PRODUCTION

A STUDY IN ECONOMICS

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Preface

THE root idea of this study in economics may be looked for in § 8 " The Distribution of Production," and in § 54 " The Use of Savings." The whole of the rest of the book must stand or fall as an elaboration of the views advanced in those two sections. As an incidental consequence many passages in those sections have had to be repeated in other parts of the book; and while fully recognizing the artistic objection of such a course, the author has been compelled to follow it to save ambiguity. For the rest the author can only offer his book to the public as an earnest attempt to supply a popular view of some economical and financial questions.

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CHAPTER I

Producers and Products

§ 1. The Classification of Production

PRODUCTION is the result first of all of the labour of the individual. At the same time production is greatly influenced by the division of the world into distinct and separate political communities; considered from the latter aspect, a distinction must be made between

Individual Production,
Provincial Production,
National Production, and
World Production.

These divisions will form the subject matter of the present volume, with special attention to the third subdivision, i.e. National Production As the writer is most familiar with the conditions prevailing in his native country, in Norway, he proposes to take the instances afforded by that land as the basis of the following investigations.

§ 2. How is the Population of Norway employed?

There are two millions of inhabitants in Norway. In the course of the coming year, if we suffer our mind's eye to survey the multitudinous activities of these two million people we shall find them employed very much as follows:—making use of the existing sources of wealth, the nation will produce during the year from these yet again new sources of wealth; from the cultivation of the land, already cultivated up to a certain point before the year under consideration has begun, the farmer will produce wool, leather, food; the coast dwellers will bring back fish from the sea; timber will be won from the forests, and ore from the mountains; freights will be landed from Norwegian vessels trading from foreign lands; manufacturers and artisans will spend the year in question turning the raw material into finished wares.

§ 3. What will be the Volume of Production from Norway in the course of next Year?

The Norwegian revenues from their annual activities have been computed at about seven hundred million krones per annum. That means that everything that the Norwegian nation produces next year, whether fish, timber, ore, manufactured goods, agricultural produce, together with the value of freights carried by Norwegian ships engaged in foreign trade, and the interest on foreign securities held by the inhabitants of the country, can be valued at the amount of gold that there is in seven hundred million krones' worth of gold [1] coins.

This seven hundred million krones' worth of production represents in short the sum and substance of the activities of all the Norwegian people during a period of twelve months. Taken in detail, it may be analysed thus :—

(1) Farm produce of all kinds, though not sufficient for the requirements of the nation.

(2) Fish, especially dried and salted, in greater quantities than can possibly be consumed in the country itself.

(3) Forest products, also in excess of the consumption.

(4) Iron and copper ore in large quantities, but difficult or impossible to work in Norway owing to the absence of coal.

(5) Manufactured goods of various kinds. In some cases beyond the requirements of the country ; in others where production falls far below the requirements of the country.

(6) Manufactured goods which have to be imported from abroad owing to the impossibility of producing them in Norway.

Thus it will be seen that this seven hundred million krone revenue which the writer ascribes to one year's activity on the part of the Norwegian people includes exports and imports as well as home products consumed at home.

§ 4. What will the Norwegian Nation fail to Produce next Year?

In addition to the articles of food and manufactured goods mentioned in the preceding paragraph, of which Norway next

[1] A Norwegian krone equals 1*s.* 1½*d.*

year will produce too little, there are other necessaries which the country itself does not produce. Of such may be mentioned :—

Coal, salt, dyes, cotton, wine, tobacco, coffee, tea, sugar, etc.

§ 5. The True Producers

The next point to investigate is: To which of the country's two million inhabitants will the production amounting to 700 million krones next year owe its existence? In the first place must be mentioned the owners of cultivated land, forests, mines, stone-quarries, factories, etc. Together with these may be classed artisans, such as bakers, tailors and shoemakers, as also those who fit out expeditions to the fishing-banks in the sea round the country's shores. All these persons are the true producers.

The greatest number of them will be men, but there may also be women among them.

§ 6. Their Assistants

If the true producers were dependent on themselves alone, the production would not be large, and would attain only to a fraction of seven hundred million krones. They must have assistants. And it is in this capacity that a very considerable proportion of the two million inhabitants of the country act. The assistants give their aid either directly or indirectly. They too include women as well as men.

Direct aid in production is given by engineers, hired fishermen, field-labourers, journeymen, factory hands, etc. Of these also, a certain proportion are women.

Indirect assistants do not take part in the actual production of next year's seven hundred million, but nevertheless contribute to its promotion by their labours. The following enumeration of the various classes of such assistants is not exhaustive. Among the producer's most important indirect assistants are all persons engaged in the distribution of the products, such as traders with their assistants, ship-owners, owners of railways, of telegraph and telephone lines, with all their subordinate seamen, railway officials, etc. With these might perhaps be classed all who hold office in banks and the post-office. Capitalists also co-operate in the development of production. The country needs their stored-up savings in order to be able to produce. A number of capitalists, moreover, are active co-operators in the service of production. A by no means unimportant part as indirect assistants in production is taken by women whose duty it is to keep their house in order, provide food and comfort for the producers with their other assistants. This is work that falls to the wives with their male and female servants. Without their co-operation, the producers with their assistants would have to perform the women's work themselves, and production would diminish. In this connexion may also be named the numerous individuals employed in hotels and restaurants, who act a similar part for those producers who either temporarily or permanently possess no home. We then come to servants of the State, to the army, the navy, the police force, and all other public officials. It is the duty of all these to see that the other members of the nation can each undisturbed give his attention all the year through to the task of production allotted to him. The school might be called another kind of indirect aid to production, inasmuch as it trains the rising generation to fill the place of retiring producers and assistants, and keep up their number, thus preventing any diminution in production from want of co-operators. The labours of men of science tend in the same direction ; indeed even authors and artists, such as painters, sculptors and musicians, may be classed among the producers of next year's seven hundred million krones, strange though this thought may at first sight appear ; for by elevating the taste of the producers, and brightening their existence, the authors and artists strengthen the productive power of the country, and thus become indirect participators in the labour of production. It is obvious that medical men and lawyers cannot be dispensed with ; from them also production receives indirect aid.

§ 7. The Minority which has no Part in Production Direct or Indirect

The greater part of the two million inhabitants certainly belong to the classes of producers and assistants ; but a minority of no inconsiderable size has nothing to do with production, and takes no part in the work of effecting it.

This minority is composed principally of children, whose time for production has not yet come. In addition to these, there are the unemployed, who are idle either through their own fault, or for want of work, arising from a too rapid increase in the population, or from over-production. Lastly may be mentioned those who, on account of age, disease of mind or body, etc., are unable to work.

CHAPTER II

How Production is Distributed

§ 8. The Characteristic Features of the Distribution

Next year's seven hundred million Production belongs to the producers and their direct and indirect assistants. These altogether, producers and assistants, form the great majority of the two million inhabitants of the country. The seven hundred millions therefore belong virtually to the whole population which by it has to maintain life. In other words the products valued at seven hundred million krones constitute the nation's actual income next year. And the money that to the amount of seven hundred million krones is paid out to the inhabitants of the country is only one of the vehicles used for distributing production among its owners, i.e. the producers.

The distribution of next year's production of seven hundred million krones will take place in the main in the following manner. The producers ought really to divide the production among themselves and their assistants, but cannot undertake this task, and so leave it in the hands of intermediaries, the mercantile class. The producers in consequence take the production to the traders, and receive gold in exchange, which gold they distribute among themselves and their direct and indirect assistants. The traders thereupon make a partial exchange of the seven hundred million Production with foreign wares. When this is done, the producers again make their appearance at the traders', this time together with their direct and indirect assistants, all bringing with them the gold received from the traders and repurchase from the traders with this gold the seven hundred million Production in its new, altered form. No one repurchases his own products; each turns to the products of other producers, and selects what he especially requires.

§ 9. *Gold and Notes*

When stating above that the producers receive gold in exchange from the trader, which gold is subsequently brought back by the producers and their assistants—i.e. the nation—to the traders for the repurchase of the production, it is not intended that the word "gold" should be understood quite literally. Gold is not always forthcoming; it is left in the note-issuing bank, and notes that can be exchanged for gold in that bank are used instead. In some countries both gold coins and notes circulate through the hands of the people. In other countries, the inhabitants do not care to carry gold about, but immediately pay any gold coins that may have found their way into their hands, into the note-issuing bank. Among this kind of nation we may class the two million persons with whom this work is concerned. When their traders receive the seven hundred million production in return for gold, they give the producers instead of gold, bank-notes exchangeable for gold at the note-issuing bank; and when the producers and their assistants subsequently repurchase the production, they return these notes to the traders. They all wish to be spared the trouble of carrying the gold about with them, and willingly take notes instead, satisfied with the knowledge that at any time these notes can be exchanged for gold at the note-issuing bank.

§ 10. A Producer's Distribution

Among the country's producers were mentioned the owners of forests, or, as they may also be called, timber-producers. As a producer of this kind fells trees in his forest, the timber takes its place among next year's seven hundred million Production, and becomes a part of it. As quickly as possible he passes the timber on to the traders, and receives their gold in return. It is assumed that the gold is afterwards employed in repurchase of his production, though not exactly of his identical product, timber, but anything else out of the seven hundred million production. He keeps some of the gold himself for the purpose of repurchasing what he himself requires of the seven hundred million Production; the rest of the repurchasing gold he gives to his direct and indirect assistants, so far as they are entitled to share.

Among his indirect assistants we reckoned in a previous paragraph his wife, and his male and female servants. The repurchase from the seven hundred million Production for himself and his household is to some extent made jointly. With some of the gold he repurchases from the seven hundred million Production what he, his wife, children and servants require in the way of food, etc. This is given to the children as a gift, but to his wife and servants as a part of what is due to them as each one's share in the seven hundred million production, in return for the indirect assistance they gave him in bringing forth this production. The rest of what is due to them of his share for their assistance, they repurchase themselves with repurchasing gold given them by the forest-owner for that purpose.

It would be difficult to enumerate all his other assistants. wood-cutters, timber-carters, and the like, who receive a considerable amount of the repurchasing gold which the traders gave the forest-owner in return for his timber.

The forest-owner also gives a large portion of this gold to his indirect assistants. Some of them, namely his household, have just been mentioned together with himself, as they live in the same house. As other indirect assistants may be mentioned owners of railways, steamships, and telegraph lines, and further, the Government of the country, its Civil Servants, army, fleet, scientific men, artists, and innumerable other persons. Each of them receives his portion of the repurchasing gold given him by the traders.

When the forest owner's assistants, other than his household, have received their gold from him, they can use it to repurchase corresponding shares from the portion of the seven hundred million Production which he and they between them have contributed to the wealth of the country. And they will make this repurchase either themselves or through their agents. On this point the writer proposes to add more in the next paragraph.

§ II. When the Producers have shared the Gold with their Assistants, the latter will proceed to make a fresh Distribution among themselves

On the handing in to the traders next year's seven hundred million production, the producers receive seven hundred million krones' worth of repurchasing gold from the traders, gold which—if it may be so expressed—is entitled to repurchase the production from the traders. The gold is divided by the producers among themselves and their assistants. Some of it passes also straight from the traders to the producers' assistants ; but for the sake of convenience, we will for the present leave this out of consideration. The greater part, at any rate, of the seven hundred million krones' worth of repurchasing gold is handed over by the traders to the producers, and is distributed by the latter among their assistants, to the extent to which the assistants may be entitled. This distribution, however, is only to be considered as temporary. When the innumerable individuals that have given direct or indirect aid to the producers in the creation of the seven hundred million Production have received the gold from the producers, they will proceed to make a new distribution among themselves. The result of this new distribution will be that many who received little or no gold direct from the producers, will nevertheless, when the distribution is at last concluded, find themselves the possessors of large portions of gold, entitling them to the repurchase of corresponding products from next year's seven hundred million production. On the other hand the reverse may also occur. The reason why the producers' direct and indirect assistants make fresh distributions among themselves, thus constantly changing the ownership of the gold, is this. Many of this class do not limit their labours to giving assistance to the producers, but also do mutual services to one another, for which a return is expected. The medical man not only gives his aid to the producers, but also to their assistants, the working-man, the engineer, the solicitor, the Civil Servant and all his other fellow-citizens. They are to some extent indebted to the doctor's assistance for their ability to take part in the production ; and thus the doctor also becomes an indirect sharer in the seven hundred million Production. As a return for his participation, the doctor may demand of them a little of their share in next year's seven hundred million Production ; but as this share in the meantime is not paid out to them in kind, but in gold entitling them to repurchase the products lying in the stores of the traders, the doctor must also take gold of them for his visits. A new distribution of gold has taken place. And in a similar manner, in numbers of other cases, gold is given by one assistant to the other, until finally an assistant takes it to the trader to repurchase wares.

It has now been explained how the medical man obtains his share of next year's production, of which the value is seven hundred million krones. In the succeeding paragraphs it will be seen how other classes of producers and assistants obtain their share in the division of the production.

§ 12. Distribution to Civil Servants

Well-regulated conditions of social life form one of the indispensable adjuncts of production. The existence of peace and order is due to a very great extent to the country's Civil Servants. In this way Civil Servants become the indirect assistants both of the producers and of the rest of the population in the labour of creating next year's seven hundred million Production, and can lay claim to a fraction of this production. A police-inspector, to take a single instance, becomes part-owner in the year's production to the amount of as many products as correspond in value to the amount of his salary; that is, to the sum of money he receives as salary. The products are not, however, delivered to the Government officers direct from the producers, but are fetched by the Government officers, who give in return repurchasing gold or bank-notes.

How do the Government officers become possessed of this gold, these bank-notes?

It has been said that the timber-producer gives some of his repurchasing gold to the Civil Servants; but it remains to point out in what way the gold is given. Any direct delivery of the gold or bank-notes from the producer to the Civil Servant is out of the question; the money goes in a more or less roundabout way from the pocket of the one to that of the other. When the seven hundred million krones of repurchasing gold has been delivered by the traders on receipt of next year's production, to the producers, and by them distributed among themselves and their innumerable assistants and assistants' assistants, a portion of the gold is taken and handed over, under the name of taxes, to the Government. Of this gold, which is handed in by the producers and their assistants, and is entitled to repurchase corresponding products from the seven hundred million Production, a part is paid away by the Government in salaries to its officers, who, on returning the gold to the traders, receive products in exchange.

As the whole nation must pay taxes, Government officers are also not exempt; therefore some of the gold handed over to them for the repurchase of those products which are due to them for their co-operation in next year's production, is deducted as taxes, to be employed for other public objects.

§ 13. Distribution to Pensioned Civil Servants

When Civil Servants retire on account of old age or illness, their co-operation in production ceases. But though now non-workers, they still continue each year to be part-owners in the year's production. The reason of this is that it has come to be recognized that while they worked in the capacity of Civil Servants and indirect assistants in the production of past years, they did not receive as much as their work was worth. Consequently it is considered just that they should participate in the production of future years, after they themselves have ceased to take any part in it.

Under the name of "pension," the Government pays out to them annually from the taxes repurchasing gold, with which they can, by exchange, obtain from the traders, products from the seven hundred million production.

§ 14. Distribution to the Clergy

Clergymen and other preachers of Christian truths occupy a peculiar position. They do not work in the service of production, but can nevertheless lay claim to the possession of a part of the seven hundred million production. On account of their high calling, it is the duty of their fellow-citizens to make them joint-owners in the seven hundred million Production when divided. Either in the form of offerings, or sometimes from the taxes paid to the authorities, repurchasing gold is given to each member of the clerical order, with which he obtains corresponding goods out of next year's seven hundred million Production.

§ 15. Distribution to Railways

Two functions are demanded of railways. They afford a quick and convenient way of travelling from one place to another. Besides enabling producers and their assistants to meet one another for business purposes, the railway has become a necessity of life to a number of people, without which they could hardly take part in the work of next year's seven hundred million Production. What, for instance, would become of the suburbs of great cities, if the railways to the centre of the city were suddenly to cease to exist? Their inhabitants, in such an event, would have to give up their dwellings, and seek work elsewhere. The case is somewhat different with regard to pleasure-trips. Do the railways there too co-operate in the development of next year's seven hundred million Production? The question must be answered in the affirmative. By giving opportunities for such trips, the owners and officials of the railways contribute towards the mental and physical renewal of the producers, increasing their vital power and their ability to produce. In this case the railway occupies a position similar to that of a number of individuals whose efforts are directed towards the promotion of the personal well-being of the producers and their direct and indirect assistants when engaged in the creation of the production. Of assistants such as these, domestic servants have previously been especially mentioned.

The second function of the railway consists in the conveyance of products between different places. It will easily be understood, without further explanation, how largely the railway thereby contributes towards the development of the production.

For this twofold indirect assistance in the creation of next year's seven hundred million Production, a part of the production belongs to the railways, to the owners and officials of the railways. From every traveller, whether on business or for pleasure, and from every person interested, as sender or receiver, in the transit of goods, the railway can claim a proportionate fraction of his part of next year's seven hundred million Production, now in the hands of the middlemen, whom we have mentioned as merchants or traders.

How do the owners of the railways and their officials obtain their share? In the following manner:—When the producers have received from the traders seven hundred million krones of gold for next year's production, they retain a portion of the gold for themselves, while the remainder finds its way to the rest of the population. Let us imagine the railway owners and officials as apart from the rest of the nation. Every producer and every other inhabitant of the country who wishes to make use of the railway, takes it some of his gold, that has the power to repurchase goods from the seven hundred million Production in the hands of the traders. With this gold he obtains a ticket, if he intends himself to travel by rail, or pays carriage with it, if it is his wish to have goods conveyed to another place. With part of this gold, the railway board order the repurchase from the seven hundred million Production of articles necessary for the working of the railway, e.g. coal, which is then consumed by the railway. The rest of the gold is divided among the owners of the railway, its engineers, clerks, conductors, and all its numerous officials.

§ 16. Distribution to Artists and Authors

The place assigned to musicians and actors among the indirect assistants of the producers has already been referred to. Their contribution towards the creation of next year's production, which a little further back was put at a value of seven hundred million krones' worth of gold coins, was said to consist in improving the taste of the nation, and beautifying existence by their art, thereby strengthening the producing capabilities both of the producers, their assistants, and their assistants' assistants. Every one who is present at their performances, leaves for them some of his repurchasing gold, in return for which they can obtain from the traders their share of the seven hundred million Production.

Painters, sculptors and authors must be placed in the same category as musicians and actors. They all, from the painter to the actor, desire to awaken a sense of the beautiful in those around them, to refresh their minds, render each of them more fit to work at his calling. Thus far they can all be regarded as the producers' indirect assistants ; but there the similarity ceases. Musicians and actors seek to attain their object by tones and spoken words, which vanish the moment they have been uttered. There is no visible sign left by their work. This is not so, however, in the case of painters, sculptors and authors. As results of their work, we have paintings, sculpture, and printed bound books, something to take hold of and feel. They therefore occupy a twofold position. Besides giving indirect assistance to the producers, they themselves act as producers. Their productions form a part of next year's seven hundred million Production, and are taken together with it to the traders—in this case art dealers and booksellers—in exchange for repurchasing gold, giving them the power to repurchase out of the seven hundred million Production at the traders', to the extent of the value put upon their own production.

In saying in connexion with this class of producers—painters, sculptors and authors—that in addition to their own independent production, they also acted as the indirect assistants of other producers, it should be remarked that this combination is not peculiar to them alone. We meet with the same conditions in many other departments of life. It is only necessary, in this connexion, to point to the producers of raw products, who, while independent producers of these products, at the same time act as indirect assistants to the manufacturers who work up the raw material.

§ 17. DISTRIBUTION TO SHIP-OWNERS AND SEAMEN

As we have already remarked incidentally, it often happens that products cannot be consumed upon the spot where they are produced, but must be sent to other parts of the country for exchange with products of those parts. In very many cases this transportation is effected by sea. Ship-owners and their sailors undertake the transportation. Goods forming part of the seven hundred million krones' production of the country, are carried by the ships backwards and forwards between the various seaport towns of the country, or from the coast districts to some town. In this way the ship-owners and sailors render active assistance in the country's production; for if the producers could not get their goods sent over the sea to be exchanged with other goods, their production would diminish, and in certain cases cease altogether. In return for this indirect assistance given to the producers, the ship-owners and their seamen become part-owners in the production of the country.

According to the rule previously laid down, the division of their share among them should be as follows:—After leaving the production with the traders in exchange for seven hundred million krones of gold, the producers gave a part of this gold to the seamen, who could, with the gold, repurchase their share from the traders, selecting what suited them best. But this rule, that the distribution of the gold is made by the producers, has its exceptions, and we meet with one of the exceptions here. The distribution of gold to ship-owners is seldom made by the producers, but is undertaken by the traders. The latter, when giving the repurchasing gold to the producers, retain some of the seven hundred millions, and give it direct to the ship-owners as freight, as it is called in mercantile language. The ship-owners keep some of the gold for themselves, repurchasing therewith their own desideratum of the seven hundred million Production from the traders. With another portion of the gold they obtain from this production such articles as are needed for the maintenance of the ship, or as necessaries of life for the sailors during the voyage. The rest of the gold they give to the sailors to be employed by them in the repurchase of anything that they may desire.

§ 18. The Share in Production given to Holders of Securities

How persons who become holders of home securities thereby promote their country's production has been briefly indicated (Section 6 *supra*). The subject is further dealt with in a later chapter (The Protection of Labour against Foreign Competition). Here it may suffice to notice the fact that possessors of securities of their own country are entitled to claim a share in the distribution of next year's seven hundred million Production. They consequently receive some of the gold that the traders give to the producers for the seven hundred million Production, and with this gold they repurchase their share of production lying at the time in the hands of the traders.

If the persons in question are holders of foreign securities, they will participate in the foreign country's production next year. They can claim from the foreign country gold entitled to repurchase corresponding products from that country's production next year.

§ 19. How do the Traders obtain their Part of the Production?

Among the assistants of the producers, the traders and their subordinates occupy a very prominent position, concerning which the reader is referred to the preceding pages. In return for their assistance, they can claim a share in the production of next year, valued at seven hundred million krones of gold coins.

As already stated, the other classes of society become possessed of their share by the division among them of the gold received from the traders in return for the production, this gold being intended for the repurchase of the production when in the hands of the traders. As regards all those in particular whose work consists in giving direct or indirect assistance in the course of the production, the gold is paid out to them in the form of salary or wages. This gold they give back to the traders, and in this way repurchase their share of the production. The traders are also assistants in the production; but gold is not paid to them as salary or wages, to enable them to repurchase with it their share of the production; the products due to them are assigned to them in another way.

The traders' share of next year's seven hundred million Production is already in their hands; it was brought to them together with the shares of the other classes of society, the total bulk of which is worth seven hundred million krones. How are the traders to separate those products that fall to their own share from the products belonging to their fellow-citizens?

In order to carry this separation into effect, the traders make use of two valuations. On receipt of next year's production, the traders value it at seven hundred million krones, and give the producers seven hundred million krones' worth of gold in exchange. When the producers and their assistants subsequently appear with the seven hundred millions of gold for the repurchase of the production, the traders take all their gold, but do not give them back the whole of the production. They give the producers and their assistants, let us say 95 per cent. of the production, declaring that this 95 per cent. has now the same value as the whole 100 per cent. formerly had, namely, a value of seven hundred million krones. The producers and their assistants submit to this new, higher valuation; they owned 100 per cent. of products, and divide the 95 per cent. of them among themselves, giving 5 per cent. of products to the traders for assistance given in the distribution of the 95 per cent. In this way the traders have compounded with the other classes of society; they keep the difference of 5 per cent. of the products themselves as their share of the seven hundred million production.

No other way of letting the traders have their share of the production would be possible, and therefore the following remarks are merely of theoretical interest, and of no practical importance. If the traders were also to receive gold for their trouble in the form of wages, and engaged not to take profits on the sale, then only one valuation of the production could be used. This valuation would then be, instead of seven hundred millions, about 5 per cent. higher, e.g. seven hundred and thirty-five millions. This amount the traders would have to give to the producers on receipt of next year's production; and gold would then go from the producers to their assistants the traders, to the amount of thirty-five million krones. When all had repurchased with their seven hundred and thirty-five millions of gold the production lying in the hands of the traders, the traders would obtain about

5 per cent. of the products for their thirty-five millions of gold, and the rest of the community, with their seven hundred millions of gold, would have the remainder, or about 95 per cent. of next year's production. The result would thus in both cases be the same; but as the last-named method, with fixed wages to the traders, would be exceedingly unpractical and waste much time, no one has ever thought of employing it.

It should here be pointed out that in speaking of the producers and their assistants, in the preceding pages, as repurchasing the seven hundred million Production from the traders, this, according to the explanation now given, is not to be understood quite literally. In reality the producers and their assistants do not repurchase the whole of the seven hundred million Production with their seven hundred millions of gold; they repurchase it with the traders' own share deducted. It would have been more correct to have always considered both the traders' purchasing price, seven hundred, and their selling price, seven hundred and thirty-five; but our reason for nevertheless preferring to mention always only one price, and choosing for that the figure seven hundred, was that this account would loose in clearness by the addition of too many details.

We now come to the traders' subordinates, engaged in their offices, warehouses, shops and work-places. All these subordinates obtain their share of next year's production, just as the other classes of society do theirs, except that the gold for their share of next year's production delivered to the traders, does not pass from the traders to the producers and thence to the traders' subordinates, but is paid to them direct by the traders, whereupon they repurchase with the gold their share of the production from the traders.

§ 20. In many Cases the Distribution of the Production takes place without the Intervention of Traders, and without the Employment of Gold

In order to supply themselves with some, if not with all, of the necessaries of life, the farmers, fishermen, artisans, manufacturers and forest-owners, with their subordinates, will take a portion of next year's seven hundred million Production for their own use. For this portion, neither traders nor gold is required. If a farmer next year in his own house, with his servants and labourers, distributes and consumes some of the produce of the farm, this distribution naturally takes place without resort to the assistance of the traders and gold. But what certain producers thus use of their own production for themselves, will, taking the whole together, amount to only a small portion of next year's production.

Sometimes only the services of the traders are dispensed with, but the gold is employed in the distribution of the production. Owners of large factories, of mines, forests, etc., do not make use of this method of distribution, which would give them too much trouble, and prove impossible in practice. It is principally farmers, especially if they live in the vicinity of a town, and artisans, who will often find it useful to do without the traders. Thus take a farm, which produces almost exclusively milk. When the owner, together with his nearest assistants, has consumed some of this milk, there will every day in the coming year be a considerable quantity of milk left, which will form the principal source of income for himself and his direct assistants next year. On the other hand let us suppose among the dairy farmer's neighbours a manufacturer of sulphuric acid, an article which also forms a fraction of the seven hundred million Production, and represents the whole annual income next year of the manufacturer and his direct assistants, and the partial income of his indirect assistants. Now if both the farmer and the sulphuric acid manufacturer proceed in the ordinary manner by employing the services of the traders, the following would be the result :—They would both take their products, milk and sulphuric acid, to the traders, receiving gold in return, which entitles them to repurchase from the seven hundred million Production, each possessor of gold choosing such products as suit him best. The sulphuric acid manufacturer, with his gold, will repurchase, not the sulphuric acid, but to some extent the milk. The farmer again, will also make his repurchase, but he will not take the milk, nor yet the sulphuric acid, as before selling to the traders he has already deducted all the milk he needs, and he has no use for the sulphuric acid on his farm.

This is the course the matter would take if the farmer employed the dairyman, and the manufacturer some other tradesman. Let us now imagine that one of them, the farmer, disregards this rule and sells direct to the consumers. The case then becomes as follows :—The farmer will daily send his milk-cart from house to house in town. The heads of these houses may occupy various positions; one may be the very manufacturer of sulphuric acid, who has taken his sulphuric acid to the trader and received repurchasing notes in return. Another may be a doctor or a lawyer, a clergyman, an officer, a sculptor, etc. In order to simplify the matter, we will confine our attention to the manufacturer of sulphuric acid. The farmer might now barter his milk with the manufacturer for sulphuric acid; but he does not, for though the manufacturer can utilize the other's product, milk, the farmer has no use for the manufacturer's sulphuric acid. This product is therefore placed by the manufacturer in the hands of a trader in return for repurchasing gold, to which is attached the right of repurchasing the sulphuric acid or anything else from the trader's stock that he may wish for. Instead of going himself with the gold to the trader, and repurchasing a corresponding amount of the seven hundred million Production, the manufacturer of sulphuric acid will give it to the farmer for milk. The farmer then takes the manufacturer's gold to the trader, and repurchases with it the manufacturer's products, not in the form of sulphuric acid, but of such goods as suit himself.

If an artisan sells his products direct to the consumers without the intervention of the traders, the case will be similar. The tailor makes clothes for a paper-manufacturer. The exchange is effected by the tailor delivering the clothes and receiving in exchange notes entitling him to the repurchase of a similar amount of the paper-manufacturer's share in the seven hundred million Production taken by him to the traders.

In each of the above cases it was only one of the producers who, contrary to the general rule, passed the trader by. Instances in which both the producers do so, and barter their products, are exceptionally rare.

§ 21. Only a small Part of Production is distributed by Barter

We have endeavoured to explain in the preceding paragraph how sometimes certain producers either do not employ gold and traders, or, if they use gold, at any rate do without the intervention of the traders in the distribution of their production. The amount which in this way does not pass through the hands of the traders, is, however, presumably only a fraction of next year's production, of which the value is assumed in § 3 to be equal to seven hundred million krones in gold coins. We will here, at any rate, disregard these exchanges without a middleman, and continue as heretofore to consider the whole of next year's seven hundred million Production as distributed by the aid of gold and the agency of the traders.

CHAPTER III

Gold

§ 22. What are the Properties requisite to a Medium of Exchange?

It was mentioned in § 8 that the producers in the country with which we here have to do, will next year take their seven hundred million krones' Production to the traders, receiving gold in exchange to divide among themselves and their assistants, and to be employed in the repurchase of the production in somewhat altered form. This process is repeated in every country in which civilization is at all advanced. The producers everywhere part with their production and take gold in exchange.

What can be the reason that the owners of these products will always be found willing to take gold in exchange for their production? A complete understanding of the circumstances will only be attained by the investigation of the purely technical side of the question of the employment of gold as a medium of exchange, and especially of the properties and coining of the medium of exchange. This will be made in the present and succeeding paragraphs.

To be suitable as a medium of exchange, a substance must be of uniform quality. Each fraction of the medium of exchange must be exactly similar in quality to all the other innumerable fractions of that medium scattered over the country. Every one who is about to receive one of these fractional parts, must feel assured that it possesses exactly the quality that the medium of exchange ought to have, or he will not accept it.

Furthermore, the medium of exchange must be easily divisible, and when divided, must with equal ease admit of being put together again. If first the division, and then the joining together of the divided parts, were to occasion any trouble, no one would have anything to do with it.

Again, the substance must be clean and imperishable. If it were not, who would touch it? No one would care to accept a greasy or decaying medium of exchange.

The medium of exchange must not take up much room, which is another way of saying that it must consist of a natural product that is sufficiently rare to be of high value. If, as medium of exchange, a very bulky substance were chosen, it would be so difficult to manipulate that most people would hesitate about taking it in exchange for their product.

No substance that cannot also be used for other purposes could be taken as the medium of exchange, for no one would part with valuable things, and take in exchange an utterly useless substance that cannot be employed in any other way.

