brisk." All who are engaged in producing profit by this. Workmen, being more sought after, are better paid; they consume more in the way of fuel, food, &c., and thus raise the price of the articles of common necessity, which naturally brings benefit to those who produce or manufacture them. Manufacturers, making more profit, buy more, and the prices of the articles they want rise in their turn; and in this way profit flows in upon a second category of manufacturers and tradesmen. The buyer of raw materials for the purpose of their conversion into manufactured goods almost invariably gains by a general rise in prices; for this raw material, flax, cotton, wool, iron, is worth more when resold than when it was purchased. The economic and commercial world thus forms one immense chain of causes and effects in which the value of each link is heightened by the activity imparted to labour, the true source of all riches. It may even happen that an "industrial" fall occurs in the price of many articles, great enough to counterbalance in the increase "monetary value;" because, thanks to the multiplication of fresh

enterprises and the introduction of fresh machinery, these commodities are produced at a much cheaper rate. These are the many favourable results which follow on an influx of the precious metals.

But, it will be said, these advantages are also attributed by inflationists to an abundant issue of paper money made legal tender. Doubtless this may be so; but the factitious excitement caused by the inflation is dearly bought, as it rests on no firm basis, and is brought about by an abuse of legislative power. It occasions a depreciation of the currency, the degradation of exchanges, and the permanent disturbance of foreign trade; and, sooner or later, large sacrifices have to be made in order to revert to the metallic circulation. It is quite otherwise when the impulse given to business springs from a natural source—viz., an increase in the amount of precious metal, the real basis of exchanges, and, at the same time, the true equivalent of every value. In this case, there is neither depreciation of currency nor disastrous reaction. All that could in any way occur would be a general rise in prices resulting from the large amount of cash suddenly thrown into circulation; but, as we explained, even this will probably not take place, for owing to the number of business transactions rapidly and permanently increased by the economic development which the abundance of cash will have stimulated, gold will find further employment. The demand for it will increase in about the same proportion as the supply. The precious metals will lose nothing of their powers of purchase, and prices will not rise. This is exactly what has occurred since the year 1850. The average annual production of the precious metals during the decade 1840–1850, was 362,000,000 francs. From 1850 to the present time, the average production has tripled, having risen to from 900,000,000 to 1,000,000,000 francs annually; and, in spite of this, if prices have risen for a time a trifle, they have fallen again to about what they were formerly. Thus, the extraordinary influx of precious metal which commenced 30 years ago, has been most beneficial in increasing economic activity all over the world, and this great advantage has been unaccompanied by drawbacks or difficulties. So long as I thus limit myself to stating only undeniable facts, I hope I shall not be thought guilty of either "mercantilism" or of "inflationism," I merely give a summary of Newmarch's chapters,* and he, I imagine, is not likely to be accused of any such heresies.

Let me now examine the opposite phenomenon—the scarcity of cash —and try to ascertain its effects. The exportation of gold is a purely indifferent matter, says Mr. Bonamy Price, for exchanges are just as well effected with little as with much money.† Let us rather say, writes

* It is useful to read with attention the chapters devoted by Mr. Newmarch, in Tooke's "History of Prices," to the study of the effect produced by the gold of California and Australia during the period 1848–1856.

† At the close of his book, "Practical Political Economy," Mr. B. Price publishes, as an appendix, his correspondence with Mr. Henry Gibbs, ex-Governor of the Bank of England, on the question as to whether the Bank, in fixing the rate of discount, should, as a general rule, be guided by the amount of its reserve in gold. Of course, Mr. B. Price is strongly

