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THE TRUE

THEORY OF CAPITAL

COMMERCE AND MONEY,

EXPLAINING THE

CAUSES OF THE PRESENT DEPRESSION OF TRADE,

AND THE

DECLINE OF PROFITS,

BY RICHARD SULLEY,

London, Ontario.

Dedicated especially to Working Classes.

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1879.

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THE TRUE THEORY

—OF—

CAPITAL, COMMERCE AND MONEY.

Sulley

It is somewhat singular that at this advanced stage of general information that the science of political economy should be so little understood, and after the acknowledgement of free trade principles for so many years, by some of the leading statesmen of the world, that we should be going back to the old and exploded system of protection. But in truth, the world moves slowly, and referring to history we find that such has been the fate of all new movements and new ideas, however true the principles on which they were founded. This reaction, however, must lead to a more thorough discussion of the science, and finally to the practical adoption of its principles. The present ignorance, no doubt, arises from several causes; chiefly from the thorough neglect of its study in the public schools, and therefore, the very limited knowledge of the science possessed by our statesmen. Something may be attributed also, to the variety of opinions expressed by the different authors on the subject, and in many cases, their neglect or inability to trace the operation of the principles they propound to their legitimate results under all circumstances. Writers on the science have hitherto been chiefly literary men confined to habits of study, and generally perhaps, without the opportunity of that desultory discussion so necessary for the establishment of truth. Under such circumstances it is not to be wondered at that many errors still exist, and many changes of opinion, on some important points of the science, have already taken place, and with further experience, no doubt other changes may be expected. Mr. Mill, in alluding to one of the changes that has already taken place in the opinions of the world on the subject of money, makes use of the following observation: "It often happens that the universal belief of one age of mankind, a belief from which no one was, nor without an extraordinary effort of genius and courage could at that time be free, becomes to a subsequent age so palpable an absurdity, that the only difficulty then is to imagine how such a thing could ever have appeared credible." A change, no doubt similar to this, will within the next few years take place in reference to what is called the protective system, and some other erroneous opinions and practices, equally subversive of the public interests. The people will then wonder how such absurdities as the protective system, the metalic standard of value, and the continued accumulation of National debts could have been so long tolerated. We must now attend to our more immediate subject.

1879

To attain to the possibility of a correct knowledge of any science, it is, in our opinion, first necessary to find out its leading or governing principle, and then to trace the influence, or the effect of that principle under all possible circumstances. This, as it appears, has not yet been done in the case of politic l economy ; and the consequence has been that very little progress has been made since its inception as a science by Adam Smith. What we shall designate as real capital is the source of all profit, though it has not yet been treated by the standard writers, as the governing principle of the science. Most of them seem only to have treated it as an incident when they ought to have treated it as the postulate, or self-evident proposition; and few, if any, have given a detailed, or categorical account of it. The English economists, probably for no better reason than the supposed necessity of escaping the sanction of the opinions of the old French school of economists, have not included land and its natural productions in the category of capital; though some have gone so far as to include farm buildings, fences, workshops, machinery, and even improvements on the land, which they have called fixed capital; though apparently for no very good reason, as none of them are thoroughly permanent. The old French economists were no doubt right, when they claimed that all profit originated from, and must be supported by, the land; though they were wrong when they assumed that all taxes could be collected directly from it. Mr. Mill, partly acknowledges the same principle in the first chapter on Production, where he says :—" The requisites for production are two, labour and appropriate natural objects." Though this description is necessarily lame and incomplete, as he ought to have added, " Agents and forces, which would then have included all real capital." Capital, therefore, in the economical sense means original stock; that is, something to support labour, and furnish materials for the necessities and conveniences of man. In this sense, the earth and its original productions were the original *stock*, or capital of mankind. Money is often called capital, but that is a popular error, arising no doubt from its constant use as a circulating medium. It is only a contrivance, however, to save time and labour; but its greater or lesser quantity does not affect profit, and therefore is of no consequence to the community, providing it always bears an equal proportion to the increase of wealth and population. An increase of money beyond that, is one of the greatest economical evils.

From the foregoing reasoning, it may be inferred that capital does not increase at the same rate as population. Though it does not decrease in quantity; relative to the increase of population it does. It is therefore important to note that food, fuel and raw material in general, all of which are capital, do not exist, or cannot be produced in sufficient quantities as population increases, with the same amount of labor; consequently, as the laborer must have the means to live, and to continue his race, his wages, relatively to the amount of production, must be increased; therefore profits decline.

