CHAPTER XIII.

CONFUSIONS ARISING FROM THE USE OF MONEY.

There is no one who in exchanging his own productions for the productions of another would think that the more he gave and the less he got the better off he would be. Yet to many men nothing seems clearer than that the more of its own productions a nation sends away, and the less of the productions of other nations it receives in return, the more profitable its trade. So wide-spread is this belief that to-day nearly all civilized nations endeavor to discourage the bringing in of the productions of other nations while regarding with satisfaction the sending away of their own.

What is the reason of this? Men are not apt to apply to the transactions of nations principles opposite to those they apply to individual transactions. On the contrary, the natural tendency is to personify nations, and to think and speak of them as actuated by the same motives and governed by the same laws as the human beings of whom they are made up. Nor have we to look far to see that the preposterous notion that a nation gains by exporting and loses by importing actually arises from the application to the commerce between nations of ideas to which individual transactions accustom civilized men. What men dispose of to others we term their sales; what they obtain from others we term their purchases. Hence we become accustomed to think of exports as sales, and of imports as purchases. And as in daily life we habitually think that the greater the value of a man's sales and the less the value of his purchases the better his business; so, if we do not stop to fix the meaning of the words we use, it seems a matter of course that the more a nation exports and the less it imports the richer it will become.

It is significant of its origin that such a notion is unknown among savages. Nor could it have arisen among civilized men if they were accustomed to trade as savages do. Not long ago a class of traders called "soap-fat men" used to go from house to house exchanging soap for the refuse fat accumulated by housewives. In this petty commerce, carried on in this primitive manner, the habit of thinking that in a profitable trade the value of sales must exceed the value of purchases could never have arisen, it being clearly to the interest of each party that the value of what he sold (or exported) should be as little as possible, and the value of what he bought (or imported) as great as possible. But in civilized society this is only the exceptional form of trade. Buying and selling, as our daily life familiarizes us with them, are not the exchange of commodities for commodities, but the exchange of money for commodities, or of commodities for money.

It is to confusions of thought growing out of this use of money that we may trace the belief that a nation profits by exporting and loses by importing—a belief to which countless lives and incalculable wealth have been sacrificed in bloody wars, and which to-day molds the policy of nearly all civilized nations and interposes artificial barriers to the commerce of the world.

The primary form of trade is barter—the exchange of commodities for commodities. But just as when we begin to think and speak of length, weight or bulk, it is necessary to adopt measures or standards by which these qualities can be expressed, so when trade begins there arises a need for some common standard by which the value of different articles can be apprehended. The difficulties attending barter soon lead, also, to the adoption by common consent of some commodity as a medium of exchange, by means of which he who wishes to exchange a thing for one or more other things is no longer obliged to find some one with exactly reciprocal desires, but is enabled to divide the complete exchange into stages or steps, which can be made with different persons, to the enormous saving of time and trouble.

In primitive society, cattle, skins, shells and many other things have in a rude way fulfilled these functions. But the precious metals are so peculiarly adapted to this use that wherever they have become known mankind has been led to adopt them as money. They are at first used by weight, but a great step in advance is taken when they are coined into pieces of definite weight and purity, so that no one who receives them needs to take the trouble of weighing and testing them. As civilization advances, as society becomes more settled and orderly, and exchanges more numerous and regular, gold and silver are gradually superseded as mediums of exchange by credit in various forms. By means of accounts current, one purchase is made to balance another purchase and one debt to cancel another debt. Individuals or associations of recognized solvency issue bills of exchange, letters of credit, notes and drafts, which largely take the place of coin; banks transfer credits between individuals, and clearing-houses transfer credits between banks, so that immense transactions are carried on with a very small actual use of money; and finally, credits of convenient denominations, printed upon paper, and adapted to transference from hand to hand without indorsement (sic) or formality, being cheaper and more convenient, take in part or in whole the place of gold or silver in the country where they are issued.