J. B. Say, that the exportation of gold is an advantage, for in exchange for gold, which is dead capital, useful goods are obtained, and the gold remaining in the country is rendered more serviceable; since, to pay for the same number of articles a less weight is given and received, according as its quantity has diminished, its value having increased. If these propositions (which, not long since, all the economists of the deductive school were fully prepared to vouch for) be exact, we must conclude that the entire business world, the Bank of England, merchants, bill brokers, speculators, and all the writers of financial articles in the newspapers, must be suffering under the strangest hallucinations. All these authorities affirm that the crisis which has so long depressed the money market, and which becomes just now more acute, was in great part brought about by a monetary contraction, and recently by the exportation of gold to America, and argue that it became more or less serious as gold left us in larger or smaller quantities for the opposite shores of the Atlantic. It is, of course, economists who are mistaken, they having made a superficial analysis, basing it solely on abstract ideas. The study of the phenomenon must be recommenced by paying special attention to facts as they really exist. Here, again, we have only to recollect what has recently taken place beneath our very eyes.

When gold is to be exported it is taken from the banks of issue, because in their hands a large stock is always to be found ready at the command of all holders of bank notes or of well guaranteed commercial drafts. Banks, being compelled to have sufficient cash in hand to guarantee the fiduciary circulation, raise the rate of discount. That is exactly what is now going on (September, 1881). In a general way a rise of 1 or 2 per cent. is sufficient to bring back the precious metal by diminishing the price of all commodities, shares, debentures, and stocks in State funds, and by raising the hire of money; but sometimes (and it has been noticed that this happens about every nine or ten years) the outflow of gold induces a sharp crisis. Mr. Jevons connects these periodical crises with the spots appearing on the sun. I have endeavoured, in a work specially on this subject, "Le Marché Monétaire depuis cinquante ans," to prove that they are brought about by the agency of three circumstances. 1st, the very general use of "instruments of credit," which in turn causes the immense mass of fiduciary circulation, notes, cheques, promissory bills, and unpaid accounts, to rest on a very small metallic basis; 2nd, the existence in the market of a great many term engagements, the result of the multiplication of fresh enterprises, of increased purchases of goods, and of the general speculation fever which invariably accompanies a period of expansion and prosperity; 3rd, and finally, the still more decisive cause is to be found in the exportation of cash, necessitated either by the bad harvest, as in 1847, by foreign

against this line of conduct, which is contrary to his theory. Mr. H. Gibbs replies that if the learned Oxford Professor were a "practical man" and a banker, he would understand the question better. How should not political economy lose its authority when it thus places itself in opposition to the most evident daily business necessities?

investments, as in 1825 and again in 1856, or by exceptional purchases of certain goods, as happened after the cotton famine in 1864. Indeed, whatever may be the minor causes which work towards a crisis, it is always determined by the exportation of cash, which induces either the shrinking or else the complete collapse of credit, which follows on a sudden and too high a rise in discount. These exportations of cash are generally occasioned by some disturbance in the balance of trade.

Mr. Bonamy Price and other economists make gentle fun of the balance of trade, and speak of it as an "exploded fallacy." Nevertheless, the *Economist* and other special newspapers continue to write about it and to follow its course with the greatest care and attention. Here, again, business men are right. It is evident that the balance of trade can no longer be estimated, as it was formerly, by a mere calculation of exported and imported merchandise. The amount of money invested abroad and the interest gained upon it has now assumed immense proportions, and this, of course, modifies the balance, without the tables of the Custom-House showing any record of it. The richest countries, England and France for instance, are creditors of other countries for many millions sterling. The interest of these hundreds of millions, represented in goods, occasions imports to be made without any return exports. It follows, therefore, that rich countries import regularly much more than they export, and this without occasioning any disturbance in the balance of trade. Here are the figures for England:—

	1877	1878	1879	1880
		In millions sterling.		
Imports	349·41	368·77	362·99	411·22
Exports	252·34	245·48	248·78	268·41
Imports exceeding exports by	97·07	123·29	114·21	142·81

This excess of imports naturally includes, besides the interest of money lodged in investments abroad, the immense sums for freights of merchandise, and for wares of all kinds which English vessels transport to all parts of the world, and also the profits of trade on the national and foreign produce that English merchants sell everywhere. The following is a calculation made on this subject by Mr. G. Medley. (See his work, "The Reciprocity Craze.")

