The Economic and Social Problem

by Michael Flürscheim

CHAPTER IV.
Circulation

The currency is the economic body's life blood.

THE preceding chapter describes a money that can be created free from two defects of metallic currency. It costs little to produce by dispensing with the immense cost of the precious metals. Its quantity can be regulated and thus kept from those changes in value, to which all commodities, and especially scarce commodities like the precious metals, are unavoidably subject.

We have seen how money preserves an unvarying standard of value, but we have not obtained any information how it could be made more easily accessible to the money users than coins. This will be the object of the present chapter.

We have to consider two kinds of money circulation. One is that from the consumer to the producer; and from him as a consumer, to another producer; and so forth. We include here the intermediate stages of the middleman and of purchases not meant for direct consumption, but temporarily to help production, such as the purchase of tools and raw materials, freightage, etc.

Another kind of circulation is the payment of money for land, mortgages, bonds, or similar investments. I shall try to illustrate the great difference between the two kinds of circulation by the transactions that take place between Plutus, one of our multi-millionaires and two other parties. The one is Giles, a producer who obtains cash from Plutus for some kind of merchandise; the second is another producer, Jones, who receives money from Plutus for a piece of land.

In the case of Giles, circulation is not impeded; what has been paid out by him as a producer comes back to him, for though sales may occasionally entail a loss, as a rule the producer who sells goods to a consumer makes wages or even a profit. This is well understood, so well that it has been assumed to apply to the other kind of transaction likewise. Our economists could find no difference—as far as the process of circulation is concerned—between the transaction in which the capitalist buys directly or indirectly from the producer any product of labor, and the one in which he merely pays or lends to the producer the money for something which is not a product of labor; in our illustration: land. And yet the difference between the two transactions is ominous.

We assume that in the possession of Jones the land had been an instrument of credit. His bank took a mortgage upon it, which has to be paid off when the land is sold; and thus the money obtained from Plutus merely takes the place of the money formerly obtained from the bank by Jones. No new money has been paid into his business funds, and not one single penny has been added to his purchasing power.

"But," will be replied by our economists, "the credit given to Jones by the bank and repaid by him will now be given to someone else, who will use it to purchase goods with; and we are practically right in saying that, as far as the process of circulation is concerned, it can make no difference whether this purchase has been made by the land-buying Plutus or by some other person to whom his money was passed over."

This would be true if the bank had to refuse further loans on good real estate security until the debt of Jones was repaid; but such is not the case—would only be the case if the bank merely lent out real money. We have seen that this is not the system of banks all the world over.

The loans and discounts of the banks and trust companies of the United States, including the savings banks, exceed ten billion dollars, while the total gold stock of the country hardly reaches one sixth of this amount. What they do is merely to lend the money, but mostly the money promises brought in by one set of people, to another set. They act as bookkeepers and credit insurance agents for the business people of the country, who indirectly thus lend each other their money, or rather their hope of getting money in case it is wanted; for comparatively little money passes or even exists in the country.

The whole arrangements remind me very much of a story I once read. The Mississippi had overflowed its banks. Hundreds of fine logs were rapidly drifting past a crowd of negroes who had gathered on the shore. They looked shiftlessly at the timber, when a white man, a stranger in those parts, addressed them.

"Boys," he said, "I will give every one of you as salvage one-half of the logs which he lands!"

With a will the men went into the water, and soon quite a number of valuable logs were piled on the shore. They took half of them for their labor, and the stranger took possession of his share and sold it to a neighboring sawmill.

"Fools, those negroes!" the reader will say. "Nothing prevented them from securing the timber for themselves, without giving a share to a stranger, who had not moved a finger, and who had not the least claim on the timber."

Certainly; but, my dear friend, are you not acting in the same manner whenever you pay a bank for the right of an overdraft? The bank, in this case, only allows you to make use of your neighbor's labor or its products, whom you finally repay indirectly by the products of your own labor. The bank only does the service of a clearing-house for you. It provides the tokens required for this mutual exchange, and for this service, the work of bookkeeping and for the guarantee undertaken by them, the banks have enriched themselves by billions. The mere fact of having as good as no money does not in the least deter our banks from giving credits, from allowing debtors to draw checks; because they know that the checks will come in as deposits on the other side, and generally real money will neither be demanded, nor could it be paid if demanded in the generality of cases.

The results, therefore, of the transactions between Plutus and Jones will be that a rich man, who does not overdraw his account at the bank, bought land; on the strength of which a poor man had drawn a certain amount of checks, which he now repays with the check obtained for his land from the rich purchaser. Thus the currency originally given to the capitalist by his rent or interest debtors does not return into circulation, as the transaction has not enabled the land seller to increase his right of check drawing. Jones merely repaid his debt to the bank, and there the matter ends.

The debtors of a rich man pay him their interest or their rent. The money, or the right of demanding money, has been paid to them by other workers, who expect to find employment through the continued circulation of this money; but they are disappointed. The money has left the market, and it is kept out of the market, or, rather, a right of check drawing exercised before is now suspended. Nothing has happened but a change in the basis of a given worker's check operations. The check of Plutus simply took the place of the mortgage as the security upon which Jones' checks were drawn. If land, bonds, or other securities of this kind, on which the banks allow overdrafts, were unlimited in amount, this would not matter; for someone else would obtain a credit on such security from the banks, and the checks drawn on this new account would take the place of the repaid overdraft in circulation. But the quantity of such securities is limited; and, while in normal times credit is not refused to those who can supply them, from year to year more of these securities come into possession of a class of people too rich to require credit, and who do not use them as a basis of credit money, of currency circulation, as the parties who sold them had done. "It isn't money that is scarce, it's collateral."

In this way the accumulations of the rich disturb the equilibrium between supply and demand; in this way the means of circulation obtained by them does not return into circulation.

The subject is too important and too new to meet full understanding at once, and yet without clear comprehension at this point, a vital part of the problem must remain an unsolved riddle. I therefore beg my readers not to skip, but, on the contrary, to thoroughly study, again and again, this momentous relation between wealth distribution and the supply of the circulating medium. To give all possible help on my part, I shall now sum up the subject by condensing its principal features into as few sentences as possible.

M is the stock of the universally recognized legal tender money of the world, practically represented by 5 billion dollars of gold coins and bullion. Part of the stock circulates, part of it is hoarded by parties who do not issue any credit money for it, and the balance lies dormant in the vaults and sales of the banks, the government treasuries and the business world to serve as the basis of a thirty-fold credit currency circulation: C (money promises or representatives). To simplify, we shall leave the circulating real money out of account as too insignificant when compared with the total of the circulation, and also the hoards used or not used as a basis of credit money; for this latter kind of money has practically disappeared from the world for a time, and we shall consider 30 C as representing the whole circulation.

Thirty C is not enough to supply a means of exchange sufficient to enable the expansion of trade: T, to keep step with that of productive power: P, so as to preserve its level with buying or purchasing power: B. Unless B = P, commercial depressions and want of employment are unavoidable. Through improved machinery and other causes P doubles to 2 P, but B can only advance to 2 B if T can advance to 2 T. This is only feasible if 30 C ran advance to 60 C. [1] (The increase of M itself through mining—after abrasion, use in the arts and hoards not serving as the base of C are deducted—is too insignificant when compared with the enormous increase of P and T to need consideration.) Such an advance is dangerous, even where the best of securities are offered, as long as M alone is legal tender; for it signifies that 60 instead of 30 promises of money are to rest on one single M us their basis, but let us suppose our capitalists risk this danger in normal times where what they consider good security is supplied. These securities (collaterals) are principally only of two kinds: 1, land or monopolies connected with it; and 2, the bonds of governments or public bodies. The latter may safely be left out of consideration where such a large amount of new securities is required as the in crease of 30 C to 60 C implies, though every year sees an average issue all over the world of over $500,000,000 new government bonds. We must also take into account that a very large part of these bonds are in, or gradually come into the possession of rich people who do not use them as collaterals for credits.

Nor are new collaterals needed; for—though the land surface does not increase, land values—L—grow with P. But, as shown in the case of Jones and Plutus, L is continually passing from the possession of those who use it as a security for the issue of C into that of men who require no credit. In the chapter on interest, the principal cause will be shown, which tends to accelerate this transfer, and so increases the rapidity with which the gulf widens between the demand for larger quantities of C and the possibility of supplying the security, the collaterals, without which C is not forthcoming. The form, which C takes is immaterial, whether it be that of overdrafts or bill discounting. As C lags behind the demand, B, T, and P have to suffer, and the crisis is inevitable.

It is here where the land question sends its offshoots into the circulation problem and where land nationalization produces its most important effects. The influence on the distribution of wealth, due to the monopolization of natural opportunities by a minority, can hardly be exaggerated, but this monopolization until now has directly interfered with employment only in exceptional cases as far as this country is concerned. As a rule, the landowner is willing to let the land at leases corresponding with the tenant's paying capacity. Practically, private land ownership interferes with circulation only by transferring the principal credit basis, the best collaterals, from the possession of the masses, who used them for the extension of the credit circulation, into that of the few, who do not require any credit. Thus credit is prevented from keeping pace with the increase of the turnover; at all events, of keeping pace as far as the narrow money basis finally permits.