The substance, to speak more correctly, must not only be capable of being put to other uses, e g. for the making of implements, but at the same time be much sought after by mankind; for any one who accepts a medium of exchange, intends, as a rule, to part with it again. He will very seldom be able to employ the substance for his own personal use. If he nevertheless accepts the substance in exchange for his products, he does so solely in the confidence that he will easily be able to exchange it with some one else for things he really requires. He must be certain that he will subsequently easily be able to pass the substance used as medium of exchange on to others. This, however, he can only expect to do if the medium of exchange is not only capable of employment, e g. for the making of implements, but also possess a great power of attraction for every one.

§ 23. WHAT OBJECTS POSSESS THE PROPERTIES REQUISITE TO A MEDIUM OF EXCHANGE?

There are few things that possess all the properties now enumerated as requisite to a medium of exchange. If we consider substance after substance, we shall find the greater number of them incapable of employment as a medium of exchange. To take one instance, sweet oil would not do at all for this purpose. It is true it is easily divided, and can be used for various purposes; but it lacks the other enumerated qualities. It is not uniform in quality, its contact soils, it evaporates, takes up a large amount of space, and is not greatly desired by any one, at any rate when it is a question of small quantities. The same may be said, more or less, of almost all other articles. To all of them there are a greater or smaller number of defects attaching. Wood, cultivated land, provisions, and iron, are all useless as mediums of exchange. Imagine anything so absurd happening, as that when the producers next year delivered the seven hundred million Production to the traders, they were to receive the answer that henceforward sweet oil was to do duty as a medium of exchange! It is clear that in such a case the producers might just as well keep their seven hundred million Production, as part with it to the traders in exchange for enormous quantities of sweet oil.

In reality, there have been discovered hitherto only two, or at the most three, substances suitable as mediums of exchange. By the third we mean copper, which, however, does not altogether fulfil the conditions, e.g. with regard to cleanliness, smallness of compass, and high value. Copper therefore is little used for the purpose in question; it is really only gold and silver that are used to any great extent.

§ 24. Silver as a Medium of Exchange

Until lately, silver occupied a prominent place as medium of exchange. On account of its beauty and immutability, it was found eminently suitable for making into numerous objects used in everyday life. As it does not belong to the metals that occur in great abundance, the supply was comparatively small, and at any rate far below the demand. Silver thus fulfilled the two important requisites for a medium of exchange, first by possessing the high value which makes it much sought after, and removes all fear in the receiver of being obliged to keep it longer than it is of any use to him, and in the second place by occupying a small space and being fairly easy to handle. By degrees this condition of affairs became somewhat altered. By the discovery of new silver-mines, and by improved methods of working them, quantities of silver were annually produced. Both the producers of silver and previous owners of the metal were obliged, as time went on, to offer an ever increasing amount of silver in exchange for the very same article. The amount of silver which, about seventeen hundred, was sufficient to buy a horse, had to be more than doubled one hundred and fifty years later, in order to purchase a horse of similar quality. In other words, silver became less sought after, and, as a medium of exchange, larger in compass, inasmuch as its purchasing power diminished. These changes, however, have only reduced, and not altogether removed, the two properties under discussion, which formerly made silver so well fitted to be a medium of exchange. It is still largely used in many places for this purpose.

§ 25. Gold as a Medium of Exchange

Gold is in no respect inferior to silver, but rather surpasses that metal in its excellent properties. As a material for such articles as are wrought by goldsmiths, nothing can be compared with gold. Articles made of gold are sought after by everybody who can allow themselves such a luxury; and the demand for gold for this purpose has therefore always been very great. On the other hand, gold, as a natural product, exists only in small quantities. While iron is found in a great many places, and in coherent masses so large as sometimes to approach the size of a mountain, gold is of comparatively rare occurrence, being found either as grains in sand and in certain kinds of stone, or, in exceptional cases, in nuggets. As contrasted with the great demand, the supply has always been small; and gold has therefore long been considered the most valuable metal. Formerly one kilogramme [1] of gold was exchangeable with about fifteen kilogrammes of silver, if I recollect rightly. With regard to the uniform quality of gold, and the ease with which it can be divided, the reader is referred to the succeeding paragraph. As regards cleanness, durability, and smallness of bulk, gold fulfils all requirements. With all these excellent qualities, gold should be peculiarly well adapted for employment as a medium of exchange.

The reason why for so long no progress was made in the employment of gold for this purpose can only have been that the gold was produced in such small quantities. In later times, a great change has taken place in this respect. By degrees the quantity of gold found increased so much that during the last century that metal became more and more generally used as a medium of exchange. If I am not mistaken, England was the first country to adopt the gold standard, and reduce silver to a token coinage. Several other countries have since followed the example of England.

The conversion of silver into a token of currency, together with its rapid production, has occasioned a fall in the value of that metal. At the present time (autumn of 1901), one kilogramme of gold is said to be equal to about forty kilogrammes of silver and twenty thousand kilogrammes of iron, the metal

[1] A kilogramme equals 2·2046 lb.

most utilized by man. If three heaps were placed side by side, one consisting of gold, the second of silver, and the third of iron, all of equal value and exchangeable one with another, the iron heap would be about twenty thousand times, and the silver heap forty times greater than that of gold. As a medium of exchange, which is intended to pass from hand to hand, must occupy as little space as possible, these three numbers show in the first place the impossibility of employing iron as a medium of exchange, and also the superiority of gold over silver for that purpose ; but it also appears from the three figures, how exceedingly valuable gold is, a circumstance which fully insures every receiver of gold against being obliged to keep it longer than it suits him to do so. Against this it may, it is true, be urged that if there were an over-production of gold, and as a consequence neither goldsmiths nor the Mint could entirely absorb it, gold must then fall in value. If an increasing supply of gold such as this were to assume dimensions sufficiently large to hinder the receivers of the medium of exchange, gold, from parting with it at any time and in any quantity, it must be confessed that the gold, in such a case, would have lost perhaps its greatest merit by being employed as medium of exchange. But this is only a vague possibility ; there is at present no reason to fear that the production of gold will exceed the demand ; and moreover, we have witnessed in the case of silver in our own day a parallel instance, from which reassuring conclusions may be drawn as to the chance that gold might lose its attraction for men, if it were to happen that too much gold was actually produced. When silver, of late years, came in many places to be no longer used as a medium of exchange, immense quantities of silver coins were melted down into bars and offered for sale ; while at the same time the large output of silver was going on. These circumstances have naturally, to a certain extent, had some influence on the value of silver, which, compared with gold, has changed from the proportion of fifteen to forty. But even the value-proportion forty is a very fair one. Silver, in spite of its unfortunate circumstances, is still so much sought after that forty kilogrammes of it can be exchanged for twenty thousand kilogrammes of iron. If any depreciation of gold were to take place, it may be taken for granted that in such a case gold would not be a greater disadvantage than silver is after the most recent events. At any rate, gold occupies for the present incontestably the first place as a medium of exchange ; and no one need have any fear of not being able to get rid of gold received.

§ 26. Gold Coinage

When products are exchanged for gold, the manner in which the exchange is done is not, as we know, that the owner of the gold cuts off a piece, weighs it, and hands it to the owner of the products in return for his wares. This old custom has long since been given up. In our day, the State undertakes both the cutting off and the weighing, and even guarantees that the gold is of the right quality. Pure gold—to begin with the quality—hardly admits of being used as a medium of exchange. In its unalloyed condition it is said to be too soft. In every country, therefore, a little copper is melted in all gold intended for use as the medium of exchange. To the best of my recollection, in England one part copper is mixed with eleven parts gold, and in other countries one part copper with nine parts gold. In order to ensure there being the proper quality in all the gold employed as the medium of exchange, and also to be able to give the inhabitants of the country their gold cut up into small pieces all of the same weight, every state has forbidden private persons to engage in that kind of gold-working, and has reserved it for the public mints. The gold is not literally cut up there, but is made into small, round discs, provided with various signs, by means of which the holder can ascertain the weight and quality of the gold disc. These gold discs are called coins.

Besides the general designation of coins, the various countries have sometimes given their own gold pieces a separate name. Among these, the names ducat, louis d'or, and napoleon, are now scarcely used; but sovereigns, eagles, double-crowns, imperials, twenty-krones, etc., are still spoken of. The difference in their relative size does not, at the first glance, appear very great. From one kilogramme of fine gold are made—

124 twenty-krone pieces,
136½ sovereigns,
139½ twenty-mark pieces, or
172 twenty-franc pieces,

so that 124 twenty-krone pieces are equal to each of the three succeeding amounts of gold pieces. A Scandinavian twenty-krone gold coin may, as follows from the above, be considered as a cut-off piece of gold, always of the same quality and weight, both weight and quality being ascertainable by a glance at the exterior of the gold piece. By glancing at the stamp, any one can at once see that the gold piece consists of $\frac{9}{10}$ of pure gold, mixed with $\frac{1}{10}$ of copper, and that its weight of pure gold is about $\frac{8}{1000}$ kilogramme, or more accurately, 8·0645 grammes. But instead of simply calling the gold piece $\frac{8}{1000}$ kilogramme of gold, it is called a twenty-krone piece. This lump of gold is not called $\frac{8}{1000}$ kilogramme of gold, but twenty krones. Instead of employing the ordinary designation for weight, namely the kilogramme and parts of a kilogramme, we use, when speaking of gold intended as medium of exchange, another weight called the krone. The following table will show the proportion of the krone-weight to the kilogramme-weight :—

The fine gold in	1 krone	=0·0004032	kilogramme of fine gold.
	2 krones	=0·0008064	
	5 krones	=0·0020161	
	10 krones	=0·0040322	
	20 krones	=0·0080645	
	50 krones	=0·0201612	
	100 krones	=0·0403225	
	500 krones	=0·2016125	
	1,000 krones	=0·4032250	
	2,480 krones	=1·0000000	

Only twenty-krone and ten-krone pieces are coined, the others would either be too large or too small. What has now been said about krones may also be applied, with the necessary modification, to sovereigns, marks, francs, etc.

§ 27. The Advantages of letting the State Undertake the Coinage

The advantages of letting the State undertake the mixture of the gold intended for exchange with other objects, and its division into equal pieces, are self-evident. By so doing, every one is freed from the necessity of investigating the quality of the gold offered him, a proceeding which, however, few would be able to take upon themselves, since it requires special knowledge and apparatus. In the next place, during the transaction itself, not only is the division of the gold avoided, but also much to the simplification of the innumerable small exchanges, the necessity of using scales, for the weight of the gold is simply calculated by adding up the number of gold pieces. Let us imagine a producer of potatoes bringing them to a trader who possesses gold, and that they agree to exchange these articles. Their agreement, if not literally, is substantially to the effect that the trader is to furnish say twenty grammes of pure gold, while the producer gives potatoes in exchange. How troublesome and uncertain the exchange would be if there were no gold coins, but only gold in bars, or lumps, were used for this purpose! In such a case, a bar of gold, a chisel, and scales with weights would be needed. Even then to cut off exactly twenty grammes of gold would be extremely difficult, and would require time. When at last the twenty grammes of gold were handed to the producer for his potatoes, how could he be certain that the gold was of the right quality, and really contained as much as twenty grammes of pure gold?

The use of a gold coinage at once does away with all such perplexing detail. The trader, i.e. the greengrocer, takes out in this case only five ten-krone pieces, asking the producer to count them and assure himself of their together amounting to fifty krones in gold. The whole thing takes a few seconds, and in that short time the matter is arranged; for fifty krones in gold contain about twenty grammes of pure gold, and in these fifty krones the producer has therefore received the return agreed upon for his potatoes. In countries where there is principally a paper currency, gold would not even appear when the producer received for his potatoes repurchasing gold from the greengrocer; the parties would simply let the gold remain in the note-issuing bank, and use instead notes exchangeable with gold coins at that bank. As the State concerns itself with the gold, both parties feel so certain of the goodness of the unseen gold coins in quality and weight, that they make no claim to have it in their hands and assure themselves that it is of the required weight and quality.

Or if one, on counting, finds that he has received one hundred and twenty-four twenty-krone pieces and, on another occasion, twenty-five twenty-krone pieces, he knows that he has been given pure gold weighing respectively one kilogramme and 201 $\frac{61}{100}$ grammes. The receiver of gold coins can always calculate the weight from the face value, whatever the amount may be, with the exception of quantities of less than four grammes (ten krones). Then the calculation is managed in another way. For small exchanges such as these, a token currency of silver and copper is used.

§ 28. Why is it that Every One willingly takes Gold in Exchange for his Products?

We now turn back to a question that was glanced at in § 22—how is it that every one is willing to accept gold in exchange for his products?

We have seen how the producers deliver to the traders the seven hundred million Production, consisting of provisions, clothing-materials, metal goods, and innumerable other articles. In return for these valuable products, the producers declare themselves willing to accept gold, indeed, they even make it a condition that they shall receive gold in exchange for their products. And the traders will proceed in the same manner when the producers and their assistants wish to repurchase the production. Just as willing as they were before to give gold for the production, so are they now to reverse the transaction and part with the valuable wares in return for gold. We find this willingness, not only confined to producers and traders, but universal. Every direct and indirect assistant in Production willingly receives, and even insists upon receiving for the time being gold instead of his share of the products in kind. None of them intend to have the gold made into things that can be utilized in their houses or in every-day life; but each of them notwithstanding is desirous of possessing it. What can be the reason for such eagerness on the part of all classes of society to become possessors of gold?

This universal willingness to exchange products for gold is due to several concurrent circumstances, treated of in the foregoing paragraphs. When a man barters some product, and the other party to the contract is not burdened with scruples, the former runs some risk of being deceived. Does the article offered to him in exchange for his own goods really possess the properties that are attributed to it? This is a pressing question for every one who is about to make a purchase. But no one who contemplates receiving gold as the medium of exchange need suffer such anxiety. The proper uniform quality and correct weight are the two properties that such gold is required to possess; and the guarantee that it really possesses them lies in the fact that the State prepares and stamps the value of the gold.

Nor need any one be afraid of being left with gold on his hands if, as is usually the case, he has no personal use for it;

for there is always a great demand for gold for two different purposes. Goldsmiths use much of it for ornaments, and could, if gold were sufficiently plentiful, employ it for a number of larger articles that are now made of silver and cheaper metals. This kind of demand is constant, and will never cease.

But in addition to the demand for ornaments, gold is also in constant demand as the medium of exchange. For this purpose, immense quantities are required. Suppose for an instant that in the remote future gold was abandoned as a medium of exchange, with the result that the demand was greatly reduced, and the goldsmiths remained the only purchasers of the commodity; that is an eventuality which need concern no one at the present time. At present, and for an indefinite future, all gold will be in persistent demand as well by goldsmiths as by persons intending to use it in its capacity as a medium of exchange. The owners of next year's seven hundred million Production may therefore hand over their production to the traders without hesitation, in return for gold. They need have no fear of being obliged to keep any gold for which they may have no personal use; they know, on the contrary, that they can easily get rid of the gold whenever they like, exchange it with other articles, for the traders will take it back in re-selling the products. The traders will be obliged to take back the gold, for they need it as the medium of exchange in the purchase of the following year's production. But there we come to another question, namely, why every one is not only willing, but is even compelled to accept gold, a question which need not at present be discussed.

While thus, on the one hand, there is nothing to deter any one from accepting gold as the medium of exchange, its cleanliness, imperishableness, and smallness of bulk, make it easy to handle. And in order still further to lessen and remove all trouble connected with the storing of the gold, that duty has been more or less left in the hands of the bank, which issues a kind of receipt for the gold, and on the return of these receipts—the so-called bank-notes—lets their owners have corresponding amounts of gold. Thus all the risk and trouble of having to store the gold is avoided, a fact which without doubt is also instrumental in making every one willing to receive gold in exchange for other things.

§ 29. Gold as a Standard of Value

The willingness on the part of the public to take the country's medium of exchange in return for their productions, is mainly due to the material properties of the medium of exchange described above; but it is also increased to some extent by another circumstance. When it is desired to declare the value of any article it is necessary to have something with which to compare it. Suppose a farmer has five hundred hectolitres[1] of oats, or a forest proprietor twelve hundred felled fir trees, or a fish merchant one thousand hectolitres of salt herring; or suppose a man to have received the present of a house from a relative, or to have painted a picture, or to have invented something. In each of these persons, the desire will soon arise to know how much he can obtain in exchange for his property, or, as we say, how much his possessions are worth. In order to come to an understanding upon this point, the farmer might try to find out how large a quantity of sugar, or tobacco, or woollen goods, or oil, etc., would be equal in value to his five hundred hectolitres of oats; and the others might each do something similar with regard to their fir trees, herrings, etc. This, however, would be such a roundabout method of valuation, that, as we know, it is virtually unpracticable. The most natural thing is to compare one's possessions with the coinage metal, and value each separate possession at a proper quantity of this metal. There is at least some method in declaring a house, or a picture, or a hectolitre of oats, or a fir tree, to have the same value as so many kilogrammes of gold, or fractions of a kilogramme of gold; and this in fact takes place every day, but with this modification, that instead of the commercial weight, kilogramme, the coinage weight, krone and its subdivisions—to take the Scandinavian coinage—is used. It is said of a house that it is worth 248,000 krones in gold, not 100 kilogrammes of gold, although the quantity of gold is the same in both cases. In the same way, twenty-five ores, and not $\frac{1}{9920}$ kilogramme of gold, will be asked for a quart of milk, although in this case also twenty-five ores in gold answers exactly to $\frac{1}{9920}$ kilogramme of gold.

We might also suppose a fictitious weight used exclusively for giving the value of things in gold. Such a weight has actually existed, for such a method of procedure was employed in Hamburg,

[1] A hectolitre equals twenty-two gallons.

the only difference being that silver at that time took the place now occupied by gold. A so-called *mark banco* existed, which has since been given up. Adapted to the present condition of affairs, the circumstances attending the *mark banco* would, if again brought into use, be as follows. No material coin called *mark banco* has ever existed, nor could come into existence; it would only be the fictional designation of a weight, without any actual corresponding weight. By *mark banco* would be meant a fictitious weight used only for gold, and meaning as much gold as is contained in one and a half reichsmarks of the present German gold coinage. If the people of Hamburg at that time desired to value a building, they would not say that it was worth a quantity of gold weighing 279,000 reichsmarks, or 100 kilogrammes of gold, but weighing 186,000 *marks banco*. All the three weights would be alike, and mean three heaps of gold, each one exactly the same size as either of the others. But if the house valued at 186,000 *marks banco* were to be sold, it would have to be paid for with the only existing gold coin, namely, 279,000 reichsmarks in gold. That there could be any advantage in our own day in using this system, it would be difficult to show; its practical inutility no doubt being the reason why it was abandoned in Germany.

It is obviously due to the fact that all products are now valued by a gold standard that the owners of such products (whether producers or assistants, etc.) have come to regard gold coins as the obvious exchange for their products. In other words the inherent property possessed by gold of indicating the standard of values, has been instrumental in bringing about a universal willingness to accept it in exchange for products.

§ 30. How much Gold can a Country with Two Millions of Inhabitants be assumed to possess?

It has already been mentioned that the country whose production is analysed in this book, uses gold as its medium of exchange. It is moreover assumed that all the gold remains stationary in the cellars of the note-issuing bank. It is not present in substance at the exchanges, but is represented by bank-notes exchangeable for the gold in the cellars of the note-issuing bank. When the producers bring their seven hundred million Production to the traders, they do not receive the gold itself in exchange, but the traders give them seven hundred million krones in bank-notes, which may be regarded as promises made by the note-issuing banks to pay the equivalent of the notes in gold. But neither the producers nor assistants—among whom are also included the traders—are accustomed to go to the said bank with their notes to get them changed into gold. The knowledge that they have the opportunity of doing so is sufficient for them. They let the notes pass from one to another, as if they really were gold. If now and again a gold piece makes its appearance among the notes, they generally pay it into the bank for bank-notes. The reason why they prefer to have notes pass through their hands rather than gold, must be that the notes are more easily taken care of.

Thus in a country like Norway, this strange circumstance presents itself, while the two million inhabitants make exclusive use of gold as the medium of exchange, practically speaking a gold piece is never seen. All the gold lies in the cellars of the note-issuing bank.

How much gold lies in these cellars? If the amount had to be stated accurately, it would have to be counted every day; for the store of gold in the bank varies in size from day to day. In order to be able to name a figure, however, we will assume that on an average all the year round, there is forty million krones' worth of gold lying in the cellars of the note-issuing bank. Among the people, on the other hand, no gold is supposed to circulate.

In the preceding paragraph, the nation was assumed to possess forty million krones in gold as the sum total needed as a medium of exchange. All the gold is in the cellars of the note-issuing bank, and is represented by notes whenever an exchange of gold for some other article is made. At first sight it might seem that forty million krones in gold was far too little for the nation's needs in exchanging gold for other articles. The seven hundred million-krones Production and a number of other things, such as houses, ships, factories, forests, land, etc., are all waiting to be exchanged for gold; and towards this object there are only forty million krones in gold in any one year. If, nevertheless, this comparatively small amount of gold is able to be exchanged for the above-mentioned articles, it is mainly because the exchange does not take place all at once, but gradually. Next year's seven hundred million Production, to keep to our original estimate, is not brought by the producers in one aggregate mass, on one particular day, to the traders to be exchanged for gold. It is being continually brought in day by day all the year round. The year consists of three hundred working-days. Suppose next year's production to be brought by the producers to the traders in three hundred equal portions, one portion each day. According to this supposition, the producers will daily deliver to the traders products worth 2⅓ million krones. In order to obtain the seven hundred million products, the traders would in such a case have to give daily to the producers and their assistants 2⅓ million krones, and they in their turn would have to repurchase daily from the traders to the extent of 2⅓ million krones in gold. The whole of the country's store of forty million krones in gold pieces will therefore not be required for the exchange of next year's production valued at seven hundred million krones. Under the most favourable circumstances, 2⅓ million krones in gold would suffice for the exchange in the course of any given day. It would not, however, be possible to do with as little as 2⅓ millions of gold, because, among other reasons, the daily bringing-in and repurchase of portions of next year's seven hundred million Production are not uniform in amount day by day, but vary very much, on some days being far above 2⅓ million krones in value, and on others ceasing almost entirely. But even if 2⅓ million krones in gold were too little for the distribution of the seven hundred million Production, in any case only a fraction of the forty million krones' worth of gold would be needed for it. The remaining, and greater portion of the forty million krones' worth of gold coins can thus be utilized for the purchase of houses, ships and factories, or retained as cash balances in banks, etc.

§ 31. Repurchasing Gold and Ordinary Gold

We will thus assume, in accordance with the preceding paragraph, that out of the country's forty million krones' worth of gold coins, a daily average of 2⅓ millions is employed as medium of exchange during the year over which the period of production extends.

In the preceding pages, this gold has been called repurchasing gold, because it is assumed that while the traders use it to buy from the producers it will inevitably be used by the latter for the repurchase from the traders of the year's production, after these products have been partially exchanged for foreign goods. The consequence of this is that every time the $2\frac{1}{2}$ millions of gold, given by the traders to the people, is handed back to the traders, it ceases to be repurchasing gold. After having fulfilled its mission of repurchasing corresponding products in their somewhat altered composition, the $2\frac{1}{2}$ millions' worth of gold coins loses its repurchasing property and assumes once more the form of gold in its ordinary condition—is transformed into ordinary gold. For the present it remains ordinary gold, lying unemployed; but the moment it is again given to the producers—perhaps the very same day—it once more, according to the chain of reasoning here followed, acquires the name and properties of repurchasing gold. Only during the period in which the gold has not yet been used by the producers to repurchase products needed by them, do we call it "*repurchasing*" gold. Immediately after the repurchase, it is added once more to the $37\frac{1}{2}$ millions of ordinary gold, increasing it to forty million krones. In this connexion, the reader is again reminded that it is really the notes and token coins that in Norway undergo the above processes; the gold is lying all the time in the cellars of the note-issuing bank. We ought therefore, properly speaking, to have used the expressions "repurchasing" and "ordinary" notes exchangeable for gold at the bank, instead of "repurchasing" and "ordinary" gold.

The repurchasing gold must, of course, not be understood to be an ear-marked amount, taken out of the country's forty million krones' worth of gold, in order to be used exclusively for "repurchasing" in the daily relations subsisting between traders on the one hand and producers together with their assistants on the other. Such a segregation of "repurchasing" gold would be entirely unnecessary, as well as impracticable, for other reasons, because unemployed gold is generally placed temporarily in the bank, and the banks mix all the gold together. When, therefore, the former repurchasing gold is again wanted, it is not necessarily the very same gold that is given out from the banks, but just as likely gold that was last employed in exchange for buildings, ships, or other things. The former repurchasing gold will have disappeared, at any rate for the time being, as a medium of exchange for the production, and its place is taken for the moment by other gold. This circumstance alone would be sufficient to prevent the employment of any particular gold pieces exclusively as repurchasing gold.

But another circumstance would also prevent the constant and uninterrupted employment of one particular quantity of gold in the daily purchase and repurchase of the products of the country. When the repurchasing gold has been paid to the producers, it is certainly presumed that the producers in their turn will use the gold in the repurchase of products ; but of course they are under no legal or moral obligation to do so. They are at liberty, if they choose, to employ the gold in acquiring houses, or other things which we will call permanent products as distinct from the seven hundred million Production of the year in question, in which case the owners of ordinary gold will repurchase from the traders those products which the producers did not take. The result is that the stock of gold employed in the sale of the seven hundred million products may suffer a diminution, which, however, is made up from the country's reserve stock of gold. Thus a fresh mingling of the reserve and repurchasing gold has taken place, making the constant employment of the identical amount of gold in the service of production impossible.

But is this omission to use repurchasing gold for the repurchase of products a matter of ordinary occurrence ? The answer must be in the negative ; for the producers and their assistants, in order to live, must use the greater part of their repurchasing gold for repurchase from the seven hundred million Production now lying in the hands of the traders. The smaller the portion of gold that each one receives, the greater will be that proportion of it which he must use for repurchase. A working man with a small sum of money in his pocket—and it is in the pockets of individuals that most of the repurchasing gold or repurchasing notes exchangeable for gold is found—is under no obligation, but is neverthelesss naturally compelled, to repurchase with it articles from the year's volume of production. It is only by so doing that he will be able to support life.

CHAPTER IV

The Movement of Products

§ 32. Imports

As has been stated already (§ 3. *supra*) the products which Norway either does not produce at all, or produces in too small quantities for the needs of the home market include coal, salt, wine, tobacco, tea, sugar, corn, manufactured goods, all which articles are imported from abroad all the year round.

§ 33. Exports

Norway has to give something in exchange for these imported products, and for this purpose are employed those articles of which the country produces beyond its own requirements. These were also enumerated in a previous paragraph.

§ 34. Direct and Indirect Imports or Exports

It frequently happens that two countries are able to make a direct mutual exchange of their superfluous products. Norway produces too much timber and too few manufactured goods; while in England the reverse is the case. The two countries can directly exchange timber and manufactured goods.

In other cases, on the other hand, the co-operation of three or more countries is required before all the superfluous products of the one have reached the consumers in the other. Thus—

Norway produces too much timber and too little corn.
Russia produces too much corn and too few railway-rails.
Spain produces too much iron-ore and too little timber.
Germany produces too many railway-rails and too little iron-ore.

Norway cannot exchange her superfluous timber with Russia or Spain for the corn she lacks, partly because Spain has no corn to spare, and partly because Russia does not need any timber. With each of the other countries, the result will be similar. The goods must consequently make a circuit. Whatever portions of the four products cannot be used in the country that produces them, are exported to the country where the need of them exists. When all the transmissions are effected—

The repurchase of the Norwegian timber will take place in Spain.
The repurchase of the Russian corn will take place in Norway.
The repurchase of the Spanish iron-ore will take place in Germany.
The repurchase of the German railway-rails will take place in Russia.

Each land has obtained what it needs.

§ 35. EXCHANGE OF NORWEGIAN FISH FOR GOODS FROM GERMANY

Along the Norwegian coast there live men who annually send out vessels or expeditions to catch herrings, which are afterwards prepared for the market. Such producers perhaps take salt herrings to the value of 180,000 krones to a trader, to be included in the year's seven hundred million Production, and in return receive gold which is to be distributed between themselves and all their assistants, to be used for the repurchase out of the volume of production, each one choosing according to his taste. Let us follow in detail the distribution of the gold paid out to such a producer in exchange for his herrings. In the first place, the herring-producer gives a number of the notes to his direct assistants, the fishermen, coopers, and workmen employed in packing the herring in barrels ; but in addition to these, the indirect assistants are also to have their share of the 180,000 krones in gold. It is of extreme importance for the fisheries, as it is for every other form of production, that well-ordered conditions should prevail in the country ; and for the attainment of this result, the co-operation of many persons and many institutions is required—teachers for the young, medical aid, police for the maintenance of order, courts of law to administer justice in disputes, the army and navy to reduce the danger of war, the government with its subordinate officials to guide the operations of the above persons, and lastly men of learning, authors and artists to develop the knowledge, ingenuity and taste of the country, engineers to construct harbours, etc., the telegraph, the telephone, the post-office, tramways, roads, railways, and coasting steamers to facilitate communication and the transmisson of goods within the country. All persons working for these and similar objects contribute by their labour to the furthering of Norway's material production, and thus also of the fisheries, the branch of production with which we now have to do. To all of them, therefore, both the herring-producer and his assistants, the fishermen, coopers, etc., will have to give more or less of their 180,000 krones in gold. From the teachers down to the crews of the coasting steamers, all will participate, although indirectly, in the production of the herring, and may claim for their indirect assistance, a share in the 180,000 krones in gold, to use it in the purchase of their shares in the production. Several of the persons enumerated will receive their gold direct from the first owners, the herring-producer and his direct assistants, while in other cases, the gold passes through the hands of a middleman, e.g. the tax-collector, this gold going, among other things, towards paying the salaries of government officers. After the assistants have received their gold, they will perform mutual services for one another in return for payment in gold, which really means the handing over of corresponding parts of the production. In this manner the gold is still further distributed among the assistants.

All these helpers in the production of the herrings costing 180,000 krones, which forms a part of the seven hundred million krones Production of the country, and is in the hands of the traders, will not, however, when the time for repurchase comes, choose to buy back herrings for their gold. Nor will the other producers of the seven hundred million undertake to repurchase the herrings; for, as already stated, Norway produces more herrings than the country itself can manage to consume, and it is to this surplus that the 180,000 krones' worth of herrings is assumed to belong. Exportation of herrings and importation of foreign goods must take place.

In the countries bordering the Baltic, the poorer classes have for centuries been great consumers of Norwegian herrings. The Norwegian exporter sends his herrings to Germany, whereby the Norwegian seven hundred million Production is reduced by 180,000 krones' worth of products, while the German production for the year is correspondingly increased. But at the same time, a similar quantity of German products, not needed in Germany, is sent to Norway. The original conditions in the volume of products of both countries is thus re-established ; the Norwegian, by the admission of 180,000 krones' worth of German products, rises to its old amount, seven hundred millions, while the German product volume falls from its excess once more back to the old figure. The amount of each country's production has again become what it was before the exchange of wares.