Profits on Ocean Carrying Trade	£45,000,000
Insurance	3,500,000
Interest on Capital in Foreign Trade	5,000,000
Merchants' Profits	17,500,000
Income from Foreign Investments	55,000,000
Total	£126,000,000

But if the state of things thus established, with an excess of imports for the creditor country, be troubled by the necessity of completing

fresh foreign investments, or by an exceptional purchase of corn being needed after a bad harvest, the result will be an unusual exportation of cash, followed by a crisis more or less severe. These sharp crises have sometimes most disastrous consequences. All shares fall in the market; bankruptcies may be counted by thousands; workshops are closed; workmen find themselves without employment, and want and suffering become very great. It cannot be maintained, therefore, that even in such a case as this, the exportation of the precious metals is a matter of indifference. All that can be meant is that its disadvantageous effects are but transient, commerce and industry quickly again presenting their habitual aspect. Prices rise, and two or three years' practice of economy suffices to repair what losses may have been sustained. A fresh period of prosperity, of expansion and speculation soon commences, which generally terminates in another crisis.

The effects of a slow and steady reduction of the stock of money are of a different character. They come into operation almost insensibly, being unaccompanied by any violent disturbance. Indeed, the cause of the evil is usually ignored, or else disputed. Instead of a burning fever it is a decline with which the social body is afflicted. A crisis of this description first occurred in the period 1816–1840, and it has been repeated from 1873 to last year. Each was brought about by identically similar circumstances. They may be thus specified—1st, insufficiency of the production of the precious metals; 2nd, exceptional demand for gold. Let us examine the facts. 1st, from 1816 to 1822, England, abandoning paper money, established the gold standard, and took from the general circulation of the world £20,000,000 sterling. This was an immense sum for that period, for it corresponded to ten times the then annual production;* 2nd, the average annual production which was from 1801 to 1810, 259,000,000 francs, fell from 1811 to 1820 to 159,000,000 fr., sank still further to 151,000,000 fr. from 1821 to 1830, and amounted only to 202,000,000 fr. in the period from 1831 to 1840. After 1873 the United States, Germany, and the Scandinavian States, by adopting the gold standard, absorbed from 300,000,000 fr. to 400,000,000 fr. of gold. The production of both the precious metals taken together has not decreased; but silver, being no longer received in any mints, save for the currency in India, the monetary stock has had to be fed by gold alone, the production of which has diminished by one-third. The annual influx into circulation of the precious metal has thus fallen one-half—viz., from £40,000,000 to £20,000,000. Added to this, during these last three and a half years, America has taken from us £50,000,000 of gold. These three circumstances combined have produced subsequently to 1873, as they did also after 1816, a monetary contraction. It is that phenomenon,

* Albert Gallatin, whose authority is frequently cited on these questions, wrote in 1829: "Not only has England by that experiment, in the face of the universal experience of mankind, gratuitously subjected herself to actual inconvenience, for the sake of adhering to an abstract principle, but, in so doing, she has departed more widely from known principles, and from those which regulate a sound metallic currency."

exactly the reverse of the expansion after 1850, which has been neglected by economists, and it is this which we must now study. This has not yet been systematically done, though striking references to it are to be found in different works, notably in Alison's "England in 1815 and 1845; or a Sufficient and a Contracted Money;" D. Lubé, "Argument against one Gold Standard;"* "Report of the Monetary Commission of the Senate of the United States, 1876;" Dana Horton, "Silver and Gold;" R. Giffen, "The Recent Fall in Prices," *Journal of Statist. Soc.*, March, 1879.