In accordance with these facts, as society progresses, the inequalities of position become more marked, the possession of capital gives greater advantages to those who possess it; but it would not on that account, be either just or beneficial to society, to make a forced or charitable distribution of the supposed excess, as dearths, famines and other calamities often overtake society, and in such cases there would be nothing left to fall back upon for relief; and the disaster would generally end in murder, rapine and anarchy. And further, it is necessary that all encouragement should be given to industry, so that the increase of circulating capital, may, if possible, precede that of population, or society would be straightened in circumstances. For the encouragement of the necessary production and economy, it is also necessary to secure to each individual the products of his own labor, and that which he has rightfully obtained. Were it otherwise industry would be discouraged, every man would covet the property of his neighbor, and society would gradually go back into a state of barbarism. The security of property is therefore the only foundation for civilized society; and the only encouragement for industry; and the less and more certain, the exactions of the government, the greater will be the increase of capital and prosperity of the country.

Capital and labor are two distinct entities; and, to some extent, opposing forces, except when both interests are combined in one person. Labor is the consumer, while capital is the supporter of labor. Therefore the less labor consumes of the product, the greater will be the share left for profit. Labor adds nothing to capital, it only modifies and puts it into more convenient forms for consumption. As a general principle laid down by all economists, as population increases, the land remaining to be cultivated is less fertile, or in less convenient situations; and the natural productions, such as fuel and timber, etc., become scarcer. This process of decreement no doubt goes on slowly, on account of improvements in science and machinery, and of new methods of production; but it still goes on, and will continue so long as population continues to increase. Some seventy years ago, when Mr. Malthus first distinctly ennunciated the principal that population had a tendency to increase faster than the supply of food and other necessaries of life, he was abused and derided by all classes of people. The assertion of the principle, however, is to be found in Adam Smith, therefore, Mr. Malthus ought not to have been blamed for exemplifying the truth of its operation. It is this natural tendency in population to outrun the supply of necessaries which has propelled mankind from the Far East to the Far West, and that is still forcing them into new regions.

If the gifts of nature had been uniform, that is to say if there had been uniformity of soils, climates and productions, and all other conveniencies, minerals, etc., had been equally distributed over the globe, there would have been no travelling from place to place, no foreign trade; perhaps no division of labor, and cousequently, no trade at all. There could have been little or no intelligence; no intellectual enjoyment; mankind could hardly have been superior to the lower animals, and must have congregated round a common centre; and when the population increased beyond the supply of food and other necessaries, they would have just have spread out a little wider and cultivated a little more land. It must be plain to all thinking people, that whether there be a design in nature or not; it must be for the happiness of mankind that nature's laws should be obeyed. It is the imperious force of these laws which have brought mankind out of a state of barbarism into a state of commerce and civilization. Yet man in utter ignorance of his own interest, and that of his race, has hitherto endeavored, and still endeavors, as far as possible, to thwart their legitimate influence and operation. It is just as possible to stem the torrent of a mighty river, as to destroy trade. Commerce is the law established and stamped on mankind by the fiat of nature, and, although to some extent, it may be curtailed or prevented, it cannot be annihilated. Hence all courses tending to obstruct a free interchange of products between nations is a rebellion against nature's laws. Profits in trade in accordance with these laws, depend on the exchange of different kinds of commodities, produced by different kinds of labor, and different processes, under entirely different circumstances. The greatest profit in trade will be derived when you can exchange a commodity which your ability and the surrounding conveniences have enabled you to produce with a certain amount of labor, for some other commodity which you could not have produced with the same amount of labor, on account of the lack of the necessary facilities for such production. This increased production, caused by the division of labor, is the only source of profit in trade, and with a free exchange of commodities, profit would be augmented to its greatest possible extent.

Division of labor, barter, or trade, must have been coeval with the first dawn of civilization, and is still extending every day. If the Protectionists deem it unprofitable, why do they not make laws to prevent it? It might be pertinently asked, why is it, within the memory of the present generation, that the blacksmiths, all the world over, have ceased to make horse-shoe nails? And why are the shoes and the nails put on the horses feet, hundreds, and perhaps thousands of miles from the places where either the shoes or nails are made?