When the foregoing causes of the growing discrepancy between productive and purchasing power are well understood, the occurrence of crises will cease to excite surprise; the difficulty will be to understand how we can ever have good times as long as the described fundamental cause is at work. Even this, however, can easily be explained. We must not forget that the real nature of the evil is almost absolutely unknown. A few students of economic science may have an inkling of the truth; but the masses, including our captains of industry and commerce, have come to look at commercial and financial crises somewhat in the light of meteorological phenomena, certain to occur at more or less regular intervals, forgotten as soon as they are over—just as a fine sunshine will make us turn out light-heartedly in thinner garments, unmindful of the fact that only yesterday we were caught in a shower. In the same way, the least sign of returning prosperity finds us all eager to make up for the depression we have just endured, and this very hopefulness must naturally have the effect of stimulating business. It matters little what may have produced the first signs of reviving trade. It may be a war, with its destruction of labor's products, and its requirements of life and property annihilating armament, its withdrawal from the labor market of thousands of strong men, whose consumption temporarily increases, and whose absence from competition enables those who remain to obtain full and paying employment, and thus also to augment their consumption. Or there may have been expensive changes in armaments such as followed that onslaught of the Merrimac on the wooden ships of the Union fleet which introduced an era of armored ships; or just as the Prussian victories in the sixties forced all nations to exchange the obsolete muzzle loader for modern guns. Or some great progress in the technic field, such as the last three decades experienced in electrotechnics may have called forth a large demand for labor and products of labor. Or a San Francisco earthquake and fire may make room for new production; a Panama canal and new railroad constructions set labor in motion. No better proof of the general ignorance in this field can be supplied than the fact that the very phenomena here recognized as having a prophylactic effect are often proclaimed the causes of the crisis; we hear of "a frantic speculation which started new enterprises beyond our means; of the growing war and marine budget; of destructions through war, earthquakes and fires putting forth increased demands on our national capital."

Of which means, of which capital do such men speak? What was required for the production they mention? Certainly not labor and land; for where both are obtainable all other means of production are accessible. Machines, tools and means of transportation are also products of labor and land. Now, independent of the fact that even during the prosperity period thousands of workers looked in vain for paying employment, is not the very essence of the crisis found in the difficulty in which millions find themselves of securing a chance for the application of their productive power? And the land? Do not landowners look in vain for labor provided with the means of production—which in their turn are the outcome of labor and land—to make use of their land above and below the earth's surface? Their prices may be driven up by speculation, but not beyond purchasing or renting power.

On the other hand, if as they pretend we had not enough capital at our disposal to replace all that wars and nature destroyed, or produce the new instruments of peace and war, how did we actually do this work? We did it without anybody having to suffer for it; on the contrary, enabling millions to live better, who otherwise might have swelled the army of the unemployed. If all of them had been fully employed all the time, with the best machines, much more wealth could have been created; and nothing hinders us now from continuing in wealth production on a greater scale than ever; nothing, but the absence of sufficient means of circulation; and here is where we find the capital deficit of which we hear so much. Can that be called capital which can be supplied in any quantity and practically without cost?—However the temporary revival came about, its effects are over-estimated and its transitoriness is ignored. At once hope rises on all sides, and this effect reacts upon the cause. The retailer gives larger orders than the increased demand warrants, the merchant lays in a large stock to meet the requirements of the trade, and the factories working at full pressure increase their facilities by adding new buildings and more machinery. The so-induced demand for more workers temporarily raises wages, consumption is correspondingly increased, the demand becomes greater, and thus is seemingly justified the assumption that at last the good times have come.

But the same forces have been at work all the time; have been, in fact, intensified by the revival. The increased demand for goods has further stimulated the inventive spirit; enterprising manufacturers have introduced improved machinery, which enables them to produce more with the same number of hands. For a time the banks have been a little easier in discounting and allowing overdrafts, and capitalists, who otherwise would have invested only in the best securities, are infected by the general hopefulness, and invest money in business. They become silent partners, buy stock or bonds in newly founded industrial companies, or lend money at interest to the trade. Only the small fry, however, are caught in that way; the multi-millionaires are too old hands at the business not to know that, though temporary profits might thus be obtained, in the long run nothing is gained—that, in fact, the final losses overbalance temporary profits.

It is stated that £404,000,000 of the capital invested in companies in Great Britain alone from 1892 to 1899 have been liquidated, and the Inspector-General in Companies Liquidation says: "It appears that the total number of abortive or liquidating companies during 1899 was in the proportion of new companies registered 60%, as against 56% during the previous year." That such losses generally do not affect the very rich as much as the poor is shown by the further remark: "About 37% of the capital belongs to the more or less solvent class, while the remaining three-fourths in number, or 63% of capital, represent the insolvent class." Among the 37% we shall no doubt find very little money of the multi-millionaires, for this kind of men have learnt by experience that he who is satisfied with the 3% or 4% obtainable on good securities, is better off in the end than the speculator who hopes for 100%. It may once in a while pay to buy a single lottery ticket, but if all tickets, or a very large quantity of them, are habitually bought, loss is certain.

If we go through the lists of dividend-paying stock companies we shall find that their average rate of profit does not exceed what could have been realized on good rent and interest investments. If we include the no dividend-paying companies, this rate of interest has not even been equalled. Werner Siemens, the departed chief of the Berlin firm of Siemens & Halske—one of the most successful manufacturers in the world—once said that when they built their works, they discussed the policy of buying a whole block of land, but finally desisted, and limited themselves to the purchase of the actual site. The result proved that if the firm had carried out the first intention, it would have made more money through the increase in value of the land than it ever made in business.

And this was an exceptionally successful firm. For one house of this kind we find a thousand who never live over the first years of their existence. We have only to consult the lists of Dun and Bradstreet to obtain an idea how numerous the commercial failures and how immense the losses are.

A prominent attorney of Los Angeles, California, told me in August, 1907, that of 3,000 stock companies he incorporated in ten years approximately 40% had bursted after one year, 65% after two years, 75% after 3 years, 85% after four years and after 5 years only 8% were left and paid dividends.

The experience of large capitalists has shown that great fortunes can only be preserved and increased by investments in monopolies, and whether such monopolies consist in the possession of farms, building-sites, mines, quarries, forests, oil-wells and pipe lines, telegraph lines, canals, or railroads, they are all summed up under the heading of land-ownership or land control, if we leave patents out of sight as of only short duration. The millionaires therefore let the little ones buy the stock of the ordinary manufacturing concerns, while they themselves are content with owning the land on which are produced the food, cotton, hemp, flax, wool, oil, coal, iron, copper, tin, and other raw materials needed by the factories, as well as the transportation facilities, certain that in time all must come to their mill; just as the oil refineries had to submit to the oil and transportation monopoly. All they do beyond this to help the new companies is to give them credits on the strength of their land and monopolies; certain that sooner or later the whole property will fall into their hands without further outlay. The gradual passing of lands out of the possession of the masses who have used them as a basis of credit-money, into the hands of men who do not need any credit, is bound to continue all the time, and finally to produce its effect on the currency. The relative restriction of credit and of currency circulation through these permanent causes, continues, while the inflation, through the transient causes, can only be of temporary nature; for the exceptional demand due to a war, etc., ceases sooner or later, and the increased taxation which the war entails further reduces the purchasing power of the masses, while the influx of the dismissed soldiers, now competing in the wage market, depresses wages and thus further reduces the demand of consumers. Add to this the increased output from all the new factories built during the revival, and it will easily be seen that the shopkeepers find themselves loaded with more stock than they can expect to sell for some time in consequence of decreased demand; and that they will be even forced to ask prolongations of bills from the merchants, who, being met by the double trouble of diminished orders and slower payments, get into difficulties which in turn reach the manufacturer and farmer. Credits in the bank are reduced, and the interest rate paid by the traders rises just when both the demand for goods diminishes, and when the money for sales comes in more slowly. [2]

Workers are dismissed, others put at half time, which again decreases consumption, and thus further strengthens the effects of the depression.

The depression soon degenerates into a crisis, and when a few large failures have frightened the banks into greater caution, and thus into precipitating fresh failures, the crisis becomes a panic, and the panic intensifies until the strongest business men do not know whether they will be able to weather the storm.

The course of events here described is not uniformly the same. Crises do not always develop into panics and panics sometimes precipitate a crisis, or rather the transformation of a chronic crisis into an acute state. An example of the latter phase can be found in the American panics of 1893 and 1907. The sudden crash of the credit edifice, which far exceeded its usual height, suddenly withdrew the means of exchange from business, and brought about the acute depression which otherwise might have been delayed. This accounts for the distinction often made between industrial or commercial crises and financial ones; a distinction without any essential difference, somewhat like the difference between the fall of an exhausted man through lack of sustaining power, and the hastening of such fall through the intervention of an obstacle in the road. Without this obstacle the man might have dragged along a few steps further; without his exhaustion the obstacle would only have affected him temporarily. Practically, any business crisis is a financial crisis and vice versa. Business can only continue if enough money or money-promises are offered in the market for goods; when this is not the case it is absolutely immaterial whether the crisis is assigned to an oversupply of goods, or an undersupply of money. It is, as stated elsewhere, a quarrel whether John is taller than Charles, or Charles is shorter than John.

Business now offers the phenomenon of a river, which has been stopped in its course by some obstacle. It rises until the moment arrives when the stored waters burst their bonds with terrific effect. Thus the temporary arrests of the chronic crisis stream, called revivals of business, have no other effect than to substitute the crash for the gradual descent. To use another metaphor, these business revivals are only the advancing waves of a receding tide. The careless observer, seeing one particular wave come inshore farther than its immediate predecessors, may conclude that the tide is rising, when, in reality, it is rapidly running out. So those who look superficially on business revivals are too apt to ignore the fact that the tide is still running out in spite of the few advancing waves, which impress us.

