ECONOMICS

LESSON IX.

Credit in Exchange: Banking.

THE fundamental idea in credit is trust, *confidence*—the confidence of one person in another, which makes that first person ready to sell goods to the other without receiving money for them at the time of the sale. The seller becomes the creditor of the buyer and remains so until the buyer has paid in money for the goods, or until he has otherwise discharged the debt. There is no theoretical reason why the buyer should not pay in some commodity agreed upon at the time when payment is due, but as a matter of fact he practically always agrees to pay in money.

Credit involves the idea of deferred payments—the exchange of a present commodity—the goods in the possession of the seller—against a future commodity—the money which is to be paid by the purchaser. It is well defined by Joseph French Johnson: "Credit is an executory contract to deliver money, and is accepted as a means of payment because the acceptor is confident that the maker will be able and willing to deliver the money if called upon to do so."

In business, a creditor does not usually extend credit unless he is satisfied of a debtor's ability to pay, or unless he has some security other than the latter's mere word. A bank when making a loan usually insists that the loan shall be used for what we call reproductive purposes. As the celebrated French economist, Leroy Beaulieu, says: "Credit should not be a simple anticipation upon future and uncertain wealth; it should have for its basis a thing real and actual—goods which are finished and which have not been sold; goods which, having been sold, have not yet been paid for; goods even, which are in process of manufacture, and of which all the elements have been gotten together; an enterprise which is not terminated, but which is already in a certain degree of advancement."