The process of repurchase can now proceed in both countries. In Norway the German products to the value of 180,000 krones or 200,000 reichsmarks—the two amounts corresponding as nearly as possible—will be repurchased as part of the year's Norwegian seven hundred million Production. When the nation with their gold go to the Norwegian traders for the purpose of repurchasing the seven hundred million Production, the fractional 180,000 krones' worth of German goods will be repurchased by such Norwegians as require them. It is not impossible, though perhaps improbable, that these Norwegians will be the self-same herring-producer and his assistants ; but the herring-producer and his assistants are more likely to repurchase partly the German and partly the Norwegian goods in the seven hundred million Production. If all the other persons that are entitled to next year's Norwegian seven hundred million Production, repurchase in the same way, both the German 180,000 krones' worth of products, and the Norwegian products to the value of 699,820,000 krones—the two together amounting to 700 million—will at last all be repurchased. It will be observed that no regard is here paid to the other exports and imports, which would also deprive the 699 millions of their character of exclusively Norwegian goods.

In Germany, similarly to the above, the Norwegian herring will be repurchased for 200,000 reichsmarks as a part of the year's German production.

For the sake of completeness, it must be remembered that the traders in Norway and Germany may lay claim to a part of the goods, or profits, as it is called. As regards the herrings, they make their profits—as shown in § 19—by keeping back some of the herrings ; and declaring the rest to be worth 200,000 reichsmarks, at which price it is then bought by the German people. It is the same with the German products sent to Norway.

What the traders then do with the products kept back does not concern us here.

We next come to the question, how the two traders in Norway and Germany get back the gold they have laid out. When the Norwegian trader, called the exporter, received the herrings, he gave 180,000 krones in gold in exchange, divided between the producer and his assistants, and to be employed in repurchase. As already shown, however, the herring exporter gives up all idea of persuading Norwegians to repurchase the herring, and instead allows German producers and their assistants to purchase it for 200,000 reichsmarks, German gold. Properly speaking, this gold should be sent from Germany to him to his residence in Norway. He does not insist upon this, however, but has the gold paid into a German bank. To permit him to draw the gold out of the bank when he wishes to do so, he receives from Germany a cheque for 200,000 reichsmarks on the German bank. On receiving the cheque, he makes it over, together with the right to the 200,000 reichsmarks in gold in Germany, to a Norwegian bank in return for about 180,000 krones in Norwegian gold. In this way the Norwegian exporter gets back his gold. He previously gave 180,000 krones to the herring producer, but now receives from the Norwegian bank 180,000 krones, and thereupon has nothing to do with the transaction.

In Germany the German trader, the exporter, had given 200,000 reichsmarks in gold to the German producer and his assistants for products which both they and all other Germans decline to repurchase, and which are therefore finally repurchased in Norway for 180,000 krones in Norwegian gold, which is about equal to 200,000 reichsmarks. The German exporter may demand that the gold should be sent him from Norway, whereupon he will once more be in possession of the gold that he parted with when he paid the German producer for the goods. The sending of the gold can, however, be avoided. It is possible to make over to him the 200,000 reichsmarks in gold in the German bank, formerly belonging to the Norwegian herring exporter, and now to the Norwegian bank. This is practically done in the following manner:—When the German exporter, through his business connexion, the importer in Norway, has resold his 180,000 krones' worth of German products to the Norwegians, the Norwegian importer does not send this Norwegian gold to the German exporter, but gives it to the Norwegian bank, and in return has that bank's 200,000 reichsmarks in gold in Germany transmitted to the German exporter. The exporters of both countries have now recovered the gold they had spent, without any sending of gold from country to country. The two exporters have, in a manner, exchanged gold with the assistance of banks.

Germany, as the larger country, will, in such a case, as a rule be chosen as the base for this kind of exchange with Norway, although theoretically there would be nothing to prevent Norway from being assigned the same part. In such a case, the German exporter would have had to pay 180,000 krones in Norwegian gold into a Norwegian bank, received in exchange a cheque sent him on the Norwegian bank, and sold the cheque to a German bank, which could thereupon make over its gold in Norway to the Norwegian herring exporter.

§ 36. The Exchange of Gold

In the case just mentioned the Norwegian trader, the herring exporter, resold his Norwegian herring in Germany for 200,000 reichsmarks in German gold, which he has the power to require to be sent to him in Norway.

On the other hand, the German exporter resold his German products in Norway for 180,000 krones in Norwegian gold, which he can require to be sent to him in Germany.

And this same power to demand that the purchasing gold shall be sent from one country to them in another is possessed by all exporters.

There are, however disadvantages connected with this transmission of gold, and therefore it is avoided as much as possible, and the gold is "exchanged" instead. By the aid of banks, countries settle their mutual gold debts without any actual movement of bullion. To describe in detail the various methods for exchanging would take up more space than can be spared; but the mode of procedure will be found in the main described in the preceding paragraph.

But if this exchange of gold cannot take place, as sometimes happens, the gold itself must be sent. If Norway has more gold owing to her abroad than she owes, there will be left, after the exchange, a remnant of gold, which must be conveyed to Norway in kind. Conversely if Norway's foreign indebtedness exceeds what is owing to her abroad, the difference must be paid by the transmission of gold from Norway.

§ 37. The Domestic Transit of Goods

When products are sent out of a country, or are brought into a country, these transactions are termed respectively exportation and importation. For the transmission of goods within the boundaries of the country there is no special designation. Practically the same conditions apply to this domestic transit—this movement of goods from province to province in one country, as apply to exportation and importation. Taken as a whole, the country will produce too much of certain products, and too little of others, whereupon the surplus products are sent abroad, and others that are lacking are imported. The same conditions will be found to exist in the several provinces of any particular country, if a comparison is instituted.

The district of Christiania in Eastern Norway—to take a particular instance—produces too much timber and too little meat, while the reverse is the case in the Stavanger district, situated in Western Norway. The consequence is that Christiania sends timber to Stavanger, and receives meat in return.

As regards the payment for products sent from province to province, an attempt is also made to avoid the transmission of money. In the instance given above, Christiania and Stavanger, by the aid of banks, will exchange money as much as possible, instead of sending it by post. Each district will keep its money, and, when, owing to transmission of goods, this money becomes the property of the inhabitants of another district, will endeavour to exchange the money through the medium of set off.

§ 38. Foreign Products belonging to Ship-owners and their Assistants

Up to the present, this chapter has spoken only of the importation of products balanced by a corresponding exportation. The producers in a country import certain foreign goods which they need, and pay for them by exporting surplus goods from their own production.

But there is also another kind of importation, whose distinguishing mark is that it is not accompanied by exportation. By this is meant shares in foreign production belonging to the nation's ship-owners and sailors.

We have already spoken of the right of the Norwegian ship-owners and seamen to parts of the Norwegian seven hundred million Production, for having carried the products from place to place in Norway (see § 17). But these coasting vessels constitute the minority of Norway's fleet. The majority of the ships are employed in the foreign carrying trade, conveying goods between foreign countries all the year round. For this work, a share of the production of the country to which the goods conveyed belong, is due to the ship-owners and their assistants. Their share of the foreign production is thereupon imported by Norway, and incorporated in the country's annual production, which, with the addition of these foreign products belonging to the ship-owners and their assistants, makes up the frequently mentioned value, seven hundred million krones.

If the Norwegian seamen's share of the foreign production is estimated at a value of one hundred million krones after subtracting what must be given abroad in harbour-dues and other similar expenses, the value of the products produced in Norway itself next year will be six hundred million krones. By adding to this the one hundred millions of foreign production acquired by the Norwegian ship-owners and their assistants, we obtain the seven hundred million krones as the aggregate value of Norway's production next year.

These one hundred million krones of foreign products are not all sent to Norway. A considerable portion of the one hundred million krones' worth of foreign products belonging to the crews of Norwegian ships, will be employed for their maintenance on board those ships; while the rest of the sailors' foreign products, and the ship-owners' shares find their way to Norway.

§ 39. What is done with Ship-owners' and their Assistants' Share in Foreign Production?

The foreign producers will sell their products next year to the traders in their own lands, in return for gold carrying with it the right to repurchase such products as the producers may desire. The gold is divided between the producers and their assistants—the Norwegian ship-owners and sailors belonging to the latter class—to be employed in the repurchase of these foreign products. The Norwegian sailors have to use some of their gold to buy back foreign products for their own maintenance during their wanderings from place to place. The greater part of the gold is paid into foreign banks, and is placed at the disposal of ship-owners in Norway, who sell their claims to the Norwegian banks in return for Norwegian gold, or notes exchangeable for gold in the cellars of the note-issuing bank. The Norwegian gold is then divided, in the manner explained in § 35, among the ship-owners, the sailors' families, and all who have rendered them assistance.

All these persons, more or less closely connected with Norwegian shipping, have their share of foreign products still lying abroad, and, in order to consume it, must have it brought to Norway, where they live. As a consequence, the above-mentioned foreign traders, in whose hands these foreign products are lying, awaiting repurchase, send all the products to Norway, where they are incorporated in the year's Norwegian production, bringing this up to the value of seven hundred millions. In repurchasing, however, the Norwegian ship-owners and their connexions will scarcely take exclusively the said foreign products, but rather some of the foreign and some Norwegian products. The rest of the Norwegian population do the same, thus the whole seven hundred million Production will finally be repurchased, including the ship-owners' and their assistants' share of foreign production exported from abroad to Norway.

The foreign traders may now demand that the Norwegian gold which repurchased their foreign products should be sent to them in a country outside Norway. But obviously convenience, which has all the effects of a natural law, demands that as little gold as possible should actually undergo corporeal transmission; and to avoid this the foreign traders' agents in Norway, or the importers, as they are called, take all the Norwegian gold given by the nation for the above-mentioned foreign products, and pay it into Norwegian banks, which, in return, transfer the previously mentioned gold in the foreign banks, that was first owned by the ship-owners and then by the Norwegian banks, to the foreign traders, who, in addition to having their foreign products repurchased in Norway, have also got back the gold they had laid out.

Let us take one particular case. Australia produces more wool than the country itself can make use of. If the surplus is not to be wasted, it must be taken to a country which does not produce enough of this article, e.g. England. In such a case, the last link in the chain of production of Australian wool would be its conveyance across the ocean. The ship-owners, who undertake the conveyance, thereby become co-operators with the Australian producers, and may claim their share of the wool for their assistance. Suppose an Australian wool-producer brings wool to the value of £20,000 to an Australian exporter, who sends the wool to England in a Norwegian vessel. According to the general rule, the exporter should give the wool-producer £20,000 in gold, to divide among the sharers in the production of the wool, among whom are the Norwegian ship-owners and seamen. It may be supposed that $\frac{1}{10}$ of the wool is due to the ship-owner and his assistants for the part they took in the production. Thus the wool-producer has to pay them £2,000 in gold. The Australian exporter, however, undertakes to pay the Norwegian ship-owner himself, so that the Australian producer only receives £18,000 in gold to divide between himself and his Australian assistants, and to be employed in the repurchase from the Australian produce with the wool deducted and corresponding imported goods added. But it is unnecessary to go further into this. The Australian shippers of wool to England are in very much the same position as the Norwegian shippers of herrings to Prussia and timber to Spain, mentioned not long ago. What was then said in connexion with the Norwegian exports, also applies to the wool exported from Australia to the value of £18,000.

As assistants in the production, the ship-owners should receive their gold from the producers, with its right to repurchase a corresponding part of the cargoes, or products at a similar cost, from the production of the exporting country for that year; but with regard to ship-owners another rule is applied. They receive their repurchasing gold direct from the trader, who keeps it back when paying out gold to the producer. As, moreover, the ship-owner can only claim what is due to him when the voyage is accomplished and the cargo delivered at its destination (no notice is here taken of the small advances at the port of sailing), in the case we have taken, the Norwegian ship-owner's £2,000 in gold will be paid to him not in Australia, but in England, by the Australian exporter's agent, or in other words, the English importer. The Norwegian ship-owner may, if he wishes, have the £2,000 in gold sent to Norway. He will probably, however, prefer to have the gold paid into an English bank, and have a cheque on the bank for £2,000 sent him, entitling him to draw out that amount. The cheque and the rights it gives, he sells to a Norwegian bank for about 36,000 krones in Norwegian gold, to be divided between himself and all his Norwegian direct and indirect assistants, and to be employed for the repurchase of the £2,000 worth of Australian wool or other things.

The Australian wool due to the Norwegian ship-owner and his assistants, is now in England in the hands of the English importer. The wool might be considered as part and parcel of the volume of English production for the year, but it will be expedient for the present to place it outside, and in addition to, the English production. In order that the Norwegian ship-owner and his assistants may be able to repurchase the wool from Australia, or goods of equal value from the year's English production, they must be brought to Norway. They do not trouble about the Australian wool; they will probably prefer English goods, such as coal, metal goods, and clothing materials. Accordingly, these goods to the value of £2,000 or 36,000 krones are imported from England to Norway, with the co-operation of Norwegian importers. The English goods are incorporated in the year's Norwegian production, which is thereby increased to a value of seven hundred millions. The ship-owner and his assistants, together with the rest of the population, then repair to the Norwegian traders and repurchase the production. The ship-owner and his assistants will repurchase with their 36,000 krones in Norwegian gold, a little of the English goods, and with the rest from the remainder of the year's home production. The rest of the nation act in the same manner, so that at last the whole seven hundred million Production will have been repurchased.

Out of the seven hundred million krones in Norwegian gold gradually paid to the Norwegian traders for the repurchase of the production, the senders of the English goods will have 36,000 krones or £2,000 sent to them. They previously received, as before mentioned, coal and other products from the English producers in return for £2,000 in English gold, after which they expect the products to be resold, and their gold returned to them. As the goods are repurchased in Norway, it will be Norway which has to send them Norwegian gold. In order to avoid the sending of gold, resort may be had to the ship-owner's £2,000 in gold in England, now belonging to the Norwegian bank. The Norwegian importers of the English coal and other goods, take the 36,000 krones in gold, with which the English goods were repurchased from them, to the Norwegian bank, which in return transfers its £2,000 in gold in England to the English senders of the goods just mentioned, who now have the gold previously given by them to the English producers paid back to them. The English importers of Australian wool still remains to be considered. He has given to the Norwegian ship-owner the £2,000 in gold afterwards employed for the repurchase, not of the wool, but of English coal and other things, imported into Norway from the English production of the year. How does he get his gold back ? Who is to repurchase his £2,000 worth of Australian wool, since the Norwegian ship-owner does not want it ? The answer to these questions is that as goods from the English production to a value of £2,000 went to Norway, the Australian wool will take the empty space thus left in the English production of the year, whereupon the Norwegian ship-owner's Australian wool will be repurchased by the English producers and their assistants, and the English importer of wool will get back his £2,000 in gold from them in exchange.

It is possible that Norway does not need the English coal and other things, but prefers to import Russian grain to the value of 36,000 krones, which is incorporated in the year's seven hundred million Production, and is repurchased in the manner described, by the Norwegian people, including those persons connected with navigation. When the repurchase is completed, the importer of the grain should, properly speaking, send 36,000 krones in Norwegian gold to the Russian grain exporter, or to his bank in Germany where he wishes to have the gold paid in. But, if possible, the Norwegian grain importer will let the 36,000 krones, Norwegian gold, remain in Norway, and to achieve this he hands the Norwegian gold into the Norwegian bank, receiving in exchange a cheque for £2,000 in gold with power to draw out the Norwegian bank's gold in England, which formerly belonged to the Norwegian ship-owner. The cheque for £2,000 is sent by the Norwegian grain-importer to the German bank. To replace her exported grain, Russia subsequently imports German railway-rails, paying for them, not the Russian gold sent out, but with the previously mentioned £2,000 in gold in England. In order to make up the decrease in the German production occasioned by the sale of rails to Russia, Germany can import goods from England, just as, in a previous instance, Norway was supposed to import

English coal, metal goods, and clothing-material to the value of £2,000.

§ 40. Foreign Products belonging to Norwegian Holders of Foreign Shares and Securities

The Norwegian holders of foreign securities, like the Norwegian ship-owner, become part-owners of the foreign production. This is another case of importation to Norway not accompanied by corresponding exportation. The manner of bringing the goods to Norway is identical with that described in connexion with the Norwegian ship-owners' share in the foreign production. A hypothetical case of this kind will be found discussed in § 96.

CHAPTER V

Raw Material and Finished Goods

§ 41. Raw Materials must be Manufactured before they can be Consumed

When a product which has passed through the hands of a producer is still not adapted for consumption, but must be further manipulated by one or more new producers before it can come into the hands of the consumer, it continues under the general name of raw materials.

Iron-ore, to take a particular instance, forms a part of the Norwegian annual seven hundred million Production. Of this the greater part is exported, but some is retained in Norway and converted into wrought-iron and steel; these two wrought products being in their turn converted into saucepans, knives, axes, and similar articles. Let us for a moment consider the case of a quantity of iron-ore worth 25,000 krones, which is made into metal worth 75,000 krones, from which hardware is then manufactured for 155,000 krones. The figures are quite arbitrarily chosen, and no inquiry has been made as to whether the proportion between them is correct.

The persons employed in the working up and distribution of these three products are:

The owner of the mine, and his assistants,
The merchant in ore,
The iron-master and his assistants,
The merchant in metals,
The manufacturer and his assistants,
The merchant in hardware, and
The shop-keepers.

Each of the three producers, the owner of the mine, the iron-master, and the manufacturer, is supposed to take his product to the particular merchant concerned, receiving gold in exchange. It should be added parenthetically that an iron-master may also be the owner of a mine, and that presumably he often sells his iron and steel to the manufacturer, without the intervention of a merchant; but in order to keep to the modes of illustration hitherto employed we will suppose that each function is lodged in a separate and distinct individual.

The people of the country have no use for the raw unwrought ore; it must first be converted into iron and steel. But neither are these products adapted for consumption. Iron and steel, like ore, are only raw materials, at an advanced stage, it is true, but nevertheless not capable of being used by the ultimate consumers. It is only when they have acquired from the manufacfacturers their final form as metal goods, that they can be used by the consumers.

Among similar groups of products which need to go through various stages before they reach the consumer may be mentioned, so far as Norway is concerned, wool (yarn, cloth, dresses); and corn (flour, bread).

It is continually being pointed out in these pages that Norway's producers take next year's seven hundred million Production to the traders, in return for gold to be distributed among the producers and their assistants, and to be used for the repurchase of the production, after the latter has been partially exchanged for foreign goods.

From what has just been said, however, this exchange for foreign goods is not the only change that the seven hundred million Production undergoes before it can be repurchased by the ultimate consumers. A further working-up of many of the products brought in, and for this purpose temporarily handed back to the people, is required before the last repurchase can take place. What influence these new processes, through which the production has to go, exerts upon the repurchase, will be shown in the next paragraph.

§ 42 The Repurchase of Raw Materials and Manufactured Goods

I. Introduction

The point which principally concerns the merchant is to re-sell what he has of the seven hundred million Production; while for every sharer in the production of the seven hundred millions it is important to be able to repurchase from the merchant, or his assistant the shopkeeper, not his own products, but those of other producers. Both achieve their purpose, each single sharer in the production using for repurchase the gold reaching him from the merchant's original purchase, while it is left to himself to choose what of the total products he will repurchase. In such a case the merchants will see the whole of the seven hundred million Production bought back and themselves once more in possession of the seven hundred million krones in gold that they had paid out. And in repurchasing, each sharer in the production will have been able to select just what he wishes to repurchase from the seven hundred million Production. In this it may be said that the interests of both parties have been equitably considered.

II. Iron Ore

In accordance with the above described process, the merchant in ore mentioned in the previous paragraph, might suppose that when he has given the producer, the so-called mine-owner, 25,000 krones in gold in exchange for ore, this gold, or an equivalent 25,000 krones from the seven hundred million krones' gold, would be used for the repurchase of the ore. The possessors of a quantity of repurchasing gold corresponding in value to the ore—we will call them the people—are therefore expected to repurchase the ore. This, however, the people do not do, since they have no use for the metal in its raw state. And for the time being they keep back their 25,000 krones' worth of repurchasing gold, intended at some time to repurchase equivalent products. Let us see what happens in the meantime, while this period of what we may be allowed to call suspended animation continues.

The merchant, who thus has a quantity of raw metal on his hands for which he has given gold, has recourse to the iron-master who gives him 25,000 krones of his own ordinary gold, taking the ore in exchange. The iron-master thus takes the merchant's place. And strictly speaking the former could expect that the people would not now take the 25,000 krones' worth of repurchasing gold previously received from the merchant in ore back to the latter, seeing that he has now got back his gold in another way, but should come instead to himself, the iron-master, to repurchase the ore. But, as already stated, the people are not yet desirous of repurchasing the ore in the condition in which it still is.

III. Iron and Steel

The iron-master chooses another expedient to recover his gold. He transforms the crude metal into wrought-iron and steel, worth 75,000 krones, and his recourse to the merchant in metals. The latter takes the iron and steel, giving the iron-master 75,000 krones in gold in exchange.

With 25,000 krones out of this sum, the iron-master brings his stock of gold to its former proportions, at the same time making over to the merchant in metals his right to expect the people to come with their 25,000 krones previously received for the original ore, and repurchase ore in its new form of iron or steel. The remaining 50,000 krones is divided by the iron-master between himself and his assistants to be used for the repurchase of 50,000 krones' worth of iron and steel. It was originally the owner of the mine and his assistants who were to repurchase ore for 25,000 krones; now, in addition to them and their 25,000 krones, there are the iron-master and his assistants with 50,000 krones in gold, all in a manner bound to repurchase either the ore, of which iron and steel to the value of 75,000 krones have now been manufactured, or other products. If they choose the latter, the obligation to purchase the transformed ore passes to repurchasing gold belonging to other members of the nation. The two parties exchange rôles.

IV. Hardware

But the people have as little use for the iron and steel as they previously had for the ore. Before they will consent to repurchase the ore, it must be still further manipulated: the iron and steel must be made into metal goods. The merchant in metal, who cannot re-sell the iron and steel to the owner of the mine and the iron-master with all their assistants, or to the people as a whole, sells the iron and steel to the last manufacturer in the chain for 75,000 krones' worth or ordinary gold. The manufacturer loses 75,000 krones of his ordinary gold, but acquires the raw materials iron and steel, and also his predecessor's right to expect the people to come with 75,000 krones in gold received from the two merchants in ore and in metal, or from the country's merchants in general, for the purpose of repurchasing with it the next product of the ore, iron and steel. No attempt, however, is made by the manufacturer to enforce his right, he has the iron and steel made into hardware to the value of 155,000 krones, and takes it to the hardware-merchant, from whom he receives—

Kr. 25,000
,, 50,000
,, 80,000

Total 155,000 in gold in exchange.

Out of this amount, the manufacturer places 25,000+50,000 krones to his stock of gold, to cover the decrease which took place at his taking over of the iron and steel. At the same time he transfers tacitly to the merchant in hardware the old right to expect 25,000+50,000 krones' worth of the people's repurchasing gold to be employed for the repurchase of ore in its newest form of hardware. The remaining 80,000 krones the manufacturer divides between himself and his assistants, to be employed in the purchase of 80,000 krones' worth of metal goods or equivalent products. To the above-mentioned chain, consisting of the owner of the mine and the iron-master with all their assistants and their 75,000 krones in gold, are now added the manufacturer and his assistants with other 80,000 krones in gold, all in a manner bound to repurchase with 155,000 krones in gold, the former ore, which has now received its final form of 155,000 krones' worth of hardware. If they prefer to repurchase other products brought by other producers to the merchants, there is nothing to prevent their doing so, but in that case, those other producers or their successors must undertake to repurchase the hardware made from the ore. And this demand for the repurchase of the ore in its present perfect state no longer meets with resistance.

The merchant in hardware distributes the product among the shopkeepers, from whom the people repurchase it for 155,000 krones of repurchasing gold, which thereupon again becomes ordinary gold, and is brought by the shopkeepers to the merchant in hardware. The latter has now got the gold which he laid out refunded.

V. Conclusions

It appears from the above that the producers of raw materials do not themselves repurchase these raw materials. In the example taken, the raw products went first to new producers through merchants. When they finally leave the hand of the last producer as finished goods fit for consumption, they are repurchased by all who have had anything to do with them in their various stages of development.

VI. Further Treatment of Norwegian Ore in England

In the above instance, the ore, the metal, and the hardware were all supposed to be produced in Norway. The whole process of transformation from ore to finished hardware took place in Norway. But suppose that only the ore was produced in Norway, and that its transformation, first into metal and then into hardware, took place in England. The English merchant in hardware will now theoretically be able to demand the re-sale of hardware for 25,000 krones to the Norwegian mine-owner and his assistants, for 50,000 krones to the English iron-master and his assistants, and for 80,000 krones to the English hardware-manufacturer and his assistants, or rather for corresponding amounts in English coinage. The Norwegian mine-owner and his assistants, who, on exporting the ore to England, through the merchant, obtained command over 25,000 krones' worth of English gold, must in such a case send this repurchasing gold back from Norway to England. In practice, however, as already stated, the transmission of gold from country to country is avoided as much as possible, the system of exchanges being used to obviate any such necessity.

Should the Norwegian mine-owner and his assistants prefer to purchase for 25,000 krones English coal, cotton goods, etc., instead of hardware, they are of course absolutely at liberty to do so. In such a contingency, the English producers of coal and cotton goods may be considered in the light of the purchasers of the hardware.

A partial exchange of Norwegian seven hundred million products for English products has, in any case, taken place, whether the Norwegian mine-owner and his assistants take their ore back from England as finished metal goods, or import English coal, cotton goods, etc., as equivalent products in exchange.

§ 43. The Increased Value of Raw Materials by Manipulation

It has been stated above that Norway's annual production of late, presumably has a value of about seven hundred million krones in gold. In the column in which the values of the various products are entered, and the total of which will be seven hundred million krones, each product must be mentioned only once, and not repeated in several places in the column. It follows from this that if, among the seven hundred million products, ore is found entered for 25,000 krones, and afterwards in due course the 75,000 krones' worth of iron and steel, into which the ore has been converted, was to be entered on the list, the value of the iron and steel must be given with the value of the ore subtracted. And again in the succeeding quotation in the list when we enter hardware produced from the iron and steel, the value must be given as 80,000 krones instead of 155,000, as it already appears in the list as raw material worth 25,000 and 50,000 krones.

In other words, the value of the raw products must always be subtracted when it is a question of finding the value of the manufactured goods produced by a country.

§ 44. What Artisans have to Do with Raw Products

Products which others are inclined to consider as more or less finished goods, are still regarded by artisans as raw material. It is only after the artisans' finishing treatment that flour, stuffs, and leather are quite ready for consumption. To this extent the artisans must be regarded as manufacturers.

Manufacturers take their production to the merchant, from whom it is to be repurchased by all those who successively took part in the production of the products, i.e. the people. In this the artisan differs from the true manufacturer. The artisan re-sells his own products from his shop to those to whose work his raw product owed its existence, or to the people. The artisan is at once a manufacturer and a shop-keeper. In the latter capacity he re-sells for his raw-produce-merchant, to whom he takes the gold which the producers bring back in repurchasing.

CHAPTER VI

Production in Use

§ 45. To Maintain Life

THE producers use their products chiefly for the maintenance of life, and to enhance the comforts of life in keeping with the circumstances of the individual. It is with this object that they set about the work of production. If the people of Norway by their work next year obtain seven hundred million krones in gold, that is to say, if they sell the result of their twelve months' activities for gold coins to the extent of seven hundred million krones, nevertheless every single producer will be obliged sooner or later to consume the greater part of his share of this seven hundred million Production in order by its aid to maintain life, and obtain such comforts as circumstances permit. But after the greater part of the year's production has been used for the maintenance of life, there is a considerable portion left.

Concerning this remainder it may suffice in this place to mention that some of it consists of implements. Some of it consists of products stored or saved for future use ; and part of these products are paid as taxes to the authorities who, as we have already seen, figure as assistants in production.

§ 46. Travelling

Whether a man remains at home or travels abroad he must in either case to maintain life take something from his share in the year's production. There is, however, some difference between the circumstances attending the consumption of products at home or abroad.

Abroad, the man uses up his share of his country's production more quickly than when at home. At least this is usually the case, for he must give some of his share of production to railway and steam boat companies, to hotel proprietors and other persons who render him services in the course of his travels.

Moreover, his share of the year's production, if he is going to use it for travelling abroad, must be wholly exchanged for foreign products, as he will only have use for foreign products when travelling. If he had remained at home on the other hand, he would probably only have made a partial exchange.

If he had remained at home, both exporters and importers would have given him assistance in getting his share of the home production partially exchanged for foreign products. If he travels abroad, he will also make use of his own country's exporters to get his home products sent abroad, but in this case he has no use for the importers in his own country. He will have the exported products of his country exchanged for foreign products in another way. The traveller obtains possession of these foreign products in very much the following way :—Let us suppose that he is a Norwegian. It will be remembered that the people of Norway next year are supposed to create products to the value of seven hundred million krones. Of these products, the merchants who buy them from the producers retain most of the timber and fish and other articles of which there will be a surplus in the home market and sends them abroad to be exchanged for foreign products in their turn repurchased in Norway with the gold which the Norwegian producers have obtained for their own products. But the Norwegian merchants will further export—let us say for the sake of hypothesis—one million krones' worth of timber, fish, etc., which instead of being used to buy back an equivalent of foreign production will be consumed by Norwegians travelling abroad. Now as part owners of the production, the Norwegian travellers also receive their share of the seven hundred millions of gold, and with this share they can repurchase whatever they please. They should, properly speaking, with one million krones of their gold repurchase the one million krones' worth of timber, fish, etc., sent abroad for their sake, to be used by them when travelling. As, however, they can make no use of these articles for personal consumption on their journeys, they use them by letting the foreigners repurchase them, whereupon they themselves repurchase the foreign products that the foreigners ought really to have repurchased but had left, choosing instead the Norwegian articles. In this way the Norwegian travellers have actually, although unconsciously, had the one million of Norwegian timber, fish, etc., sent out for their use when travelling, exchanged for one million krones' worth of foreign products.

Must they now, in order to be able to set about their repurchase take the Norwegian gold abroad with them ? In accordance with the general rule of avoiding as much as possible the carriage of gold from district to district and from country to country, the Norwegian travellers endeavour to manage in another way. They possess, as was mentioned, one million krones in gold in Norway, but wish to use it abroad. On the other hand, the Norwegian exporter possesses one million krones in gold abroad, obtained by the re-sale of his Norwegian timber, fish, etc., and this gold he needs, and can have brought to Norway. Instead of this, the two parties exchange their gold. Through the medium of banks, the Norwegian exporter receives the gold in Norway, belonging to the Norwegian travellers, who in return have transferred to them the Norwegian exporter's right to draw the one million in gold from foreign banks.

When the Norwegian travellers have received the one million in foreign gold from the foreign banks, to be divided among themselves and those who have assisted them during their journeys, they repurchase with it the foreign products which the foreigners neglected to buy, preferring the Norwegian timber, fish, etc.

If the Norwegian travellers had remained in Norway, the one million krones' worth of timber, fish, etc., would in this case too have been sent abroad and there repurchased with foreign gold now belonging to the merchant in Norway. But the foreign products for one million krones, instead of being consumed abroad by the Norwegian travellers and their assistants, would have been sent to Norway, and there repurchased by the people for consumption in Norway by Norwegians only. These last would not, as in the previous case, give their one million krones to the Norwegian merchant, but would use them for the repurchase in Norway of the foreign articles, whereupon the gold will belong to the foreign merchant. The two merchants will then exchange their gold through banks in order to avoid sending it.