We have now arrived at the point where the full effects of a scientific paper currency can be understood. So far, we could only see how such a currency could put a stop to the sudden collapses we are so used to by means of its elasticity and its price-maintaining effect; but we could not discern how it could prevent the chronic crisis: the slowly but surely widening gulf between productive and purchasing power. We have realized that credit, our real means of exchange, the basis of circulation, and consequently the condition without which production becomes impossible, is founded on a limited amount of securities, and that these are gradually passing into the possession of the creditor class from that of the debtor class: the producers. Thus the production, and consequently the purchasing power of the latter, is more and more crippled. Therefore, unless the new currency can be made accessible—not only to the owners of land values and bonds, but to the producers at large—we can never expect it to give any relief in our chronic disease of under-production, alias over-production. I say advisedly a relief, not a remedy, for only currency cranks expect a thorough social reform from a mere currency reform. The diagnosis of the disease given in the opening chapter has shown us that production is impossible without a corresponding consumption, which we do not get where the part of the product obtained by the producing masses is too small, where their wages are too low. Currency reform can help only in so far as it increases this part, as it raises wages, i.e., their purchasing power, an effect which can never be reached to the full extent needed, without a concurrent reform of our land laws.

The greatest accessibility of the proposed currency to the producers is reached by bringing into the foreground a new class of securities, which, under present conditions, plays a relatively unimportant part in finance: Merchandise, the product of labor. What at present causes its partial exclusion from the rank of credit collaterals, and restricts the security value of certain classes of merchandise, which are accepted as collaterals, is the risk of a decrease in their value. Part of this risk, caused through their perishability, can, to a certain extent, be eliminated by insurance and safe storage. This risk is comparatively small with most products, which do not partake of the nature of food-stufs and goods, which are subject to fashion. The risk due to price variations, however, is comparatively great, as the daily market quotations prove, and especially the results of auction sales. It is well known that the latter, except for certain raw materials of very extended use, often bring only a fraction of cost price; and as auctions must always serve as the simplest means for a creditor to realize on his security, it is not astonishing if, in present circumstances, capitalists are very chary of giving credits on merchandise. This would entirely change in the case of a money based on the prices of merchandise, especially when the prices realized at auctions are taken into account proportionately to their share in the general turnover. The more the reform makes advances on merchandise the financial rule, instead of the exception, the more will this share grow in importance. The very result of the reform on prices realized under these conditions will tend to give to the auction system the pre-eminence in the methods of wholesale distribution, which it now has only for that of a few staples. Manufacturers and farmers, producers of all kinds, will resort to this simple method of disposing of their produce at wholesale, in preference to any other, as soon as a certain reliance can be placed on the prices obtained. And, on the other hand, this reliance will be strengthened in the same measure in which auctions predominate;

for as auctions predominate, their prices will gradually become the almost exclusive gauge for the price tables of the Government's money-issuing department, and the effect of the money issue, in its turn, will steady the auction sale prices.

The new basis of credit thus created in most departments of production is of such an elastic nature that its monopolization becomes an impossibility. Its limits are co-equal to those of production, which in our time are practically formed only by the demands of consumption provided with purchasing power. The want of customers limits our present production, which does not begin to approach the extent of our latent productive power. If the goods could be sold, our production, even without new inventions, would soon double, treble, quadruple its present total; and new laborsaving inventions will be forthcoming as soon as the demand for the product justifies their use. It seems certain that within a very short period a ten-fold increase of production could be reached, principally because the waste of power inherent in the present system, especially in the department of distribution, would disappear with the demand for more goods; of which more in Chapter VIII. The certainty of obtaining a market at regular prices will to such a degree eliminate the risks of business that practically the product will finally not even be demanded as a basis of security. The productive power—i.e., personal security—will largely take the place of the lien or pawn, as it already does with the German Raiffeisen banks, whose losses, even under our existing bad system, are absolutely insignificant. As I already indicated in the preceding chapter, these co-operative banks will then probably take the place of the present capitalistic institutions. They would be appropriate mediums between the money-issuing state and the money-needing masses. Aided by the Postal Savings Banks, and by the Mutual Banks (see Chapter VII), they would disseminate the fertilizing credit-element far and wide; changing arid deserts into luxurious paradises.

The recognition of the problem's real nature has been greatly retarded by the false theories of the economists of the Adam Smith, Malthus, and Stuart Mill type. In Chapter II of Book IV of his *Wealth of Nations*, Adam Smith summarizes in the following sentences what he has explained more elaborately in Chapter II of Book II:

"The general industry of the society can never exceed what the capital of the society can employ. As the number of workmen that can be kept in employment by any particular person must bear a certain proportion to his capital, so the number of those that can be continually employed by all the members of a great society, must bear a certain proportion to the whole capital of that society, and can never exceed that proportion No regulation of commerce can increase the quantity of industry m any society beyond what its capital can maintain. It can only divert a part of it into a direction into which it might otherwise not have gone; and it is by no means certain that this artificial direction is likely to be more advantageous to the society than that into which it would have gone of its own accord."

This wage fund theory is also the foundation of John Stuart Mill's *Principles of Political Economy*; it is likewise at the bottom of Ricardo's fallacies, and of hundreds who followed these beacon lights into a disastrous shipwreck.

I use these last words with full deliberation, as an expression of my firm opinion that these teachings have helped more than any other cause to retard our advance, by obscuring the real problem, and thus preventing its earlier solution. This is easily proved.

What capital does Smith mean? Food and raw material? We have seen that they are in abundance, once the land is freed from monopoly's fetters. Money? Not so long as we can make paper and build printing presses. Tools and machines? It certainly cannot be proved that the employment of workers ever depended on the amount of tools possessed by the society of which they formed a part. There is not a single case in the history of nations of men being permanently unemployed merely because they could not procure tools of production; though there certainly are plenty of cases where there was too much work through the imperfection of such tools. If the old Egyptians had had our modern machinery a fraction only of the hundreds of thousands employed in constructing their gigantic stone monuments, which so eloquently speak of the waste of human labor, would have been employed on this work; or more work of the same kind would have been produced. It is not the lack of perfect tools, but the very efficiency of our modern machinery, which is directly responsible for the want of employment our workers complain of, whatever the indirect cause proves to be; as we have seen in the introductory chapter.

But it may be replied that wherever more perfect tools are generally used, inferior tools practically become worthless, because competition by means of their use has become impossible; and that, in this sense, Smith and his followers were in the right. My answer is that:

1. Men provided with inferior tools have mutually supplied each other, and are supplying each other with the necessaries of life, without being in the least interfered with by others who use better implements. Even in some of our most civilized European countries communities are met with, especially in mountain districts not yet opened by railroads, where the people live comparatively well, and where scarcity of employment is as good as unknown, though their tools and processes of production belong to a period lying at least a century behind us. It is only when our modem implements intrude into their mountain solitudes that the justly named 'scourge' of modern times begins to make its appearance. During one of my tramps in the Bavarian mountain districts, I entered into conversation with a peasant. We talked of the railroad, which was going to be built through the section. "Formerly the peasant drove the gentleman, now the gentleman drives the peasant," was his criticism, which, in a few words, contains a deep meaning. He wanted to tell me that before the railway comes the peasant drives the travellers, and thus makes money, enabling him to purchase the things he wants. Now the capitalists of the city carry the peasant on their railway; and, instead of making money through the use of his carriage and horses, the peasant himself has to buy a railroad ticket if he wants to travel, as he had to sell his conveyances for want of customers. An income has gone; his expenses have increased. Now, if these people are fully employed and make a good living as long as they are only using their primitive tools, and if, as soon as modern improvements arrive, the same troubles and difficulties as to employment arise which obtain in more civilized parts, this can certainly not be ascribed to the want of capital; rather to an intrusion of too much capital.

2. In fact, a want of tool capital never needed to exist by itself as long as our world has been inhabited by man. When the pierced bone was used as a needle, a curved stick as a plow, and a sling as an implement of the chase, as many pierced bones, crooked sticks and slings were produced, as the workers wanted. And in our time, when the sewing-machine has taken the place of the bone needle, the steam plow that of the stick, and the Mauser or Martini rifle, the Bergmann pistol, the Krupp gun and Maxim quick-firer that of the sling—sewing-machine makers, instead of finding difficulty in supplying any amount of machines required, are only too anxious to obtain more orders; and were a machine needed for every man, woman, and child in the world, it could be forthcoming in a comparatively short time. Nor have I ever heard that steam plows and other implements could not be supplied in any quantity needed; unless there was a sudden unexpected pressure, soon to be relieved by increased facilities for production. The same holds good in regard to arms and any other thing produced by human hands. There is hardly a single article against which the cry of 'Overproduction' has not been repeatedly raised.

This complaint certainly does not show a scarcity of tool capital, but that its supply exceeds the demand, and the demand fails because the workers do not receive wages corresponding to the increased efficiency of the machines. Our means of production, defective as they are to a certain extent—principally because we cannot let our technic progress have full play for fear of the consequences—supply at least ten times as much per day s work of one man as the more primitive tools of Smith's time; but it is clear that with these facilities there can only be work for all, if consumption also increases ten-fold. This it can only do if either the wages of the workers have their purchasing power ten-fold increased, or the comparatively few people to whom the bulk of the purchasing power belongs, consume the surplus in their turn. But wages have by no means increased to anything like the proportion mentioned, and the number of people who obtain the lion's share of the product is too insignificant to enable them to consume the surplus, while the resulting under-consumption limits their demand for new means of production, which otherwise might prove a profitable investment. In consequence, they buy land and other safe tribute-claims, with the effect on circulation described in the dealings of Plutus and Jones. There can only be one result; a reduction in the number of hands employed in production. If the waste in distribution, through the unnecessarily large number of middlemen, the waste through militarism and destructive wars, the waste through devil Alcohol, through circumlocution offices, through flunkeyism, through strikes and other restrictions in production brought about by the labor unions, failed to tap off part of our superfluous blood, the social body would long ago have been subjected to a stroke of apoplexy.