This is, in brief, the history of that labor-saving instrument which ranges in its forms from the cowries of the African or the wampum of the red Indian to the banknote or greenback, and which does so much to facilitate trade that without it civilization would be impossible. The part which it plays in social life and intercourse is so necessary, its use is so common in thought and speech and actual transaction, that certain confusions with regard to it are apt to grow up. It is not needful to speak of the delusion that interest grows out of the use of money, or that increase of money is increase of wealth, or that paper money cannot properly fulfil (sic) its functions unless an equivalent of coin is buried somewhere, but only of such confusions of thought as have a relation to international trade.

I was present yesterday when one farmer gave another farmer a horse and four pigs for a mare. Both seemed pleased with the transaction, but neither said, "Thank you." Yet when money is given for anything else it is usual for the person who receives the money to say, "Thank you," or in some other way to indicate that he is more obliged in receiving the money than the other party is in receiving the thing the money is given for. This custom is one of the indications of a habit of thought which (although it is clear that a dollar cannot be more valuable than a dollar's worth) attaches the idea of benefit more to the giving of money for commodities than to the giving of commodities for money.

The main reason of this I take to be that difficulties of exchange are most felt on the side of reduction to the medium of exchange. To exchange anything for money it is necessary to find some one who wants that particular thing, but, this exchange effected, the exchange of money for other things is generally easier, since all who have anything to exchange are willing to take money for it. This, and the fact that the value of money is more certain and definite than the value of things measured by it, and the further fact that the sale or conversion of commodities into money completes those transactions upon which we usually estimate profit, easily lead us to look upon the getting of money as the object and end of trade, and upon selling as more profitable than buying.

Further than this, money, being the medium of exchange—the thing that can be most quickly and easily exchanged for other things—is, therefore, the most convenient in contingencies. In ruder times, before the organization of credit had reached such development as now, when the world was cut up into small states constantly warring with each other, when order was less well preserved, property far more insecure and the exhibition of riches often led to extortion; when pirates infested the sea and robbers the land; when fires were frequent and insurance had not been devised; when prisoners were held to ransom and captured cities given up to sack; the contingencies in which it is important to have wealth in the form in which it can be most conveniently carried, readily concealed and speedily exchanged, were far more numerous than now; and every one strove to keep some part of his wealth in the precious metals. The peasant buried his savings, the merchant kept his money in his strong box, the miser gloated over his golden hoard and the prince sought to lay up a great treasure for time of sudden need. Thus gold and silver were even more striking symbols of wealth than now, and the habit of thinking of them as the only real wealth was formed.

This habit of thought gave ready support to the protective policy. When the growth of commerce made it possible to raise large revenues by indirect taxation, kings and their ministers soon discovered how easily the people could thus be made to pay an amount of taxes that they would have resisted if levied directly. Import taxes were first levied to obtain revenue, but not only was it found to be exceedingly convenient to tax goods in the seaport towns from whence they were distributed through the country, but the taxation of imported goods met with the warm support of such home producers as were thus protected from competition. An interest was thus created in favor of "protection," which availed itself of national prejudices and popular habits of thought, and a system was by degrees elaborated, which for centuries swayed the policy of European nations.

This system, which Adam Smith attacked under the name of the mercantile system of political economy, regarded nations as merchants competing with each other for the money of the world, and aimed at enriching a country by bringing into it as much gold and silver as possible, and permitting as little as possible to flow out. To do this it was sought not only to prohibit the carrying of precious metals out of the country, but to encourage the domestic production of goods that could be sold abroad, and to throw every obstacle in the way of similar foreign or colonial industries. Not only were heavy import duties or absolute prohibitions placed on such products of foreign industry as might come into competition with home industry, but the exports of such raw materials as foreign industries might require were burdened with export duties or entirely prohibited under savage penalties of death or mutilation. Skilled workmen were forbidden to leave the country lest they might teach foreigners their art; domestic industries were encouraged by bounties, by patents of monopoly and by the creation of artificial markets—sometimes by premiums paid on exports, and sometimes by laws which compelled the use of their products. One instance of this was the act of Parliament which required every corpse to be buried in a woolen shroud, a piece of stupidity only paralleled by the laws under which the American people are taxed to bury in underground safes $2,000,000 of coined silver every month, and keep a hundred millions (sic) of gold lying idle in the treasury.