§ 47. Implements of Labour

In the work of producing next year's seven hundred million Production, a small portion of this production is employed to render the completion of the other and larger portion of the production possible. Some of the seven hundred million products are used as implements in the processes connected with the creation of the rest of the products. As examples of implements of labour may be mentioned agricultural implements and the plant of a factory. They become worn with use. Just as the people consume provisions and wear out clothing materials out of the seven hundred million Production, they will also, in the course of the year, use up and consume another part of the seven hundred million Production, called implements of labour.

Among the people there are producers who are especially engaged in making implements of labour. When the manufacture is complete, these producers take their finished implements, which now form a part of the seven hundred million Production, to the merchants, and receive gold in exchange. The gold is divided among the producers and their assistants to be used for the repurchase of the production. They will not, however, repurchase their own implements, but choose, say, agricultural produce and clothing materials, leaving the producers of these articles, the farmers and woollen goods manufacturers, to repurchase the implements.

As regards the last-mentioned producers, the labour-employing farmers and woollen goods manufacturers, after delivering their products to the merchants, they must divide the gold they receive into three parts. One of these they give to their assistants, for them to repurchase suitable articles from the seven hundred million Production ; the second part the employers keep themselves, and use for repurchase from the seven hundred million Production in the form of implements of labour ; and the third part the employers also keep themselves, to be used in repurchase for the maintenance of life.

Some will moreover be saved, as will be explained in a later chapter.

§ 48. What is Meant by Taxes and Duty ?

Every inhabitant must part with a portion of his share of the country's production for the year to the State, each one giving proportionately to the size of his share. This portion is grouped under the head of taxes, or duty. If the people of Norway by their work next year produce products worth seven hundred million krones in gold, the State will take, say $\frac{1}{10}$ of these products as taxes and duty.

Taxes and duty are in reality the same thing. They both partake of the nature of levies, only differing in the manner in which they are given to the State.

In days of old taxes were often paid with products in kind, but this custom has long passed into desuetude. Nowadays gold is always used as the medium for the distribution of the year's production, of which the taxes form a part. The producers take next year their seven hundred million Production to the merchants, receiving in return seven hundred million krones in gold, whereupon the products are to some extent exchanged for foreign goods, and are then repurchased by the possessors of the gold. The latter must first hand over, say, $\frac{1}{10}$ of this gold, or seventy millions to the State, which repurchases with it $\frac{1}{10}$ of the production. The repurchasing gold, not the products themselves, is taken to the tax-receiver.

By the word taxes is generally understood the seventy millions in gold; but in reality taxes consist, as we have said, of the seventy millions' worth of products that are repurchased with the gold.

§ 49. How are Taxes and Duty exacted by the State?

Taxes are paid in the form of repurchasing gold to the tax-receivers. When the producers have received the gold from the merchants in return for the production, and the gold has been divided, the producers and their assistants all have to go to the tax-receivers. The true producers and their numerous direct and indirect assistants, e.g. labourers, sailors, teachers, doctors, lawyers, artists, men of science, etc., are joint owners of next year's seven hundred million Production. Out of the seven hundred millions in gold received for the production and intended for its repurchase, they must all pay something to the tax-receiver as taxes. Each one pays a certain percentage of his gold, or income as it is ordinarily called. The gold with its repurchasing obligation, is then taken from the tax-receivers to some bank where the State has an account, and its deposit there gives the State the right to repurchase with the gold from the seven hundred million Production.

The exaction of the particular tax called duty is done in another way. The State here employs the importers as tax-receivers. Suppose that out of next year's Norwegian seven hundred million Production, two hundred and fifty millions' worth of Norwegian products are exchanged for foreign products. When these two hundred and fifty millions of foreign products are brought by the importers to Norway, the Norwegian producers and their assistants, or the people, will desire to repurchase the products. Out of their seven hundred millions of repurchasing gold they take two hundred and fifty millions, and repurchase from the importers two hundred and fifty millions' worth of products from the seven hundred million Production, in the form of foreign goods. But in order to be allowed the repurchase, they must further give the importers out of their seven hundred millions in gold, let us say twenty-five millions as duty, to be paid by the importers to the State. In order to obtain the foreign goods, the people must pay their cost plus the duty. These twenty-five millions in gold are under an obligation to repurchase products for twenty-five millions from the seven hundred million Production. This right has hitherto belonged to the people, but has passed from them to the State. In reality, products for twenty-five millions from the seven hundred million Production are transferred to the State as duty. The gold given to the State may in a sense be regarded as a certificate of their right to take these products.

Duty has also another peculiarity in addition to that of being demanded by the importers on behalf of the State. It is a tax that is only exacted of those who refuse to repurchase home products, and require them to be exchanged for foreign products. Every one can therefore avoid the tax called duty by abstaining from the use of foreign products.

§ 50. How are Taxes and Duty utilized ?

It is, as indicated above, to the State that taxes and duty are paid. By State is meant both the government of the country, and the governing bodies of the several provinces, towns, and country parishes. Each of these four bodies can levy taxes. Duty is paid to the Government only. It is usual in some countries for duties to be exacted for permission to bring products into towns from the country (octroi) ; but this is not taken into consideration here.

The object in exacting taxes, duty included, is in the main the same whether the tax is imposed by the Government and parliament, or by the corporations that govern the smaller communities into which the country is divided. The employment of the tax is very similar in both cases, and may therefore be treated as one.

The idea of a tax is that it shall be employed for the mutual good of the tax-payers. Presuming, therefore, that the taxes are employed in accordance with this object and in the right manner, the tax paid by the individual can in reality be said to be employed in the same way as his other share of the production, namely, for his bodily sustenance and the improvement of his circumstances. The only difference is that the State determines for him the employment of his share of the production that is taken as taxes, while on the other hand, he himself decides how he will employ the rest, for instance, whether he will consume little in his home, in order to be able to use the surplus for travelling, or use it all at home.

The number of undertakings which the State engages in, in its desire for the good of the individual, increases in Norway from year to year. In consequence of this the taxes also increase. The portion which is taken as taxes from each man's share of the year's production, shows a constant tendency to increase. Among the public objects in Norway may be mentioned—

The founding and working of hospitals and lunatic asylums, and of various kinds of educational institutions, such as the university in Christiania, the board schools, grammar schools, agricultural colleges, technical colleges, schools for defective persons, etc.

The building of warships, fortresses, barracks, post-offices, prisons, town-halls, lighthouses, etc.

The making of roads, streets, railways and tramways, canals, breakwaters, and the laying of telegraph and telephone lines, etc.

The procuring of uniforms, horses, arms, ammunition, provisions, etc., for the army, navy, and police force.

Grant towards the development of the steamboat traffic along the Norwegian coast.

The investigation of misdemeanours, and the maintenance of courts of law for the judging of such cases as well as of civil cases.

Sanitary inspection, machinery to prevent epidemic diseases, and the supply of cheap or free medical aid for the poor.

The superintendence of the large fisheries, which are carried on at certain seasons, chiefly along the west coast of Norway.

The inspection of factories for the enforcement of the Factory Law.

Workmen's insurance.

The training and maintenance of the army, navy, police force, etc.

The maintenance of the members of the Government and of the Storthing, and of the numerous Government officers employed in the Government, and other similar objects.

From the above enumeration, which could well be further supplemented, it will be seen that the mode of employing the taxes might be divided into two main heads—(1) supplies, and (2) salaries.

As already mentioned, the taxes consist of products from the seven hundred million Production, which are not, however, handed to the Government in kind by the tax-payers, but remain temporarily in the hands of the merchants and their assistants, the tradesmen. What the tax-payers gave to the Government was the repurchasing gold, entitling to the repurchase of the tax-products from the merchants. The Government did not receive the products from the tax-payers, but must itself obtain the products.

The Government accordingly repurchases with the gold such products from the seven hundred million Production as it requires, such as arms, ammunition, cloth for uniforms, war-ships, provisions, implements for making roads and railways, locomotives, rails, telegraph-wire, building material, etc. Much of this, such as arms, is ready for immediate use, while other things, e.g., building materials, form only parts of future works. So much for supplies.

The next principal item consists of salaries paid to (*a*) the military and the police, (*b*) workmen engaged in the erection of public buildings, the construction of railways, etc., (*c*) public officials employed as teachers, employés, etc.

The State takes a part of the gold that is entitled to repurchase tax-products in the possession of the merchants and his assistants, and gives it as wages to the above-mentioned persons, authorizing them to repurchase with it corresponding tax-products. But a deduction is made ; these persons must also contribute something towards the common good, must pay taxes. Instead of reducing the quantity of the gold that is paid to them, the State prefers to pay them their full salary, and afterwards demand, as taxes, a portion of the repurchasing gold received by them as salary, or, as it may also be expressed, of their share of the State's tax-products, hitherto in the hands of the merchants and their assistants.

In addition to the two above-mentioned objects, supplies and salaries, the taxes are used for the interest and paying off of public loans, which will be discussed in a subsequent chapter.

CHAPTER VII

Increase in Population

§ 51. THE LIMITS TO THE GROWTH OF A TOWN

IN order that each individual, and those dependent upon him, may be able to live, he must first take part in the year's production, and afterwards obtain his share of it, when deposited with the merchants, in return for his certificates, the repurchasing notes, i.e. gold, which the merchants, on receiving the production, handed him directly or indirectly. This law applies to the country as well as to the town.

All the inhabitants of a town must therefore, either personally or through those who furnish them with their means of subsistence, take part in the creation of the annual production of the country, and receive a share of the same. There are many ways in which the inhabitants of a town may take part in this work. A town which is at once a capital, a commercial centre, a manufacturing town, the seat of a university, of art institutions and other similar organizations, offers the best chances in this direction. In such a town, the government officers, propertied classes, merchants, tradesmen, manufacturers, mechanics, labourers, military men, scientific men, artists, etc., will live a common life, all working together to complete the year's production of the country, to some extent directly, but principally as assistants of producers living both in and outside the town. As long as the town can accommodate an increasing number of such inhabitants its population will increase, but as soon as the limit is reached to the number of persons who can find employment in sharing in the productive labour of the country, the increase in the population of that particular town will cease. In that case the numbers will either remain stationary, or decrease; or in the course of time, when the conditions for an increased participation in the work of production may have returned, once more show a tendency to a corresponding growth.

There is therefore no need for anxiety with regard to a town which shows a constant increase in population. This increase merely indicates that the town is extending its facilities for contributing to the total production of the country. When the town has acquired so great a population that there is no opportunity for more persons to take part in this work, the increase ceases automatically.

With regard to the consumption of the volume of products, it is sometimes affirmed that the towns appropriate too large a share of the country's production, to the impoverishment of the rest of the land. In Norway this traditional jealousy is often displayed against the largest town in the country, Christiania. Complaints of this kind, however, are without real justification. The town of Christiania receives nothing as a gift from the rest of Norway, but gives full value for whatever it may receive. What Christiania takes for its own use from the country's seven hundred million Production is no present. Christiania works with the rest of the nation in completing the country's seven hundred million Production, and for this work a share of the production is due to it. If this share is large as compared with that which falls to the lot of others for work contributed, the reason is that large towns, owing to various circumstances, can effect comparatively more towards the furtherance of the production of the whole country than is generally possible for the rest of the inhabitants.

§ 52. Overpopulation

The remarks in the preceding paragraph relating to the limits to the growth of a town population, also apply to rural areas. The same rule, namely, that the growth of the population keeps pace with the growth of production, holds good for the single farm, the parish, the province, and indeed the whole country.

The births in a region may, in the course of years, exceed the deaths, or a large addition of fresh settlers may take place. If, at the same time, the soil, the mountains, and the sea, can be made to yield an increased production, or increased manufacture of foreign raw produce is started, the region will still, in spite of the larger population, afford them all a livelihood. But the limit must at last be reached to the productivity of the region. If the productivity fails to keep pace with the growth of population the inevitable result must be lack of employment for the surplus population ; they will have no chance of participating in the creation of the country's annual production, and may, indeed, be altogether excluded from participation in it. The consequence of this is that when the producers have taken next year's production to the merchants and received gold in exchange, to be divided between themselves and their assistants, and to be employed in the repurchase of the production, these supernumeraries will receive little or none of this gold, for they possess only a very small share, perhaps none at all, in the year's production, which has come into existence without any particular co-operation on their part. If this inactivity on their part lasts too long, they will fall into poverty, poverty that may become irremediable unless they are able to emigrate. This surplus population poverty is responsible for the constant phenomenon to be met with in most industrial countries, of migrations from country to the towns, and from one town to another, as well as from one country to another. From Europe constant streams of producers pour forth to occupy the lands of weaker races, there once again to begin the work of production. What will happen to the surplus population among the European races, when there is no more vacant land to be found is a question upon which it is idle to speculate.

CHAPTER VIII

Savings

§ 53. WHAT IS MEANT BY SAVINGS?

IN Norway next year, there will be saved, let us say, seventy millions. What is thus saved is not gold, however. The very fact that if the Norwegian savers were to save seventy million krones in gold a year, the country's store of gold would have to increase by seventy million krones annually, is sufficient proof that the saving cannot be in gold; otherwise in the course of comparatively few years Norway's stock of gold would have risen to thousands of millions, whereas, as we know, the Norwegian nation, after an existence lasting over many thousands of years, at the close of 1901 have saved no more in the shape of actual gold than forty million krones in gold coinage.

What is saved is in products not in gold. It has been assumed above that next year the people of Norway, with their work, will complete a production worth as much gold as is contained in seven hundred million krones in gold coins. The greater part of this the nation is obliged to consume in the maintenance of life and in personal comfort, and in payments to the State in the form of taxes. What thus goes towards the maintenance and personal comfort of the producer, including taxes and duty, does not, however, make up the whole of the seven hundred million Production. The producers and their direct and indirect assistants, or in other words, the entire nation, next year leave, say seventy millions of the seven hundred million Production unused; they save these seventy millions' worth of products. When a doctor to take a single example, next year makes 20,000 krones, and out of this saves 2,000, this means that his share of next year's seven hundred million Production may be valued at 20,000 krones in gold, and that of these products he uses $\frac{9}{10}$, and leaves the remaining $\frac{1}{10}$ unused.

In spite of the actual state of the case, it is generally believed that those who save, save gold—seventy million krones in gold ; and this popular idea is based on the fact that gold is used as the means of selling the production.

The people, i.e. the producers and their assistants, will gradually give, next year, the whole seven hundred million Production to the merchants in return for seven hundred million krones in gold, to be used for the repurchase of the production. The whole of the seven hundred million Production, both the $\frac{9}{10}$ intended for the maintenance of life, and the $\frac{1}{10}$ intended to be saved, will then be in the hands of the merchants and their assistants, the shopkeepers. If the people determine to save, and therefore refrain from consuming seventy million krones' worth of products, this is not done by their putting away those products, for they no longer have them in their possession. The saving must be *made in some other way, and is effected by the people refraining from repurchasing and taking away the seventy million krones' worth of products from the merchants and shopkeepers, in the mean time keeping the gold.*

As it is the gold that the people in the meantime put away and apparently do not use, it is natural to conclude that the gold is the object of all saving, and to overlook the true state of the case, namely, that it is products that are saved, not gold.

§ 54. TRANSFORMATION

It has just been said that those who save leave the saved seventy millions' worth of products with the merchants and their assistants, the shopkeepers, and for the present keep the equivalent gold intended for the repurchase of these saved products. This intermediate state cannot, however, last long Either those who save, or their agents, will sooner or later repurchase the saved seventy millions' worth of products from the merchants.

What will they do with these products valued at seventy million krones, which they refrain from using next year for their maintenance and personal comfort ? In accordance with the previously given explanation of Norway's seven hundred million Production, the seventy millions' worth of products will consist chiefly of dried fish, grain, milk, butter, meat, timber, ore, clothing materials and other manufactured goods, bricks, lime, etc. Some of it will probably be added to the country's earlier stores of goods. But very few of those who save will find any advantage in putting away articles of the kinds enumerated. Another use must be found for them. The greater part of the unused, or saved products must be transformed into other articles better fitted for accumulation. Some of them must be consumed, and some further manipulated, in order to be transformed, by means of these processes, into articles of which those who save can make constant use. To this end the merchants will first have the saved Norwegian seventy million krones' worth of products partly exchanged for foreign products and articles. A few of these foreign articles will immediately, without further manipulation, be incorporated in the country's earlier store of accumulated articles. As an instance of this may be mentioned steam-ships imported from abroad. The rest of the foreign exchanged articles will consist of the necessaries of life, metals, coal, machines, and other articles of a similar character. At this point in the process the remaining part of the saved products are represented partly by Norwegian and partly by articles of foreign manufacture. When those who save have received all these articles from the merchants and their assistants, the shop-keepers, in return for the repurchasing gold, they hand them to a new class who, while they subsist upon the necessaries of life, will use the other articles for the production of new houses full of furniture, new factories, new railways, the cultivation of fresh tracts of land reclaimed from bogs by drainage, etc. The savings are now represented by permanent objects, and not by gold or parts of the year's production.

In actual life, perhaps in most cases, these who save will not personally see to the taking away of the goods from the merchants, but will give the gold to the class above referred to, and let them go to the merchants' assistants, the shopkeepers, to reclaim, by the aid of the gold as their certificate, the supplies of necessaries, materials, etc., belonging originally to themselves as producers. These supplies pass, as a rule, direct from the traders to this intermediate class which is engaged by the producers to transform the saved supplies into houses, factories, railways, cultivated land, etc.

There exists a numerous class occupied in the manner just indicated, in taking the saving producers' unused products from the country's annual production, and transforming them into permanent objects. Theoretically speaking, all these persons form a special class, separated from the bulk of the nation who are occupied in the creation of the year's productions, such as farmers, fishermen, miners, etc. Practically, however, there is no such difference. No one would dream of distinguishing between workmen in a cotton-factory and workmen in a dock-yard, because the former take part in the labour of completing the year's production, while the latter transform articles that have been saved out of that production into steam-ships.

The transformers, as already mentioned, receive a part of the seventy million krones' worth of saved products in return for their trouble. They make the same use of their share as the rest of the nation, namely, for means of subsistence, taxes, and savings.

§ 55. A Man who Saves can Personally Direct the Transformation of the Products he has Saved

Those who save can have their unused share of the country's annual production transformed by the aid of assistants, engaged for that purpose, into permanent objects. This in effect was the sum and substance of the process described in the preceding paragraph. A manufacturer, for instance, saves next year out of his share of the country's production, goods to the value of 100,000 krones, and makes over the gold intended for the repurchase of these saved goods, to providers of building materials and machinery, and to various kinds of workmen. These new owners of the repurchasing gold therewith acquire the manufacturer's unused share of the country's annual production, and use it to maintain life and for other purposes, making in return an extension of the manufacturer's premises. While the building is going on, the manufacturer himself is present, and inspects the progress of the work. Under his own personal supervision the assistants engaged by him have transformed the products he saved into a permanent object, consisting of an addition to his factory, filled with new machinery.

Such a man will often, before he starts the transformation, wait many years before he repurchases his saved products. When sooner or later he finds that these saved products have accumulated to a sufficiently large amount, and that there no longer exists any reason for putting off the repurchase of the preceding years' savings, he has them transformed simultaneously in the manner described above.

§ 56. Association

It is, however, comparatively seldom that any one who saves possesses so large a share of the country's annual production, that the products that he saves out of it and does not use, can acquire such large proportions that he can make of them a permanent object of considerable value. It will take no small share of saved products for every single steamer, or factory, or railway, that is made next year. As a rule, it is beyond the power of the individual saver to lay by a quantity of products such as would be required for the production of a piece of property answering in value to the three just named above. Most of those who save must therefore be content to possess a fractional interest in such objects. And it is just here that combination or association comes into play. Several of those who have possession of accumulated products can combine for further production, leaving their accumulations in the hand of a common agent or lend them to some individual or group of individuals who chooses to borrow them for this purpose.

The agent, or the borrower, then has the products transformed into some permanent object of a new character. In the former case, the association receives the name of joint-stock company, or limited liability company ; in the latter case where the products are lent, the group of producers who lend will as a rule be composed of the despositors in a bank.

The profits in the coming year from the objects thus created, are divided among those who saved, in the first case as dividends, and in the second as interest. In other words, those who saved become entitled, through the factories, etc., in which they are interested, to shares of each year's production, and receive repurchasing gold (dividends or interest) with which to repurchase those shares.

§ 57. Joint-stock Companies

Joint-stock companies may be divided into two different kinds. Some of them are based upon previous transformation of saved products. As belonging to this class may be mentioned companies owning factories, mines, vessels for deep-sea fishing, telegraph-lines, railways, steamships, etc. Other joint-stock companies, on the other hand, have never, in the course of their operations, transformed saved products. Among these may be classed banks, insurance companies, and companies owning forests, etc. This latter class does not concern us in the present paragraph. We will confine ourselves here to a company carrying on manufacturing operations, and show by an example how one who saves only a little, employs the manager of a company such as this as his agent, to transform saved products.

Suppose a company, with a share-capital of four thousand shares of 500 krones each, is formed next year for the building of paper mills. Suppose also that a Civil Servant saves products to the value of 500 krones out of his share of next year's seven hundred million Production, and is not able himself to do anything with them, because, among other reasons, of their small amount. He will be able to take a share in the new company, and become the possessor of $\frac{1}{4000}$ of the mills. The Civil Servant, as before stated, does not himself possess the products to the value of 500 krones; they are in the possession of the merchants and their assistants, the shopkeepers. But in a roundabout way (taxes) he has received 500 krones in gold from the producers, who, in return for gold, handed over all the Norwegian products to the merchants, to be partially exchanged for foreign goods; and this gold entitles him to demand from the traders products to the value of 500 krones in gold.

The Civil Servant now delivers his 500 krones in gold to the future company's board of directors, who perhaps again use the gold to pay a day's wages to the workmen employed in the erection of the mills. The workmen will thereupon with their 500 krones in gold establish themselves as claimants upon the shopkeepers, as entitled to have delivered to them the Civil Servant's saved products to that amount. By this it is not meant that the Civil Servant's unused products are kept separate in a heap by themselves. Everything is mixed up together; and just as the Civil Servant could have pointed to any of the shopkeepers' wares not exceeding an aggregate value of 500 krones, and declared them to be the very articles that he considered to be his saved products, so can the workmen; for without knowing it—they are ignorant as to whence the company obtained the 500 krones—they have inherited the Civil Servant's rights. The workmen will choose necessaries to the value of 500 krones, and use them for the subsistence of themselves and their families during the next two days, while they continue their work of building the mills.

Perhaps the directors of the company require another shareholder's saved products, worth 500 krones, to be given out in the form of building-materials, which the workmen use during these two days.

The saved products of the Civil Servant and the other shareholder will thus, at the end of the two days, partly be consumed and partly have undergone fresh manipulation; but in place of their partly consumed, and partly transformed products to the value of 1,000 krones, there will now be a portion of the wall of the mills in course of erection, forming, in a manner, the Civil Servant's and the other shareholder's savings next year.

It is not only those who, like the Civil Servant, next year only manage to save products to the value of 500 krones, who give their savings to newly-formed companies, to be transformed by their directors into permanent objects, for those who save largely are accustomed to employ to an equally large extent this method for the transformation of their unused shares in the country's annual production.

What has been said of joint-stock companies is also applicable to a limited liability company, if the latter were to erect paper mills.

§ 58. The Acquisition of Shares in old-established Companies

Although not belonging directly to the subject under discussion, the case may also be included here of the civil servant employing his savings to buy out a shareholder in an already-established company, and giving him his saved products, or rather their equivalent in gold, namely 500 krones, in return for his share. The Civil Servant and the former shareholder have here changed characters; the Civil Servant has become the owner of a fraction of an old factory, and in return he has made over his saved share of next year's seven hundred million Production to the former shareholder. It now depends upon the latter, how the Civil Servant's saved products, worth 500 krones, are to be employed. Like the Civil Servant, he may give them to the managing director of a new joint-stock company, to be transformed into some of the future permanent objects of the company, or he may repurchase the 500 krones' worth of products that the Civil Servant had saved, and waste them in extravagant living.

What has just been said does not apply only to accumulated shares, but on the whole to all accumulated articles which any one who saved might take in exchange for gold really entitled to the repurchase of his saved and unused products. If he fails, either personally or through an agent, to use the gold for the repurchase of the saved products, with the intention of transforming them into permanent objects, and instead obtains with the gold a horse, or an estate or some other thing, it will then depend upon the former owner of the horse or the estate, whether the products of the man who saved will be preserved by transformation, or consumed and wasted in luxurious living.

§ 59. Transformation effected by Borrowers

Joint-stock companies, useful though they are for the investment of the small savers' unemployed shares of the national annual production, cannot be used for this purpose for all those who save. Shares, in Norway, are rarely of a smaller amount than 500 krones, which means that only those who have at least 500 krones' worth of unused products, can make use of newly-formed joint-stock companies for the transformation of these products. The innumerable savers of still less must therefore seek for some other means. And there is another. There is also a way for them to become interested, through their savings, in new factories, reclaimed land, etc., down to the smallest amounts. The method consists in lending.

The following example may serve to illustrate this A Civil Servant finds it impossible to save more than half the above assumed amount, so that only 250 krones in gold comes to him from the producers, and he is unable to take any shares and become owner of the $\frac{1}{4000}$ part of a paper-mill. Instead of this, he hands the 250 krones in gold into a bank—let us say that he chooses a savings' bank in the country, or some other bank that lends gold to farmers. Immediately afterwards a farmer applies to the bank for a loan of 10,000 krones, in order to drain and cultivate a worthless piece of bog, of which he is the owner. After cultivation the bog is to be worth 10,000 krones. Among the 10,000 krones that the bank agrees to give him are the 250 krones in gold representing the Civil Servant's share of the total of next year's saved products, worth, according to § 53, seventy million krones. The Civil Servant, if he had so wished, could have proved his own identity to the traders at owner of this share, and have declared, in giving the gold, that he regarded various spades, harrows, or ploughs, to the value of 250 krones, as forming his portion of the saved seventy millions of next year's products; and the articles would have been handed over to him. But instead of going to the traders himself, he leaves the farmer to act on his behalf. The farmer receives the Civil Servant's gold from the bank, and takes away from the traders the above-mentioned implements, and thereupon, partly with them, cultivates his bog. After the work is completed, the farmer continues, as we know, to be the owner of the bog in the eyes of the law, but as it was only by borrowing saved implements to the value of 250 krones from the Civil Servant, and other saved articles to the value of 9,750 krones from other lenders, that he was enabled to drain the bog, the improvements ought strictly speaking to belong to the lenders, in which case the Civil Servant would be the owner of $\frac{1}{40}$ of the bog worth 10,000 krones after cultivation, which is exactly 250 krones.

But as already stated, the Civil Servant's saved products in their altered form, $\frac{1}{40}$ of the bog, no longer belong to him. The farmer has not only borrowed them, he has become their owner in their new form of reclaimed bog. The saving Civil Servant must be satisfied with having an interest in them, and as a visible sign of his interest, he receives annually part of the production of the bog as interest and repayment.

The savers of quite small amounts are not the only ones who, through the instrumentality of agents called borrowers, have their saved products transformed into permanent objects. The savers of large amounts, indeed even of very large amounts, also employ the same means. The same conditions, as already mentioned, could be observed in the taking of shares.

If savers of large amounts act as lenders, it sometimes happens that they lend directly, but it is most usual, as explained above, to employ a bank as medium.

As will have been seen, there is one point in which there is some difference between the transformation effected by new joint-stock companies formed for this purpose, and the transformation by borrowers. In the first case the saver's right of ownership in the savings in their new, transformed shape, does not entirely cease, as it does in savings transformed by borrowers. The saver becomes joint-owner of the new object, if he is a shareholder, but is only interested when the form of a loan is employed.

§ 60. Lending of Share Capital

According to the preceding paragraph, the saver can either personally, or through the medium of a bank, lend gold entitling the borrower to the repurchase of the saved products, to transform them into permanent objects. Besides these two methods for the delivery of such gold to the borrower, there is also a third way in which this can be done. It is true this third method is of little importance compared with the first two ; but it may be included here for the sake of completeness.

Among the joint-stock companies that had nothing to do with transforming products, were mentioned above banks and insurance companies. If an invitation is issued for the formation of a company such as this, and if the undertaking is considered promising, the next step will be that those who save will take shares in the proposed company. They will give to the company's directors their repurchasing gold to the amount of the shares they have taken, to be used for the repurchase of their corresponding shares in the seventy millions' worth of saved products next year. The manager of the new bank or the new insurance company has no opportunity, however, of having these products transformed. It does not come within the province of these two companies to have the saved products that they expect to repurchase with their paid-up share-capital transformed, for instance, into a factory, as is the case with the industrial companies. The bank and the insurance company chiefly need their capital as a guarantee fund to strengthen their reputation The directors of the future bank and the future insurance company cannot undertake the labour of transforming the saved products that are awaiting repurchase with the gold paid in as share-capital. They must find agents to perform this transformation, and for this purpose may choose borrowers. They lend their capital to persons, who with it will take the saved products from the raders, and transform them into permanent objects The company is under no definite obligation to select just these borrowers ; it may also lend the gold to persons who, instead of repurchasing its equivalent in saved products to be transformed, prefer to employ the gold in the acquisition of older objects. The sellers of these objects now become the owners of the repurchasing gold paid by those who saved to form the joint-stock company. Either these sellers of the older objects, or their successors in ownership in the gold, can thereupon accomplish both repurchase and transformation.

The word "new," in its application to both undertakings, was used intentionally, for if those who save choose to buy "old" shares in established banks or insurance companies, the case becomes a different one. Next year's saver then becomes the owner of a share, of which the equivalent gold has long ago been lent for the repurchase and transformation of the saved products of days gone by. On the other hand, the former shareholder becomes entitled to the unused share of next year's seven hundred million Production belonging to the saver, and still in the hands of the traders. The two have changed places It will now be in the power of the former holder of the share to determine how these saved products of next year shall be employed, whether they shall be wasted or transformed.

Perhaps he rids himself of the responsibility of decision by exchanging the saved products for a share in another old-established concern, or for horses, or any other old object, and thus the gold of the saver, received as an equivalent for his share of next year's seventy millions' worth of saved products, passes from hand to hand in exchange for old objects, until it stops—and with it the right to the saved products themselves, now in the hands of the traders—at an owner who does not wish for an old, already-existing object, but prefers to employ the gold, by lending it to be used by the borrower for the repurchase of the saved products, for the purpose of transforming them.

CHAPTER IX

Luxury

§ 61. DEFINITION OF LUXURY

IN connexion with savings, their opposite, luxury, may also be mentioned. As luxury, is here reckoned all that is superfluous. The consumption of products not strictly necessary, the employment of expensive materials for houses and furniture, the keeping of more servants than are required for one's personal attendance—these and other similar cases, all come under the head of luxury. The richer a man is, the greater is his opportunity of displaying luxury ; but it is not absolutely limited to the rich. It may be found in all classes of society, down to the poor, each one indulging in it in proportion to his circumstances. When, for instance, the poor man drinks gin, he is consuming a product which, strictly speaking is not necessary, and indulging in a small way in a luxury.