Want of employment in our time is not the product of too little, but of too much, capital, of a capital too abundant for our existing distribution of wealth; and this settles the wage-fund bugbear of Adam Smith. It is not more wealth or wealth-creating power we want just now, but a more equal distribution of wealth.

The new money, by taking out of the way one obstacle in this direction, will increase consumption accordingly. The increasing consumption must necessarily give a freer rein to our productive power, and call forth from latency into actual existence immense quantities of wealth. This wealth, in its turn, by serving as a security for a money credit, supplies its producers with the means of changing wealth into purchasing power—into money. There can be no danger of producing too much wealth under such conditions: where demand keeps pace with supply, and where accordingly prices do not fall, as they now do, through a non-consumption of part of the newly created wealth—consumption in the sense of use, for, to keep the economic machinery moving, it matters not whether the product of labor is consumed in the form of bread and meat, or of railroad locomotives, canals, and school-houses. Such an under-consumption now results from the use made by our rich of their incomes, which restricts the market and presses down prices. It is different under the new system, for when prices fall, new money appears in the market. This is eagerly demanded by those who have paid their own money to their rich creditors. The debtor class will be able to obtain this new money on reasonable terms, because the products of their labor will supply sufficient security, through the removal of the danger now presented by a fall in prices; and thus the withdrawal of money or credit, by the creditor class, will cease to do any harm. Our next chapter will show the effect, which the changed conditions will have on the interest rate; how they will reduce the interest tribute paid by the producers to the capitalists; and thus prove a potent factor in bringing about a better distribution of wealth.

Thus the new money is bound to immensely increase production, for which a ready inland market is found through an equally increasing consumption. This makes us independent of foreign markets, so that we can calmly face that great bugbear in the way of paper money, the international market.

What is international trade even now when compared with domestic trade? It will play a ridiculously insignificant part when the full effects of scientific paper currency are produced in the home trade, effects which, as we have seen, must consist in an immense increase of production and consumption. There is no country in the world whose citizens would not be far better customers for its products than any foreign or colonial market, if their purchasing power were kept at the level of their productive power; and yet, instead of tenderly nursing this purchasing power by just laws, we use up our strength in the attempt to conquer foreign markets, be it even by means of costly wars. If any power, engaged in the unjust work of forcing nations—who want to be left alone—to fling open their doors to outsiders, would employ the means thus wasted and the human activity thus thrown away, to organize production and distribution in its own domains, the additional turnover thereby obtained would far exceed any sales ever expected in the best foreign market. One single dollar a working day more purchasing power given to 30 million American bread-winners would mean an additional home consumption of 9 billion dollars a year, or almost six times the total amount of American exports.

I cannot refrain from quoting Miss Mara De Bernardi, the talented daughter of G. B. De Bernardi, the founder of the American Labor Exchanges, on the folly of looking for foreign markets while the demands of our home consumers are unsatisfied:

"Tramping the highways and byways of the nations, shelterless, cold, shivering to-day under the blasts of a premature winter, doomed to bleak and comfortless nights beside the grudging fire of some discarded railroad tie, or, at best, to the shelter of some farmer's friendly surplus of hay, from Maine to California, and from Washington to the land of southern Bowers, wanders the countless market for America's wood and coal, and lumber and brick and stone—the homeless, houseless waif of over-production. A humbled petitioner at the kitchen doors of the generous housewives of the land, with manhood crushed and dying beneath the awful Juggernaut of beggary, stands the numberless market for America's wheat and corn and boundless stores of food—the hunger-haunted victims of over-production. In their wretched rags, their cold, pinched faces, blue and strained, the tattered children of the land shiveringly proffer their claims to Dixie's cotton yield—the ill-clad victims of the nation's surplus stores. And they weary the pavements of our streets with their endless, aimless passing to and fro, and harass the very peace of the nation with their ceaseless importunities for the making and taking of the surplus of the world. And sometimes, when the struggle for human existence grows too great, some reckless, heartsick victim of too much unused clothes and food and shelter in the world, drifts off to meet the everlasting bounty and abundance of the hereafter, down some 'cy river, or on some outgoing ocean tide—a market lost to the over-production of the world by the crime of that world's own folly and neglect; a market which neither the sacrifice of human liberty nor the shedding of human blood was required to conserve, but which only the kindness and simple justice of a common humanity would have held inalienable; a market which could proffer not idle, useless, cruel gold, but honest toil for honest toil; a market which relieves alike the victim of over-production and the victim of over-work. A market for our surplus in China? It is praying for recognition, and dying of neglect, at our nation's very doors."

We have seen why this market, which prays for recognition at our very doors, is closed; and if a scientific paper currency opens this door, it matters little what effect this currency might have on our international trade. However, I want to show that even in this field, it is bound to exercise a favorable influence.

The larger the turnover, the smaller the percentage (of business expense, which has to be added to cost, and consequently the cheaper the goods can be produced. A factory which only works half time runs up nearly the same interest and rent bill as one that works day and night with its full force. The office expenses are nearly the same, and running machinery does not deteriorate much more, sometimes not as much, as when it lies idle. This part of cost of production is spread upon a turnover perhaps four times as large in the one case as in the other, and consequently amounts to only one-quarter as much under full running time as where only a quarter of the possible work is done. If, without exportation, only one-half of the plant can be kept employed, or the whole plant only half the time, it is evident that production for the home market would cost a great deal more than where, through exportation, the factory can be kept running at its full capacity. This is the reason why manufacturers often export at prices, which would involve a loss, if they were obtained for the whole production, of the mill. They calculate that the additional turnover thus obtained helps to bear general expenses; or, in other words, expenses, which have to be met anyhow by the domestic turnover, may be left out of account m the export department; which thus gives a small profit. Often this extra profit enables the exporter to pay out of his own pocket the foreign import duties to enable him to compete with the foreign manufacturer. The pretense that import duties are often paid by the foreigner is consequently not so unfounded as free traders make out. I remember from my own personal experience as a manufacturer that I reduced my prices for a foreign country to the amount of a duty newly imposed by the foreign government so that my customers could sell my machines at the old prices. The facts here given also account for the cheap prices at which some of our trusts sell abroad; and it is a fallacy to believe that they could always manage to sell at home at the same low prices. If the exports still leave a small profit, because general expenses are borne by the home sales, loss all round might be the result, if home sales were also made at a price only justified where general expenses can be left out of account, but impossible where they come in.

The results of currency reform would bring on a domestic turnover far in excess of the former total sales, home and international trade taken together. The saving in cost thus reached would not only amply pay for the higher wages especially when we take into consideration 'the greater efficiency of the better-fed workers, but would also permit lower export prices. Exports thus could be made in sufficient quantity to pay for all the imports, in which case it is obvious that the currency system would not interfere in any but a beneficial way with the international trade of a passive country. If gold is sent or received from abroad, it will be as merchandise. In fact it is only sent or received now in this character.

But for all that, we have to investigate the possible contingency of an unfavorable trade balance, to find out what the paper currency will do in such a case. It need not trouble us that the free-trade school does not admit the possibility of such a contingency, on the ground that, as the French economist, Jean Baptiste Say, expresses it: "Commodities are always paid for with commodities." It is one of those teachings, which are on a level with Smith's wage-fund theory. The simple fact that England in the course of years accumulated a credit with other nations of not less than 2,000 million pounds sterling ($10,000,000,000) proves that England's exports have not always been paid for by imports, but that large amounts have been left on credit in one shape or another; bonds, mortgages, bills of exchange, etc., or investments of other kinds, such as land purchases, factories, shares and stocks of all kinds. The fact that Australasia, for instance, owes England nearly 500 million pounds shows that English imports have not always been paid for by Australasian exports, but partly have remained due at compound interest. This is just what will happen to the paper currency country in the case of an unfavorable balance. If it has not a credit balance abroad, like England, it will run into debt, as all of our paper currency countries have done in the past; for such a currency never was adopted except as a consequence of debt. A great deal of the prejudice against paper money is due to this fact; people not considering that the currency did not cause the debt, but, on the contrary, the debt created the currency, which, in spite of the imperfect raw method of its issue, usually proved a benefit to the country which adopted it.

We need not feel astonished that the theory of the economists again is in flat contradiction to practice, as has been shown in respect of the wage-fund theory. These gentlemen try to explain discordant facts by false theories, without recognizing the disturbing element responsible for the contradiction. Closer study would teach them the solution of the problem, but as a rule such study can only be made by men acquainted with practical life, not by those whose horizon is limited by desk and library.

In the wage-fund difficulty they might discover that the only fund really concerned is the land and money fund. This would sooner or later lead them toward the recognition of our land and currency errors. They would find that unnatural land monopoly and the artificial limitation of the money privilege to coins made of one or two precious metals, are responsible for the equally unnatural fettering of productive power.

In the case of their 'commodities-bought-with-commodities' theory, closer observation would show that the reason why this theory does not conform to facts is due to the advent of another factor, which falsifies the account. This factor is Interest. In the next chapter we shall recognize the abnormity of this economic factor, and how it is entirely the outgrowth of the same pernicious economic monsters: private land ownership and money monopoly.

