Chapter 4 — The Office of Credit in Exchanges

Imagine a number of shipwrecked men swimming ashore in their buffs to an uninhabited island in a climate genial enough to enable them to support life. What would be their first exchanges? Would they not be based upon the various forms of the proposition, "I will do or get this for you, if you will do or get this for me?" Now, no matter where or how they got into this world, this must have been the position of the first men when they got here, and all that we can reason from with any certainty goes to show that these first men must have been essentially the same kind of men as we ourselves.

If there is any difference in priority between them, credit must, in the nature of things, have preceded barter as an instrument of exchange, and must at least from the very first have assisted barter. What more natural than that the first man who had killed a deer, or made a large catch of fish, should be willing to give now, while he had abundance, in return for a promise that his neighbor would remember him in the same way when similarly fortunate? The organization of credit into more elaborate and finer forms goes on with the development of civilization, but credit must have begun to aid exchanges with the very beginning of human society, and it is in the backwoods and new settlements rather than in the great cities that we will today find its direct forms playing relatively the most important part in exchanges.

In explaining the origin and use of money, Adam Smith much overrated the difficulties of barter, and in this he has been followed by nearly all the writers who have succeeded him. Of the condition before the use of metals as money he says:

> *One man, we shall suppose, has more of a certain commodity than he himself has occasion for, while another has less. The former consequently would be glad to dispose of, and the latter*

> *to purchase, a part of this superfluity. But, if this latter should chance to have nothing that the former stands in need of, no exchange can be made between them. The butcher has more meat in his shop than he himself can consume, and a brewer and baker would each of them be willing to purchase part of it. But they have nothing to offer in exchange, except different productions of their respective trades, and the butcher is already provided with all the bread and beer which he has immediate occasion for. No exchange can, in this case, be made between them. He cannot be their merchant nor they his customers; and they are all of them thus mutually less serviceable to one another.*

Though this explanation of the difficulties attending barter has been paraphrased by writer after writer since Adam Smith, it is an exaggeration so gross as to be ridiculous. The differentiation of such trades as that of the butcher, brewer and baker, the fact that men habitually devote their labor to the production of more of certain commodities than they themselves can consume, implies a division of labor that could not possibly take place were exchange impossible under the circumstances that Adam Smith assumes. And it is evident that such circumstances would impose no insuperable difficulty to exchange even though a true money had not yet come into use. The butcher, with meat that he wanted to dispose of, would not have refused the exchange offered by the brewer and baker because he himself was already provided with all the bread and beer that he had immediate occasion for. On the contrary, he would say, "I have no immediate use for bread and beer because I am already supplied, but I will give you the meat you want on your promise to give me its equivalent in bread and beer when I call for them." Nor need he necessarily wait for his own supply of bread and beer to be exhausted before calling on the baker and brewer for the fulfillment of their promises, for since man's wants are not satisfied with meat, bread and beer alone, he might want from the tailor a coat, from the grazier a bullock, from the carpenter a house; and since they cannot take from him at once full payment in such a perishable commodity as meat, he could help out his part of the exchange by telling the baker and brewer to give to them the bread and beer they had promised him.

And that is to say, it is not necessary to an exchange that both sides of it shall be effected at once or with the same person. One part or side of the full exchange may be effected at once, and the effecting of the other part or side may be deferred to a future time and transferred to another person or persons by means of trust or credit. And by this simple and natural device, and without the intervention of money, salt could be exchanged for less quantities of beef or mutton than are likely to spoil before a single family could consume them. The truth is that the difficulties of barter, which Adam Smith speaks of here as if they were insuperable, are always avoided by the use of trust where trust is possible. It is really in exchange between those who are unknown to each other and do not expect to meet other again that money performs its most indispensable office. The use of money, by which the traveler can easily carry with him the means of supplying his needs, has greatly facilitated traveling; yet in the bill of exchange, the letter of credit, Cook's coupons, and the book of certified checks, which are so largely displacing money for the use of travelers, we come back again to the use of trust.

Trust or credit is indeed the first of all the instrumentalities that facilitate exchange. Its use antedates not merely the use of any true money, but must have been coeval with the first appearance of man. Truth, love, sympathy are of human nature. It is not only that without them man could never have emerged from the savage state, but that without them he could not have maintained himself even in the savage state. If brought on earth without them, he would inevitably have been exterminated by his animal neighbors or have exterminated himself.

And trust or credit is not merely the first of the agencies of exchange in the sense of priority; it yet is, as it always has been, the first in importance. In spite of our extensive use of money in effecting exchanges, what is accomplished by it is small compared with what is accomplished by credit. In international exchanges money is not used at all, while the great volume of domestic exchange is in every civilized country carried on by the giving and cancellation of credits. As a matter of fact the most important use of money today is not as a medium of exchange, though that is its primary use. It is that of a common measure of value, its secondary use. Not only this, but with the advance in civilization the tendency is to make use of credit as money; to coin, as it were, trust into currency, and thus to bring into use a medium of exchange better adapted in many circumstances to easy transfer than metallic money. The paper money so largely in use in all civilized countries is in reality a coinage of credit or trust.