Again, it may be asked, Why are the hubs, the spokes, the felloes, and the shafts for carriages made in different, and distant establishments, to those where the wheels and the other parts of the carriages are made and put together? And what has supported the building of ships, the digging of canals, the construction of railways, and all other appliances for the transport of men and things from place to place? The answers to all these queries will be found in the simple word "profit." It is simply because greater facilities exist for the production of particular commodities in some places than in others. It is therefore cheaper to manufacture them in such places, and then transport them to where they are required to be consumed, than to make them under less advantageous circumstances. The same principle, to a greater or less extent, runs through all kinds of production, whether agricultural, mechanical, or manufacturing. In the latter, as we have shown, it has been found to be more profitable to stick to one branch of a mannfacture, or to the production of one particular part of a machine, than for one hand to make all parts in rotation. It is therefore clear that this principle of the division of labor and production, like its co-principle of exchange or commerce, is inherent in the laws of nature; both arising from the various conditions, constitutions and tastes of mankind; and that it will still go on in spite of all efforts to prevent it, as the pressure of competition increases through the decline of the general rate of profit. Instead of increasing profits by producing all kinds of commodities required in any particular country, they would be diminished. The only true policy for nations as well as individuals is a *thorough* free trade. The question of what is sometimes called one-sided free trade has often been mooted, both in the Dominion and elsewhere; that is, as to whether it be beneficial or injurious for a country to open its ports freely, while others tax the commodities it exports? In answer, it may be said that no trade can be carried on without a profit; and if a country imports, she must export, and *vice versa*. If one country imports commodities from another, they must inevitably be paid for by some other commodities produced in the importing country. If not directly, then by some round about trade, such as exporting commodities to some other country to which the first country was indebted. So the only difference would be that the balance would have to be adjusted by two transactions instead of one. If no equation of payments could be made directly or indirectly, the trade would necessarily cease without the imposition of extra import duties. If the trade should continue after the extra duties were levied, it would only prove that the trade was still profitable, and the tax would fall on the consumer, as he must pay all taxes and all profits. It is therefore hardly worth while to run the risk of increasing our own burthens for the sake of curtailing the profits of others.

From what has been said, it may be inferred that protection must always reduce the rate of profit on capital, and cannot for any length of time even benefit the parties intended to be protected, as the extra profits caused by the increase of prices must shortly be decreased by competition, and in the end the capitalist may lose more by the loss of capital than he had gained by protection. The statistics of exports and imports of different countries taken in money are now no criterion of the real values, or quantities of goods exported, or imported. No doubt all exchanges must be balanced in *real* values, whatever money prices may indicate. And it is hardly necessary to say that under ordinary circumstances no one would part with a commodity in trade without receiving its full equivalent in some other commodity, or its precise value in money, or in a bill, or note of hand that would at some future time command its full value in money, or in other desirable commodities. It is perhaps now necessary to explain the difference between values and prices. Prices are the nominal or exchange values expressed in money. They may be higher or lower, according to the financial condition, or according to the necessary quantity of money in circulation in each particular country. Real values are the cost in labor and capital consumed in the production of each commodity. Prices may be increased, or decreased, by alterations in the value, or the quantity of money, without making any difference in the relative values of commodities. The word value in its economical sense comprehends two distinct principles. First.—The article must be useful, or at least, desirable. Secondly.—It must require labor or exertion to produce or procure it. The cost of the labor will generally be its relative or exchangeable value. That is, under all ordinary circumstances. The real value of an article is, therefore, what it would cost to reproduce it. Nevertheless, in the present condition of trade, commodities are often bought and sold for less than the cost of reproduction. This, however, is not a natural state of things, and could not occur under a correct economical system.

It is true, nevertheless, that there are some exceptions to the rule; the crops and the harvests may vary, and the values, as well as the prices of natural productions may rise and fall from causes over which neither people nor governments have any control; but this could not occur to any serious extent in a state of free trade, as prices would be constantly equalized by the operations of commerce. The world would therefore be less liable to depressions in trade which sometimes arise from a severe failure of crops, especially in over-populated countries. It will be of little use being acquainted with the principles of political economy, unless we are acquainted with their operations in detail. On some points authors have not been sufficiently clear, and others they appear to have omitted to notice altogether. All persons know that society is practically divided into classes; but few are aware of the different proportions they bear to each other. This, however, has a very important bearing on the conditions of trade.

It has been shown that in all old and populous countries, nine-tenths of the people live on wages and small fixed incomes. The proportion of mere laborers, may be less in new countries; but still, the class will always be sufficiently large to materially affect trade, either under an extraordinary increase of prices, or a decrease of wages; and without taking these facts into consideration, it seems impossible to come to correct conclusions as to the causes of depressions in trade. These are constantly attributed to what is called *over-trading*, whatever that may mean; for it has never yet been explained how such a thing could possibly take place. It has been remarked, however, that throughout the present century a crisis in trade, or a commercial depression, has always been preceded by a period of abnormal high prices. It is therefore fair to assume that whatever causes a general increase of prices must end in bringing on a trade crisis. Accepting this as an axiom, an increase of money, the inauguration of a highly protective tariff, or anything that decreases the general demand for commodities, must in time destroy the demand for labor, and therefore greatly interfere with the prosperity of the country. When a country succeeds by prohibitory duties in keeping out of her ports a certain quantity of foreign produce that otherwise would have been imported, it may be said, without fear of contradiction, that she has succeeded in preventing her citizens from receiving the full value of their exports, and to that extent has reduced their profits. Trade is a system of force, and its course cannot be suddenly altered by the imposition of import duties.