Our return to nature at once operates an absolute change in both cases. The last vestige of any limitation of productive power will disappear with land and money reform. The wage-fund bogey then will merely survive as a historical reminiscence in the chronicle of human follies, and commodities will be really paid for with commodities: for there will be no other method of payment. Land and interest values will be no more obtainable in the market; and money of the new kind will be valueless internationally, unless converted into commodities. Without interest it matters little to an individual or a nation how soon or how late creditors will pay themselves through a counter purchase of goods. In fact, the later the better; for meanwhile the capital will be used free of charge.

Under the rule of interest, the case entirely changes. Interest and its child, compound-interest, finally swell the original bill to such unpleasant proportions that the debtor will too late recognize that buying in the cheapest market, according to the great free trade principle, often spells buying in the very dearest market. One dollar due at 5% compound interest in one hundred years foots up to $140. Was it really cheaper to economize that dollar, at which the goods were bought and borrowed cheaper in the foreign market, than to make them at home without running up a balance against us, especially if in the interval our own workers were without employment through the foreigners not buying an equivalent from us? This brings the trade problem into a new light, which freetraders ought to make use of before they come to positive conclusions. Admitted that their pet policy is the only one, which holds water, if examined from the pointview of the fundamental principle; the right of every man to satisfy his wants with the least effort. Admitted that from this point of view protection is an anomaly, is not interest, too, an anomaly, a negative element? A negative multiplied with a negative produces a positive, and a positive multiplied with a negative produces a negative. If we apply this rule, learned in our school-days, to the point in question, we must come to the conclusion that the negative Interest may be changed into a positive by the negative Protection, while the positive Freetrade, under the influence of the negative Interest, may produce a negative result. Under the iron rule of Interest a debt is always a danger, and to avoid it, measures may be found prudent, which, under freedom, are absolutely harmful. Satisfying wants with the greatest effort, without running into debt, may be found preferable to their satisfaction with the least effort, if it implies indebtedness.

To make this clearer let us substitute the case of individuals for that of nations. After all, what is the trade of nations but the trade of a number of individuals living in different countries. John, a tailor, needs some chairs. If he were fully occupied at his trade he would act very unwisely in making these chairs himself. He is not skilled in such work, and it would demand ten times as much of his time as Bill, an experienced cabinetmaker, requires to make far better chairs. John would do much better to make a coat, and buy chairs out of the proceeds, certain that the same labor time thus spent will buy more chairs than if he spent it on chair construction.

How would it be, however, if through a too limited demand for coats, John were only half employed? Would he not prove a better householder if he spent his idle time on chair-making, than if he were to buy those commodities on credit or with his savings, sitting in his shop, with his hands in his pockets. Now let us spin out the story a little farther, and let us assume that Bill, too, is only half employed, but sadly needs a coat. Would not Bill, too, do better to make this coat by his own labor in his idle time, no matter how long this will take, than to run into debt for it, or pay out money saved for a rainy day? No doubt the most practical way for both would be to use their unemployed time to work for each other. John would make Bill's coat better and in a fraction of the time in which Bill could make it, and the same thing would happen in regard to Bill's taking John's place as a chair-maker. Certainly both parties would fare much better by such an exchange; and no doubt they would do this, if feasible. But the two do not know each other, and barter between them is out of the question, as it practically is at the greater part of ordinary business affairs. John finds that his cheapest way of getting chairs is to buy them at the next furniture dealer's, and Bill buys his coat in a department store. Both these middlemen—for some reason or other—have no use for the labor of the two artisans. Let us say they can buy imported goods cheaper. Both artisans borrow money from a usurer to buy the things they want, or they run up a bill at the store. Would it not be far more advantageous for John and Bill, if in some way—for instance, by means of a prohibitive duty—they were prevented from buying the cheap imported goods? No matter what the addition to the price might be, they would be better off if the goods were made locally, and if they thus obtained employment. What would it matter if Bill had to pay $10 for a coat, which could have been imported for $5, and if John gave as much as $10 for the same chairs which could have been laid down in the country for $5; when the real result was simply that John made a coat in exchange against Bill's chairs, and Bill made chairs in payment of John's coat. (For simplicity's sake, I leave out of account the surplus work done by both parties to pay the middleman's profits.) In this case, the amount at which both commodities figured in the mutual accounts would prove absolutely indifferent. Anything was better than to have two willing workers sit idle in their shops that they might give employment to foreign workers. Under such conditions, even an absurd waste of power such as Adam Smith describes in the second chapter of Book IV, may prove the lesser of two evils.

"By means of glasses, hot-beds, and hot-walls, very good grapes can be raised in Scotland, and very good wine can be made of them at about thirty times the expense for which at least equally good wine can be brought from foreign countries. Would it be a reasonable law to prohibit the importation of all foreign wines merely to encourage the making of claret and Burgundy in Scotland?"

My answer is: If the foreign wine-producing countries will not accept British goods in payment for wine, while Scotch workers, in consequence of this refusal to accept the products of their labor in payment, cannot find any work to do, it would decidedly be better policy to set them digging coal, making and laying steam-pipes, building and heating hot-houses, therein to raise grapes, than to reduce these willing workers to a pauper's state, fed by the produce of other workers. The cheapest foreign wine for which we have to run into debt, through compound interest, will finally be the dearest we ever bought, and workers, who otherwise would have to be fed in idleness, can be looked at as workings for nothing. Those who always speak of the consumer who ought to buy in the cheapest market forget that at least 95% of the population are first producers before they can be consumers, and that, therefore, the producer's interest must be nearest to their hearts. Unfortunately, those whose position gives them the power of directing the nation's policy, arise mostly from the non-producing minority.

This principle of reciprocity in trade, the great Scotch professor treated with contempt. In Part II, third chapter, Book IV, Adam Smith says: "The sneaking arts of underling tradesmen are thus erected into political maxims for the conduct of a great empire; for it is the most underling tradesmen only who make it a rule to employ chiefly their own customers. A great trader purchases his goods always where they are cheapest and best, without regard to any little interest of this kind."

It is exactly this policy of the great traders, which justifies the interference of the state. Let us not forget that we only use a metaphor when we speak of America, England, or Germany, as exporting and importing. In reality, individual American, English and German traders export and import, and in doing so they merely consult their own personal interest, not that of the nation as a whole. An importer does not care which nation proves the best customer of his own country, when he gives his orders. He merely compares price-lists and qualities, and then orders his goods. In fact he can hardly act differently, or competition would swamp him.

His country's passive trade balances, in consequence of its effect upon the currency, may be followed by its indebtedness to foreign capital, perhaps by national insolvency; but what does he care about such trifles, trifles to him, when looked at from the standpoint of his profits and losses? Why should he have regard to any little interest of this kind?" as Adam Smith expresses it.

Not to be misunderstood, I must add a short explanation. Favorable, active, positive, or unfavorable, passive, negative balances of trade do not necessarily correspond with similar financial balances. A balance of trade may be active and the financial balance passive, as is the case in the United States, and several other countries at the present time; and the trade balance may be passive and the financial balance very active. England has long shown the most prominent example of such a country. Its imports exceed its exports considerably; but most of the time the deficit does not reach the amount due from other nations on freight, interest, rent and profit account; while her colonies, in spite of their recent favorable balance sheets, have been running deeper and deeper into debt, because the interest debt due to England exceeded the balances of trade in their favor. If their balances of trade were passive or if their exports just balanced their imports they would increase their indebtedness still more; while England would become richer still if her balances were active.

It is the same case with this country, which had passive balances from the foundation of the Republic to 1873, figuring up to a total of $1,193,212,113. This debt, with compound interest, has had to be paid by the favorable balances accruing since 1873. These balances by this time figure up to six times the total of the former passive balances; but when we take into consideration the freights paid to foreign keels, the expenses of our tourists in the foreign countries, the dowries of our absentee daughters, the savings sent abroad (in 1907. $83,890,925 in postal orders alone), our losses on bonds and stocks sold abroad below par, and, more than all these items, compound interest, it is not at all astonishing that our debts abroad far outweigh our credits, especially if we include in the debts, the land mortgages, and bonds held abroad.

Freetraders, like Louis Post of the *Public*, look at our favorable trade balances, at our excess of exports over imports, as a loss of wealth. This reminds me of a German humorous saying: "Man verpuddelt eine Menge Geld mit dem Schuldenbezahlen" (a lot of money is frittered away in the payment of debts). Now there is only one way open for an honest man and an honest country, who do not like debts, and that is not to incur them, by refraining from buying more goods than they have money or goods to pay with. But free-traders of the Post school deny the very possibility of such a thing; for they believe in Say's old nonsense that "commodities are always paid for with commodities." They do not say when this payment is to occur, and forget that if the bill it not settled at once it is bound to run up, sometimes so high that there is no possibility of paying the mere interest in commodities, let alone the capital. And this is just what happened to the United States during many years. If it were not for the present favorable trade balances, the debt would rapidly increase, until bankruptcy some day settled the account; a policy which Mr. Post would hardly prefer to payment by the favorable balances which he so dislikes.

But does this excess of exports over imports really take wealth out of the country? Or, to put the question more correctly, would this wealth have been produced if it had not been designed for export?