§ 62. CONSUMERS OF LUXURIES

As we have frequently mentioned, the people of Norway, with their assistants, will next year take their production to the merchants, and exchange it for about seven hundred million krones in repurchasing gold. Among other things, this production includes flowers produced by the nurserymen in their hot-houses, and gin, neither of which are absolutely necessary to maintain life, and therefore, according to the above definition, come under the head of luxuries. Out of the seven hundred millions' worth of Norwegian products, the merchants send timber, dried fish, etc., abroad, to exchange them for foreign products, among these being the luxuries, French wines and silks, South African diamonds, and American tobacco. The Norwegian producers and their assistants then appear with their seven hundred million krones in gold, and repurchase the production now composed partly of Norwegian and partly of foreign products, to utilize them (1) for the maintenance of life, (2) for transformation (see "Savings," §§ 54 *et seq.*), and (3) for luxuries. As regards the luxuries just mentioned, the well-to-do purchase both the flowers, which they use perhaps to lay on the coffins of dead relatives, and the foreign wines, silks and diamonds, while the poor repurchase the gin, and both classes repurchase the tobacco.

The wealthy, moreover, when they have repurchased, will use some of the repurchased products for the maintenance of their unnecessary servants, or give them to the persons who procure for them their expensive houses and furniture. In practice, this will in very many cases be done by the wealthy giving a part of their seven hundred millions in gold to these persons, who thereupon themselves repurchase its equivalent in products from the seven hundred million Production.

By abstention from luxury, the nation would see their savings proportionately increased. We will endeavour to explain this more clearly. In Norway, luxuries can be classed under the three heads (1) consumption of luxuries of Norwegian produce, (2) consumption of luxuries of foreign production, and (3) the acquisition of expensive houses, keeping unnecessary servants, etc.

It would be difficult to say accurately how much of the above-mentioned luxuries of Norwegian production, hot-house flowers from the nurserymen, and gin, is produced annually; but we will here give an altogether arbitrary figure, and put it at the value of one million krones. It is supposed that of the year's Norwegian production of seven hundred million krones, one million consists of the above-mentioned two Norwegian luxuries, and six hundred and ninety-nine millions of other products. By the aid of the traders and the employment of gold, the owners then take one million out of the six hundred and ninety-nine million products, and exchange them for the two luxuries.

Let us for the sake of argument imagine that every one determined to give up the use of hot-house flowers and gin. The production of these articles must cease, and the following year's production will fall from seven hundred to six hundred and ninety-nine million krones in value. How, in such a case, it would fare with the producers of the one million krones' worth of luxuries, the next paragraph will show. Here it is only a question of the effects upon those who renounce their accustomed luxury. They formerly had to give one million out of the six hundred and ninety-nine millions' worth of products in exchange for the one million's worth of luxuries ; now, as these luxuries are no longer produced, and cannot be obtained by exchange, the above-mentioned persons must keep their one million products for the present. What will they then do with them ? They might consume them, to make up for having renounced the two luxuries ; but this is scarcely probable. If people left off using hot-house plants and gin, they would not therefore consume more meat or bread, or more material for clothing than before. As they thus will not themselves consume the one million products, which they can no longer exchange for the two luxuries—for the production of the latter has ceased—they are compelled to save the products, and in consequence of this put into the banks their gold that is entitled to repurchase the products. From the banks the gold is lent to transformers, who repurchase the one million products, and transform them into permanent objects as described in §§ 54 *et seq.*

The same thing would take place as regards imported foreign luxuries. Whereas hitherto Norwegian timber, fish, etc., have been exchanged to a great extent for foreign luxuries, these Norwegian goods would henceforth be exchanged for foreign machinery, building-materials, necessaries of life, etc., to be added to the saved products in Norway, and used for transformation.

The products that were formerly given to the fitters-up of the expensive houses, and to the unnecessary servants, would also henceforward be kept back ; and as the products thus kept back could not be consumed by the producers and their assistants either (cf. above), these products would also remain unused, that is to say, saved and transformed.

Those persons, who, in a previous paragraph, were supposed to save $\frac{1}{10}$ of next year's seven hundred million Production, would henceforth perhaps save double that amount, or $\frac{2}{10}$. Instead of seventy millions, there would be annually one hundred and forty millions of unused, saved products in Norway, partly of Norwegian, and partly of foreign origin, all awaiting transformation.

If the above chain of reasoning is correct, a decrease in luxuries will mean for the nation an increase in their savings, their wealth. This fact alone should be sufficient inducement to any nation to keep its inclination towards luxury within reasonable limit. To put a stop to it altogether is, for several reasons, out of the question, one reason being that man does not live merely to gather riches, but among other things to enjoy them and let others enjoy them. Luxury proportioned to each man's condition in life is needed to make existence pleasant and to stimulate to fresh production. The thing is to discover the happy mean; and it must be left to each man's common sense to discover this. Prohibitions against luxuries, such as the sumptuary laws issued by governments in past centuries, are never likely to be repeated in our own day.

§ 63. THE PRODUCERS OF LUXURIES

We sometimes hear it affirmed, as an argument in favour of luxury, that if the wealthy indulge in luxuries, at any rate many others gain their bread thereby. A great number of people employed in the production of articles of luxury, or in some other way making it possible for others to satisfy their inclination for luxury, would await the future with anxiety, if the demand for these contributions were to cease.

There is no fallacy in this proposition. If any such cessation of luxury could be imagined, in Norway the superfluous florists, gin-producers, bricklayers and servants, recently mentioned, would have to seek some other employment, (cf. § 52 on Overpopulation). A time of want would ensue for them, continuing until they had found some new employment. The following circumstance might perhaps contribute to shorten their time of waiting. The creation of the Norwegian national production would still go on after the cessation of luxury, with the single exceptions of hot-house plants and gin. That part of the year's production which the people had hitherto given to the nurserymen and the gin-producers in return for their productions, would still be in existence in the country; but instead of being given to these persons, it is saved and left with the transformers to be changed into permanent objects. In the transformation there would also be used the Norwegian products hitherto exported to be exchanged for foreign luxuries, and those products that have been left until now to the furnishers of expensive houses, and to unnecessary servants, etc. As a consequence of this, more transformers would be required in Norway, and by degrees the unemployed Norwegian florists, gin-producers, bricklayers and servants might enter these situations.

In a country like France, the case would be worse, if all over the world, France included, everybody refused to use the articles of luxury, wine and silk. The point of difference is that while in Norway there are only a few persons occupied in working to satisfy the wants of lovers of luxury, in France there are many such. The production of luxuries, which in Norway is small and not nearly enough to meet even the nation's own requirements, in France is so extensive that the country itself can only use a small part of it, and exports the very considerable remainder. The saving of products that results from limiting luxury, mentioned in the preceding paragraph, would therefore, in the case of abstinence from the use of wine and silk, take place only in a small degree in France, the greater part being done in other countries. Only a few of the saved products would belong to France ; most of them would be in other countries, and would belong to the persons there who no longer used wine and silk. When the former French wine and silk producers and their assistants, after the stopping of these businesses, want to find work with the new transformers of products saved in consequence of the nations having given up wine and silk, they would find only a small proportion of these transformers in France, the greater number of them being in other countries.

The above, however, are only hypotheses, drawn to illustrate the nature of the production of luxuries. And they are hypotheses never likely of realization : men will never give up their luxuries.

§ 64. Would the Total Production be Reduced, if Luxury Diminished ?

Luxury will never altogether cease. On the other hand, it is possible that the requirements of the times as regards luxuries may be curtailed.

It might then be asked what influence such a decrease in accustomed luxuries would have upon the amount of the total production. It would be difficult to give any decided answer to this question ; but it can at least be said that the amount of the total production would be reduced by a quantity equal to the discarded luxuries. In Norway's aggregate seven hundred million Production, we have supposed that there were hot-house flowers and gin to the value of one million krones. If the use of these articles were curtailed to the extent of one half, the value of the country's production would fall from seven hundred to six hundred and ninety-nine and a half million krones.

But as a set-off, the producers of the six hundred and ninety-nine and a half millions would save, by reducing their luxuries, half a million of other products (as explained in §§ 62 & 63), and this saving can be transformed into productive objects. When this is continued for several years, the profits from these newly-made productive objects will again bring the amount of the production up to seven hundred millions and more.

A decrease of fifty per cent. in the demand for French luxuries would be of more serious consequence to the amount of France's production than in a country such as Norway, because the corresponding saved products available for transformation, are for the most part, not in France, but in other countries, and belong to foreigners. The transformation of these saved products into productive objects would therefore cause only a small increase in the French production, and only slightly make up for the decrease occasioned by the fifty per cent. smaller demand for French luxuries.

It has been supposed all along that there were opportunities of transforming into productive articles all products saved by a decrease in luxury. But the result would be different if such transformation of saved products were not capable of accomplishment, because there were already factories and steamers enough all over the world, or because all the land was cultivated so that no more saved products were required for its improvement, or for any other reason. In this case the products saved by the curtailment of luxuries do not occasion any increase in the production of subsequent years. This would be diminished by 50 per cent. of luxuries, with no compensation for the diminution in increased production in other departments. The amount of the total production of the country would be diminished in consequence of decreasing luxury ; and at the same time both the consumers and the producers of luxuries would suffer, the former through having renounced the former luxuries without receiving compensation in the shape of increased wealth, and the latter through being deprived, not only of the opportunity of taking part in the production by the preparation of luxuries, but also of the prospect of fresh occupation as assistants to the transformers of saved products.

Considering the difficulty in having the saved products transformed, it would be best for all parties in the State that luxuries should suffer no diminution.

CHAPTER X

Deposits

§ 65. The Safe-keeping of Accumulations in Early Times

In early days, in the Middle Ages and even later, the owner of coins had to undertake the work of storing them himself. He was obliged to keep them in his house, and run the risk of losing them by robbery or fire. There is a story of Pope, the English poet's father, who was a London merchant. Being desirous in his old age of retiring to a country estate there to spend the last years of his life, he first arranged his affairs in London and found himself in the possession of some thousands of pounds in gold. For want of any other way of storing this money, he was obliged to transport the whole of it to the country, where he used the money during the years that followed to pay his household expenses. The gold gradually diminished, but he had this diminishing store lying for several years in his house in the country, shut up in frail receptacles, and a temptation to all the thieves of the district.

When, in the course of time, bank-notes came into use, the same difficulty was experienced with regard to their safe-keeping.

§ 66. Banks and Deposits

All these disadvantages vanished upon the establishment of banks intended to receive deposits. It is said that the first banks of this kind were started in Northern Europe by some goldsmiths in London, who borrowed the custom from Venice where goldsmiths kept special fire and robber-proof rooms for their own jewels and unwrought metal. Private persons gradually began to come to them with their gold, to have it safely stored, paying something in return for the trouble and risk incurred. With some of the goldsmiths this branch of their business at last became so extensive that they shut up their workshops and devoted themselves exclusively t , taking care of other people's money. Their goldsmith's shops had become banks for deposits.

Since then the example from London has been followed by innumerable other towns all over the world, though goldsmiths are no longer used as the connecting link. Private persons, and more especially joint-stock companies, undertake in our day to keep banks in which to receive for safe keeping the money of depositors.

§ 67. What is Deposited?

According to the two preceding paragraphs, it is gold and notes that the banks undertake to receive. The deposits consist, therefore, principally of gold and bank-notes.

As regard the gold coins, it must be remembered that the gold coins that are security for the notes are kept in the bank of issue, and not in the deposit banks, a circumstance already touched upon in § 9. It is therefore only with the gold that is in circulation that deposits of gold can be made in the banks. If there is much gold circulating in a country, some of the deposits will daily consist of gold coins. On the other hand, where, as in Norway, all the gold, practically speaking, is lying in the bank of issue, the banks receive very few deposits of gold.

Gold and notes, however, are not the only media which depositors employ in making a deposit; there are also other media, cheques among others.

But at present we shall consider all deposits as though made with gold. This assumption moreover practically coincides with the actual process since notes and cheques can claim to be cashed in gold.

§ 68. The Depositors

The gold intended for the repurchase of the year's seven hundred million krones' Production, was called, in § 31, re-purchasing gold. It is owned, among others—

By manufacturers, to be used to pay work-people's wages, and for various purchases from the seven hundred million Production.

By the Government as taxes, to be used to pay the salaries of Government officials, or for purchase from the seven hundred million Production, e.g. in the form of necessaries of war.

increase. With every year added to the age of the bank, the deposits will increase, provided that the bank is well managed; and this growing difference between the deposits made and those withdrawn the bank will lend out at interest.

The bank will lend some of the gold deposited to such persons as intend to transform saved parts of the year's seven hundred million Production. These tranformers, some of whom were mentioned in § 59, will repurchase with the gold the saved products from the merchants, or their assistants, the shopkeepers, and transform them into permanent objects, e.g. steamships.

Another portion of the gold deposited will be lent by the bank to the merchants. This gold, which has hitherto been ordinary gold, is given by the merchants to the producers and their assistants, that is to the people, for products from the year's seven hundred million Production. In the hands of the people, the gold becomes repurchasing, and remains so until it is once more utilized by the people to repurchase the production from the merchants, through the medium of the shopkeepers. The gold has then again become ordinary.

Lastly, the bank will lend the gold deposited to those who wish to exchange it for already-existing objects, such as securities, buildings, cultivated land, ships, and other properties. This gold we have previously called ordinary.

§ 72. Interest

When the various individuals mentioned in the preceding paragraph, apply to the bank for the purpose of borrowing the deposits, their object, as a rule, is to be enabled, by means of the loan, to take part in the following year's production, and become part owners of it.

The transformers who borrow intend to use the borrowed gold for the repurchase of saved and unasked-for products out of the year's seven hundred million Production, in order to transform them into, for instance, a steamship. When in possession of the steamer, he intends to offer his services for the transportation of products, whereby he contributes his part towards the completion of the production. In return, a share of the production is due to him.

If we turn to the borrowing merchant, it will be found that he employs the borrowed deposits to pay the producers when they bring him the products from the seven hundred million Production in exchange for repurchasing gold. It is the loan which enables him to undertake this work of participating in the distribution of the year's production, of which, by virtue of the loan, he can claim a share.

The case is similar with those who borrow from the deposits in order to exchange the gold for already-existing objects. Instead of borrowing with the intention of building a steamship, as we assumed above, they borrow, perhaps, in order to buy a steamer already in existence. In the last case too, the borrower, by the aid of the borrowed deposits, will take part in the year's production just as in the case of the newly built steamer. There are many other already-existing objects which he may purchase with the borrowed deposits, e.g. cultivated land, cattle, factories, etc. In all these cases the object purchased will make him a part owner of the following year's production.

Is he to keep the whole of his share of the production to himself? Is he not in fairness required to share the products with the bank, which enabled him, by its grant of a loan, to acquire these products? The last mode of procedure is the one followed. He must share with the bank, pay interest to the bank, as it is called. As in all other cases of the distribution of the production, however, the products themselves are not taken to the bank as interest. For his share in the production, the borrower will receive gold from the merchants, with the power of repurchasing corresponding products in the possession of the merchants, or their assistants, the shopkeepers. The borrower pays a portion of this gold to the bank as interest, and by so doing transfers to his bank his right to repurchase an equivalent portion of the production. The bank has also given its assistance towards the production, and received its share of the same.

A considerable amount of this interest is given by the bank to its depositors, through whom alone it had been possible for the bank to grant loans and thereby acquire a share of the production. The depositors have aided the bank by acting as its assistants during the production, and therefore themselves contribute help towards the completion of the production, and are in consequence entitled to a part of the production under the name of interest.

It will be seen that the deposit system in our day serves two purposes. Originally the depositor's only desire was to be relieved from the trouble of having to keep his money himself; but now it is his desire that the bank shall lend his money at interest during the period when he does not require it himself. Formerly he had to pay the bank for taking the money; now the conditions are reversed, and he receives payment from the bank for entrusting his money to it.

§ 73. The Nature of Deposits

When a deposit is made, the process is much as follows:—The depositor brings his money, say 1,000 krones, to the bank. which declares in a pass-book or on a piece of paper that he has a claim upon the bank for 1,000 krones; and this written declaration, or bond, as it may be called, is given up to him. At the same time the bank mixes up the 1,000 krones he has deposited with the rest of its money, to be paid out as soon as possible either to withdrawers of former deposits, or to persons desirous of taking up a loan in the bank.

Such transactions are repeated daily, and taken together amount to a very large sum. Since the establishment of the bank, there may have been deposited 3,025 million krones, and 3,000 million krones may have been again withdrawn. The difference, twenty-five million krones, is called the bank's deposits. The bank is in possesssion of deposits to the value of twenty-five million krones. Under ordinary circumstances these deposits will show a tendency to increase. After they have risen from nothing to twenty-five million krones, one hundred millions may perhaps be deposited the following year, of which ninety-nine millions are given to withdrawers of earlier deposits. It may now be said of the bank's deposits that they have risen one million—from twenty-five to twenty-six million krones.

These deposits of twenty-six millions are not, however, in the bank; they have gone out of the bank as payments to borrowers.

It will be apparent from the above, that a deposit, at the moment it is made, consists of money. Until then the depositor was owner of this money, but ceases to be so at the moment of making the deposit. In compensation for his lost money, he acquires a claim upon the bank. Deposits are therefore synonymous with claims upon a bank. If it be said of a bank that it possesses deposits to the amount of twenty-six million krones, this means that there are claims upon the bank for twenty-six million krones, or, looked at from the opposite point of view, that the bank has contracted a debt of twenty-six million krones to its depositors.

It will also be evident from what has been said that the word deposit is used to denote, not one idea only, but several. It means money and claims and debt. According to the orginal meaning of the word, with " deposit " we think of a sum of money deposited, of the 1,000 krones brought to the bank by the depositor, to repeat the example used at the beginning of this paragraph. There is nothing to be said against this. But in the next place the word " deposit " has also come to denote the depositor's claim on the bank for 1,000 krones. We say that he has a deposit of 1,000 krones in the bank. And further, the bank's indebtedness to him for 1,000 krones is also called deposit. In accordance with this, the twenty-six million krones which the bank owes to its depositors, is not called debt, but deposits. It may be useful to call claims upon banks, and debts that the banks have contracted by their proper names—not call them claims and debts, but something else ; but on the other hand, to use the same word to denote both these ideas, and further to choose the word " deposit," only tends to obscure in the mind of the ordinary man the right comprehension of the true nature of deposit. Experts will not let themselves be confused by the treble meaning of the word. They know that money that is deposited is lent as soon as possible by the bank, and that therefore the money paid in by a depositor disappears from the bank, from which again it may follow that a bank with large deposits may often possess a small amount of money ; they are fully aware that of deposits considered as money, the bank contains little, while at the same time there may be large deposits in the other senses of the word, the depositors' claims on the bank, or the bank's indebtedness to the depositors. The ordinary man, on the other hand, is not always alive to these shades of meaning. The word " deposit " calls up in his mind only the idea of money, money deposited, and not claims or debt. When therefore he hears the words " customers' deposits " and " banks' deposits " he will be inclined to imagine—what is contrary to the actual state of the case—quantities of money lying in the banks, and belonging to the depositors.

The misunderstanding arises, as we have said, from the extended meaning of the word deposit, and might have been avoided if the word had been allowed to retain its original meaning of money. The word "bank-book," for instance, might then have been used to denote the depositors' claims upon the bank; and the bank's indebtedness to the depositors might have been called, not deposits, but, for instance, "bank debts" e.g. bank debts of twenty-five millions.

The question as to how far deposit owes its existence to saving is also connected with the nature of deposits. To this it must be answered that perhaps the majority of deposits have nothing to do with savings. Gold deposited by insurance companies, factories and railways, or from the taxes, in no way represent savings. This is also the case with gold belonging to the traders, and temporarily deposited by them in the banks. A number of deposits are made with gold received in return for properties sold; and these deposits are not due to saving either. There remains to be mentioned the gold intended for the repurchase of the saved products of the year. If a person does not consume the whole of his share of the year's production, but leaves the products lying in the hands of the traders, and deposits in the bank the gold with which these unasked for, saved products may be repurchased, such a deposit has its orgin in savings.

CHAPTER XI

Income

§ 74. The Income of the Producers and their Assistants

In speaking of a man's income, we generally think of the bank-notes, i.e. gold, which he receives in the course of the year for his work, or from investments; but this definition is not quite accurate, as we have already pointed out in previous chapters. In reality it is his share of the year's production that forms this income. His income consists of a quantity of products, either produced directly by himself during the course of the year, or arising from a collection of products owing their existence partly to his co-operation. These products are not delivered over to him in kind by the producers, but in the first instance he is given notes i.e. gold, by means of which he obtains his products from their temporary storers, the traders. This roundabout process of handing over the products through middlemen, the traders, is employed in order to give every sharer in the production the opportunity of exchanging products with any other sharer in the production. He is therefore allowed, when taking his products, to point to any out of the country's seven hundred million Production, and declare the products so selected to be those that are due to him. The value of the products he chooses will naturally not exceed in equivalent value the gold which he has at his disposal.

Let us take the hypothetical instance of a man in Norway who has next year an income of 10,000 krones. This, if our previous chain of reasoning is right, means that out of next year's seven hundred million Production, a portion forming $\frac{10000}{700000000}$ or $\frac{1}{70000}$, of the total production, is due to him. This share of the total production is at present in the hands of the traders. From them, by a roundabout way, there has come into his possession 10,000 krones in gold, which practically serves as a guarantee that the goods will be duly delivered to him on demand. Or the 10,000 krones might be called a kind of ticket given him by the traders, which entitled him to receive his $\frac{1}{70000}$ of the production. It is in order to obtain these products that he takes part in the labour of production. These products form his income; the part played by the gold is only to help him to choose from the whole seven hundred million Production just that portion adapted to his requirements.

His income has consisted of a part of the year's production, its size, as compared with the whole production, being in the proportion of 1 to 70,000.

§ 75. How are the various Kinds of Income designated?

The word "income" is the general name for every person's share of the year's production. In the case of a great many producers and assistants, there is no other word but "income" to indicate their share of the production. Among these may be named owners of forests and mines, manufacturers, artisans and traders. In all these cases, their share of the production is called only income and not share.

On the other hand, there are persons whose shares of the production, besides the general name of income, have special names.

A working man's share of the production is often called earnings or wages; while we talk of the salary of a Civil Servant or an office clerk, the wages of an employé, etc.

A lawyer's or a doctor's share of the production is generally designated under the term of fees. A money-lender's income is usually called interest.

In speaking of insurance companies, the word premium is generally used to denote the shares of the production.

Railway companies call their share of the production "carriage" when referring to the conveyance of products, and "fares" where the conveyance of persons is concerned; while steamship companies term these particulars respectively "freight" and "passage-money" or "fares."

The post-office uses the word postage to designate income obtained from the carriage of letters, while income obtained from the transmission of telegraph and telephone messages is generally grouped under the head of charges or fees.

Shares of the production due to shareholders in joint-stock companies are generally called dividends.

These various expressions may be considered as special names all meaning the same thing—" income."

§ 76. The Transformers' Income

Paragraphs 54 *et seq.* have explained what is meant in this book by transformers. As regards their income, the remarks made in § 74 about that of producers will on the whole equally apply. The difference between the two classes is that the transformer does not obtain his share of the production through taking part in the labour of production, but through his work in transforming the producers' saved products into permanent objects. Some of these saved products from the year's seven hundred million Production are due to the transformers for their assistance, and form their income. In other respects the same remarks apply to both parties, those in § 74, on the part that gold plays, being especially applicable to the income of the transformers.

§ 77. The Socialistic Element in Certain Forms of Income

The Government, as already explained, claims a part of the repurchasing seven hundred millions in gold, or, to speak more accurately, the corresponding products, delivered up to it as taxes. It will also sometimes borrow from the nation's annual savings, and thereby supplement the taxes with gold entitled to repurchase from the Norwegian production of next year, here assumed to have a value of seven hundred million krones.

There has of late years been an increasing tendency among the public authorities in Norway to give part of the above-mentioned taxes or public loans to socialistic objects, such as meals to poor school-children, labourers' pensions, and wages to the holders of a number of little sinecures created for persons from the lower classes of society. The working population in this way receive as income part of the seven hundred million Production, without having contributed in any way towards the production of the products thus given away. The working classes receive this part of their income as a gift, whereas the producers and transformers have to work for their income.

§ 78. Income acquired by Foreign Loans

In several countries gold is borrowed from abroad to pay the wages of engineers and workmen engaged in public undertakings, such as the construction of railways, the cultivation of land, etc. It may sometimes happen that the servants of the Government, to a greater or less extent, receive their salaries from these public foreign loans. We will assume that next year, in Norway, a foreign loan is taken up for the construction of railways and cultivation of land. In what relation, in a case such as this, will persons paid in the manner described stand towards next year's Norwegian production, here put at a value of seven hundred million krones ? Will they be part owners in it ? Will persons in possession of foreign borrowed gold, be entitled to the repurchase of the production of their own country ?

The answer must be in the negative. Persons paid with foreign borrowed gold will not, so far as economical laws can predict, exercise their power to repurchase from the production of their own country. Their gold is saved foreign gold, with the power of repurchasing from the foreign production. Their income is represented by foreign products. The natural thing is, therefore, for the borrowed gold to go back to the foreign country, to be employed in repurchase there. There exists no arbitrary law which says that process must happen, but as a matter of fact the process is one which is found to happen.

But if these possessors of foreign borrowed gold repurchase with their gold in Norway, the saved and accumulated stock of Norwegian products will suffer, being correspondingly diminished. In such an eventuality, a similar quantity from next year's foreign production will be left un-repurchased, to be added to the saved and accumulated stores of foreign products.

§ 79. Income from a Rise in Prices

If a speculator takes 50,000 krones in gold, and with it acquires products from the year's national production, and if these products, when he subsequently parts with them, have risen in value to 60,000 krones, he has made 10,000 krones as a consequence of this rise in price. The products were originally delivered by the producers to the merchants in return for 50,000 krones in gold, to be divided among the producers and their assistants, and subsequently to be employed in the repurchase of the products still in the hands of the traders. In the interval, before the repurchase takes place, the products are handed over to the speculator, who in return is assumed to give 50,000 krones of ordinary gold to the traders, who have thus got back their gold. The speculator takes their place, and the producers and their assistants are supposed now to repurchase the products from him. When they come with their 50,000 krones of repurchasing gold to him, or his agents, or successors, to repurchase, they are told that the products have risen in value. In consequence of this, the producers and their assistants get back only $\frac{5}{6}$ of the products for their 50,000 krones of repurchasing gold. The remaining $\frac{1}{6}$ of the products, worth 10,000 krones, and belonging to the year's national production, is kept by the speculator. The products were not made by him, but by others, and belonged to those others. By his speculation in the rise of prices, however, the right of ownership in them has passed from the producers to him. By means of a rise in price and speculation, he has gained, at the cost of others, products from the year's production worth 10,000 krones in gold. He has become part owner in the year's seven hundred million Production to the amount of 10,000 krones, while on the other hand others have found their share of the same production diminished by 10,000 krones' worth of products.

Already-existing objects, such as real property, may also rise in price, and thereby enable their owners to make money by them. A man bought, for instance, in 1890 a piece of ground within the boundaries of the town of Christiania, for 200,000 krones. In 1898 he sold the property for 500,000 krones. He made 300,000 krones by a rise in price. In the sale of real property, the buyer is generally allowed to let part of the purchase-money stand over, by giving the seller a mortgage on the property. Only part is paid at once in gold. In the present case, we may imagine the purchaser to have settled the purchase-money, 500,000 krones, by giving the seller a mortgage-bond for 400,000 krones, and gold—i.e. notes exchangeable for gold in the vaults of the bank of issue—to the amount of 100,000 krones. What does this gold-payment of 100,000 krones mean?

The purchaser may have neglected to take away products to the value of 100,000 krones from his share of the year's seven hundred million Production, and so saved these products;

as the most important; but they are not the only ones. Man obtains his food directly or indirectly from the earth, at any rate most of it, and also what he requires for clothing, warmth and illumination. The soil further supplies him with a number of raw materials used in the erection of houses, the making of furniture, the manufacture of various things, such as paper, earthenware, china, chemicals, and many other things.

The mountains and the water, like the earth, contain various natural objects of wealth, such as metal-bearing mines; useful minerals, such as marble, sandstone, paving-stone, apatite, etc.; the fishing-banks in the ocean; places suitable for the obtaining of sea-salt; lakes and rivers containing abundance of fish; water-falls for working factories, etc. Indeed, even so unattractive a product as ice can be utilized, as Norway, with her foreign trade in ice, has experienced; and she can thus reckon lakes lying near the coast as among her natural objects of wealth.

Several of the natural objects of wealth here enumerated are a combination of natural conditions and human labour. Each of the natural objects of wealth, such as cultivated fields and iron-mines—to take particular cases—has been produced by taking a piece of land or mountain as they are found in nature, and then with human hands removing trees or stones from the ground, and mining the mountains.

§ 82. Objects of Wealth acquired through the Savings of Individuals

It has been repeatedly said that every year the producers take the national production to the merchants, and receive in exchange gold to be divided among themselves and their assistants, and to be used for the repurchase of the production. After the repurchase, the greater part is used for the maintenance of the life of the producers and their assistants, while the smaller, saved portion is transformed into objects of wealth. In Norway, with its seven hundred million Production, products worth six hundred and thirty million krones were supposed to be consumed by the producers and their assistants, and the remaining seventy millions to be transformed. The objects of wealth thus acquired by saved, and then transformed, products, are of the most varied kinds.

Saved products are annually employed for the cultivation of new land, or the improvement of old. In paragraph 59, such an instance was given where a bog was converted into cultivated land by the aid of the savings of a Civil Servant and others. Their saved products were repurchased with their gold, partly in the form of implements of labour, partly in the shape of necessaries. With these implements the bog was drained by the transforming labourers, who at the same time maintained themselves upon the saved articles of food. The products disappeared during the operations, but in return the useless bog was converted into a useful piece of land, on which corn waved or cattle browsed. The bog and the saved products have together, in a sense, been transformed into cultivated land. As a consequence of the savings effected, a new object of wealth, called cultivated land, has been acquired.

Saved products are employed in a similar manner in the transformation of other natural products, among which may be mentioned, as regards Norway, metal-bearing mountains and waterfalls. In many of the mountains of the country, silver, copper and iron are found. Before the metals can be obtained, the places where they occur must be made into mines, that is to say, shafts must be sunk, and galleries cut out in the rock, and engines must be set up, etc. Or if it is desired to use a waterfall for industrial purposes, it must be brought into working condition by the introduction of dams, channels, and turbines. Here too, the original savings, the products, have disappeared, but reappear in a new form as essential parts of the mine and the waterfall. The saved products have mainly contributed towards the acquistion for the country of these two new objects of wealth.

Saved products are not, however, transformed exclusively into parts of the natural objects of wealth, cultivated fields, mines, oil-springs, water-power, etc. It is perhaps even more usual to transform the saved products into objects of wealth produced entirely by human hands, such as dwelling-houses in town and in the country filled with furniture, out-houses, warehouses, banks, places of business, theatres, factories, steamers, fishing-vessels, fishing-tackle, etc. These goods are also acquired by means of products saved from the year's natural production. The gold of those who save repurchases their unused, saved products, and out of these products various materials are used for the production of houses and other goods just enumerated, while the articles of food are given to the transformers for their maintenance.

