CURRENCY THEORIES.

IV.

The assumption that an abundance of currency causes a low rate of interest runs through all the utterances of the soft money advocates. One of the speakers at the Albert Hall Convention undertook to prove that while the specie basis of the currency is maintained Canadian Manufacturers will have no chance against those of England and the United States, on account of the higher rate of interest which rules here. The fact that both England and the United States are specie-paying countries should have suggested to this speaker that the lower rate of interest which prevails there is not due to the cause he gives. No such cause exists in either of these countries. The higher rate of interest in Canada as compared with that which prevails in England and the United States is therefore due to other causes than the non-existence of an inconvertible currency. The notion that the rate of interest depends upon the amount of currency in circulation is proved by constant experience to be a delusion. The aggregate circulation of the Canadian banks has, during the last two years, been millions less than it was in 1873, and contemporaneously with this diminished circulation the rate of discount has been lower.

The aggregate capital of the banks has greatly diminished, through losses, without making the rate for the loan of money higher; on the contrary, it has been cheaper since these losses occurred than before, partly because the demand for the loan of money was less, the money's worth of transactions having largely decreased. Another reason is that profits, during the periods of depression, were greatly diminished through a fall in prices and consequent losses; and, as interest or discount must chiefly be paid out of profits, there was less to pay with. Where profits are low the rate of interest cannot be permanently high; where they are high a high rate of interest can and often will be paid. When more persons are desirous to lend than to borrow, the rate of interest will be low; when more persons desire to borrow than to lend, the rate of interest will be high. Money is created for the sole purpose of effecting exchanges; and a great diminution in the quantity or value of things to be exchanged will cause a similar diminution in the amount of money required to make the exchanges. The value of commodities requiring to be exchanged is greatly decreased from the year 1873 to the middle of the year 1879, and a corresponding diminution in the volume of currency for which employment could be found, inevitably followed. The circulation of the Canadian banks fell from $25,000,000 in August, 1873, to $16,500,000 in July, 1879. This is the simple explanation of the phenomenon of a diminished circulation, which was not a cause but an effect. If more currency had been required, the banks would have been only too willing to furnish it. The contraction of the circulation was no act of theirs; it was as nearly as possible automatic. All the uses for which a currency is required had been met, and the demand for it had ceased. All the power of the banks, if directed to this sole object, could not have prevented the decline of the circulation; for once all legitimate demands were satisfied, any excess of circulation would at once return to the issuers for redemption. A forced circulation of Government notes not convertible into coin could alone have increased the currency, but it could have increased it only at the expense of the depreciation of the notes; and that downward progress once commenced, the reign of chaos would have set in.

An increase of currency in the shape of Government paper inconvertible into coin would have no power to make the loan of money cheap; but there is one way in which it might make the loan of money dear. If, for example, the amount of such paper so issued became largely redundant, its purchasing power would probably fall to one half as compared with gold. There was a time when the United States greenback sank much below this point. If that event should arrive what would happen to the borrower? He would find that it required two hundred dollars to make the same exchange that was before made by one hundred; and six per cent on these two hundred dollars would be twice as much as six per cent. on the one hundred dollars. How could the borrower in this case be benefitted by the increase in the volume of the currency? If he had commodities to sell, their price would go up in the general inflation, and he might be saved harmless; though under such circumstances all prices do not advance equally; and persons who held commodities of which the prices lagged behind the more general enhanced rate, as well as all whose incomes are inelastic would suffer. If a goverment currency made money exceptionally abundant, the amount would be excessive. That excess would carry depreciation with it; and the larger amount would exchange for no more than the smaller. But even a government currency not convertible into coin would not be given away; nobody would get any of it without giving some equivalent. The laborer who received it in payment of his labor on public works would have to give his labor for it, and once in his possession, he would part with it only in purchasing what it would fetch or in applying it in liquidating a debt representing a prior purchase. The difficulty would be, when the amount of this currency became excessive, that its purchasing power would become less and less from week to week and month to month, and nobody could foretell to-day what it would be worth three months hence.

We may allow with the Albert Hall speaker that a high rate of interest is unfavorable to the manufacturer, and that it places him at a disadvantage as compared with a foreign competitor who can borrow at a lower rate. But this fact does not depend upon any form or theory of currency; and no scheme of currency, or possible provision of law can help him. Labor, capital, raw material are the three principal elements of manufacture; and it is of the first importance to the manufacturer that he should obtain all these on as reasonable terms as possible. He will experience no difficulty in obtaining currency when he has the means of purchasing or of giving security for the loan of it; and when he has produced the completed manufacture, if he fails to sell it will not be because the would-be purchasers cannot obtain currency to enable them to make the exchange, but because they have no commodities to give in exchange for the currency. As generally happens, this would be a case not of want of money but of money's worth, and it is one with which only the most perverted ideas could connect any notion of currency.

The soft money men assume that, if the currency consisted exclusively of irredeemable paper, persons who had anything to sell would more easily find a purchaser, and persons who desired to borrow would have less difficulty in finding a lender. But there cannot be a seller without a purchaser. How would an increase of such currency cause purchasers to spring up who did not exist before? A purchase must either be made through the sale of commodities by the purchaser, or on credit. Any one who has commodities to sell does not fail to make a sale because there is not currency enough in the country to exchange the various commodities requiring to be exchanged. It is notorious that there is no scarcity of currency. But if the Government were to issue a large amount of paper promises not redeemable in coin, would the impecunious find it easy to borrow this paper on more easy terms than they can borrow now; or would persons who cannot borrow now, because they have no security to give, be able to borrow then? The Government would not under-