If it be desired to prevent trade altogether, which seems to be the purport of protection, duties should be levied on the exports as well as the imports. If the protectionists are not willing to adopt such measures, it seems impossible to consider them in earnest. Of course, in support of the assumption that trade is a system of force, it seems hardly necessary to say that all communities are composed of individuals, and that each individual is supposed to pursue his own interest; the consequence would be that the usual amount of all kinds of production would go on, and would only cease with the absolute decline of profit. The exports would therefore continue, and if the imports were kept out by prohibitory duties, the balance must either be paid in the precious metals, or in some kind of securities from the debtor countries; or it would be lost by the exporter in the discount on his bills. In either case, the country must suffer the loss of the value of the reduced imports, though the individual merchants might not; nevertheless the expense of the remittance must be paid out of the price of the exports. Therefore the import duties must inevitably, in the first instance, fall on the producer of exports. We must now consider the subject of money. As before intimated, money is not capital, neither with respect to the community is it wealth. If imported as balances in trade, it may possibly benefit individuals; but their gains, like those of the gambler, would be taken out of the pockets of others. The operations of money have never yet been clearly explained. Ricardo was the clearest writer on the subject, and nothing has been added of any consequence within the last half century. He went so far as to say, "That a currency would be in the most perfect state consisting wholly of paper." Yet he adopted the common error from Adam Smith, that the gold could be exported in purchasing extra commodities, and added to the capital of the exporting country; an assumption that contradicts the whole theory of money.

The circulating medium of almost all countries at present, is probably composed of ninety-nine and a half per cent of paper and credit, and the rest specie. Yet the world still clings to the delusion of the metalic standard of value; and supposes it could not be done without. England appears likely to work out her own financial ruin, by clinging to the fallacy of keeping her currency convertable into gold. No doubt the present depression in trade has been chiefly caused by her injudicious system of currency. It must always keep the prices of English commodities higher than those of other countries. The Bank of England is the common sewer into whish most of the newly produced gold, from all parts of the world is poured. By one provision of her charter, the Issue Department is obliged to purchase all the gold bullion that is offered to her at £3 17s. 9d. an ounce; for which it pays in Bank of England notes. By this foolish regulation, England is forced to supply the rest of the commercial world with gold, gratis. This must cause a constant redundancy in the currency, and as there is no other method of getting rid of such redundancy, except through depreciation in value, it is constantly given away in the price of imports; which sometimes nearly doubles that of the exports. But there are other causes that have contributed to the present high prices of England.

Through the constant increase of gold within the last thirty years, for which England has been the chief mart, the trading classes have been enabled to accumulate and to loan out, vast sums to foreign countries. Consequently many countries are now tributary to her citizens, on account of interest on loans, which also tends to increase the circulation of money in England, and to keep up prices. And besides the incubus of her own National debt, she has the head offices of innumerable Banking and other Joint Stock Companies, extending their operations all over the world, located in London. These circumstances in connection with the very injudicions system of limited liability, are sufficient to destroy the prosperity of the most industrious and favoured country. Mere non-productive exchanges and high prices do not produce profits.

All political economists from Adam Smith downwards have assumed that the production of the precious metals is regulated by the same law as the production of other commodities. That is to say, that when they became cheaper, or of less exchangeable value, than the result of the same amount of labor applied to other callings, then their production would cease. Their use as money, however, at a fixed weight in all countries, has caused such a continued demand for them as currency, that their exchangeable value has not yet been sufficiently reduced to prevent their production. Yet it might have been expected, that the immense additions of paper to the currencies of the world within the last two hundred years, such as bank notes, government notes, discounting on bank deposits, checks, bills of exchange, notes of hand clearing houses, etc., etc., would have brought the exchangeable value of the metals below the producing point. That however apparently, has not yet been reached.

According to common report, within the last thirty years, some thousands of millions of dollars in gold have been added to the currencies of the world, representing the unnecessary loss of so much labor, beside the other evils produced by a constantly increasing currency. No doubt a standard of value as well as a circulating medium is necessary for the purpose of facilitating trade; and experience has sufficiently demonstrated that the only method for keeping the standard correct, or unvarying, is to limit the circulating medium, as near as possible, to the necessary quantity. The metals under the present system of money have proved but a very imperfect standard; and, with the present amount of trade, their circulation in all transactions would be quite impossible. Most writers agree, that a steady standard of value is a matter of great importance, and that such standard cannot be made of a commodity; simply, because there is no commodity in existence, which can at all times be produced with the same amount of labour, and can as constantly be consumed at the same rate at which it is produced; both of which contingencies would be essential qualifications for such a standard. The subject of producing a permanent unvarying standard of value has often been discussed; but hitherto without arriving at any satisfactory conclusion. In the year 1832 a pamphlet of nearly one hundred pages was published to prove that wheat was the only commodity that could possibly furnish a standard of value;

because, as the writer alledged, that, although its value might vary from season to season, it did not greatly vary from century to century. His scheme, however, divided the standard from the measure of value, which was not very easy to comprehend, and according to the writer, it would have required two kinds of money: exchequer bills for the treasury to pay out and to receive in taxes; and commercial money, such as bank notes, gold and silver coin, etc. And if the metals increased in quantity, so as to reduce their exchangeable value, the coins were to be increased in weight. On the other hand, if the metals became scarcer, and dearer, the coins were to be reduced in weight.