In the case of a slow monetary contraction crisis, the precious metals are not suddenly taken away from the banks in large quantities, as is the case in sharp crises; credit is not shaken, and monetary stock diminishes almost insensibly by the industrial consumption of the precious metals, since the stock, not being fed as usual, does not keep up to the level of the growth of the economic development. Then commences an almost imperceptible fall in prices, spreading from one article to another. The unfortunate consequences of this circumstance, left unnoticed by Mr. Bonamy Price and by other economists, are as follows:—During the fall in prices the merchant and tradesman frequently lose, for they are often obliged to sell cheaper than they bought. Enterprises no longer bring in profit; on the contrary, they have often to be abandoned at a loss. Merchants, their hearts failing, relinquish part of their business, new undertakings of any kind become rare. Workmen, less and less sought after, see their wages lessened. They, in turn, consume less, and thus the manufacturers who provide for their wants have to reduce their productions. Merchants and tradesmen, making small or no profits,

* The following are a few passages from these writings:—"Is there one man of sense and reflection whose mind is not sometimes occupied, and whose imagination is not startled by the actual and prospective state of the country? The monetary standard of England was what it is now and has always been throughout the rest of Europe—silver. Monstrous and incredible delusion! We are now told that the question is settled for ever. But with a gold standard, circulation cannot increase: so it opposes an effectual barrier to all improvement. By the gold standard the currency has been reduced below the point that would afford remunerative prices with the present taxes."—*Argument against One Gold Standard*, D. Lubé, M.A., Trinity College, Dublin. In 1832 Lubé strongly advocated the silver, standard. This is what Sir Archibald Alison says on the subject of monetary contraction: "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, and of the whole community from 1835 to 1842 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, has been in a state of smothered insurrection. The heart sickens at the evidence, numerous and incontrovertible, which the Parliamentary reports for the last ten years have accumulated of wide-spread and often long-enduring suffering amongst the labouring poor of England." After having described the progress of this state of things Alison adds: "Some external cause must therefore have paralyzed and blighted the wealth of the country in the midst of such an increasing growth of the national resources. Since the Peace, the all-important question arises, what was it which had this effect? The answer is, it was the contraction of the currency which was mistakenly made to accompany the resumption of cash payments by the Bill of 1819 that has been the chief cause of all these effects." Alison gives a perfectly complete description of the unfortunate results of the monetary contraction, the real cause of which generally passes unobserved. "It is as difficult to get the great bulk of men to understand that it is the currency itself that is shifting in value when great changes of price are going on around it, as it is to make them comprehend that the earth is moving rapidly through the heavens."—*England in 1815 and 1845; or, A Sufficient and a Contracted Money*, 1846, page 51.

do not live so well, and here again the manufacturers who work for the middle classes also suffer. There is a general decrease in economic activity. Capital, sunk into inactivity, lies in the banks, and the rate of interest falls, the demand for advances being few and small. Cash does not appear to be lacking, and, indeed, is not wanting, for, as J. B. Say said, the quantity, if it is diminished absolutely or comparatively, is "appreciated." Each unit is worth more and effects more exchanges. Reduce as much as you will the monetary stock, it will always remain sufficient, for, as prices fall, in proportion its value rises, and it will always buy and pay for the same amount of goods. When the fall in prices is at an end, the period of suffering resulting from it finishes, and the economic world gradually regains its normal condition. Only the transition is often tedious and accompanied by many cruel trials, as we have had occasion to see during the last few years.

The question now is whether when exchanges are effected with less cash, and consequently on a lower scale of prices, will the situation be what it formerly was, as the economists who reason on abstract principles pretend? I venture to say, not at all. The pressure of previously contracted debts will have increased exactly in the same ratio as prices will have fallen. In fact, to obtain the same amount of money, more goods or more labour will have to be given, as these will be worth less.

The nation in general, that is to say, taxpayers, mortgagees, public companies who have issued debentures, landed proprietors bound to pay fixed yearly incomes, pensions of one sort or another, all will be burdened and the bondholders alone will benefit. Some people will say, What does it matter? Some gain what others lose.