But to attempt to increase the supply of gold and silver by such methods is both foolish and useless. Though the value of the precious metals is high their utility is low; their principal use, next to that of money, being in ostentation. And just as a farmer would become poorer, not richer, by selling his breeding-stock and seed-grain to obtain gold to hoard and silver to put on his table, or as a manufacturer would lessen his income by selling a useful machine and keeping in his safe the money he got for it, so must a nation lessen its productive power by stimulating its exports or reducing its imports of things that could be productively used, in order to accumulate gold and silver for which it has no productive use. Such amounts of the precious metals as are needed for use as money will come to every nation that participates in the trade of the world, by virtue of a tendency that sets at naught all endeavors artificially to enhance supply, a tendency as constant as the tendency of water to seek a level. Wherever trade exists all commodities capable of transportation tend to flow from wherever their value is relatively low to wherever their value is relatively high. This tendency is checked by the difficulties of transportation, which vary with different things as their bulk, weight and liability to injury compare with their value. The precious metals do not suffer from transportation, and having (especially gold) little weight and bulk as compared with their value, are so portable that a very slight change in their relative value is sufficient to cause their flow. So easily can they be carried and concealed that legal restrictions, backed by coast-guards and custom-house officials, have never been able to prevent them from finding their way out of a country where their value was relatively low and into a country where their value was relatively high. The attempts of her despotic monarchs to keep in Spain the precious metals she drew from America were like trying to hold water in a sieve.

The effect of artificially increasing the supply of precious metals in any country must be to lower their value as compared with that of other commodities. The moment, therefore, that restrictions by which it is attempted to attract and retain the precious metals, begin so to operate as to increase the supply of those metals, a tendency to their outflowing is set up, increasing in force as the efforts to attract and retain them become more strenuous. Thus all efforts artificially to increase the gold and silver of a country have had no result save to hamper industry and to make the country that engaged in them poorer instead of richer. This, experience has taught civilized nations, and few of them now make any direct efforts to attract or retain the precious metals, save by uselessly hoarding them in burglar-proof vaults as we do.

But the notion that gold and silver are the only true money, and that as such they have a peculiar value, still underlies protectionist arguments,[16] and the habit of associating incomes with sales, and expenditure with purchases, which is formed in the thought and speech of every-day life, still disposes men to accept a policy which aims at restricting imports by protective tariffs. Being accustomed to measure the profits of business men by the excess of their sales over their purchases, the assumption that the exports of a nation are equivalent to the sales of a merchant, and its imports to his purchases, leads easily to the conclusion that the greater the amount of exports and the less the amount of imports, the more profit a nation gets by its trade.[17]

Yet it needs only attention to see that this assumption involves a confusion of ideas. When we say that a merchant is doing a profitable business because his sales exceed his purchases, what we are really thinking of as sales is not the goods he sends out, but the money that we infer he takes in in exchange for them; what we are really thinking of as purchases is not the goods he takes in, but the money we infer he pays out. We mean, in short, that he is growing richer because his

[16]For instance, Professor Thompson writing where and when, save for subsidiary tokens, paper money was exclusively used, and so conscious of its ability to perform all the functions of money that he declares it to be as much superior to coin as the railway is to the stage-coach ("Political Economy," p. 152), goes on subsequently (p. 223) to contend that protective duties are necessary to prevent the poorer country being drained of its money by the richer country, thus tacitly assuming that gold and silver alone are money—since neither he nor any one else would pretend that one country could drain another of its paper money.