This system, if it had been adopted, might to some extent have obviated some of the hardships constantly arising from the depreciation of the standard of value, in the case of reserved rents, deferred payments, mortgages, fixed annuities, &c., but it was too complicated, and might at longer or shorter periods have required adjustment, which would have been inconvenient and expensive. The idea, no doubt, arose out of the numerous and severe fluctuations in the value of money in England in the earlier part of the century, caused by the extended issues of the banks, and the many failures during the war with the first Napoleon, and the adjustment of the currency afterwards. The Bank of England had gained enormous profits during the restriction of cash payments. Great complaints were made of its management, and its monopoly, and several alterations were made in the law to curtail its privileges, finally ending in the enactment of the banking law of 1844. This law, however, instead of ending the currency difficulties, appears only to have brought them to a climax. Discounts at present are only about one per cent., as they were throughout the year 1876. The whole scheme of the present law, complicated as it appears, was intended to produce a steady currency, and therefore to prevent bank panics, the great desideratum ever since the system was instituted. In all that time the endeavor appears to have been to make the impossible possible. That is, to create, and to keep in circulation an unlimited quantity of money, and prevent it from depreciation. In this impossible achievement certain parties on this side of the Atlantic appear to be as infatuated as ever. For this purpose a new scheme has just been broached, both in the United States and the Dominion. Unlimited quantities of Government notes are in both cases to be issued, and to be kept at par by making them receivable for Government bonds, bearing a low rate of interest. The scheme may be tried, but it will no more save the notes from depreciation than did the interchangeability of the French Assignats, for the ecclesiastical estates, from the same fate. The assignats became utterly worthless, notwithstanding they bore the rate of three per cent. interest. Besides, if such a scheme were put in practice it would have just the same effect as borrowing the money, and would pile up an immense national debt which would some day have to be reduced, or repudiated, and in the meantime would demoralize the people, as did John Law's scheme in France, by inducing all kinds of stock gambling, and other kindred evils. Money when once in circulation, as the world has had ample proof, will continue to circulate so long as any value is attached to it, and is a legal tender for debts, and would not be exchanged for bonds until it was worthless for any other purpose; and then it would be bought up by speculators, each receiver of the paper having been cheated out of a part of its value through depreciation.

Such a scheme might enrich Government contractors, and the dealers *in*, and the producers of the material the Government might require, but would not benefit either Government or people. And such would be the case with every increase of money issued by the Government. This was the experience under the issue of every new loan by the British Government during the French war, at the beginning of the century.