Further, the saved products themselves, before they have been transformed into permanent goods, belong to wealth resulting from the savings of individuals. Large quantities of these unused products are always lying in factories, shops, etc.

§ 83. Objects of Wealth acquired through Taxes

The modern State occupies itself with many matters, which formerly were either left to private initiative to carry out, were not taken up with the same interest as now, or were altogether unknown.

In Norway, at the present time, most new churches are built by the State, as also school-buildings, educational institutes, libraries, museums, art-galleries, courts of justice, prisons, town-halls, offices for the Government and Civil Service, hospitals, arsenals, military depôts, barracks and fortresses. The State further procures warships, artillery, etc., and also undertakes to construct most of the roads in the country, and lay down the streets of the towns. In this is included, as far as the towns are concerned, the paving of the streets, the laying of sewers and water-pipes, the lighting with gas or electricity, which in Norwegian towns is seldom left to private companies, but is generally undertaken by the respective corporations. If a town in a fishing district is in need of a harbour and breakwaters, these are also arranged for by the State. Even railways, and the telegraph and telephone in Norway are owned by the State, though in such a manner that a small part of every railway belongs to private shareholders; for the railways are organized as joint-stock companies, of which the greater number of shares are in the possession of the State.

Referring the reader to the explanation of taxes given in a previous paragraph, it will be sufficient here to go briefly through the process of their transformation into churches, schools, roads, sewers, railway, etc. The State takes part of the production as taxes. The products themselves, however, are not handed over to the State, but only the repurchasing gold entitled to repurchase an equivalent part of the year's production. Materials are then repurchased with this gold, and provisions, and these are handed over to the workmen, who make the above-mentioned churches, school-buildings, etc., out of the materials, while at the same time they live upon the provisions. The mode of procedure is thus the same as that described in the account of the transformation of savings into dwelling-houses, steamships, etc. There is on the whole a great similarity between savings and taxes, when they are employed for transformation. They might, in fact, both be called savings, only that the one is voluntary, the other obligatory.

To complete a great work by the aid of a single year's taxes, would, as a rule, be beyond the power of the inhabitants. As it is, however, almost always essential to have public works of this kind quickly finished, the State may borrow from saved products, and have them transformed into the proposed undertaking, e.g., the sewage-system in a large town. The following year a somewhat larger percentage is imposed as tax, sufficient to have, after satisfying the ordinary public claims of the town, some of the products left, which are given to the money-lenders to pay back the loan. In this case, therefore, the sewage system is effected by the transformation of the products of saving persons, these persons receiving other equally valuable products belonging to the following year's production, and imposed as taxes. Without taxes the loan could not have been taken up, nor the sewage system carried out. Practically speaking, therefore, this object of wealth is also acquired by the aid of taxes, even if its completion is at first due to a loan. In this case as in all others, gold is of course always employed when the products are to be transferred from present to prospective owners.

§ 84. The Development of Norwegian Wealth

It is probably several thousand years since Norway received her first settlers. When they arrived in the country, they must have found the ground completely covered with forest. They subsisted on fish and the flesh of wild animals, and they clothed themselves in skins. This represents the whole of their annual production. What they saved out of this was little, and consisted only of some food, which they transformed—to use the expression from § 54—into roughly wrought flint implements, boats hollowed out of the trunks of trees, and a few other similar trifles; or, to express it in other words, they saved a little food upon which to live while they produced these simple articles.

It will be evident from this that wealth in those days consisted mainly of natural objects of wealth, such as hunting and fishing grounds. The men of that age possessed no objects of wealth of an appreciable character produced by saving.

The reason of the small amount of their savings was not that there was nothing to save. The possibility of saving existed even then, but the reason why they did not make use of the opportunity must have been that they had nothing to employ the saved products for, except the above-mentioned implements, and very few savings were required to produce them.

As yet there was nothing of any importance into which they might transform accumulations of meat, fish, and skins. A change occurred only when the time came for them to acquire cultivated land. This requires, besides the ground itself, savings made as explained in § 82. From that time it was to their advantage to produce more food and skins than were necessary for the needs of the moment, in order to be able to save some of them. When this was done, they left off gathering in these necessaries of life for the time being. While consuming their unused store of the above-named products as long as they lasted, those who saved employed the interval in clearing the forest-land of trees, roots and stones, and converting it into arable or meadow land. Their earliest savings of any importance must thus have been made, when they became alive to the importance of farming and cattle-rearing.

From having been directed only to the acquirement of game and fish, their production now included agricultural products. To these the weaving of materials for clothing was soon added, and perhaps the manufacture of a few other articles. With this they were probably satisfied; in the latter part of the Stone Age, and during the Bronze and Iron Ages, the production must have remained practically unchanged.

The people in Norway, during this long period, continued to make accumulations; but the kinds of objects of wealth into which these savings were transformed, did not multiply to any extent. In addition to the one already mentioned, namely, cultivated land, may be named houses of the simplest description and primitive furniture, small ships with which to navigate the ocean, and after the introduction of Christianity, churches of wood or stone; further gold ornaments, arms of bronze, and later of iron.

Century after century then passed without showing any great advance in production, savings, and increase of wealth. Progress was made, but it was very slow. As recently as a hundred years ago, that is to say at the beginning of the nineteenth century, the area of ploughed land was much smaller than it is now, and moreover badly cultivated. The forests produced little as compared with the present production. The houses in the country and in the towns were small, and their number yearly much smaller than at the present day. There were fewer mines, almost no factories, few ships, exceedingly few roads, and those few bad, badly paved streets in the towns, without sewers, water-supply, gas, or electric light, no railways or telegraph, and hardly any schools, educational institutions, prisons, or other public buildings.

In our own day, the inhabitants of Norway are comparatively well supplied with all the objects of wealth here enumerated, of most of which their forefathers of a hundred years ago possessed few or none at all. The innumerable new objects of wealth of the last hundred years have come into existence by the transformation of products that have been saved either voluntarily or by compulsion, in the latter case imposed as taxes. All through these hundred years, things have been produced, saved and transformed, at first on a small scale, but afterwards with increasing speed, as knowledge and resources multiplied.

There is hardly anything left of the objects of primitive ages originating in transformed savings, but their cultivated land. Their houses, furniture, viking ships, and most of their churches, with one or two exceptions, have all disappeared. With the exception of the natural, and a few of the saved objects of wealth, the other objects of the present day are from one to one hundred years old.

§ 85. The Owners of the Wealth. What is Understood by Secondary Rights?

All objects of wealth acquired by the levying of taxes, as described above, belong to the people. As regards the Norwegian nation, the fishing grounds on the coasts of the country, and some of the forests, may be classed with this common wealth.

The remaining Norwegian objects of wealth are owned by private individuals. The inhabitants have taken some of them, such as forests and fishing grounds in lakes and rivers, as they found them, and incorporated them in their wealth. The remainder owe their existence to savings, either through the employment of saved products for the transformation of natural things into natural objects of wealth—such as a bog into cultivated land—or through the transformation of saved products into factories, steamers, etc. As every such object of wealth during its existence, changes hands more or less often, it is possible to distinguish between the original owner and the subsequent owners.

Who were the original owners of these objects of wealth? The answer, as regards certain natural objects of wealth, such as forests and fishing grounds in lakes and rivers, will be, "Those who first took possession of them." With regard to objects of wealth that are entirely the result of savings, they would at first sight be assumed to have had those to whom the saved products belonged, as their original owners. This, too, is frequently the case, but need not always be so. If the owner of the saved products has them transformed himself, he also becomes the owner of the object of wealth produced. If, for instance, a manufacturer with the help of his savings, adds a wing to his factory (cf. § 55), this new object of wealth will belong to him. The same is the case where those who save entrust their saved products to the manager of a limited company or a joint-stock company in which they are themselves sharers, and let this manager transform the products, say, into a steamer. In this case also, the owners of the saved products will become the owners of the object of wealth resulting from the saved products.

The case is different if the borrowing method is employed for transforming saved products. It is then the borrower, not those who saved the products, who becomes the owner of the eventual object of wealth from a legal point of view If any one borrows the saved products of several persons, or, as is really done, borrows their repurchasing gold, and with it repurchases its equivalent in saved products from next year's seven hundred million Norwegian production, in order to erect a house with it, the borrower will be the owner of the house from a legal point of view. The lenders, on the other hand, do not own it, but have a *secondary* or equitable right in it, inasmuch as the borrower must share the proceeds of the house with them, and submit to having the house taken from him by the aid of the law, if he does not fulfil his obligations to them.

Sometimes an object of wealth, such as the reclaimed bog mentioned in a previous paragraph, may consist of some natural thing with the addition o. saved products. What has just been stated of the factory, the steamship and the house, will, with some modification, also apply to this case. Theoretically speaking, the new object of wealth, cultivated land, should be owned, not by a single person, but by the two persons, the owner of the bog and the owner of the saved products; for the cultivated land was produced from their combined earlier possessions. This would also be the case if they unite in cultivating the bog. As a rule, however, in such a case, the owner of the bog will at the same time act as the borrower. From a legal point of view, it is afterwards he who owns the cultivated land, while a secondary right only falls to the lot of the owner of the saved products.

From the original owner, of whom we have now spoken, an object of wealth passes to the next and all subsequent owners by inheritance or purchase.

The conditions of inheritance are easy to comprehend. Let us imagine that a man owns three town houses, three factories, and three steamers, of which he is the original owner as a consequence of the fact that they owe their existence to his savings. At his death, he leaves all these to his three sons, to be divided equally between them. Each of the sons succeeds the original owner of one house, one factory and one steamer, and becomes the immediate owner of these objects of wealth. As the testator owned them before, so the sons own them now. Formerly all the nine objects of wealth were in the possession of a single owner; now they are divided among three owners.

But objects of wealth, such as the above, do not always remain in the possession of the same family. They often pass into the hands of strangers, who may have attained prosperity through a legacy, or begun life without a penny in their pockets, but afterwards acquired means. How do these strangers become possessed of the objects of wealth of another family?

It may be done by giving other, older objects of wealth in exchange. A direct exchange of object for object, however, seldom takes place. The original owner of a ship will not often exchange it for a house; he will sell the ship to some one in exchange for ordinary gold, and with the gold obtain the house; but he has practically acquired the house by exchanging the ship for it.

Or a man may be continually saving something from the products due to him as his share in the year's production (assumed, in the case of Norway, to have the same value as seven hundred million krones in gold), and with these savings he acquires an object of wealth formerly belonging to another man. He may intend these savings to be made in the immediate future, or they may already be completed. In the first case he makes use of the loan system. He borrows gold from a bank, and gives the gold to the owner of the object of wealth which he receives in exchange. In the course of a longer or shorter period, he repays what he has borrowed from the bank, by the aid of the savings he has made during that period. In the second case, he is supposed to have saved in advance, and to have his savings deposited in a bank ; and he takes out his deposit from the bank, and gives it in exchange for the object of wealth. By employing savings for the purpose here spoken of, namely, the acquirement of earlier objects, he who saves has already given up, or will subsequently give up, occupying himself directly or indirectly with the transformation of the saved products. An indication of the manner in which the transformation of the products in such a case will take place will be found at the conclusion of § 58.

§ 86. Can Gold be called Wealth ?

Whatever gold a man may possess, forms part of his wealth. As a rule, only a little gold will be found among his objects of wealth, but so much the more of other objects, such as furniture, houses, land, factories, ships, etc., or shares in various objects of wealth. His stock of gold will consist partly of ornaments, and in some countries partly of coined gold. Where gold does not circulate, but remains in the vaults of the bank of issue, ready to be exchanged for notes, it likewise belongs to the country's wealth. Legally it is owned by the bank of issue, which cannot, however, dispose of it freely, without offending against the law. We shall return to this later on.

§ 87 Can Deposits in Banks be regarded as Wealth ?

In replying to this question, a distinction must be made between wealth belonging to the community as a whole, and wealth belonging to the individual.

A nation's wealth consists of forests, fields, cattle, minerals, ore, houses with furniture, factories, ships, roads, railways, unused products, gold, etc. Most of these goods will be in, or, as in the case of ships, will at any rate belong to, the country in which the nation lives; out at the same time there is nothing to prevent the possibility of some of the nation's goods being in other lands. If the owner of gold, which was mentioned as the last of these national objects of wealth, takes his gold and deposits it in a bank, this act merely means the removal of existing gold from one owner to another. The depositor lends his gold to the bank, whereby the gold, from being in his keeping, passes into that of the bank. The deposit has no influence on the amount of the country's wealth, especially that part of it which is represented by gold. The national wealth remains the same after the deposit as it was before. As, therefore, a deposit only occasions removal of gold within the boundaries of the country, without increasing the amount of that gold deposit, it cannot be reckoned as part of the wealth of the country. This applies both to country and towns.

For the individual, the case is somewhat different. It is true that he has lost his object of wealth, the gold, by depositing it in the bank; but in return he has a claim upon the bank, according to which the bank, at a certain fixed time, will pay him back, if not the identical gold, at any rate a similar amount of gold taken from the country's whole stock of gold. As long as the bank keeps his gold, it serves him as a kind of security, inasmuch as he can claim that or other gold again, if necessary by recourse to the law. The bank, moreover, will as soon as possible get rid of its borrowed gold, and lend it out again to some one else, a proceeding to which it always has the depositor's tacit consent. As long as the gold remains in the possession of the borrower, the depositor can be imagined to have through the bank the same kind of security in the gold as described above. The borrower, however, will soon pay out the gold, either in the purchase of earlier objects of wealth, or in the purchase of saved products for transformation into a new object of wealth. It will now be in the object of wealth thus acquired by the borrower that the depositor, through the bank, may be imagined to have security. The borrower is the legal owner of the object, but the secondary right in it, mentioned in § 85, belongs to the bank and its creditor, the depositor.

The depositor's interest in the object of wealth acquired by the borrower by the aid of the deposit lent him by the bank, does not merely appear in the shape of secondary right (a right to become, under certain circumstances, the owner of the object of wealth itself). The products annually produced by the employment of the object of wealth, also partly belong to him. The borrower must share them with the bank, pay the bank interest, as it is called, and the bank in its turn shares this interest with the depositor.

The depositor might himself have acquired these objects of wealth with his gold; but he has preferred to let the borrower, by the intervention of the bank, borrow the gold, and become, by its aid, the legal owner of the object. The depositor himself becomes a kind of secondary joint owner in the object. We may imagine that he possesses in his deposit-receipt a written proof that he stands next to the borrower as secondary owner of the object of wealth in question. The depositor cannot, any more than the whole community, regard his deposit as an object of wealth. His wealth does not consist of the deposit, but of the object acquired by the borrower by the aid of the deposit, and in a sense belonging to them both jointly. But although the deposit cannot be regarded even by the depositor as wealth, its effect for him is that, by virtue of the deposit, he shares with another the fruits of an actual object of wealth, and may, under certain circumstances, even become its sole owner.

It frequently happens that the bank lends the deposited gold to the merchants to be given by them to the producers in exchange for their products. What has been said above will also be applicable in this case, if the term object of wealth is understood to mean products.

It has hitherto been assumed that the deposit remains in the bank for some time, or, more correctly speaking, its repayment is not demanded by the depositor during that period. The repayment of deposits, however, is frequently demanded of the bank only a few days after it has received them. Can the bank also lend these short deposits and still preserve for the depositor the equitable rights and benefits already described in the preceding paragraph? At first sight, this would appear to be impracticable; but it nevertheless both can be, and is, done. If the bank has lent an amount such as this, to be used by the borrower in the manner described, and the depositor thereupon demands the repayment of his deposit, the bank pays him by the aid of gold just received from a new depositor. Depositor number two now takes the place of depositor number one with regard to the borrower and the object he has acquired by means of the loan.

The first depositor has been the secondary owner of the borrower's object for a few days, but now passes this right on to the new depositor.

§ 88. Can Securities be regarded as Wealth?

Bills of exchange, mortgage-bonds, and the Government or corporation bonds payable to the bearer, resemble deposits in no small degree. What was said in the preceding paragraph about depositors who lend their gold through the intervention of the bank, can on the whole be applied to persons lending their gold directly to the issuers of bills of exchange and mortgage bonds, or to Government or corporation. The term "object of wealth" is as little applicable to bills of exchange, mortgage bonds, and bonds payable to the bearer as it is to claims called deposits; but they are as a rule a guarantee to their owners of the possession of a secondary right to actually-existing objects of wealth legally belonging to the borrowers, and of participation in the profits yielded by these objects of wealth.

Exceptions to this rule of secondary right and participation in the profits, can, however, be imagined. If the gold is lent by the owner to his own Government or to that of a foreign country, it may happen that it is used by the borrower for the acquiring of unproductive objects of wealth, or in time of war for the maintenance of soldiers. In the one case there will be no profits to divide between lender and borrower, and in the other case, there will not even be an object of wealth during the period of the loan, much less any division of profits. The lender has parted with his gold without obtaining a secondary right to any other object of wealth. In its place, the government in question promises him a share in the taxes of future years, that is to say a share in products not yet in existence, with which his loan shall be repaid. He has lost his object of wealth, the gold, but he has received in compensation a promise that his loss shall be made good by objects of wealth not yet in existence, the tax-products, as they are produced in the course of years. The promise is generally kept, but not always. The lender who has parted with his gold, runs the risk of getting nothing in return.

Shares in companies that lend their share-capital, such as banks and insurance companies, may be classed with bills of exchange and mortage bonds, to which reference is directed.

Shares in factories, railways, steamers, etc., are certificates of the holder's part-ownership in those objects of wealth. The wealth consists of the factories, etc., and not of the share certificates. By considering the latter as objects of wealth, a false impression would be obtained of the amount of the national wealth. Suppose a company with a capital of one million krones owns a factory worth one million krones. If both of these were to be reckoned as national wealth, the wealth represented by the factory would have to be put at two million krones, although the factory is only worth one million krones.

§ 89. Can Bank-notes be called Wealth ?

The gold in the vaults of the bank of issue, as we have recently said, forms a fraction of the wealth of the country. Bank-notes, on the other hand, cannot be reckoned as part of this wealth. The bank-note, like the deposits and securities previously described, is a claim, and with it its owner can claim to have paid him in gold by the bank of issue the amount engraved upon the note. This gold is legally owned by the bank of issue, but at the same time belongs to the holder of the bank-note through the medium of a strong secondary right, though with a limitation which will be made clearer in the course of later paragraphs dealing with banks of issue.

§ 90. Fluctuation in Prices

Generally speaking, under improved conditions of trade, if objects of wealth are sold at all they are usually offered for sale, and find buyers, at higher prices. It is in the towns especially that this phenomenon may be noticed. Owners of buildings, building-sites, factories, steamships, and products, put a higher value on their goods, and in selling ask a higher price for them than they were considered to be worth a short time before. In the country, rises in prices are of less frequent occurrence. It is principally forests, in the Norwegian rural districts, that may rise in value, either because the demand for timber in other countries is increasing for the time being, or, in rare instances, because the running of a new line of railway through the district has diminished the cost of conveying the timber to the coast.

The increase in wealth in these cases is not due to any increase in the number of objects of wealth, but only to the fact that the owners can let the objects produce more than before, or at any rate make them more useful to themselves.

From falls in prices, which are very likely to follow rising periods, the contrary conclusions may be drawn.

§ 91. Wealthy Countries as opposed to Countries with less developed Resources

The distinguishing mark of a wealthy land is the presence of numerous natural objects of wealth with well-developed productive capabilities, and of objects of wealth produced entirely by men's savings (cf. §§ 81–83). A country such as this will, moreover, in the course of years, have granted loans to other less fortunate nations, and thereby become annual joint-owner in the production of those nations.

In addition to these visible signs of the country's wealth, there will be another indication of its superabundance in the fact that it has a difficulty in transforming all its savings itself into new objects of wealth. The cause of this is to be found partly in the large amount of the savings, and partly in the advanced state of the country, which limits the opportunities of employing the savings for such purposes as improving land, opening new mines, building new factories, constructing new railways, etc.

A country, on the other hand, with fewer resources, has still some natural objects of wealth to make thoroughly productive. Its means of transit will be ill adapted to the needs of the times, and the number of factories, etc., small. The country, in consequence, produces such small quantities that its savings are inconsiderable, and not nearly sufficient to start all the undertakings—railways, factories, steamers, mines, etc., for which the country offers natural conditions. In order to create the objects of wealth, the inhabitants borrow from the wealthy country the saved products which the latter, owing to its superabundance, has difficulty in transforming for itself; or, more correctly speaking, gold is borrowed, with the right to repurchase those saved products.

The conditions here described were recently expressed in a foreign journal, in instancing a certain country, mentioned by name, which was said to possess little earned capital, and was thus dependent on foreign capital for the development of its resources.

CHAPTER XIII

The Economic Solidarity of the Nations

§ 92. Men's Dependence upon One Another

In the days of primitive man, each man was sufficient unto himself. They lived in caves or under the open sky, troubled themselves little or not at all about clothing, and ate the food that came to hand, very much as provided for them by Nature. As their necessities were so small, each could, as a rule, procure for himself what he needed without recourse to the assistance of others. The individual was independent of his fellow-creatures.

It is otherwise with the civilized men of the present day. There exist thousands of articles which have become necessities for them. By the demands of their daily life animal and vegetable substances, minerals and ores, etc., have to be worked up and subjected to complicated processes from which the various products result in the shape of finished goods for use in daily life. For a single person to produce everything that he consumes would be an impossibility; he must be dependent for them upon his fellow-creatures. Farmers, millers, bakers, butchers, joiners, smiths, tailors, shoemakers, manufacturers, traders, sailors, etc., are all in the most complete dependence upon one another for the necessaries of life.

And this dependence for mutual necessities is not limited to the various classes in any given community.

Just as individuals in the same community cannot do without one another, so is it more or less the case with communities and communities. To a certain extent, one province in a country is always dependent upon the other provinces of the country, and one country upon the other countries of the world. This circumstance has already been touched upon in §§ 4, 32, 34, 37, 62, 63, etc. Thus it was shown how Norway is dependent upon other countries for her supplies of corn, coal, etc., which she obtains in return for fish, timber, etc. How great this dependence is will best be understood if we imagine importation to have ceased, because foreign countries refuse to take Norwegian products. What would be the consequences ? Only a fraction of the amount of Norwegian salt fish and timber would be produced as compared with the present production ; that is to say only as much as was necessary for the Norwegian nation itself. At the same time the population would decrease ; it would sink to the number of persons who could support life upon fish and the amount of corn, meat, etc., that Norway itself could produce. Moreover this diminished population would have to lead a miserable existence, inasmuch as Norway henceforward would be obliged to renounce colonial produce, wines, etc., things which the Norwegian soil does not produce. Take again the instance of France : the production of her staple products, silk and wine, depends entirely, so far as its volume is concerned, upon the necessities of other countries, in other words the lives of innumerable Frenchmen depend upon the ability and will of foreign countries to purchase these two French products. Other examples might easily be multiplied.

§ 93. Isolation

Since men all over the world are thus under the necessity of exchanging products with one another, it might be thought that everything would be done to facilitate the exchange ; but such is not the case. Certain countries, as will be shown in a later chapter, surround themselves with a wall of customs-duty, that makes the movement of the products difficult. These customs-walls are not impenetrable, however. No country has completely isolated herself. Notwithstanding the duty, an immense international exchange of products takes place, but without the duty it would have been still greater, and would also often have taken other directions than those now taken.

§ 94. The World-Production

It is most natural to regard the world's production as a unit, from which the entire human race obtains its requirements ; and of which, therefore, the exchange in all directions should be facilitated.

If the world-production be considered as a unit, the boundaries between the various countries must be imagined to be obliterated, and the whole world to be one kingdom, whose inhabitants labour in fellowship in the service of production. The entire population of the globe take part in this labour. What has previously been said regarding the production of the single country, must now be extended and applied to that of the whole world. Not only do all the manufacturers, land-owners, and traders in the world, and all their assistants, each contribute their quota towards the creation of this world-production, but also all the scientists, artists, Civil Servants, soldiers, etc., in the world; for while these latter, in their various countries, spread knowledge, foster good taste, and maintain order, they make it possible for the producers—in a restricted sense—of natural products and manufactured goods, to carry on their work under the most favourable conditions possible. These producers possess in the scientific men, etc., their remote or indirect assistants, as we have frequently called them in the foregoing pages.

When accordingly they have, in this world-wide fellowship, completed the year's world-production, they are all common owners of that production. On the behalf of all, the producers proper annually take all the production of the world to the nearest merchants, and exchange it for repurchasing gold to be divided among them all. The merchants then have these products conveyed from one region to another. This might be called exportation and importation; but as the terms are inevitably suggestive of countries in definite boundaries, they are not suitable in this connexion, where the assumption is that all boundaries are obliterated. The interchange among the merchants of the entire production of the world is made in such a manner that at last there is found in the hands of the merchants in every part of the world exactly those products that each particular part requires. When this is done, all the producers in the world will again appear at the merchants' agents, the shopkeepers, this time taking with them all their direct and indirect assistants. They all have their gold with them, and with it repurchase the world-production from the shopkeepers in its altered composition. The consecutive order of these acts is not in reality so clearly defined as here represented, but the acts are always performed, although in real life they cannot be kept so distinct from one another as depicted in the processes here described.

§ 95. The Effects of Circumstances affecting the Production in one Region, will often be felt also in remote Regions of the World

The identity of the economic interests of the various nations is shown in the fact that circumstances affecting the course of the production in one country, are felt not only in the country in which they appear, but often in other countries also.

If in one country, or several, the harvest is bad or the fisheries unsucessful ; if irregularities manifest themselves in the workings of factories, leading either to over-production or under-production ; if the tonnage of ships increases or diminishes ; the output of mines fluctuates ; timber is felled in unstable quantities ; or bankruptcies occur, each of these events will be noticed in other countries besides the one directly affected by it.

A bad harvest in corn-exporting countries will so affect customers in the manufacturing countries, that these will, for the time being, have to give more of their production than formerly in exchange for corn ; and even then under these stringent conditions run the risk of not obtaining their requirements.

If the tonnage of vessels in England, to take another instance, were one year to exhibit an abnormal increase, this circumstance would not only occasion a fall in freights for English vessels, but would have the same effect on vessels in other countries, even where no unusual increase of tonnage had taken place.

§ 96. International Savings. The Example of England

By international savings is here meant such products as are saved by one nation and used by another. It will be natural to any one wishing to investigate the nature of international savings to think of England, which has hitherto been assumed to possess more foreign savings than any other land.

Even at an early period of history, the production in England itself had become very extensive. At the same time the English ship-owners had become joint-owners to a considerable extent in the annual production of foreign countries. As, moreover, the greater part of the world's commerce lay in English hands, a share of the production of other countries thereby accrued annually to England, or, correctly speaking, to the English merchants. The rest of Europe, America, Asia, Africa and Australia, all brought their products to London, to be interchanged there. For their co-operation in this work, the English merchants kept back some of the foreign production as their earnings; for, as previously shown, it is in this way that the traders repay themselves for their assistance in the distribution of the production.

It was from these three sources that England's annual production originated. England, like other countries, used to save a part of the production, and as long as it was practicable, these saved products were transformed in England itself. They were used for the improvement of the land, the working of iron and tin mines, the exploitation of coal-fields, the erection of factories, the building of ships, etc. But at last there came a time when England had become so rich in transformed objects that it was more difficult than before to find even the room for such enterprises. Those who saved were further faced by this difficulty that at the same time both the annual production and the saved products were rapidly growing. The English savers, in their perplexity, began to turn their eyes to foreign countries, where many opportunities offered themselves of finding use for saved English products. From this time English savings were more and more frequently transferred to foreign countries.

In this way a fourth source was opened for the enlargement of England's annual production. This had hitherto consisted of products annually produced within the borders of the country, and of the English shipowners' and merchants' shares in the annual production of foreign countries. To this there had now to be added the share in foreign production henceforth annually due to the English owners of savings abroad.

Since England first began partially to transfer the year's savings to foreign countries, many discoveries have been made, and the methods of production have undergone considerable change. As a consequence of this, new fields were opened within the borders of England itself, for the employment of saved products. In this connexion it may be mentioned among other things that during this period Great Britain and Ireland acquired all their railways and their numerous ships of iron and steel. But as the production, and with it the savings, were constantly increasing, these transformations of savings at home were not followed by any cessation in the investment of savings abroad. These continued to be made, and will still continue. Most of the savings presumably go to the colonies and other transmarine countries, there to be used; but they also find their way to European countries. Loans to European governments have perhaps not been negotiated quite so frequently in London of late as they formerly were; but the participation in such loans has not entirely ceased. Directly or indirectly, England will still continue in all probability to be the holder of bonds in new loans of the kind, and thereby acquire the right of annually claiming a part of the borrowing country's production as interest. A Norwegian Government loan, for instance, some years ago was partly placed in London. We hear too, now and again, of other undertakings in Scandinavia on the part of the English savers. In Copenhagen, an English company has lately bought a large hotel, and modernized it. Here in Norway, Englishmen have of late years erected or bought factories for making condensed milk, wood-pulp and paper; and they have further in several places in Norway, with varying success, started mining for iron, zinc, copper and emeralds. Several buildings in Christiania have of late years been erected with English savings, or rather, the buildings were erected with Norwegian savings, but after their completion the owners obtained loans from England by mortgaging the buildings. The Norwegian savers temporarily lent their Norwegian savings to enable the builders to complete the houses, and then received their loans again in the form of English savings. They now once more had their savings ready for use, whereas the English savers found their savings had vanished and were represented by the mortaged buildings in Christiania.

By means of their savings invested abroad, the English savers, as we have said, become part owners of foreign production. If the English own a forest with steam saw-mills in the Argentine Republic for the preparation of mahogany planks, its production will be South American, but belong to England. If the works are owned by South Americans, but were acquired by borrowing English saved products, there will be this change, namely, that the production of the factory is divided between the South American owners and the English lenders. That part of the production that is due to the latter is called interest. Or finally, if English savers have handed over their saved products to a foreign government, that government will receive a portion of the country's production in the form of taxes, and hand over some of it to the English lenders as interest.

What do the English now do with these foreign products that they have acquired partly by taking part in foreign manufacture or some similar undertaking, and partly as interest or foreign taxes? The question is easily answered. Like every other sharer in the year's production, the Englishmen in question employ most of their foreign products for the maintenance of life, and save the remainder. They perhaps consume $\frac{9}{10}$ and save $\frac{1}{10}$. How does this come about?

As the owners of the steam saw-mills in the Argentine Republic—to keep to this random instance of English production abroad—live in England, they are obliged to leave the management of the saw-mills to a man living on the spot. In accordance with the rules for the distribution of the production as set forth in this book, the manager should take the mahogany to a South American merchant, receiving gold in exchange. He then has to send the gold to England to be divided among the owners of the South American saw-mills and their doctors, lawyers, tailors, and other assistants. These will all have to send the gold back to South America for the repurchase of the mahogany or other South American wares, which they will have sent to England, each receiving products in proportion to the amount of their gold.