Those who have followed me so far that they fully understand the predicament of our Twentieth century world, of its production painfully halting behind productive power, through an insufficient consumption, will easily see that increase of consumption must result in new production, which otherwise would not materialize. Now, this is practically the effect of exportation, which is consumption by foreigners. Instead of taking the place of home consumption it practically creates additional home consumption, through the new chances of employment, which otherwise would not be obtainable. We owe such extravagances to the law of the pendulum, which finds its application in intellectual as well as in physical oscillations.

Our getting away from an error on one side often swings us into the error on the other side. To stop in the middle seems to be almost beyond human nature. This fact has been observed in the wage-fund theory, where those who recognized the fallacy of Smith's doctrine went to the other extreme of absolutely denying the truth which hides behind the error: the limitation of production through our wretched land and currency systems. A specially interesting proof of this is offered by Henry George. He saw that with free land, labor can produce all the capital required to make full use of the productive power of the country, without being limited by any wage-fund. On the other hand, he did not recognize the significance of the means of exchange in regard to the turn-over, and consequently to production. His argument, that wages are only paid after their exchange value has been produced by the worker, and, therefore, that no wage-fund is required to enable us to produce, proves this clearly. Of what use is the stock of merchandise to the manufacturer on pay-day if he cannot obtain customers for it at once, or banks who will loan him money on it? As long as all payments, those of wages included, are due in certain quantities of a scarce metal, so long shall we have a wagefund, in spite of all the theoreticians in the world.

It will be different when the exchange banks, described in Chapter VII, will change the product into market money, as soon as it is finished—and, in consequence of the credit system connected with exchange banking, even while it is as yet unfinished. Then we shall certainly see disappear forever the last trace of the wage-fund theory.

Another case of pendulum swinging beyond the centre of truth, is supplied by Smith's relation to Mercantilism, an economic school which, though born in the previous century, still held sway in the great economist's time. If the Mercantilists were at fault in overestimating the influence of the precious metals, Adam Smith and his followers, our modern freetraders, in the vindication of equal rights for all products of labor, without any distinction, swung too far to the other side with their mental pendulums, by forgetting the exceptional position given by law to the precious metals. To really defeat mercantilism, a thorough currency reform had to be the first step. As it is, our whole commercial system, national and international, remains steeped in mercantilism. The balance we are struggling for in both fields is not the wealth (products of labor) balance, but the financial balance. We have not progressed so very far, after all, since the time of Colbert, the Mercantilists' great chief. Smith justly denied that wealth consists only in money or in gold and silver; or at all events that the precious metals represent the most precious part of wealth. He saw clearly that we might dispense with gold and silver more easily than with iron or copper; that we might even live without the two precious metals; while we cannot exist without food, clothing and shelter. But here his perception of the real nature of the problem ended. In Book IV, Chapter I, he says: "Though goods do not always draw money as readily as money draws goods, in the long run they draw it more necessarily than even it draws them. (Goods can serve many other purposes besides purchasing money, but money can serve no other purpose besides purchasing goods. Money therefore necessarily runs after goods, but goods do not always or necessarily run after money. The man who buys does not always mean to sell again; whereas he who sells always means to buy again. The one may frequently have done the whole, but the other can never have done more than one-half of his business. It is not for its own sake that men desire money, but for the sake of what they can purchase with it."

Even a learned scholar cannot be absolutely blind to the facts of every-day life, and 1 hardly believe that Smith could have made such statements if he had lived a hundred years later. In the twentieth century it is easy, even for a university professor, to point out the absolute incompatibility of such theories with the facts of real life. An immense increase of productive power has been the signature of the hundred and thirty years that have passed since Adam Smith wrote these sentences in his mother's house at Kirkcaldy, in the quiet study of the scholar, carefully shut off from any intercourse with the outside world. Our folly in making a scarce yellow metal our exclusive legal tender money has since then brought about a wild chase of goods after money, while the kind of investments favored by our rich money owners clearly shows that money can do other work besides buying goods. To comprehend this, even if Smith had lived in our time, would, however, have presented some difficulty to him. The author of the *Theory of Moral Sentiments* would indeed have found it hard to understand the motives, which can actuate our Rothschilds, Rockefellers, Astors, etc., in their accumulations of millions. They can never expect to use the money for the purchase of goods, for the greatest imaginable extravagance cannot conceive of such an expenditure. They consume only a fraction of their income, and use most of the balance to add to their wealth; not in the form of tangible products of labor, which would be equivalent to consumption as far as the goods-purchasing use of the money goes, but of tribute claims in the shape of land titles, mortgages, bonds, etc.—mere cords to which the world's money is attached, to be pulled in at the will of the cordholders. But whatever the motives may be, the fact remains that immense amounts of money or money claims are thus used for "other purposes besides purchasing goods." amounts exceeding by far the whole money stock of the world. And the well-known consequences of this fact are that everywhere goods of all kinds go a-begging in vain for money, while money haughtily refuses to buy goods, instead of "running after them," as Smith teaches.

I have no wish to depreciate the merits of the great Scotch thinker, but he undertook here an impossible task; for it is as impossible to do justice to economic subjects without practical business experience as to bake wheaten bread without any wheat. This is the reason also why *Protection and Free Trade*, by Henry George, though written in his best style, is the poorest of his books. Though more than Smith, he had never been, to any extent worth mentioning, in mercantile business, and experiences, which to a business man have become flesh and blood, are to men of this kind undigested raw materials or terra incognita. Most interesting in this respect is Chapter XIII of George's book, *Confusions Arising from the Use of Money*, which ought to be styled: confusions arising from ignoring the part money plays in business.

Because a man who barters with another strikes the better bargain the more value he obtains in return for what he gives, George concludes that the more the value of her imports preponderates over that of her exports, the richer a nation must be. His reasoning, like that of all free traders, is based on the "commodities pay for commodities" fallacy, which assumes cases of barter where, in reality, purchase and sale, i.e., money transactions, are carried on. Under the money system a nation's imports, like an individual's purchases, represent not income but expenditure, unless they are obtained as a gift; while exports are sales, and represent income instead of expenditure, if they are not given away gratis. In this way George is kept from realizing the great difference involved in the use of money. His error is most apparent in the following parable found in the same book.

"Robinson Crusoe, we will suppose, is still living alone on his island. Let us suppose an American protectionist is the first to break his solitude with the long-yearned-for music of human speech. Crusoe's delight we can well imagine. But now that he has been there so long he does not care to leave, the less since his visitor tells him that the island, having now been discovered, will often be visited by passing ships. Let us suppose that after having heard Crusoe's story, seen his island, enjoyed such hospitality as he could offer, told him in return of the wonderful changes in the great world, and left him books and papers, our protectionist prepares to depart, but before going seeks to offer some kindly warning of the danger Crusoe will be exposed to from the 'deluge of cheap goods' that passing ships will seek to exchange for fruit and goats. Imagine him to tell Crusoe just what protectionists tell larger communities, and to warn him that, unless he takes measures to make it difficult to bring these goods ashore, his industry will be entirely ruined. In fact, we may imagine the protectionist to say, 'so cheaply can all the things you require be produced abroad that unless you make it hard to land them I do not see how you will be able to employ your own industry at all.'

" 'Will they give me all these things?' Robinson Crusoe would naturally exclaim. 'Do you mean that I shall get all these things for nothing, and have no work at all to do? That will suit me completely. I shall rest and read and go fishing for the fun of it. I am not anxious to work if without work I can get the things I want.'

" 'No, I don't quite mean that,' the protectionist would be forced to explain. 'They will not give you such things for nothing. They will, of course, want something in return. But they will bring you so much, and will take away so little, that your imports will vastly exceed your exports, and it will soon be difficult for you to find employment for your labor.'

" 'But I don't want to find employment for my labor,' Crusoe would naturally reply. 'I did not spend months in digging out my canoe, weeks in tanning and sewing these goat-skins, because I wanted employment for my labor, but because I wanted the things. If I can get what I want with less labor, so much the better, and the more I get the less I give in the trade you tell me I am to carry on—or, as you phrase it, the more my imports exceed my exports—the easier I can live and the richer I will be. I am not afraid of being overwhelmed with goods. The more they bring the better it will suit me.'

"And so the two might part, for it is certain that no matter how long our protectionist talked, the notion that his industry would be ruined by getting things with less labor than before would never frighten Crusoe."

Of course, if it was a question of barter, if the importers took from Robinson goods which abounded on his island, and which could be supplied by him with much less labor than that entailed by the goods which the others gave him in exchange, his astonishment at the protectionist theories put before him would have been justified. Such a trade would have meant full reciprocity; and only extreme protectionists can object to free trade under such conditions. Nor would it have made the least difference what time elapsed before the importers took Robinson's produce in payment. In fact, the longer they tarried the better for Robinson, who could let his wealth breed additional wealth in the meantime. But let us suppose that it was not a barter transaction, but one of purchase and sale for money, and that the strangers' bill was higher than the value of the produce which they accepted from Robinson in exchange, so that Robinson had to run into a money debt, and that 5% interest was demanded for this debt, Robinson giving as security a mortgage on his island. And let us further suppose that year after year elapsed, and no favorable balance of trade enabled Robinson to pay his money debt, his further bills against the importers not exceeding the amount of the new bills of goods they sold him, and gold not being obtainable on the island. The debt remained, the interest on it accumulating all the time, with the frightful velocity of compound interest; until one day a sheriff comes along who, as Robinson cannot pay his debt, in legal tender money, sells his island over his head. As the proceeds are not sufficient to pay for the money debt, Robinson not being able to make a bid, because he possessed no legal tender money, all the other belongings of the poor man were also sold, and he is set adrift in the world, penniless, unless the new owners of his island consent to retain him as a laborer or as their tenant, who has to work hard from morning till night to pay his rent and to eke out a meager living. No more imports are offered now, but most of Robinson's produce is taken away for rent. Was it really Robinson's best policy, under such conditions, to buy the cheap goods offered to him? Was it not better to produce them by his own labor, though applied under much more unfavorable conditions, and to refuse the importers' goods at any cost so long as he could not pay for them with his own produce, but had to run into debt payable in money at compound interest? Anything was better than to become the interest serf and finally the rent-slave of the strangers. Fair trade, but not unconditional free trade, was the only not right-down suicidal policy open to Robinson and as his supposititious case corresponds with the realities of individual and national trade, the illustration proves the very reverse of what was intended. Fair trade is a certainty where metal money and its product, the interest-poison, does not come into the way. Where it does, which is everywhere the case in our present world, however, counter poison Protection, and even Prohibition of importation, may be found a good remedy.