A Government currency, although experience has shown that, like a bank currency, it may be abused, is nevertheless now a greater necessity than at any previous period. It is therefore important to enquire how it can be made thoroughly subservient to the public interests without the drawbacks hitherto experienced in its use There can be no reasonable objection on principle to a Government currency: the difficulty is only with its management. The chief objection brought forward by its opponents is, that Governments have always abused the power of issue. Such an objection, however, ought to have very little weight at present, unless we have come to the conclusion that all Governments, as it was said of the Old Bourbons, "learn nothing and forget nothing," and therefore, that reasoning and experience would be alike useless. Both Chalmers and Mill declared that Governments gained nothing by an increase of money, and that raising money by loans had the effect of doubling the necessary tax on the people, and was no benefit whatever to the Government. Therefore, if this be the effect of an increase of money, applied to consumption through Government loans, the same effect would be produced by an over-issue of Government money. Knowing this, however, there would be neither inducement nor excuse for such conduct on the part of the Government. Then, apparently, all we have to do is to demonstrate these facts to the people. In the first place, as before stated, an increase of money adds neither to the wealth nor to the capital of the community. It only abstracts from the pockets of the consumer, through the process of high prices, a portion of his wages or income, and transfers the amount of the Government loan, or the over-issue of money, as the case may be, into the pockets of the classes previously mentioned. The Government would therefore gain nothing in either case, and the necessary tax would still have to be paid by the people out of some other source, and in the case of a loan, the debt also would have to be paid, or a perpetual interest. Therefore borrowing is one degree worse than the over-issue of Government money, as it would treble the expense of the necessary tax, supposing it to have been collected directly from the people. But if neither Governments nor people can be made to understand the evils of the present practice, so as to insure the alteration of the whole fiscal system, then there will be no help for it. We shall, in company with other nations, still go on to utter ruin and demoralization as fast as the most vicious system of currency and finance can carry us. The value of a currency, as we have endeavored to show, depends entirely on its relative quantity. It should therefore be limited to the exact increase of wealth and population; and no doubt this might easily be accomplished. All fluctuations derange the standard of value, and consequently affect the value of all the debts and monetary engagements of the whole community, and are therefore beneficial to some and injurious to others. The great changes, and especially the almost constant increase of the currencies of the different nations of the world within the present century, have no doubt been the chief cause of the growing demoralization and anarchy which appears to be spreading to a greater or less extent over all the older countries. This circumstance ought to be a warning both to statesmen and people of a still young and prosperous country like Canada, that they do not follow in the same track, and consequently fall into the same pit. In the earlier ages of the world money was necessarily composed of the precious metals; therefore it could not increase so rapidly on account of its being produced by the slow process of hand labor, and so long as its production did not outrun that of other commodities, the loss of the labor consumed was the only inconvenience to society, as the standard of value would remain steady. But, as most people are aware, in the latter end of the seventeenth century a new system of money was engrafted on the standard of the metals by the issue of bank notes to represent the value of coins. If the possibility of abuse is to be taken as a valid objection to a new monetary system, the present one ought never to have been adopted, as it has never ceased to be abused from the beginning, as witness the vast number of bank panics, and the hundreds of thousands of mercantile failures that have taken place since its establishment. The system originally gave an irresponsible power to all banks to *create* money, but that power is now restricted in most countries, and is rendered more difficult in the United States. So far as it still exists in the Dominion, it is a power to tax the people for the benefit of private individuals—a power that ought to be exercised only by the Government under the control of Parliament. Of course, as it has been stated, that money is neither wealth nor capital; an increase will neither increase wages nor profits, but it will make the necessity to labor on the part of the working classes more intense on account of the increase of prices, which will cause a lack in the usual consumption of commodities, especially of the second necessaries of life. Finally the stores and the warehouses become full of goods that would in the usual course have been consumed had it not been for the increase of prices. Then comes the crisis, the fall of prices, the bankruptcies, the depressions in trade, and the lack in the demand for labor, with all its attendant evils. The advocates of the present monetary system always pretend that bank notes have a guaranteed value because they are demandable in gold at the option of the holder, and this is supposed to sufficiently limit their circulation. This, however, has never proved effective until a run on the banks for gold had commenced. Under such experience for one hundred and fifty years, it was deemed necessary by the British Parliament in 1844 to limit by law the issues of all the banks in the United Kingdom. The Bank of England had recently been so hard pressed to keep its paper convertible, especially after the Joint

Stock Banks had succeeded in establishing themselves in London under the new law of 1833. In 1839 the Bank of England, to save herself from the necessity of suspending specie payment, had to accept a favor from the Bank of France by the exchange of two millions of gold for two millions of silver. The limitation of the issues of the banks by the Act of 1844 did not, however, accomplish the purpose designed, as the Joint Stock Banks continued to increase and to crowd into London, until their deposits amounted to something near one hundred millions sterling, supported only by ten or twelve millions of capital. The toleration of the increase of Joint Stock Banks in London was certainly one of the weak points of the law of 1844, though an act was passed in 1845 to limit their increase, and afterwards repeated, on account, it must be assumed, of its apparent unequal operation. This Act, as has been previously intimated, also admitted the free coinage of bullion, so that really, there has been no effective check to the increase of money in England through the limitation of bank issues. Now, with respect to the limitation of bank issues in the Dominion, the law appears hitherto to have been a dead letter—the issues never having reached to half the amount of the limitation, and seldom to a third of the sum of the capital. This state of things must of course limit the profits of the banks. It no doubt arises chiefly from the practice of discounting on deposits, and from the credits and transfers on the books of the banks, all of which practices limit the active demand for money, and have the same effect as an increased circulation. According to the Banking Report for January, 1879, although the paid-up capital was 58 millions, the circulation was only nineteen, and the specie something under five millions, ($4,872,056). The debts and credits of the banks each amounting to 160 millions of dollars, inclusive of all debts, good and bad, real estate, &c. What is called available assets, inclusive of specie and Dominion notes, amounting to less than twenty-five per cent. of the whole of the indebtedness. So that in the event of a sudden panic or demand for cash they could only pay about that percentage on the dollar; the gold only covering one-fourth of the notes, leaving nothing for the rest and the depositors but what might be gleaned from the general liquidation. A more unsafe and unsound system of currency could hardly have been invented, as the constant disasterous failures of the banks sufficiently testify. To assume that the present system of money is superior to a well-regulated Government currency is to assume that which both reason and experience denies. Every one knows who has happened to live in a country where a Government currency and a bank currency have circulated side by side that the former has always been preferred, as is the case at present with our Dominion notes. Within the five years ending in 1874 the banking capital of the Dominion was nearly doubled, and the deposits and the circulation was increased accordingly. The consequence was exactly that routine we have just described, an increased price of imports, a lack of the usual consumption, an era of bankruptcy, and a depression in trade, &c. It is impossible to have a better guarantee for the value of paper money than its being a legal tender in payment of debts and taxes. So long as any

Government exists, and the currency is limited to its proper quantity, its value must remain intact; and even in a state of anarchy and revolution it would continue to circulate and no one would be injured. A steady, well-regulated currency would be the greatest possible boon to society, as it would produce a regularity and confidence in trade little dreamed of at present; and that boon will become more imperative the longer it is withheld, if social order is to be maintained in large and populous communities.