This, however, is not quite what takes place. In the first place the English owners of the saw-mills in South America and their English connexions will scarcely wish to repurchase their mahogany or other South American goods, but will probably prefer European goods. In the next place, it will be too much trouble to send the gold backwards and forwards across the sea. These circumstances will be taken into consideration in the repurchase. The owners of the repurchasing gold are not required to repurchase with it the very products that they have helped, directly or indirectly, to produce. All that is expected of them is that with the gold they shall repurchase an equivalent amount of products. It is left to them to decide where they will buy the products; each one is at liberty to make his repurchase from any merchant in any part of the world. If all observe this rule, all the traders in the world will at last have resold the year's production to producers and assistants. The English owners of the mahogany in South America will also make use of this freedom in the choice of products, when the time comes for them to repurchase. As regards the gold, its transmission in this case can be avoided either by using English gold instead of South American, or by interchange of gold.

This is what will actually take place. As soon as the South

American merchant receives the mahogany, he exports it to an importer in England, with injunctions to him to pay the English producers of the mahogany its value in gold. When the gold is subsequently divided among these English producers of South American mahogany and their English lawyers, physicians, artisans and other associates in the production, they will repurchase with, let us say $\frac{9}{10}$ of the gold, mahogany or any other products in England for their own consumption. If, as is most probable, they do not repurchase the mahogany from the importer of his assistants, the timber-merchants, other producers and their associates in production must undertake to do so. The remaining $\frac{1}{10}$ of the gold will be saved by the English producers of South American mahogany, and their associates in England; or, more correctly speaking, they save $\frac{1}{10}$ of the mahogany. Among the various ways that offer for the utilization of their savings, they elect to buy bonds in a new Norwegian Government loan offered in England. The Norwegian Government has the gold for repurchasing the saved mahogany still in the hands of the English importer or the merchants, delivered to it, as well as other gold intended for the repurchase of other saved products in England. On repurchasing, however, the Norwegian Government will let all this remain where it is, and repurchase a warship in Newcastle. What the Norwegian Government left unpurchased will then be repurchased by other borrowers or consumers.

It can also be imagined that instead of sending the mahogany to England, the South American merchant ships it to an importer in France, with injunctions to let the English producers of the mahogany be paid its equivalent in repurchasing gold that is to be employed in the repurchase of the mahogany now sent from South America to France, or of other products in France. By an interchange of gold, in which banks, as shown in § 36, lend their aid, the transmission of the gold itself from France to England and back again is avoided. With $\frac{9}{10}$ of the exchanged gold, and with the assistance of the traders, the English producers of the South American mahogany and their English associates thereupon have what foreign goods they require—though probably not the mahogany—repurchased in France or other countries (cf. § 34). Similarly the Norwegian Government will employ their borrowed $\frac{1}{10}$ of the exchanged gold in part payment of the warship in Newcastle, leaving the builders of the warship, or others, to repurchase the saved mahogany lying in France.

With regard to the amount of the foreign savings of the English, it may be remarked that besides the large portion of saved English products in former times, employed in acquiring the mahogany works in the Argentine Republic, they now also include a small portion of South American mahogany, acquired by the aid of those works, and once more lent by the English savers to the Norwegian Government. If all that the English annually save from the products due to them out of the foreign and colonial productions as the yield of earlier English savings invested out of England were put together, the result would certainly be very large.

It is, of course, not only in England that these international savings are made, although they perhaps began there, and probably had a wider scope than in any other lands. Another country with large savings invested outside her boundaries is France. The next to these two countries are presumably Germany and Austria. It appears of late years as if the United States have transformed in their own country so many saved products that a tendency has arisen to invest savings abroad. This will probably in time assume great dimensions.

For reasons easily understood, it is especially the larger and wealthier communities that can make their savings productive by investing them abroad ; but this does not prevent the occurrence of exceptional cases, in which also small, poor nations follow the example. If the English Government, for instance, should come into the market with a new issue of stock, there is nothing to prevent a Norwegian saver from being among the subscribers, or, as it may also be expressed, from consigning his saved Norwegian products to the English Government, for the latter to employ as it deemed best. In such a case, the Norwegian saver would exchange his repurchasing Norwegian gold for new English consols, and transfer to the English Government the right to repurchase with this gold his saved Norwegian products or any other products of equal value from the world's production, that are better suited to the purposes of the English Government.

CHAPTER XIV

Unused Products

§ 97. EXCEPTIONS TO THE GENERAL RULE FOR THE DISTRIBUTION OF THE PRODUCTION

(*a*) THE expression "the general rule for the distribution of the production," refers to the frequently-repeated remark in the preceding chapters, that the producers take the nation's annual production to the traders, and receive gold in exchange, to be divided among producers and all assistants, i.e. among the whole nation When the traders have then partially exchanged the production for foreign products, the producers again come to them, this time accompanied by all their assistants, and all bringing their gold with them. By paying back the gold they then repurchase their production in its altered composition, each choosing the products that he especially needs. This, in its main features, is the way in which the national production is divided among its owners.

(*b*) There are, however, many exceptions to this general rule. Their presence has already been repeatedly indicated. It was stated, for instance, that the intervention of the traders was not made use of in all cases, but that the producers themselves sometimes perform the distribution.

(*c*) In another particular, moreover, the rule is not to be understood literally, as it would then appear as if the year's production were separated in one mass to be divided among its owners. This, as we know, however, is not the case. In reality there is no separation of the products of various years. Every one knows that this year's production has not been created by work performed exclusively during this year. A large part of it was begun last year, and was only finished this year; and in the same way, at the end of the year, there will be quantities of half-finished products in existence, that will be completed next year. Everything is mixed together, and whatever may be found during the course of the year of last year's and this year's products mixed, is divided among the people.

(*d*) Other more important deviations from the above rule are occasioned by the people's desire to buy from the stock of earlier, unused products. If the rule were to be strictly enforced the consequences would be that the people would first have to complete the year's seven hundred million Production, then through the labour-employing producers have all the products taken to the traders, and lastly, when the gold is distributed, repurchase with it their products, each selecting that which suits him best. But this would take time. While it was taking place the people could not go without the necessaries of life; and to avoid this, they buy in the meantime from the already-existing stock of products, of which there are many kinds. As already shown, all the seven hundred million products of the year will not be finished on the same day—for instance, December 31—but are completed gradually, some every day throughout the year. This has been the case as far back in point of time as we are able to trace. In this way there is an opportunity for every one who takes part in the work by completing a certain amount of the year's seven hundred million Production—whether his assistance is direct or indirect—to repurchase products from the year's seven hundred million Production completed by others earlier in the year. These others, we may mention in passing, have proceeded in the same manner during their time of labour with the earlier products of that time, and will therefore be prevented from repurchasing their own products when these are completed later in the year. The people repurchase these products in order to maintain life while they work at the seven hundred million Production. The saved stock of the traders is another kind of product from which the people can make their purchases for the time being.

For this purpose gold is required which the manufacturers and other employers of labour must procure. When the new products leave the hands of the people in a finished state, they are taken by the producers to the traders to make up the diminution in the old stock; for the people, whose share of the production really consists of these new products, are prevented from repurchasing them, as they have already bought with their gold from the earlier, unused products. At the same time the labour-employing producers receive again the gold that they had advanced; for they had already given to their assistants all the gold that the latter could claim for the repurchase of their share of the production, and do not therefore distribute the gold received from the traders for the new products, but keep it themselves.

The differences occasioned by the need of the people for earlier products are apparent, as shown above; partly in their anticipation of the repurchase of their share in the year's seven hundred million Production, by purchasing from the earlier, unused products, and making up the diminution with their new products when ready; and partly in the fact that the traders are not quite so ready to hand over their gold to the producers as we assumed in the often repeated rule, so that the producers must in the meantime procure the necessary gold themselves, afterwards having it made good to them by the traders.

(*e*) The exceptions enumerated above cannot, however, be said to be of any essential importance. They do not shake the principle of the distribution of the production as stated at the beginning of the paragraph, according to which the year's national production is owned by the whole nation, these products, however, as a rule, not being dealt out at once in kind to the several owners, but being warehoused by the traders. The various owners in the first instance receive gold with which they subsequently buy back the products from the traders, each choosing those that suit him best.

(*f*) By the use of this form in speaking of the distribution of the production, a form that in all essential points may be considered correct, some important advantages are also gained. Without the division of the time of production into periods of one year, for instance, as is here done, several facts connected with production would be difficult to explain.

§ 98. How have the Stores of Unused Products been Collected?

Mention was made in the previous paragraph of those products that are taken by the producers in the course of the year to the traders, and until their subsequent consumption form part of the store of unused products. The remainder has originated partly from savings made by the traders and their fellow-citizens, and partly through over-production.

The traders take part in the nation's common task of creating the year's production. Their contribution to the work consists in distributing the finished products among the owners. In return for their co-operation, they receive a share of the production. The way in which they become possessed of their share has been briefly shown in § 19. The size of their share was put at $\frac{1}{20}$ of the year's production ; but the figure was taken arbitrarily, and may in reality be either larger or smaller. They first take from their share of the production what they require for the maintenance of life, and consume it. As each of them, owing to the division of the work, only undertakes the distribution of a limited number of kinds of goods, that part of the year's production which each retains as a return for his work does not contain all the products required for his subsistence. They consequently make a mutual exchange of the products they have earned, whereby each obtains what he requires for his own use. In exchanging they use gold like every one else under similar circumstances. Although of no very great importance, it may be remarked, as an added distinction between repurchasing and ordinary gold, that the gold used by the traders for this mutual exchange of shares of production, must be designated as ordinary gold, for the assumption in the above-cited § 19 was that the traders received 100 per cent. of products from the producers in return for seven hundred million krones in repurchasing gold, and on re-selling to the producers 95 per cent. of products, received all the seven hundred million krones in gold again, the gold at that moment becoming ordinary gold. There is therefore no more repurchasing gold in circulation with which to buy the remaining 5 per cent. of the products—the traders' retained profits. Ordinary gold must be used for the purchase of this 5 per cent. of the products.

The traders, like many others, are accustomed to save ; indeed, this quality is even more developed with them than with most of the other classes of society. The mercantile class save, on an average, perhaps half their share of the year's production. This is, at any rate, the hypothesis on which we may safely proceed. Applied to Norway, this would mean that next year the Norwegian traders will retain as their profits 5 per cent. of the production valued at seven hundred million krones ; that is to say, they receive products to the value of thirty-five million krones, and of these consume the one half, while saving the other half. These products, worth seventeen and a half million krones, and saved next year by the Norwegian traders, will be stored by them in the meantime. There is no question, however, of their being always kept. They would in such a case sooner or later be spoiled, and, moreover, the stores would soon become too large if the traders were to continue each year to heap up their savings without making any use of them. They therefore endeavour, in the first place, to continually renew their saved stores. For this purpose they hand over their saved products to the people, when they come to repurchase the more recent production, and keep back a corresponding amount of newer products, letting them take the place of the old saved products. The solution of the other question, the diminution of the stores, will be discussed later.

As regards the savings of the rest of the nation, the necessary information will be found in the earlier pages of this book. When the year's production has been delivered to the traders, and gold received in exchange, the gold being divided among the people, the latter take most of the gold back to the traders to repurchase with it its equivalent in products with which to maintain life. They do not use the remainder of the gold for repurchase. They have saved the goods corresponding to that amount, and the goods will remain for the present in the hands of the traders as their property.

The earlier supplies of unused products originate not only from savings made by the traders and the rest of the nation, but also from over-production.

§ 99. Over-Production

By over-production is not meant the surplus of certain products in a single country—e.g. Norway's timber and dried fish—which are exported to countries where such goods are lacking. By over-production we here have in view the production of the whole world, or at any rate large parts of it. The production by a single province, or a single country, of more of a product than that province or country can itself consume is no proof of the over-production of that article. As long as the article can be sent elsewhere and be consumed there, there is no over-production. This does not occur until the goods in question are not only superfluous in the place where they are produced, but are unable to find consumers anywhere at all.

The causes of these conditions may be found in the existence of too many producers, the discovery of new natural objects of wealth (cf. § 81), in the weather, the imposition of duty, etc., factors which separately or together may occasion a larger production of one or several articles than it is possible for mankind to consume within a reasonable time. Another important cause is the impossibility of knowing accurately in advance the demand and the offers for every kind of product. Take sugar for instance. Numbers of people all over the world are occupied in the cultivation of the sugar-cane or beet-root, while numbers of others in the factories convert these raw materials into sugar. Since on the one hand they do not consult one another as to the amount they may have at any time in preparation, and on the other hand cannot know whether the rest of the world will shortly increase or reduce their consumption of sugar, it may happen that they sometimes manufacture more sugar than is required. The rest of mankind do not want all their sugar. What is not used must be stored and added to the earlier supplies of unused products.

§ 100. The Unused Products are owned principally by the Traders and the Manufacturers

The unused supplies are either in the possession of the traders or that of the producers proper, and, among the latter, principally of the manufacturers. These supplies were divided according to their origin into three kinds. One kind consisted of goods that had just left the producer's hand, or goods saved from earlier products. These supplies belong principally to the traders, either because they have not yet been repurchased from them, or because they were saved by them. The second kind of earlier supplies originates in over-production, and is owned partly by the producers and partly by their assistants, the traders.

The direct and indirect assistants of the producers form the numerical majority of the population of the world. The traders excepted, they are not generally part owners of the old unused stores of products. There is nothing to prevent their possessing products originating in savings or in over-production; but they avoid entering into this state of possession by not repurchasing the products in question. They have received gold entitling them to repurchase its equivalent in surplus products, but do not require these products, and therefore do not repurchase them. The products are therefore left in the hands of the traders, to whom they were brought by the producers in exchange for gold.

As regards over-production, the manufacturers and other producers do not succeed in transferring all the superfluous products to the traders. The latter will gradually become aware of the existing over-production of the products in question, and will decline to take more of them from the producers. The manufacturers, or whatever else they may be called, will thereupon be compelled to keep the rest of the over-production themselves. If they are determined to get rid of it, they must at any rate lower the price considerably. The low price may perhaps tempt the traders to take the products as a speculation. But whichever of the two becomes the owner of the over-production, has parted with its equivalent in gold, which was given to the earlier direct or indirect assistants in the labour of completing the products in question now lying unused as over-production.

§ 101. Certain Consequences of Over-Production, especially its Effect upon the Size of the earlier Stores

If the production of the whole world for *this year* be assumed to possess a value of five hundred milliards of krones, an equal amount of gold will be distributed among the inhabitants of the world, to be employed by them in the repurchase of this production. Even if a part of the production—for instance, sugar at the value of $\frac{1}{10}$ milliard of krones—were not required for the present, and be added to the earlier unused products as over-production, the five hundred milliards of gold will still be circulating undiminished among the inhabitants of the world, for, as stated at the conclusion of the previous paragraph, both the direct and the indirect assistants of the sugar-producers in all the various countries will through these producers receive during the time of manufacture as much gold as answers in value to a quantity of sugar worth $\frac{1}{10}$ of a milliard, in the manufacture of which they have assisted. One portion of the inhabitants of the world have received $499\frac{9}{10}$ milliards of gold, and the smaller portion—some assistants of the sugar-producers—$\frac{1}{10}$ of a millard of gold, together making five hundred milliards of gold. On the one hand, therefore, are the inhabitants of the world with five hundred milliards of gold for the repurchase of this year's world's production for their maintenance or for transformation; but there is only $499\frac{9}{10}$ milliards of the year's production at their disposal, as the remainder consists of $\frac{1}{10}$ of a milliard's worth of sugar, which no one, for the time being, can use.

As, therefore, the inhabitants of the world wish to repurchase the whole of the year's production worth five hundred milliards, but only obtain products to the value of $499\frac{9}{10}$ milliards, they must procure the missing $\frac{1}{10}$ of a milliard's worth of products in some other way. This is easily done. As already explained, there are stores of older unused products, lying principally in the hands of the traders. From these stores the inhabitants of the world purchase $\frac{1}{10}$ of a milliard of products, and thus obtain the satisfaction of their requirements.

If inquiry be made as to the influence which these occurrences have had upon the size of the old stores, it will be found that those originating in over-production have been increased by $\frac{1}{10}$ of a milliard of sugar, while the saved stores of the traders have been reduced by $\frac{1}{10}$ of a milliard's worth of various kinds of products other than sugar. From this it may be concluded that in the meantime over-production leaves the aggregate size of the world's stores of older, unused products in the main unchanged, and is confined to giving these old supplies a new composition.

As large unused stores of sugar are found after the over-production of that product, the sugar-manufacturers will stop their manufacturing *next year* for the time being, or at any rate produce considerably less than is usual under ordinary conditions. The cultivation of the sugar-cane and beet-root, as also the work in the sugar-factories, will in many places cease altogether, and in others will at any rate be reduced, until the large accumulations have undergone sufficient diminution. In order to simplify the description, we may imagine the extreme case—temporary cessation of the manufacture of sugar—to be the consequence. During this interval, the producers of sugar and all their direct and indirect assistants will be in distressed circumstances. This would also be the case with such traders as owned much of the superfluous sugar. The assistants must endeavour in the meantime to obtain employment from producers of other wares than sugar. If they are unsuccessful, they will be excluded during the interval from taking part in the world's production, will not be part owners of it, but will be reduced to maintaining life by gifts from others, and will suffer want. The producers of sugar will also be unable to take part in the world's production in progress; they will be without a livelihood, and must live upon older savings. Something of the same kind will befall the merchants in sugar.

The rest of the world's inhabitants, who have nothing to do with sugar-production, will continue their work next year, and will complete the rest of the world-production of the year. When the producers have taken this finished world-production to the traders in the various countries, and have received gold in exchange, to divide among the participators in the production, and when the latter make their appearance at the traders for the purpose of repurchasing next year's world-production, each choosing what is best adapted to his own needs, there will be no sugar to be seen among all next year's products; for sugar, as assumed above, will not be produced next year. The world's inhabitants who require sugar so arrange matters that with the greater part of their gold they repurchase the greater part of next year's new world-production, and with the remainder of their gold they buy from the old, unused supplies all the sugar arising from this year's over-production.

The sugar manufacturers and merchants in sugar will now, during next year, have got rid of the over-produced sugar accumulated this year. The total of unused products, lying principally in the hands of the traders, and partly in those of the manufacturers, has been correspondingly reduced; but on the other hand they have acquired an addition of about the same size. For when the world's inhabitants, with a portion of their gold, buy this sugar left over from the year before, they omit, as just explained, to repurchase a corresponding amount from next year's world-production. This amount will have to be added by the traders to their unused older products, whereupon the latter attain approximately their former size, and are only changed in so far as that one of their component parts, namely sugar, has been replaced by other products from the year's world-production.

Briefly recapitulated, the old stores of products had on the whole scarcely any increase in size or value during the year in which the over-production—in this case, of sugar—took place; but on the other hand, their size and value did not diminish cantile class, through one of its members, has taken shares to the amount of 20,000 krones in a company established for the building of a new steamship, and has paid the amount with 20,000 krones in ordinary gold, the manager of the company will use this gold to pay the wages of the workmen engaged in completing the ship. These workmen may now be imagined going to the traders with the gold that came from them, and buying from them the means of subsistence found in their earlier saved supplies. In that case the traders, among whose possessions were these 20,000 krones in gold and earlier saved supplies of the same value, will at first have lost both possessions. Then they will have received the gold again, and instead of the supplies will have become part owners of the new vessel. The saved products have disappeared from the traders' warehouses, and have thus reduced the bulk of the stores: they have been consumed by the transforming workmen, but are now represented by that part of the ship which the workmen completed while they maintained life with the products costing 20,000 krones.

It is by no means certain, however, that the workmen will buy with the 20,000 krones in gold goods belonging to the traders' earlier saved supplies. They are more likely to buy from the year's production which, for the whole world, we just now put at the imaginary average value of 500 milliards of krones in gold per annum. The consequence of this, however, will be that when the producers of this production worth five hundred milliards, go with their assistants to the traders for the purpose of repurchasing the production, they will find that some of it is already given to the said transforming workmen. The producers and their assistants must therefore go elsewhere for these 20,000 krones' worth of products, and can obtain them by buying from the traders' earlier saved products, thus reducing the total amount of the traders' saved supplies by 20,000 krones' worth of products. In this case too, therefore, the traders' taking shares in the steamship has occasioned a reduction in the saved supplies.

Instead of taking shares in the contemplated steamship, the traders might have lent the 20,000 krones, either directly or through a bank as middleman, to a borrower, to be employed by the latter in purchasing from the traders' old stores, and for subsequent transformation. A diminution will thereupon take place in those stores, just as in the preceding case.

Persons not belonging to the mercantile class may also obtain, in exchange for ordinary gold—to make use of the expression previously employed—products from the traders' savings, for the purpose of transforming them into income-bearing objects; in which case the mercantile class will thereafter possess more gold and smaller accumulations.

In very few of these cases are the purchasers aware that they have bought from the traders' saved older stores, the more so that practically the productions of the preceding and the present year are mixed together. But these saved stores actually have their purchasers, even if the purchasers themselves do not trouble to find out whether the goods are from the year's production, or from the traders' earned and saved share of the production.

Great quantities of the traders' saved goods are transformed into permanent objects in a manner similar to that mentioned in the case of the 20,000 krones' worth of shares taken in the new steamship. Transformation is therefore an effective means of producing a reduction in the older supplies of the traders.

In connexion with the transformation, waste must be mentioned as a cause of decrease in the traders' unused saved products. By this it is not meant that the traders themselves waste their saved products, although something of the kind may indeed occasionally occur. What is here signified is the waste by persons to whom the traders sell their saved products. These persons may be owners of permanent objects such as land, houses, etc., which they sell for ordinary gold, in order to exchange the gold for goods from the traders' older supplies, and then consume the goods. A corresponding increase in the traders' gold, and decrease of their saved wares, is the result. The motives for this waste may be various. It is often only a propensity in the wasteful person to live beyond his means; but there are also often cases in which the waste must be allowed to be more or less necessary. When, owing to unfortunate circumstances, a person loses his income, or—to put it somewhat differently—does not become part owner of the year's production, this person may be compelled to sell his possessions in order, with the help of the gold received, to obtain necessaries of life from the saved supplies of the traders.

Another kind of waste, also followed by a decrease in the older supplies of the traders, occurs as a result of giving credit to unfit persons. It is a necessary part of the traders' habit to sell their saved products to persons who at the time do not possess any gold, but pledge themselves to come at some future time with gold to pay their debt. The diminution has now taken place of the traders' saved products, and it will be final, if those persons neglect to keep their promise, in which case the traders have lost both saved products and the gold they expected. In most cases, however, the purchasers return, and pay the gold they owe. Thus the diminution of the traders' saved products has only been temporary; for the debtors obtained the gold with which they paid their debt to the traders, in token in advance of their income. They took part in the production, and when it was taken to the traders and exchanged for gold, received their share of the gold intended for the repurchase of the production. When the debtors pay their debt with the gold, they give up both the gold and the right to repurchase with it new products from the year's production. Both the gold and the right are transferred by them to the traders, who have now not only received gold for the saved products they have sold, but have also laid up new products to compensate for the decrease, as they now themselves possess the gold capable of repurchasing the above-mentioned new products. The traders' supplies of saved products, which were temporarily reduced by giving credit to the above-mentioned reliable debtors, have regained their former size by the payment of the gold.

Fluctuations in prices also have an influence upon the size of the traders' saved, unused supplies. To illustrate this question, we will once more make use of the five hundred milliards of gold that the world's inhabitants are here imagined to receive in the course of the year from the traders in exchange for the products, and that are to be employed in their repurchase.

Let us suppose that in this production there is sugar for which the producers received half a milliard, or five hundred million krones' worth of gold from the traders. It then appears that this quantity of sugar is more than the world's inhabitants require this year. One fifth of the sugar, for which the traders paid $\frac{1}{10}$ milliard (or one hundred million) krones, must be added to the old unused supplies; only the remaining $\frac{4}{5}$, paid for with four hundred millions of gold can be sold. In their eagerness to sell, certain members of the mercantile class immediately lower the price of sugar, declaring themselves willing to sell the $\frac{4}{5}$ of the sugar needed by the inhabitants of the world, at a price of three hundred and fifty millions of gold, and thus for $\frac{1}{20}$ milliard, or fifty million krones less than cost price.

Two results will follow. In the first place it will be remembered that the world's inhabitants received from the traders in exchange for the year's total world-production, a sum of five hundred milliards in gold. Of the year's production, however, there are only four hundred and ninety-nine $\frac{9}{10}$ milliards' worth of products to be disposed of, as $\frac{1}{10}$ of a milliard consists of sugar, which cannot at present be employed. As already explained in § 101, the inhabitants of the world will be compelled to use $\frac{1}{10}$ of a milliard of gold in repurchasing from the traders' older accumulations. In consequence of the over-production of sugar to an amount worth $\frac{1}{10}$ of a milliard, these older supplies have been increased with $\frac{1}{10}$ milliard's worth of sugar, but decreased by $\frac{1}{10}$ milliard's worth of other older products. The over-production has changed the older supplies, but has not reduced their size.

The fall of $\frac{1}{20}$ milliard in the price of sugar also has its effects. The second of the two consequences indicated arises from the fall in price. The inhabitants of the world possess, as we have said, five hundred milliards of gold, with which $499\frac{9}{10}$ milliards' worth of new and $\frac{1}{10}$ earlier products, in all five hundred milliards, should be repurchased. But owing to the fall of $\frac{1}{20}$ milliard krones in the price of sugar, the inhabitants of the world find, when they present themselves to make the repurchase, that in order to repurchase these five hundred milliards' worth of products, only $499\frac{19}{20}$ milliards of their five hundred milliards of gold is required. They received the five hundred milliards of gold from the traders for the year's production, and buy it back from the traders—after a certain amount of sugar has changed places with other goods of equal value from the older supplies—for $499\frac{19}{20}$ milliards of gold. The inhabitants of the world are now left with $\frac{1}{20}$ milliard, or fifty millions, of gold, which, from being repurchasing, has now become ordinary gold. How can they make use of these fifty million krones in gold? Not in the repurchase of the year's production, for that has all been repurchased with the $499\frac{19}{20}$ milliards of gold. But they can buy with the $\frac{1}{20}$ milliard of gold from the traders' old unused supplies, either for increased consumption, in which case the now cheaper article, sugar, will frequently be chosen, or for transformation. In both cases the traders' old supplies will in the end be reduced, owing to the fall in price, by fifty million krones' worth of goods.

In the instance just given, the over-production on the part of the manufacturers was the cause of the fall in price; but too small a decrease in the traders' saved products may also cause the prices of certain kinds of products to fall. The world's producers have not produced more than usual; but when they have taken their products to the traders, and received gold in exchange, it appears that the traders have saved from previous years large quantities of these very products, without transforming them or selling them to wasteful persons. Over-production is now made evident in this case due to the traders. Prices fall, with a diminution in the old stores as the consequence, just as explained.

The opposite contingency might happen. If certain kinds of goods proved to be in too small quantities, the world's production might rise in value. By a reasoning similar to that employed above, it might be shown that by a rise in prices the traders' old stores are added to. The rise in price causes diminished consumption and larger supplies.

The reduction in the traders' saved goods has hitherto been regarded as a joint undertaking of the whole mercantile class. As mentioned at the beginning of the paragraph, however, the investigation of the reduction may also refer to the individual trader. How is the individual trader situated while the work of reduction is proceeding? To require of him a proportionate participation is a plan that is not capable of realization. No one has ever thought of valuing all the saved goods belonging to all the traders in the world, and finding out how much each trader owns of them, in order to prescribe, on the basis of such an investigation, the amount of each trader's saved goods that shall be transformed, and further, how much shall be taken from the stores of each trader to meet the reduction caused by sale to wasteful persons, and by falls in price. Each one must be left to do as he likes with his goods. The result depends upon his personal qualities and his good or bad fortune.

One trader, perhaps, can refrain from selling to bad payers, or from letting himself be influenced by unwarranted falls in price. It may, on the contrary, be his strong point to get the good payers to buy their goods from him, and pay him remunerative prices. He may perhaps understand perfectly how to employ commercial travellers, how to advertise, and how to fit up his premises to suit the taste of his customers. By these means he succeeds in selling advantageously more or less of his own saved goods to such persons as anticipate their repurchases intended for the maintenance of life [cf. § 97, (*d*)], or to transformers, or to consumers who obtain gold by selling permanent objects.

Another trader, on the other hand, who has not the knack of doing business, or perhaps is unfortunate, may sell at a loss what he may have saved previously.

Yet another trader may be imagined, who on the whole sells none of his saved products, because his trade has gone down and his customers have left him,

All traders fall within one of these three categories with regard to their saved stores. By the sale of individual traders the size of the older supplies saved by the world's mercantile class has been reduced, but during the process no attempt is made as regards the individual trader to make the reduction and the gain or loss proportionate to his share of the old supplies. One may dispose advantageously of more or less of his saved goods, another loses by similar operations, and a third has perhaps not sold any of his saved goods.

Let me say a few more words about the shares to the value of 20,000 krones that the traders were supposed to take in a new steamship. It was shown that in consequence of this the traders' older supplies would be reduced by 20,000 krones' worth of goods. On the other hand nothing was said as to what particular trader would be affected by the reduction. The diminution ought by rights to take place in the supplies belonging to the trader who took shares; but it is improbable that just his supplies will be chosen. It rests with the transformers to decide from which supplies they will procure goods for transformation in return for the 20,000 krones of ordinary gold. If the trader who took the shares happens to live in the immediate vicinity of the transformers, and possesses such products as they desire, the purchase might possibly be made from his stock, but the probability of the presence of these conditions is small. The transformers will, with the trader's 20,000 krones of gold, probably reduce the older stores of other traders. But if he who has taken shares for 20,000 krones cannot in this case hope to have his own older supplies correspondingly diminished, it is in his power to be even with other traders who might also have given gold to transformers, by trying to reduce his stock by selling to these latter. If the shareholder has the knack of attracting customers he will undoubtedly get his saved stores reduced in the course of the year, even if this is not done by sale to the transformers in possession of his 20,000 krones of gold.

§ 104. How is that Part of the older Supplies reduced, which consists of Unused Products saved by the People ?

Those products which the world's producers and their assistants annually save, are also in the hands of the traders, increasing the bulk of the unused stores. The products were taken by the producers to the traders in exchange for gold to be divided among the people, and employed for the repurchase of the products. Until this is accomplished, the gold is in the possession of the people, and the products of the traders. The gold ought to pass from the people to transformers who repurchase the products and transform them. As this goes on the products disappear from the traders' supplies, which are correspondingly reduced. The rate at which this takes place depends partly upon people's enterprise, and partly on the size of the saved supplies. If the savings are small, and the desire to start new undertakings great, the traders will find their stores emptying quickly of the people's saved goods ; but under reverse conditions the goods will sell slowly ; they will be instrumental by their presence at the traders in causing a fall in prices with the consequences already described.

CHAPTER XV

The Prosperity of Production

§ 105. The Nation's Qualities

Some of the various factors mentioned in this chapter are of so complicated a nature that it will be more practical to discuss them in separate chapters. Others, on the contrary, such as that which forms the heading of this paragraph, are so self-evident that a minute investigation of them may be regarded as unnecessary here.

Industry, thrift, intelligence and knowledge are indispensable qualities in every community that wishes to see its production increase.

In this respect, there is a special value in the intelligence that manifests itself in ability to invent new machines, discover new chemical processes and new applications of natural forces, or in ability to improve the methods of cultivating the land, of utilizing the forests, fishing-grounds, and beds of coal, metals, etc.