Let me bring the state of things on Robinson's island still a little nearer to the reality of every-day life. Let us suppose that Robinson had made a specialty of the raising of foodstuffs and the production of raw materials; while an artisan, Jones, who had immigrated, produced furniture, cloth, and other manufactures required by himself and Robinson. The two exchanged with each other, each fixing money prices for his goods, which remunerated him well for his labor, as they enabled him to obtain all he needed of the other's produce. Now an importer lands, and offers all goods manufactured by Jones at one-half the price he charges. Robinson at once ceases to give his orders to Jones and transfers them to the importer; for why should he pay more for his goods than he can get them for in the market? Jones, being out of work through the loss of Robinson's custom, emigrates. After a little time the importer wants his bill paid. Robinson says that he has no money, and that his former customer, Jones, always accepted produce in payment; he could only settle his bill with produce. The importer agrees; but freights are high, and competition in this kind of produce in the distant markets is very sharp, which forces him to offer one-quarter of the price only which Jones had paid. Robinson cannot help himself, as he needs the goods of the importer, Jones having left; so that he either has to go without goods which have become a necessity to him, or has to make them in a much more primitive way with much more labor.

He thus finds that he pays twice as many bales of wool, or bushels of wheat, as he had to supply to Jones for the same manufactures. He has some bad seasons, and he runs into a money debt with the importer, who takes a mortgage on the island, which increases through compound interest, until finally the island is sold, and Robinson becomes the rack-rented tenant, or (at last) the laborer of the new owner. After his death, in some poorhouse, the island is turned into a deer park by the rich proprietor. The protectionist thus proved to be in the right, because he looked at the case from the point of view of every day's business. Unfortunately for Henry George, the business done by savages and Robinsons is not typical of the regular business of civilized life, as George supposes. In reality, the business to be expected in the case of Robinson was raw barter. In such a case the arguments of Robinson, or rather of George, his representative, were correct. The more he obtained in barter, and the less he gave in exchange, the better off he was bound to be. But to look at such a trade as representing the ordinary business of civilization was a great blunder; for there those are best off who spend least and receive most money, who consequently pay out less for their purchases (imports) than they obtain for their sales (exports).

This is proved by Portugal's economic history during the last two centuries, as told by Friedrich List, the great German economist, in *Das Nationale System der Politischen Oekonomie.* I translate from the fifth chapter of the first book. List's quotations from English sources are thus twice translated, so that the text may slightly differ from the original, which is not at my disposal:

"When Count Erceira became Minister of Portugal, in 1681, he conceived the plan of erecting woolen factories to work up the country's own raw material and to supply the mother country, as well as her colonies, with her own manufactures. For this purpose, artisans were imported from England, and in consequence of the support given them, woolen factories began to flourish so quickly that, after three years (1684), the import of foreign woolens could be prohibited. From this time forth Portugal supplied herself and her colonies with her own manufactures, made from the local raw material, and, according to the testimonial of English writers, prospered thereby exceedingly." (*British Merchant,*Vol. III, p. 69.)

The success of this measure is the more remarkable because the country had shortly before this lost a great quantity of capital through the expulsion of the Jews, and in general suffered from bad government and a feudal aristocracy, which oppressed the liberty of the people and agriculture. (Ibid. 76.)

In the year 1703, however, after the death of Count Erceira, the celebrated English Minister, Methuen, succeeded in convincing the Portuguese Government that Portugal would gain very much if England permitted the import of Portuguese wines at a duty amounting to one-third less than that of other nations, for which Portugal was to permit the importation of English woolens at the duty of 23% which existed previous to 1684. Immediately after the ratification of this treaty Portugal was inundated with English manufactures, and the consequence of this inundation was the sudden and complete ruin of the Portuguese factories, a success similar to that of the later Eden treaty with France, and that of the cessation of the Continental system in Germany.

According to Anderson's testimony, *History of Commerce*, Englishmen were at that time so experienced in the art of declaring their goods under value, that practically they only paid one-half of their duties fixed by the tariff. "After the prohibition was levied" (says the British Merchant), "we carried away so much of their silver, that they kept very little for their necessary occasions. Then we went for their gold." (Vol. III, p. 267.)

This business they continued until recent times; they exported the precious metals which the Portuguese received from their colonies and carried a great pile of it to East India and China, where they exchanged them against merchandise which they sold on the European Continent for raw materials. The yearly importation of Portugal from England exceeded the export to the amount of one million pounds sterling. This favorable balance of trade forced down the rate of exchange to the disadvantage of Portugal, 15%. "We gain a more considerable balance of trade from Portugal than from any other country" (says the editor of the British Merchant in his dedicatory memorial to Sir Paul Metheun, son of the celebrated Minister). "We have increased our importation of money from there to one and a half million pounds sterling, while formerly it only amounted to 300,000 pounds." (Vol. III, pp. 15, 20, 33, 38, 110, 253, 254.)

The consequence of this drain of Portugal's precious metals and money was the institution of an inconvertible paper money which, whatever services it rendered to internal trade, could not pay the yearly debt resulting from the annual deficit of the trade balance-sheet; and other means of payment had to be found. Then began the usual cycle of mortgages on Portuguese land handed over to British capitalists; of Portuguese Government bonds emigrating to England; of the dominion of British capital in Portugal—capital imported in the shape of woolen goods, for which no wine was taken in payment, and accumulating in the usual way through compound interest, until one of the richest countries became one of the poorest, until national bankruptcy, more or less veiled, had to alleviate the intolerable burden.

Adam Smith, in his hatred of a reciprocity policy, "the sneaking arts of the underling tradesmen," could see no disadvantage to Portugal nor gain to England resulting from these conditions, and it is highly interesting to ascertain by what kind of logic such contradictory facts were made to coincide with the preconceived results of deductive reasoning. He thinks that there can be no advantage in thus obtaining gold and silver from Portugal, for "the more gold we import from one country, the less we must necessarily import from all others. The effectual demand for gold, like that of any other commodity, is in every country limited to a certain quantity. If nine-tenths of this quantity are imported from one country there remains a tenth only to be imported from all others. The more gold, besides, that is annually imported from some particular countries, over and above what is requisite for plate and for coin, the more must necessarily be exported to some others; and the more that most insignificant object of modern policy, the balance of trade, appears to be in our favor with some particular countries, the more it must necessarily appear to be against us with many others." (Book IV, Chap. VI.)

So many words, so many errors. Certainly Smith could not know 130 years ago that, while Portugal became bankrupt, England, in the year 1907 would become the world's creditor and capitalist to the amount of something like 10 billion dollars, merely through lending out her gold and silver, after having received it, or without at all receiving it; by letting the debts accrue which become due to her in consequence of her active balance sheets, which were not balanced by passive ones. He could not know this, nor did he know how affairs stood in his own time. He had the courage to write a book on political economy, without ever having been in active business life; without knowing more of it than a student can learn at his desk. Henry Thomas Buckle, in his *History of Civilization in England* (Vol. I, p. 249), says: "The 'Wealth of Nations' is entirely deductive, since in it Smith generalizes the laws of wealth not from the phenomena of wealth, nor from statistical statements, but from the phenomena of selfishness, thus making a deductive application of one set of mental principles to the whole set of economic facts. The illustrations with which his great book abounds are no part of the real argument; they are subsequent to the conception." However, even a deductive philosopher ought to have known that money can be lent out at usury internationally as well as nationally, and that there is such a thing as land purchased abroad with gold, which land yields rent to its owner, whether that owner lives in England or in Portugal; also that there are really cases of generally favorable and of generally unfavorable balances.

The worst trick in his speculations on international trade was, however, played on him by the wonderful discovery he made that "the general industry of a society can never exceed what the capital of the society can employ." which we had already a chance of admiring. Upon this false premise, his whole ideas of trade policy have been built up, and it is no wonder that the conclusions thus drawn from a false major are absolute nonsense. If it were true that a society could not increase its industry beyond fixed limits, it would be quite correct to conclude that the introduction of any new industry must correspondingly hamper one already existing, and that therefore the industries for which the country is best adapted are preferable to those of a more exotic nature. No use, consequently, to protect any industry, for what cannot maintain itself without such artificial methods had better make room for what is more congenial to the soil. As I have shown, however, the assumed fact does not exist; there is practically no limit to the extension of a society's industry. On the contrary, the more industries a nation possesses, the more industries it will have room for. If spinning flourishes, weaving succeeds; and if both have reached a certain development, the manufacture of spinning and weaving machinery will pay, which in its turn gives more work to foundries; these to more iron and coal mines, etc.