There can be very little doubt in the minds of those acquainted with the subject, that a vast percentage of the misery and demoralization at present existing in all populous communities, has been caused by the ignorance of the true principles of money. The redundancy of any commodity, induces a state of things called cheapness, which reduces its exchangeable value in relation to other commodities. This is an inexorable law of trade, and money is no exception to the rule, whether it be of gold or paper; but the cheapness of money is called high prices. If money is so redundant or cheap, as to be exported to pay balances in trade, no value has been received for it. It is a gratituous offering or gift, to the countries to which it is exported; although it will be of no benefit to them, as it will again be exported on the same terms; until each country receives its equal share according to the proportionate quantity of its currency. If this view be correct, and it cannot be successfully controverted, the United States and other gold producing countries, so far as they have coined the gold and put into circulation, previously to exporting it to pay balances in trade, have been furnishing it to the world gratis for the last thirty years; and England by importing bullion and exporting coins is doing the same thing. Towards the end of the last century, when, for some time, there had been a partial cessation in the production of the precious metals, the exports and imports of all nations balanced in money values; except as a general feature of the case, the exports to a small extent, exceeded the value of the imports. This, however, was a natural state of things, as it is a notorious fact that there was at all times a considerable amount of smuggling going on, which made up the balance on the side of the imports. This condition of the exchanges remains much the same up to the present time, with all countries excepting Great Britain.

For the fifteen years just previous to the late German and French war, the exports of France on the average exceeded the imports some millions of francs; and those of Russia for the ten years previous to the same period, exceeded the imports on the average one hundred and fifteen millions of roubles annually. And it is only since the passing of the Banking Act of 1844, and the production of gold in California and Australia, that the price of English imports have so far exceeded those of her exports, One thing, therefore, appears sufficiently certain, that all trade must be balanced by the exchange of commodities produced by an equal amount of labor, all appearances to the contrary notwithstanding.

Money, of whatever it may consist, so long as it is money, it is only a medium of exchange, a mere representative of value previously contributed or produced; but not the value itself. No one wants money to consume; it is preferred only because it will command any commodity required. Its value, therefore which depends upon its quantity, should neither be increased nor diminished. If the public measures of length or capacity were continually varied, they could be no standard by which the people could buy or sell. Money in addition to its character as a representative of value, is also a measure by which commodities are exchanged; and it can only be a just or correct measure, so long as its relative quantity remains equal to that of commodities to be exchanged. For any other purpose, as far as the community is concerned, than as a mere medium of exchange, and a measure, or scale, by which the difference of values is ascertained, money is perfectly useless. Mr. Mill, speaking on this subject, makes use of the following language: "There cannot, in short, be intrinsically a more insignificent thing in the economy of society than money, except in the character of a contrivance for sparing time and labor. It is a machine for doing quickly what would have been done, though less quickly and commodiously than without it, and like many other kinds of machinery, it only exerts a distinct and independent influence of its own when it gets out of order." These deductions of Mr. Mill are, no doubt, perfectly correct; all that society is interested in, so far as money is concerned, is that it should cost as little expense as possible, and that its value should be steadfast and unchangeable.

Notwithstanding the writings of Ricardo, Chalmers and Mill have been extant for so many years on this important subject; even statesmen appear still to be as ignorant of it as ever. Governments still go on borrowing, creating debt, and an excess of money; and licensing others to do so as though the practice were beneficial, and its equity and utility had never been questioned. The only difference between borrowing and creating an excess of money, is, that in the first case is, that in addition to its utter folly as a financial measure, there is a perpetual interest to pay, unless at some future time the debt should happen to be discharged through the creation of another twice as large. In the second instance, the same burthen of high prices would have to be borne by the consumer, but in neither case, as we have explained before, would the government gain anything by the operation, as the high prices, or the cheapness of money would have reduced the value of the already existing income, so that what was gained in one way, would be lost in another. A notorious case in point of the injurious operation of an excess of money has lately occurred, which ought to be sufficient to convince all unprejudiced persons of the truth of our reasoning.