This is a mischievous mistake. It matters greatly, for production is sacrificed in favour of the fundholding class, or, as John Stuart Mill puts it, active capital is sacrificed for idle capital.* As already most European communities are taxed to the extreme limit, the consequence of any indirect increase of the burden which these loans lay upon them would inevitably be the misery of the populations, if they

* All the leading economists agree in thinking that abundance of money is more favourable to the progress of mankind than scarcity. Here are some quotations on the subject: "In fine,' says Michel Chevalier, "a fall in the value of money will profit those who live by present labour; it will injure those who live on the fruits of past labour, be it their own or that of their fathers. In this respect it will act in the same direction with the greater part of those evolutions which are accomplished by virtue of the great law of civilization, to which ordinarily we assign the noble name of progress."—*La Monnaie*, 2nd edition, 1866, p. 760. J. R. MacCulloch, in his discussion on the effect of the great increase in the world's stock of gold after 1850, says in conclusion: "Though, like a fall of rain after a long course of dry weather, it may be prejudicial to certain classes, it is beneficial to an incomparably greater number, including all who are actively engaged in industrial pursuits, and is, speaking generally, of great public or national advantage."—*Encyclopædia Britannica*, Art. "Precious Metals." W. Roscher, the learned professor of Leipzig, points out that the gold discoveries, by preventing a dearth of money, which without them would have probably occurred, saved the nation from a grievons malady. On the other hand, he explains, in the same sense as MacCulloch and Chevalier, how a fall in the value of money may stimulate to a notable increase of national production—*Grundlagen der Nationaloekonomie*, §. 141). All the more known German economists—Nasse, O. Arendt, Adolf Wagner, Lexis, Schäffle, and even Goetbeer—express the same opinion. *Vide*, for example, Erwin Nasse, *Der Bimetallismus und die Währungsfrage*. Holtzendorff: Brentano, Jahrbücher II. 1.

continued to pay, or general bankruptcy in the event of their refusing to do so. It opens up a vision of the world of the Stock Exchange towering over the crushed ruins of the working world.

Finally it may also happen that the two sorts of crises, that which may be called the "anæmic" crisis, that is to say, the one which is due to a slow decrease of monetary stock, and the sharp crisis, due to a sudden and considerable outflow of gold, graft themselves so to speak one on the other, as they are doing at the present time. The exportation of metal to New York is impoverishing further our store of precious metal, and so is doubly disastrous. It retards the impetus of business which seemed to be springing again into life, and at the same time it keeps down prices which are already merely remunerative. We thus see to what extent the abstract ideas of the deductive school are contradicted by a simple statement of facts.

But these economists ask, Is it then not true that produce is exchanged for produce? If that be so, gold is as much a produce as anything else. The merchant exporting it has obtained in exchange goods of a higher value, or he would not have consented to the transaction. Therefore, if the merchant has gained, it is not possible that his country loses. All these axioms, which seem so clear and evident on paper, are nevertheless daily contradicted by experience. In reality, 1st, a great deal depends on the nature of the objects exchanged; and, 2ndly, it is not true that the metal of which money is composed is a merchandise like any other. Some very simple examples will serve to prove these two observations. Hunters are out in a forest in the far-west of America, and live on the game they shoot. The Indians they meet propose to give them in exchange for their guns furs of at least double their value; they accept the offer, for economists have persuaded them that produce must be always exchanged for produce, and that it is always a gain to obtain articles of a higher for those of a lower value. Their want of forethought, however, is speedily punished. They are very soon nearly dying of hunger. To get back their guns, they would now be willing to transfer not only their furs, but everything else they possess into the bargain. Again, a manufacturing town has sufficient cars and waggons to effect all necessary transports; foreigners buy from them a part of these at a very high price. The sellers profit by many thousands of pounds, and it seems a splendid business exchange of produce for produce, with clear gains on their side. But the vehicles having disappeared from the wharves and streets, there is no means of conveying goods from place to place. The manufacturers, no longer able to obtain raw materials, are obliged to stop working their machinery and to discharge the work-people. A general crisis arises, there being a deadlock as regards production, and misery continues to spread among the labouring classes until fresh waggons are made or got. The loss in this way incomparably exceeds the gains which were obtained from the

sale of the vehicles. Exactly the same thing occurs when gold goes off in too great quantities. He who exports it in payment of goods purchased in exchange does a good stroke of business, but the community suffers for it. Pieces of money are, for practical purposes, conveyances by means of which products are exchanged. If there be an insufficient quantity of these, the circulation becomes impeded; commerce and industry have to face difficulties in buying and selling; a crisis ensues. It is, therefore, not correct that the precious metals are as much a merchandise as anything else, and that it is a matter of indifference whether they are exported or imported.