Unfortunately, authority plays a very pernicious part in public opinion. Carlyle's "thirty millions, mostly fools," are too much in the habit of following some men with great names, like sheep running behind their bell-wether, or we should be farther advanced. The first work urgently required before a sound building can be erected, is to clear out of the way the old ruins. No headway can be made, unless the work done by certain men of renown is valued at its real worth, unless we fully recognize in which way these theory-mongers have managed to stultify themselves and the trusting public, which though it does not understand their reasoning, estimates their depth by their abstruseness. It is taken in so much easier through the mutual support these philosophers give one another, through the flocking together of these birds of a feather.

Here, for instance, we have some wonderful theories on our present topic, hatched, in support of Smith's nonsense, by David Ricardo, a man who, though a speculator at the Exchange, had never any practical experience of mercantile business; which another theorist and deductive reasoner, John Stuart Mill, and still others of the same guild, are so delighted with, that they pass on the nonsense as if it were based on observations of real facts, and not merely on pure baseless inventions concocted at the scholar's desk. Adam Smith's deductively-found theories about international trade, culminating in Jean Baptiste Say's proclamation that "commodities are paid for with commodities," so delighted the imaginative Ricardo that he set to work to substantiate this assumption, even in the extreme instance of one country producing everything—without exception—cheaper than another country, as for example, may occur in the near future with Japan. If that country, with its low wages, continues to progress in industrial development as it has done during the last four decades, there may soon be hardly any article which cannot be produced more cheaply there than anywhere else in the world.

The obtaining of a favorable balance of trade must therefore meet the most serious consideration of statesmen and, anyhow, they must look out that their country has favorable financial balances, which are as important nationally as they are in the case of individuals. I repeat this for the purpose of cutting off shallow free-trader jokes like that of merchandise intended for importation, but burned at sea. "Its destruction," they argue, "diminishes imports, and thus procures a better balance of trade; ergo, according to the protectionists, it is better for a country if cargoes of this kind are lost than if they arrive in safety."

Certainly in such a case the actual imports are lessened, but the financial balance remains the same as if the ship had arrived, for the goods have to be paid for if they run at the risk of the importing country, and if they do not, other goods will take their place. So far as the trade and financial balance is concerned, the lost goods are as if they never had left their home port.

An explanation may be demanded why the international imports and exports do not balance, as they ought to, where the imports of one country are the exports of others. Instead of this, the imports preponderate considerably. The loose way which exports are booked is mainly responsible for this. Imports are much more reliable, of which the custom houses take care. The booking of freight charges forms another item of inexactitude.

In modern financial balances the expenses of tourists have become of an importance they never had before. Some countries are almost entirely passive in this line, the United States, for instance. Others, such as Switzerland and Italy, are almost entirely on the active side. Very few foreigners travel in this country, while the money, which its people spend abroad runs into large figures. Switzerland, on the other side, has a yearly income of over thirty million dollars from this source. Italy and France show up hardly smaller active balances in this department.

Because I have tried to demolish certain errors, which, unfortunately, are usually employed as weapons on the free trade side, I have been called a protectionist by some of its partisans. They do not reflect what a slap in the face they give their own party by such an imputation. It implies that the fallacies I attack are indispensable bulwarks of their school. I do not think they are. I believe that a man may stand up for free trade, if his country, according to his opinion, will profit more in the extension of its exports than it will lose by the increase of imports through such a policy; that its balance of trade will thus benefit by free trade. Another may be a protectionist on the opposite ground; or because he believes that you cannot convert other nations to free trade by onesidedly opening your own doors, like England, while the other doors are closed; but rather by closing yours, too, in the expectation that diminishing exports will preach them a more eloquent free trade, or reciprocity lesson, than the best free trader could supply. Disarming in the face of a forest of bristling bayonets has never been good policy; as the experience of history has proved often enough.

Each of two antagonists will have to prove his case by arguments based on such facts, for instance, as a custom union between Britain and her colonies, or middle Europe and Argentine against the United States. The exclusion of his wheat and cotton from the world's market would soon make the American farmer a radical free trader. He never will, as long as the others endure American high protection without shooting back.

This part of the question is so much of a side issue, compared with the great problems treated in these pages, that many reformers consider it positively harmful to bring in this apple of Eris, so likely to divide allies in the main fight. As stated in another place, I here find one of the main arguments against the Single-Tax method of land restoration. The Single-Tax must abolish customs, as there is to be no other tax but that on land values. Thus its partisans are bound to stand up for free trade, antagonizing some of their best allies in the fight against land monopoly, who happen to be protectionists. If I have had to attack balance of trade fallacies it was principally because the part played by money in international trade cannot be understood without an explanation of the way in which international balances arise and are settled.

For all that I do not stand up for protection; I merely defend it against attacks based on general economic principles. It is just as impossible to select certain principles of political economy from the rest without a disastrous failure, as it is to take the best material and try to build with it on treacherous ground. If we want to erect a dwelling on a quaggy bog, canvas and bark are better building materials than granite and oak, and to reject the flimsy stuff under such circumstances in favor of the more solid materials on the score of general principles of solidity, is just as preposterous as to decide for free trade under all circumstances merely because it agrees with fundamental economic principles. This would be correct policy only where all else is in line with first principles. With free land and money free trade fits in harmoniously; but with monopolized land and monopoly money, which form the quaking bog on which our economic building is erected, free trade may prove the heavy load under which the edifice will sink still more rapidly. Protection, just because it is opposed to true economic principles, may be the very thing wanted under such conditions. We have no choice in the matter; either we stand up for true principles all round, or we have to go on the line of expediency; and if protection is found on this line we shall have to advise protection. The decision will then have to depend on practical business conditions, usually ignored by the theoretician.

Among these, the question of reciprocity stands in the foreground. The contempt with which it is treated by the Liberal party now in power in England, is due to the great reverence still paid to Smith's teachings. England is paying dearly for this blind deference to authority.

The effects of the present commercial depression will make this clearer even than it is. How sad to see the hopes of a land reform, to be brought by the Liberals, thrown back for another decade, through the certain victory of protectionist Toryism! The grower of hops, ruined by free American hops, the Sheffield manufacturer of steel goods, thrown on the pavement by Solingen's overproduction dumped on the English market at any price; they and their workers are not the men who are accessible to hopes of the future based on possible land reforms. The shirt is nearer to the body of the unemployed than the coat; the living, or rather starving present is more vivid than a distant future. The question of the dear or cheap loaf takes the background of how to procure any loaf, cheap or dear; the same question which a witty Irishman so tersely expressed in these words: "In Old Ireland you can get a bushel of potatoes for six-pence, but the difficulty is to get the six-pence."

After we have thus settled the international bugbear, only one more international question remains to be answered. Why do we find so many paper-currency countries who have made or are making all possible efforts to return to a gold currency—Russia, Austria, Italy and Argentine, for instance?

We might reply that a variable paper currency cannot compare with a scientific one as here delineated, which keeps up a more stable standard of value than gold, and by many the dangers connected with continual variations of the standard are considered greater than those inherent in gold. This applies also to silver countries, like India and Mexico, whose governments try to adopt the gold standard.

We have, however, to seek the main reasons for this state of affairs in the great influence exercised throughout the world by the creditor class, which benefits by the appreciation of money and in the prevailing ignorance in currency affairs. Who are the men whose judgment usually prevails in such matters?

The statesman? I do not wish to estimate him as low as Adam Smith did when he spoke of him as "that insidious and crafty animal, vulgularly called a statesman, or politician, whose councils are directed by the momentary fluctuations of affairs." (Book IV, Chapter II.) But I must agree with Buckle when he expresses his opinion of the rulers of a country: "Such men are at best only the creatures of the age, never its creators. Their measures are the result of social progress, not the cause of it." (*Hist. Civ*., Vol. I. Chapter V.)

Under party government the statesmen are supposed to represent the opinion of their party and in money questions the state of things which the historian Douglas found existing in the paper-money period of New England, and also in the French Revolution, still obtains all over the world. "Parties." he said, "were no longer Whigs and Tories, but creditors and debtors."

The bankers and financiers? My personal experience of this class—of whom during seven years of banking experience I have known quite a number, some of them being near relations—has taught me that these very bankers and financiers are of all men in the world least capable of pronouncing a correct judgment on the great currency problem. They cannot see the forest for the trees; besides being too deeply interested in the lumber business. If we are so entirely at sea in the currency business, if we have not yet been able to reach a safe harbor, it is because our ship is trying to Steer its dangerous course between the Scylla of the scholar or the currency crank, who are all theory and no practice, and the Charybdis of the financier who is all practice and no theory, who has no more the power to get out of his groove than Bismarck's dog, mentioned in the last chapter. The combination of theory and practice, of the study of monetary science with practical work in financial business is unfortunately rarely found, or we should be further advanced in the position to be adopted in regard to one of the most momentous factors in the great social problem: *Circulation.*

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Noter:

1. Of course, this is not mathematically correct, for a great deal depends on the rapidity of the circulation. The same amount of currency can supply a much more extensive trade where telegraphs and railroads exist than where more primitive modes of communication obtain. But assuming an existing intensity of the circulating process as remaining unchanged for the time, my formula can safely be adopted.

2. "On the first intimation of a scarcity (of money) the rate rises, and they who must have money to pay the current expenses of large establishments, or to meet their outstanding obligations, are at the mercy of the lender. The captains of industry, and, through them, their laborers, are no longer the masters but the servants of capital."—Robert Ellis Thompson, *Political Economy* (p. 152).