Immediately after the close of the late German and French war, the Germans received an indemnity of one thousand millions of dollars, or two hundred and twenty millions of pounds sterling. And what was the result? Let us turn to a speech in which the subject was incidentally mentioned some time after by Dr. Julius Faucher, Editor of the *Quarterly Review of Political Economy* at Berlin, speaking at the Cobden Club, July, 1875, said: "This influx of specie caused a general rise in prices; the imports have largely exceeded the exports, and the gold has returned to France by a thousand channels." Now it might be inferred from this passage in Dr. Faucher's speech that it was the bulk or quantity of imports that was increased, and not merely the prices. This inference, however, was shortly corrected by another gentleman from Berlin, a M. Meitzen, Director of Statistics in that city. He said, being in charge of the statistics of internal commerce, he well understood the facts, and he could affirm that the French milliards counted for next to nothing in the excess of imports mentioned by Dr. Faucher. This shows pretty plainly that the prices only of the imports were increased, and not the quantities. There can be no doubt that this enormous quantity of gold was very shortly again scattered over the surface from which it had been withdrawn, leaving nothing but ruin and desolation behind it. It does not, however, come within the scope of our subject to describe all the social evils consequent on this vast increase of gold money in Germany; the pauperism, the misery, the sudden transitions from wealth and affluence to abject poverty; nor to cite the laws that were suddenly passed to prevent the people from fleeing by thousands from their once comfortable and prosperous homes. All of which demoralization and misery was caused by this foolish transgression of the laws of political economy; and it may yet end in anarchy and revolution. With these facts before the world it appears singular that the delusion as to the beneficial effects of an increase of money should still be so universal. Referring again to the United States on this subject, it may be said on a rough calculation that she has produced and exported within the last thirty years at least one thousand five hundred millions of dollars in gold, which has no doubt chiefly been exported to pay balances in trade, and of course, so far, has been a dead loss to the country. The production of all this gold could have been dispensed with not only without loss, but with positive gain to the people, as whether it were kept at home or sent abroad it could be no profit to any one but those engaged in some way in its production. The evil, however, has not yet ceased. According to statistics which lately appeared in the New York *Times*, the United States has within the last five years exported one hundred and seventy-five millions of dollars in gold more than she has imported. So that the present lowness of profits and the depression in trade may easily be accounted for. It is manifest that there must be some sufficient cause for this notorious and general decline of profits in all countries which has taken place within the last few years.

As previously stated, it is a principle of political economy accepted by all writers on the subject that as the world becomes more populous there will be an inevitable tendency in profits to decline. In the earlier ages of civilization no doubt this decline moved slowly, but within the last half century, through the vast accumulation of wealth in a few hands, greatly accellerated by the factitious creation of money and the consequent accumulation of public and private debts, the interest of which must be paid out of revenue, and therefore will decrease profits. In the beginning of the century it was a well-known fact that the prices of the necessaries of life were much lower on the Continent of Europe than they were in England. So much so that the Continent was the common refuge of people of small incomes and broken down fortunes. This circumstance puzzled both Senior and Mill. They could neither of them account for it satisfactorily. Mr. Mill, after canvassing the opinion of Senior on the subject, and endeavoring to account for it in his own way, makes the following observation: "I am, however, strongly of opinion that the high prices of commodities, or the low purchasing power of money in England are more apparent than real." It is no doubt impossible to guess how Mr. Mill could have come to such a conclusion unless we fall back on a previously-expressed opinion that he did not really understand the operations of money under all circumstances. He was therefore inclined to question the existence of facts which appeared to contradict his previously-expressed opinions.

It must now be called to mind that at the time spoken of the national debt of England was larger than all the other national debts of Europe pur together. Therefore, if our deductions be correct, the prices of all commodities in England would be higher than those of other countries. This would necessarily be caused by the increased number of non-producers, supported by the interest of the debt, and the large addition of currency to pay the extra taxes and to circulate the debt. These circumstances would be quite sufficient to account for the relative high prices of commodities in England, or, as Mr. Mill termed it, "the low purchasing power of money." This will also account for the comparative low rate of profit on capital existing in England since the earlier part of the century. We have now endeavored to establish the truth of several important propositions.

First.—That capital does not consist of money, nor in mere accumulations of commodities; but in the forces, the powers, and the products of nature, assisted to some extent by the acquired skill and conveniences used in reproduction. And, further, that an addition of money neither increases the capital nor wealth of a community, but if abnormal, is a great injury.

Secondly.—That capital does not necessarily increase with the increase of population, but has relatively a tendency in the opposite direction.

Thirdly.—That the natural division of labor, both territorial and individual, requires a free exchange of commodities to reach the highest rate of profit, as labor would then necessarily be applied to the most productive sources.

Fourthly.—That all Government, or national debts, permanently reduce the rate of profit, as much as a permanent dearth on the land; and in their inception press hardest on the wages classes and those who live on fixed incomes.

Now, assuming our facts and theories to be correct, it is high time that statesmen should learn that the only true remedies for financial and economical evils will be found in a steady and properly limited currency; the constant employment of the people; a free exchange of commodities, and a total cessation from government extravagance, and the increase of public debt. Or, in other words, by adopting and practising the true principles of political economy. R. S.

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