But, Mr. Bonamy Price will say, you will not deny the truth of the following proposition, which, with several others, Mr. Mill has very clearly explained:—A country has always as much money as it needs; in fact, it is impossible that one country should export, and that another, with which it trades, should, at the same time, import cash for any lengthened period. Prices will fall in the country where gold is leaving, and will rise where it is accumulating. It would soon be to the advantage of the former country to buy where things are cheaper, and thus the excess of imports would quickly bring back the gold, and the balance would be again established.

I beg, first, to remark that this reasoning is neither more nor less than an application of the theory of the "Balance of trade," so decried by recent economists. On the other hand we find here again the same use of abstract ideas, leading to conclusions in which falsity is mixed with truth. Contemplating this purely superficial analysis, one is led to suppose that gold can pass from one country to another, in a similar manner to water passing from basin to basin seeking its level, and that neither advantage nor disadvantage is likely to accrue to either nation from the transfer. It is not so by any means. And, first of all, there is one very great exception to be taken as to the general axiom given us by Mr. Bonamy Price and Mill—an exception which plays a very important part in the general movement of the precious metals on our globe. I speak of India. From antiquity to the present time, an uninterrupted current has always carried silver to the far East. A rise in prices there, such as would have induced the Indians to buy more goods in Europe, and discouraged Europeans from buying from the Indians, has never taken place. And why? Because the silver on arriving in Asia is made into jewels and idols, and is, further, lost and hidden away by a population in India of 300,000,000, and of 400,000,000 in China, and so does not remain in circulation; thus, having no influence whatever on prices. The fact of the balance being always favourable to Asia is explained by the circumstance that Europe needs much commodities from thence, while the East takes very little of our produce.

Between European nations the balance is generally pretty equal; any momentary inequality is quickly set to rights by the variations in the rate of exchanges, and very little precious metal actually passes from country to country. In this case current economical theories find their

application; but let us consider the example of a balance where the tendency is persistently unfavourable, and where a constant exportation of precious metal becomes necessary. For the study of this phenomenon we have only to examine facts in connection with the trade between Europe and America. Here, as in the case of India, an unfavourable balance seems likely to become persistent. Since the United States re-established a metallic circulation, Europe is obliged to send them each year a growing quantity of gold. In 1879–1880 it amounted to 75,000,000 dollars, and in 1880–1881 to 91,000,000 dollars. The reasons tending to the production of this unfavourable balance for Europe are the same as in the case of India. We are absolutely forced to take certain produce from America; for instance, corn, meat, petroleum, and cotton. On the other hand, as industry becomes developed in the United States, thanks to the more general employment of machinery, and to the higher intelligence of their workmen, they are less in need of our products and manufactures. The difference, in this way, of the commercial balance that we owe to the United States, we are obliged to pay (silver being refused there) entirely in gold. Hence, these exports of cash, which occur generally in the largest quantities in the autumn, and greatly disturb the European money market. It is certain that these exceptional exports will cease some day, sooner or later. With a yearly drain of £15,000,000 to £18,000,000 sterling, there would soon be no gold left in Europe, for it produces none; and already her stock is very much reduced. On the other hand, as the Americans do not hoard their gold, or make anklets or bangles of it, as the Indians do with silver, the gold they receive, and that which they produce, by swelling the circulation, will raise the prices there, while they will fall in Europe, as a natural result of the diminution of the monetary stock. But to what famine prices will European produce have to fall before being able to pass the protectionist barrier—the American Custom-House—in quantities sufficient to turn the scales in our favour? For this to occur, the European market must be depressed severely—an event deeply to be deplored, whatever economists may say about it. One circumstance, which may singularly retard a reflow of gold to Europe is, that as soon as it reaches the opposite shores of the Atlantic, it finds immediate employment in creating new railways, new farms, fresh works of all kinds, fresh centres of production in the Far-West; for in these far-off regions the pioneers who people them love "hard money." As the financial chroniclers say, The New York market is insatiable; gold coming from Europe evaporates there like water on heated sands. It scarcely is landed before it starts off westward. The United States are now enjoying the monetary advantages of that period of economic expansion which Europe experienced after 1850. European banks are to them now what the Californian "placers" there were to us then.