[17]A conclusion frequently carried by protectionists to the most ridiculous lengths, as, for instance, in the recent declaration of a protectionist Senator (William M. Evarts of New York), that he would be ready for free trade "when protection had so far developed all our industries that the United States could sell in competition with all the world, and at the same time be free from the necessity of buying anything from all the world."

income exceeds his outgo. We become so used in ordinary affairs to this transposition of terms by inference, that when we think of a nation's exports as its sales and of its imports as its purchases, habit leads us to attach to these words the same inferential meaning, and thus unconsciously to give to a word expressive of outgoing, the significance of incoming; and to a word expressive of incoming, the significance of outgoing. But, manifestly, when we compare the trade of a merchant carried on in the usual way with the trade of a nation, it is not the goods that a merchant sells, but the money that he pays out, that is analogous to the exports of a country; not the goods that he buys, but the money he takes in, that is analogous to imports. It is only where the trade of a merchant is carried on by the exchange of commodities for commodities, that the commodities he sells are analogous to the exports, and the commodities he buys are analogous to the imports of a nation. And the village dealer who exchanges groceries and dry-goods for eggs, poultry and farm produce, or the Indian trader who exchanges manufactured goods for furs, is manifestly doing the more profitable business the more the value of the commodities he takes in (his imports) exceeds the value of the goods he gives out (his exports).

The fact is, that all trade in the last analysis is simply what it is in its primitive form of barter, the exchange of commodities for commodities. The carrying on of trade by the use of money does not change its essential character, but merely permits the various exchanges of which trade is made up to be divided into parts or steps, and thus more easily effected. When commodities are exchanged for money, but half a full exchange is completed. When a man sells a thing for money it is to use the money in buying some other thing—and it is only as money has this power that any one wants or will take it. Our common use of the word "money" is largely metaphorical. We speak of a wealthy man as a moneyed man, and in talking of his wealth say that he has so much "money," whereas the fact probably is, that though he may be worth millions, he never has at any one time more than a few dollars, or at most a few hundred dollars, in his possession. His possessions really consist of houses, lands, goods, stocks, or of bonds or other obligations to pay money. The possession of these things we speak of as the possession of money because we habitually estimate their value in money. If we habitually estimated value in shells, sugar or cattle, we would speak of rich men as having much of these, just as the use of postage-stamps as currency at the beginning of our civil war led to speaking of rich men in the slang of the day, as those who had plenty of "stamps." And so, when a merchant is doing a profitable business, though we speak of him as making or accumulating money, the fact is, save in very rare cases, that he is putting out money as fast as he gets it in. The shrewd business man does not stow away money. On the contrary, with the money he obtains from his sales he hastens to make other purchases. If he does not buy commodities for use in his business, or commodities or services for personal gratification, he buys lands, houses, stocks, bonds, mortgages or other things from which he expects a profitable return.

The trade between nations, made up as it is of numerous individual transactions which separately are but parts or steps in a complete exchange, is in the aggregate, like the primitive form of trade, the exchange of commodities for commodities. Money plays no part in international trade, and the world has yet to reach that stage of civilization which will give us international money. The paper currency which in all civilized nations now constitutes the larger part of their money, is never exported to settle balances, and when gold or silver coin is exported or imported it is as a commodity, and its value is estimated at that of the bullion contained. What each nation imports is paid for in the commodities which it exports, unless received as loans or investments, or as interest, rent or tribute. Before commerce had reached its present refinement of division and sub-division this was in many individual cases clear enough. A vessel sailed from New York, Philadelphia or Boston carrying, on account of owner or shipper, a cargo of flour, lumber and staves to the West Indies, where it was sold, and the proceeds invested in sugar, rum and molasses, which were brought back, or which, perhaps, were carried to Europe, there sold, and the proceeds invested in European goods, which were brought home. At present the exporter and importer are usually different persons, but the bills of exchange drawn by the one against goods exported are bought by the other, and used to pay for goods imported. So far as the country is concerned, the transaction is the same as though importers and exporters were the same persons, and that imports exceed exports in value is no more proof of a losing trade than that in the old times a trading ship brought home a cargo worth more than that she carried out was proof of an unprofitable voyage.