Gold can, however, return from the country where it has accumulated to the one whence it flowed, in another manner. In the impoverished country the fall in prices does not affect goods only; it extends, in some

degree, to investments. It is therefore advantageous to lend money there; and the country where gold is plentiful, and where, consequently, everything is very dear, will not fail to do this. These exceptional purchases produce a reverse balance: gold, obeying the fall in the rate of exchange, flows back again, and the equilibrium tends to re-establish itself. The economic theorem, stated by Mill and Mr. Bonamy Price, is thus verified; but an important change has taken place, which economists completely ignore. The country which, thanks to its gold, will have been able to invest money in the country momentarily impoverished, will hereafter be entitled to receive from the latter, as a kind of tribute, interest for the capital invested. It is thus that England has enriched herself, and that she can annually import a surplus of about £100,000,000 sterling in commodities, a large proportion of which represents the dividends of stocks, shares, bonds, &c., due to her by foreign nations. In 1847, France, in order to cover the deficit of a bad harvest, was forced to send large quantities of gold to Russia, and a crisis ensued. The Emperor Nicholas sent 50,000,000 francs to France. The gold returned, but Russia continued the creditor of France to this amount. Only, here again it must be noticed that the flowing back of gold from America to Europe will not be easy, because many years must elapse before capital can be more advantageously placed in Europe than in the United States.

Let us sum up these remarks on the movements of the precious metals. The real balance of trade, when all the facts are taken into account, is a very important point. It is that which determines the fluctuations in the rate of exchange, which again leads, when it passes the *gold point*, to the export of this metal. Under the influence of the variations in the exchanges, the balance generally regains its equilibrium, and thus the exports of precious mètal are very nearly balanced. But when, after bad harvests, by large imports without compensating exports, or on account of freights or interest due, a country loses some of its monetary stock, it does not regain it without suffering some damage. The country in receipt of this excess of gold parts with it only to pay for goods at a cheap rate, or to purchase stock, the price of which has fallen, through the scarceness of the metal, or as a result of the monetary crisis.

I will finally examine one remaining question:—To what extent is it true, as orthodox economists allege, that it is a matter of indifference whether a nation be abundantly or scantily provided with the precious metals? I will restate their propositions. Precious metals, they say, are not essential to any absolute requirement. It is the abundance of useful or agreeable objects that constitutes the wealth of a nation. The more plentiful cash is, the higher each article will be priced; but this will add nothing whatever to individual well-being. The only result will be that money payments will be heavier, because, in order to obtain the same number of objects, a greater weight of gold or silver will have to be given in exchange.

These propositions are perfectly true, if we consider one country only, or are speaking of the entire world; but it ceases to be so when we examine the relations of one nation with others. This is what we must now make clear.

It is necessary, preliminarily, to explain the meaning attached to the words "abundance of cash." It refers to abundance in comparison with what is requisite for exchanges, and not to absolute abundance. Thus, it is certain that the more highly a country becomes economically developed, the less precious metal it makes use of in accomplishing the same amount of exchanges; firstly, because the monetary media, better employed, circulates more rapidly; and secondly, because cash payments are replaced by an extensive credit system. England, for instance, does more business than France, with half the quantity of cash. But yet, allowing for the necessity England is under always to maintain a certain quantity of the metallic means of exchange, it can be truthfully said that she is always abundantly furnished in that particular. The greater portion of the precious metals produced in the entire world passes through the London market, which reserves for itself only what it requires. All the nations of Western Europe are rich countries; cash is not wanting, means of circulation are plentiful, and prices are consequently high. The nations of Eastern Europe are, on the contrary, countries where gold and silver are scarce, the circulation slow, and consequently prices there are very low.

This difference in the prices of commodities is of very little consequence for the inhabitants of one or other of these groups of communities in their relations between themselves; everything there is dear or cheap. But it makes itself felt in any question of trade or intercourse between the high-price group and the low. The first can buy of the second at will; but the second, in their turn, cannot buy of the first. If I sell a chicken in London for 3*s.*, I could procure three in Bucharest for the same money. A thousand pounds sterling in England would give me a triple power of purchase in Roumania or Bulgaria. An Englishman could, therefore, if it suited his convenience, buy up everything there is to be had in a poor country, he being ready to pay a price that no one there would give. It is for this reason that everything of the finest and most costly description is sent to London and to Paris from the producing countries. It is on this account also that so many Englishmen settle abroad. Their income gives them there a much higher power of purchase, and they can live in a higher style than in their own land. On the other hand, an inhabitant of Kief or of Sophia, wishing to come to London or Paris, to enjoy the value in his country of, say, forty or fifty quarters of corn, would have to sell double that quantity there to enable him to pay for the same enjoyment in the cities of Western Europe. The workman, who in New York earns a dollar for one day's work, could for that sum get five men to work for him where the wages are a mark a day, as in Silesia, and ten where the remuneration is 5*d.*, as in India. An Anglo-Indian civil service functionary

there keeps an establishment with ten or fifteen servants, wages being very low. Poor countries—poor in cash, or where the scale of charges is at a minimum—are, therefore, in truth, under the economic domination of rich countries where prices are high.

From all that has been said, therefore, I think it may safely be concluded that all the theories concerning the currency put forward in classic works need to be reconsidered and revised. They are superficial. They contain as much mistake as truth; and this portion of error has done much harm in preventing certain nations—England, for instance, and, quite recently, Germany and the Scandinavian States—from adopting a more rational monetary system.

The "mercantile" school was right in maintaining that an influx of precious metal stimulates commerce and industry, while its withdrawal throws both into difficulty and induces crises. It was also not in the wrong when it affirmed that gold and silver are not a merchandise like any other. These metals serve as conveyances to all other products; consequently, when they are in insufficient quantities, circulation, which is the life of the economic world, stops or languishes. But from these true observations, confirmed by daily experience, and relied upon by all business men and money-market chroniclers, the "mercantilist" reasoners have deduced erroneous conclusions: for instance, that gold and silver are the only riches, and that, consequently, in order to accumulate the largest possible amount of them, high protective duties must be imposed, so as to put an obstacle in the way of foreign import, and bonuses be offered for the purpose of stimulating exports. Economists were right in stating the true riches of a nation to consist in an abundance of useful objects, not of precious metals; but they made a mistake, and a very grievous one, in drawing the inference that it was a matter of indifference—in fact, was rather advantageous than otherwise, to export cash. It suffices to reflect for one moment on the disturbance occasioned from time to time in the economic and financial world by the draining of gold and the ensuing crises, in order to see how grave is their error. Nevertheless, the deductive school continues imperturbably to repeat its abstract axioms, although experience too frequently gives them flat contradiction.

What is to be desired in respect of currency, is that the monetary stock should be maintained at the level of the wants of circulation, and consequently that it should increase in proportion to the development of the exchanges effected in the world, so as to offer to all contracts, whether for a short or long term, as stable a basis as possible. In spite of history, to reduce civilized nations to make use of gold only, when Nature has placed two monetary metals at their disposal, and when it is evident that the yellow metal is produced in too small and too variable quantity, is to provoke a series of disastrous crises, shackling commerce, and completely strangling free trade.

EMILE DE LAVELEYE.