§ 106. The Division of Labour

If the production is to make any way each worker must take care not to distribute his working-powers among too many objects. If each one concentrates his labour upon a single branch of human activity, human production will advance both in quantity and quality.

§ 107. Means of Communication

It is well known that a product may be produced in superabundance in one place while there is a lack of it elsewhere. In Prussia the eastern provinces are especially adapted for the production of articles of food, while the abundance of coal in the western provinces fits them in an especial manner for manufacturing operations. If now these parts of the kingdom were altogether without means of communication, so that everything had to be carried by horses, the production in both places would be as good as limited to providing for the necessities of the inhabitants. In both places there would be a small amount of agriculture and a little home industry. The fact that the conditions have so developed that farming is carried on on a large scale in East Prussia, and manufacturing in West Prussia, with a production in both parts far beyond the needs of their inhabitants, is in no small measure due to the means of communication both between the two districts and with foreign countries. Without roads, railways, canals, and ships, to carry those masses of products from the places in which they were produced, they would remain where they were, or rather, as they could not be consumed where they were produced they would never have been produced at all.

The post-office, telegraph, and telephone may be classed with means of communication, it being their function to contribute towards a more rapid utilization of the resources at hand.

§ 108. Educational Institutions

The extent of the production is dependent, among other things, upon the producers' stores of knowledge. For the acquirement of these, there must be educational institutions, museums, etc., where every one may receive an education to fit him to fill his position in society.

§ 109. The Protection of Labour

The need of orderly conditions to ensure the producers against disturbance in their work is a matter which has already been discussed, and the reader is therefore referred to what has previously been said concerning such institutions as law-courts, police, army and navy.

Another kind of protection was also mentioned, which, by the aid of customs, subventions, railway-tariffs, etc., protect the producers in one country against competition from the producers in other countries. We shall return to this subject in the next chapter.

§ 110. Means of Production and Trading Capital

Nothing can be accomplished with one's two hands alone.

In order to produce, man must possess means of production, consisting partly of natural objects, and partly of objects created by working up the former. We shall return to this in a subsequent chapter.

§ 111. Means of Exchange

The relation of gold to the production has frequently been touched upon in the preceding pages. To this and the other means of exchange, and to the opportunities of borrowing them, several subsequent chapters will be devoted.

§ 112. The Acts of our Forefathers

Long ago our forefathers were poor as regards the various resources enumerated in the preceding paragraphs. They produced little in consequence. The reason why we produce so very much more is that every community in our day possesses more or fewer of these resources ; and upon this foundation we build up our great production. But it is only a few of the resources that we ourselves have created ; the rest are due to our forefathers, especially the generation immediately preceding us. They brought out the great inventions, made the greater number of the existing roads, railways and telegraph-lines, built most of the factories, opened the coal-mines, etc. It is by the aid of the labour and thrift of the preceding generation that the production of the present day has attained such magnitude. Without their assistance we should be able to accomplish little.

CHAPTER XVI

The Protection of Home Industries

§ 113. THE DIVISION OF THE WORLD INTO COUNTRIES

IT has already been shown that no one person produces everything that is required in civilized countries for the maintenance of life. Men produce in combination. Their total production is taken to storing-places at the traders' all over the world, whence each one subsequently takes out the amount of products falling to his share, permission being given him to choose the articles that suit him best.

Consistently with this there should be no hindrances placed in the way of a free exchange of products among all the inhabitants of the globe.

In practice, however, such hindrances are found to exist. Within each country, the products circulate as a rule freely; but if they are to be conveyed from one land to another foreign one, difficulties are frequently met with.

§ 114. FOR THE PROTECTION OF HOME INDUSTRY, OBSTACLES ARE OFTEN PLACED IN THE WAY OF IMPORTATION OF FOREIGN GOODS

Whereas in theory the inhabitants of the globe together form one great brotherhood with common interests, the real state of affairs, mainly based on national feeling, is very different.

Mankind is divided up into nations, each nation living in its own land, and each thinking most of itself and its own advantage. This national feeling manifests itself in various ways, one of these being the wish to see the production of its own country increase. Each nation strives to raise the production of everything that

[1] In the author's native country, Norway, with its two million inhabitants, some agitation has of late been raised for the introduction of strict protection, after the pattern of larger countries. The present chapter may be regarded as an attempt to set forth briefly the arguments for and against protection in Norway.

can with advantage be produced in its own country, to the greatest possible height. Its first effort is directed towards producing as much of these products as it requires for its own subsistence; but not content with this, it endeavours, when that goal is reached, to increase its production still further with the intention of exporting the surplus to other countries.

In order to compel the nation to produce articles which it has hitherto procured from abroad by exchanging for them its surplus production of other articles, its rulers sometimes make the importation of foreign goods difficult, or even prohibitive. When the nation is protected against foreign competition it is afterwards expected to devote itself to new branches of production and develop those it already has.

§ 115. By what Means is Home Industry protected against Foreign Competition?

The means of protection most frequently employed against foreign competition are customs-duty. We have already said what is necessary about its collection.

All duty is not imposed as a means of protection. Its purpose is often solely to procure funds for the Government, but not to reduce the importation, and it is therefore made comparatively low. In that case it is called fiscal duty, which does not concern us here.

If, on the other hand, it is desired by means of duty to make importation difficult and discourage foreign competition, higher duties must be imposed. If the intention is to keep foreign goods out altogether, recourse is had to prohibitive duty, which is so high that all importation becomes impossible.

There are other protective measures in use besides duty. The Government sometimes pays bounties out of the taxes to certain kinds of producers to encourage them to increase their production. This has in several countries been the practice with regard to such articles as sugar.

If the railways of a country are under the control of the Government, it can make the carriage of foreign goods higher than that of home produce, whereby the importation of the former will be hampered.

To increase the number of the country's steam and sailing vessels the Government in some countries employs the so-called subsidies or subventions. The ship-owners have grants made to them by the State in various forms, and are thereby aided in their competition with foreign ship-owners. Differential duty on goods brought to a country in foreign ships may also be used to the disadvantage of the latter.

Of the above-enumerated means of protection against foreign competition, duty is the only one that will be made a subject of discussion. A detailed treatment of the others would require more space than can be spared ; nor would it be necessary to a comprehension of the protection of home industry against foreign competition ; for the facts that may be stated concerning the effects of duty upon the production might in the main be applicable to the other means.

In the same category of protective duties may also be classed the movement against the purchase of foreign merchandise in place of indigenous productions. Both tend to protect the home production against foreign competition. In the one case coercive means, duty, etc., are employed to attain the desired end ; while in the other it is left to the choice of the inhabitants whether they will support the national industries or not.

§ 116. The First Effects of Duty

(*a*) Building of New Factories

It has been mentioned in several places in the previous pages that each country employs the greater part of its annual production in the maintenance of life, but at the same time saves a small portion of the production in order to transform it into permanent productive objects, among which are factories. But when the building of factories follows as a natural consequence of the fact that the nation is accustomed to save every year, it would seem unnecessary, in addition to this natural motive power, to let an artificial means such as high duty be employed to call forth manufacturing industry. The country will save, and the saved products cannot for any length of time be amassed, but must be transformed into income-bearing objects, in the present case, factories. Thus no stimulus in the form of protection is necessary as an inducement to the building of factories.

Objections may, however, be made to this line of argument. The development is not everywhere equally rapid. In some places, for instance, manufacture may long since have obtained a foothold, and may now be carried on on an extensive scale, and according to the most perfect methods. Accordingly whereas in such a place the development has reached its zenith, another country has perhaps got no further than the first experimental attempts at manufacturing. The latter of these two countries will at present manufacture too dearly, and its undeveloped manufacturing industry will lead a languishing uncertain existence. The temptation to let such products as the country can annually save be transformed into factories will not, therefore, be great; they will more probably be transformed into other objects such as ships, mines, land improvements, etc. It would be another matter if foreign manufactured goods became dearer. In that case the country's prospective high-priced production could enter into competition with the now higher-priced foreign manufactured goods, and there is greater encouragement to convert the country's saved products into factories. Duty presents itself as a means of bringing about this raising of the price of foreign manufactured goods.

A country may be imagined that has little or no production of cotton and woollen goods, hardware or paper, and where all that the country requires of these goods is imported. A high duty is thereupon put upon all foreign goods of these kinds. By thus making foreign cotton goods, etc., dearer, the Government of the country hoped to compel the inhabitants to found factories at home for the manufacture of these goods.

(*b*) **Whence does the Money come ?**

If the inhabitants of the country obey the call, where do the money and workmen come from for the completion of the new factories that arose as a consequence of the increased duty ?

To begin with for the building of the factories, some of the country's saved and still untransformed products will be taken. The manner in which this will be done has already been explained. Those who save have received gold that is entitled to repurchase their corresponding share of the country's production of that year. Either they themselves, or their agents (limited companies, joint-stock companies, and lenders), then employ the gold for the purchase of the savers' hitherto unclaimed products, which are then transformed into new factories. The conversion of the country into a manufacturing country, at which the increase in duty aimed, will, however, take place slowly if the country year after year is exclusively dependent upon its own saved products for the erection of its new factories. If the change is to take place rapidly the country's prospective manufacturers must also be able to have products saved abroad at their disposal. If their own country is small, however, the prospect of obtaining such assistance from abroad will not be very great, but it is another matter if their country is large and powerful. In that case the foreign savers will use them also as their agents, handing over to them their gold for the repurchase and taking away corresponding portions of the foreign saved products for the purpose of erecting in their own country the new factories called into existence by the high duty. From this it will be seen that the money, or more correctly the products, required after the enhancement of duties for the rapid extension of a country's manufactures, often come from abroad.

(c) Where do the Workmen come from?

The next inquiry was as to who erects and works these new factories. Supposing that at the time when it is determined that the new factories shall be started, the whole nation is fully occupied in creating the year's production to the level of the standard average which, in the case of this country, may be put at an annual value of one thousand million krones—and cannot undertake any new work, in the meantime the work in the new factories would have to be performed by persons who have immigrated from abroad. Perhaps just at that time other countries are suffering from over-population, and there is in consequence an influx to the protected country of foreigners that are superfluous in their own country. A mode of procedure such as this might also recommend itself on the ground that the country does not yet possess sufficient experience in the various branches of manufacture, and requires to be taught by skilful foreigners. By immigration alone, however, the necessary new labour will scarcely be procured. Perhaps the nation's one thousand million Production might be produced by the aid of a smaller number of persons than has been the case hitherto. The superfluous ones might after that get places in the new factories. It may happen, moreover, that over-population takes place here as in so many other countries. When the new factories are erected as a consequence of protection, there will probably be individuals in the nation, for whom, just at that moment, there was no place in the ranks of those who were occupied with the creation of the old one thousand million Production. These unemployed, at the point of time mentioned, would either subsist upon earlier savings acquired by themselves in former days, or on shares of the one thousand million Production given them by the owners. Some of the unemployed will also be on the point of emigrating. All the most capable among them, and those whose aid could be dispensed with in the creation of the nation's former one thousand million Production by harder work on the part of the remainder, would now, after the introduction of the high duty, be able to become part-owners in the new production called forth by the duty. In other words, they can be utilized in connexion with the country's new factories. If there were a sufficient number of them to satisfy the labour-demands of the new factories, there would probably be required, in addition to themselves, only a small number of immigrated foreigners to share in the work, these being especially skilful men for the instruction of the native workmen. Whether there should be a majority of natives, or a majority of foreigners, or the proportion of the two should be more equal, would depend upon the number of natives that were unable at the time to find a place among the workers in the former one thousand million annual Production then in progress. In any case, the establishment of factories as a consequence of the higher duty would call for a number of new persons, of whom certainly only a few could be taken from the producers of the one thousand millions. Most of them would have to be obtained by stopping the emigration of unemployed natives, and by the immigration of foreigners. We have here another effect of raising duty for the promotion of manufacture ; there will not only come a pause in the decrease of the population—if this had been going on in the country—but there will even be a direct increase owing to the foreigners called in, to the increased number of births : there will be an increase in the population.

Not long ago, in a Norwegian newspaper, some information was given concerning paper-mills in Denmark. They have a protection of about 100 krones per ton, and sell nearly the whole of their production in Denmark itself, where the population, if we recollect rightly, is a little more than two millions. It is scarcely likely that there is any importation of paper worth mentioning into Denmark, as the country's own mills satisfy her requirements. The mills employ about nine hundred hands. This instance from Denmark gives an indication of the increase in population that a nation will gain by introducing protection for a single class of products, in this case paper. If Denmark had no protective duty on paper, and no paper-mills, but obtained paper from abroad in exchange for her other products, these nine hundred work-people would not have existed. To this number must be added the higher employees at the mills, the artisans, tradesmen, servants, etc., that get their living by the nine hundred work-people, and finally the wives and children of all above. The total will certainly be at least three thousand persons who live in Denmark, because the manufacture of paper, maintained by the protective duty, has gained a footing in the country. The protective duty on paper has increased Denmark's population of two millions by three thousand.

(*d*) Rise in the Value of the Country's Annual Production

The value of the country's annual production will rise when high duty has driven the inhabitants to build factories. In order to find the amount of this increase, the value of the raw products must be subtracted from the value of the new manufactured goods. The result represents the increase that the new factories have occasioned in the former production of the country. In the year's production, there are perhaps home raw products to the value of forty millions of the coin of the country, or forty millions' worth of foreign raw products imported in exchange for exported merchandise. If the nation thereupon takes these forty millions of raw products to its new factories, and there converts the raw produce into manufactured goods worth one hundred millions of the coin of the country, its year's production by the aid of the new factories has not been increased by the entire one hundred millions; for in putting the increase at one hundred millions, the forty millions of raw produce would be counted twice. The increase is only the difference between one hundred and forty millions, i.e. sixty millions.

In other respects no decided rule can be given regarding the amount of the rise in value. It varies, and may sometimes be trifling, sometimes large. Wheat does not rise much in value by being converted into flour, whereas pig-iron acquires a value many times its own by being made into machines. If therefore a country is driven by a high duty to erect factories, and by their means increases its annual production, it will depend, *inter alia*, upon the nature of the new branches of manufacture whether the value of the newly added production be small or great.

(*e*) Can the Gold that is no longer required for the Purchase of Foreign Manufactured Goods now be employed in the increased Consumption of other Foreign Articles, e.g. Groceries ?

When home manufacture has grown up under the shelter of high duty, the importation of various kinds of foreign manufactured goods will decrease or cease. Will the people, since they have now lessened or left off the importation of these goods, and manufacture them themselves instead, be able hereafter to employ the gold used for that purpose, for the greater enjoyment of life by a larger consumption of other foreign products, such as coffee, tea, wine and tobacco ? An examination into the conditions of production in the country before and after the rise in duty will give the answer to the question.

The value of the country's annual production before the duty was raised was one thousand million krones. After the duty was raised we assume that to this must be added the products from the new factories at a value of sixty million krones, so that the year's production now amounts to one thousand and sixty millions.

On the delivery of the year's production to the traders the latter must now give the people one thousand and sixty million krones in gold—against one thousand millions formerly—to be employed in the repurchase of the production. How does the repurchase then proceed ?

The country's earlier producers then received annually, as they do now, let us say one thousand millions of gold with which in the days of free trade they repurchased their production, as we have frequently explained, from the traders, some of it being exchanged for foreign manufactured goods. After the imposition of the duty these foreign manufactured goods disappear and their place is taken by new goods of home manufacture. The only difference for the earlier producers of the one thousand millions is that formerly they repurchased foreign manufactured goods, and now they repurchase goods of home manufacture. They must now use the gold with which they formerly repurchased foreign manufactured goods for the repurchase of corresponding goods of home manufacture, and cannot spare the gold for an increased consumption of coffee, tea, wine and tobacco. That it should be so is only natural. If the new sixty millions of home manufactured goods had been produced by the producers of the one thousand millions, who had thus by increased labour produced sixty millions more than before, they could have added to their enjoyment of life with sixty millions. But this increased production is not in any way due to the producers of the one thousand millions, who have worked no harder than before and cannot expect greater enjoyment of life.

As regards the new manufacturers which the higher duty has called into being—on delivering the manufactured goods to the traders, they received sixty millions of gold for distribution among themselves and their assistants, and for employment in repurchase. In reality the new manufacturers receive more from the traders, namely the cost of the goods—one hundred millions of gold—but keep back the forty millions, and let only sixty millions be used for distribution. The reason of this is explained in Chapter V on "Raw Material and Finished Goods." With these sixty millions of gold the new factory population repurchases what it requires from the year's production, now risen to one thousand and sixty millions, after its partial interchange with foreign goods. The composition of the sixty millions of products will be the same as of the former one thousand millions of products, and will consist, among other things, of coffee, tea, wine and tobacco. The new factory members of the population, in short, will live in the same manner as the earlier members.

The question is thus answered. When, owing to the higher duty, the nation has been augmented with the newly added factory employees, an increase will take place in the entire nation's importation of such foreign luxuries as cannot be classed with foreign manufactured goods ; but at the same time the individual members' consumption of these articles undergoes no increase. The consumption by persons belonging to the earlier population will rather become somewhat smaller, as after the added duty they will be obliged for the time being to repurchase the manufactured goods at a higher price than formerly, and therefore, perhaps, now have less gold at their disposal for the repurchase of coffee, etc., than in the time of free trade.

Before going further a few words may also be said in this connexion concerning the manner in which the foreign goods required on account of the newly-added factory population are procured. The process is much as follows :—Formerly the producers of the original one thousand millions had one hundred millions' worth of their home products exchanged abroad for one hundred millions' worth of foreign manufactured goods. Now, on the contrary, they exchange those one hundred millions' worth of home products with the new factory community for one hundred millions' worth of goods manufactured in the new home factories that arose after the protection. The new manufacturing community have the one hundred millions of home products thus received, exchanged abroad—forty millions of it for raw materials, which, after importation, are used in the manufacture of the one hundred millions of protected home manufactures mentioned above, to be given to the producers of the original one thousand millions; and sixty millions for foreign necessaries upon which to subsist while the manufacture in the new protected factories is going on. Should the new factory population be able to utilize some of the hitherto exported one hundred millions of home products, either as raw material or to maintain life, both exports and imports are correspondingly diminished.

It is at any rate from the earlier exported one hundred millions of home products that the new factory population, which has arisen since the imposition of the duty, obtains both raw materials and means of subsistence for themselves, when they start with the manufacture of the new one hundred millions of home-manufactured goods.

(*f*) The Price of Necessaries is Raised

Where a high duty is imposed the protected products become dearer than before. This is just one of the objects sought. The high duty is to make the foreign imported goods dearer in order to enable the country's manufacturers to demand the same high price for their home goods, and thus encourage them to manufacture. The added charge will about correspond with the amount of the additional duty.

The producers of the former one thousand millions have perhaps been accustomed to exchange annually one hundred millions' worth of their products for one hundred millions of foreign manufactured goods, which therefore the traders had to procure from abroad before the repurchase. If a duty of twenty millions, or in other words twenty per cent., is now imposed, the producers of the one thousand millions will not only send abroad through their traders one hundred millions' worth of home products as payment for their one hundred millions of foreign products, but will further pay twenty millions' worth of products to the State as duty. They must now pay one hundred and twenty millions' worth of home products for their foreign products, which they formerly obtained in exchange for one hundred millions' worth of their home products. In consequence of this either their consumption will be reduced and their savings remain unchanged, or the consumption will remain the same, while the savings decrease. If the amount of both is to remain the same as before the duty, this will be at the expense of their quality. The way it can be done is that the traders when making the usual exchange of home products for foreign products, choose the latter at lower prices than those hitherto imported.

No change in this respect will take place in the meantime, if factories are erected at home on account of the duty, and the importation of foreign manufactured goods ceases. Then, too, the producers of the former one thousand millions must pay one hundred and twenty millions' worth of home products for their one hundred millions of manufactured goods. The only difference is that they now use new home-manufactured goods, and that the twenty millions' worth of products go to the new home manufacturers as extra profits, and not to the State as duty. It may happen, however, that the new manufacturers, owing to their want of experience, manufacture too expensively. They employ possibly more hands than were used in the old foreign factories. If, by this means, their new manufactured goods have become twenty millions too dear, the above-mentioned twenty millions' worth of products that was taken from the producers of the original one thousand millions, will benefit the superfluous new hands, and not the new manufacturers

For the sake of convenience we ignored for a time the employment of gold in the distribution of the production. In reality, the above transactions will take place somewhat differently to the way here described, for the very reason that gold will be used as the medium of exchange.

(g) The Country's Independence of Foreign Countries

When a country decides to introduce high imposts the original intention is usually only to make it independent of foreign countries. The nation has hitherto had to procure its manufactured goods from abroad ; it is assumed that the duty will alter this. By letting the duty artificially enhance the price of some of these foreign goods, an attempt is made to induce the inhabitants to manufacture them for themselves, and so cease to import them from abroad. And in the course of time this result generally is attained. The nation instead of consuming as heretofore cheap foreign manufactured goods will now use the dearer home manufactured goods which owe their existence to the high duty

It might be imagined that the manufacturers would remain content with this, and not wish to aim beyond this original objective, namely to purvey at a high price for home consumption articles hitherto manufactured abroad. It might even perhaps be best for them to avoid any further increase of the production, and confine themselves to producing exactly the quantity of products necessary to meet the nation's demand. Such an arrangement, however, whether they desire it or not, would be difficult of accomplishment. A new phase of manufacturing operations in the protected country is at hand · it may be called manufacture's second period

§ 117 THE SUBSEQUENT EFFECTS OF DUTY

(*a*) Comparison of the two Periods

The characteristic feature of the first period was that during that period the protected manufacturers pursued and attained their object of superseding foreigners, and themselves supplying the nation with manufactured goods at high prices. When the protected manufacturers pass this limit for their production, and produce more manufactured goods than the nation can consume, the second period has commenced

How the conditions in the second period of protection will develop depends upon so many different circumstances and causes that no universally received rules can be given. A rough sketch of the distinguishing features of the period is all that we shall here attempt to give.

(*b*) The Signs of Over-Production of Manufactured Goods

It is to be presumed that the excess will not appear simultaneously in all branches of the protected production. It will scarcely, for instance, appear at one time in the metal, glass, leather, cotton and wool factories. These manufacturers will not all discover at the same time that they now produce not only enough for the requirements of the nation but even more than the nation can consume. Probably at first only a single class of manufacturers will become aware that as regards themselves there has been too large a production, considered in relation to the requirements of the country. Subsequently the other classes of manufacturers will successively make the same discovery.

How the conditions of manufacture will develop when the production has begun to exceed the home requirements depends very much upon the size of the protected nation. In a large state the development will proceed differently to that in a small state.

(*c*) If the protected Country belongs to a great Nation, the next Step will be to begin the Exportation of Manufactured Goods

When the high duty in a large state has been in effect so long that in one or another branch of manufacture the first signs of surplus production beyond the needs of the nation begin to be evident, the manufacturers will naturally curtail their production until the surplus is consumed, as indicated at the conclusion of the preceding paragraph As a rule, however, a great nation will choose another method of procedure Why should not this nation like other countries help to supply the nations that do not manufacture with manufactured goods, or even flood the unprotected old manufacturing countries with their goods? This is the question that will force itself upon the nation, and the nation will act in conformity with it.

(*d*) Reduction in the Cost of Manufacture

It has hitherto not been necessary for the manufacturers in the great protected nation to concentrate their attention upon the reduction of the cost of manufacture. Whether the goods cost the manufacturers a little more or a little less was not a matter of vital importance to them. Even if manufacturing prices were high, they could sell their goods at a fair profit; for they sold all their wares to their countrymen, and could demand fancy prices of them, because the duty excluded foreign countries from competition with them. But now that the factories of the country, owing to their increasing number, also manufacture for exportation, the reduction of the cost of manufacture became a matter of importance for the manufacturers. It became necessary for them to acquire cheap methods of manufacturing. There were countries, e g. England, which supplied cheap and excellent manufactured goods. If a protected nation were to be able to compete with these English goods abroad, it must manufacture as cheaply or more cheaply than England, and convince the world that this was the case. Owing to various circumstances, a few great nations have succeeded in doing so. Each one of them has become a troublesome competitor of England in the field of manufacture. These nations will now manufacture goods which each of them formerly imported in sufficient quantities for their own consumption and for exportation. By this it is not meant that the importation of manufactured goods by these nations has altogether ceased. Some kinds of goods are still imported by them, notwithstanding their protective duty

(*e*) Does the Price of Manufactured Goods fall in a large protected Country when that Country begins to Export ?

The imposition of high duty on manufactured goods causes the price of these goods, as we have said, to rise within the borders of the protected country It is clear that this state of things will last as long as the new factories can dispose of all their production at home, without having anything over for exportation But how will it be when the new factories of the great protected nation have learnt cheap methods of production, and, increasing their number, start producing in great quantities calculated for exportation ? Will they be able to keep up the high prices at home which the high duty has hitherto allowed them to charge their fellow-citizens, while they dispose of their goods abroad at cheap prices ? The duty indeed still exists and keeps out foreign competition Apprehension for foreigners should not therefore make them lower the prices in their own country ; but there are other competitors for the home trade against whom the high duty on foreign manufactured goods does not protect them. They have begun to compete among themselves for the home trade. Formerly, when they could not satisfy the home demands, they each of necessity sold their production at a high price ; but now they manufacture more than their own country requires. Each of them would like to sell at home, and in order to gain their end, first one and then another will lower the former high prices demanded at home, as they can now easily do with their cheap methods of manufacture and low export prices. The consequence of this should at last be that the manufacturers lower their prices for their home customers to the same level as that used for their foreign customers.

(*f*) Trusts

Theory is not always the same thing as practice, however, and here we have a case in point. If events were allowed to develop in the natural way, there is no doubt but that the price of manufactured goods in a large protected country would fall as soon as ever the country's manufacturers were left with stores of goods on their hands, after having satisfied the requirements of the country. But the distribution of the production is not always allowed to take its natural course. The State, or the manufacturers themselves and the traders, sometimes interfere. The State influences things by granting export bounties, among which that on sugar in particular has been much talked of recently. In order to encourage manufacture the State will not only levy a protective duty, but also pay the exporting factories money to encourage them to increase their production. Among the consequences of such bounties is the disappearance of the products from the home market where the home consumers then experience a scarcity, and must pay the old high prices. Whereas the State by its bounties only seeks to increase the manufacturing industry of the country, and has no desire to make home manufactures dearer for the inhabitants of the country, the manufacturers, on the contrary, have not always the extension of manufacture at heart, indeed they sometimes endeavour to keep it down; but for them, at any rate, the important thing is to keep up the home prices at the level to which protection and the exclusion of foreign manufactured goods had raised them. To attain this object the individual manufacturer will not unnaturally, at the first signs of too rapid a production in his branch, export his little surplus and sell it abroad at whatever price he can obtain, rather than try to sell in his own country by lowering the price and thus spoiling his home market. In certain large protected countries this tendency has of late years been further developed and made into a complete system. Manufacturers and traders have united in associations called "trusts" in the United States, and "cartels" in Germany. Sometimes also they receive the name of "syndicates." Every such association concerns itself usually with a single branch of trade. The members of the association agree in a manner to work in fellowship for the time being. The principle on which they conduct their business consists in obtaining for the association or trust—to make use of this designation—the command of all goods in the country in which the trust is interested. The goods are then divided into two portions, of which the one is exported and sold abroad. As certain of the large protected countries have learnt to manufacture cheaply during the interval that has elapsed since the adoption of their system of imposts, their goods may presumably often be advantageously exported to countries that favour free trade, may even, indeed, sometimes be advantageously sent to countries that like themselves have high duty, but have not yet attained the same adroitness in reducing the cost of production in their own factories. Even if the trust must sell abroad at little or no profit or even at a loss, exportation takes place just as frequently. After having thus disposed of one part of its production the trust is left with the other which is just large enough to cover the consumption in its own land. If the trust in certain cases made nothing or not enough on its exported goods, it reimburses itself in the sale of those goods reserved for its own countrymen. In this its members are assisted by their ability to manufacture cheaply, but still more by the duty on foreign merchandise imported into their country. The trust's own goods were produced cheaply, and are not burdened with duty; the foreign goods, on the contrary, cost perhaps more to produce, and, if any attempt is made to import them into the country, are charged with a heavy duty. The trust, availing itself of this, makes its countrymen pay almost as much for the goods as imported foreign goods would cost. The difference between a trust's prices abroad and its own country may be exceedingly great. According to a newspaper report from the summer of 1902, trusts in the United States have been known to give to foreign buyers as much as 40 per cent. discount. If a trust asks 100 dollars for a quantity of goods sold to its countrymen, it will sell a corresponding quantity to foreigners for sixty dollars. A newspaper from the summer of 1902 also states concerning a German cartel, that it sold iron and steel rails in Germany itself at 115 marks per ton, but abroad for 85 marks. Bar iron cost 125 marks per ton in Germany, but was sold abroad for 100 marks. A little while before, according to the same newspaper, German coal fetched 18 marks 50 pf. per ton in Germany, while at the same time exportation to Austria was going on at a price of 8 mks. 80 pf. Foreign prices such as these must, it would seem, involve loss. It can hardly be large quantities that the trusts of the two countries export on such conditions. Exceptional circumstances may bring a trust in certain cases to sell at apparently great loss. The purpose in the formation of the trust, to mention an example, may partly have been to make its goods known abroad and open new markets for them. In order to get the foreigners to try the goods, they are sold at first ridiculously cheap. If a trust wishes to continue exportation, and to export on a large scale, it must obtain more or less remunerative prices abroad. If it is unsuccessful in this, it will probably try to reduce its production to the amount that its countrymen will consume. It is certainly in no want of means to do this. The agreement between the members of the trust may require that each of them must reduce his production proportionally, if the managers consider it necessary. As regards outsiders who might wish to establish new factories in the trust's country, a rival trust, with large capital, can place great hindrances in their way, perhaps ruin them. The trust itself will continue to live as long as there is unity among its members, and it will keep up the high home prices if it pleases to do so. If the trust lowers the home prices, it is not because it is compelled to do so, but from other motives, such as generosity to its countrymen, or a fear of exciting a hostile public feeling by carrying things too far.

(*g*) What does a Protected Country take in Exchange for its exported manufactured Goods ?

Among the protected countries the United States have recently been mentioned. The exported manufactures of the country consisted until recently principally of hardware, labour-saving implements, machinery, materials for the construction of railways, bridges, etc., boots and furniture. There are also immense quantities of wheat, meat, and other food materials, as well as oil, cotton, tobacco, and many other articles. Part of this exportation belongs to Europe, whereby is meant chiefly to European ship-owners who have conveyed American exports across the ocean and have thus become part owners of them. Another part of the exports the North Americans in Europe use themselves, a number of them always being found there, either travelling, or living there permanently. These North Americans do not consume their share of the United States' annual production in the United States, but have it sent to Europe, where they make use of it. Concerning this subject, the reader is referred to a previous paragraph on travelling (see § 46). For this part of the United States' exports Europe makes no return.

But what is kept in Europe as freight and to pay the expenses of travelling Americans forms only a small part of the American exports. For the majority of their exports to Europe the United States can demand foreign articles in exchange. It is not very easy to find articles suitable for importation to the United States. They cannot for any length of time take European gold and keep it in return for their exports to Europe, for in the course of a short time Europe would be denuded of gold, and the United States swamped with it far beyond requirements as medium of exchange and for the making of ornaments and other articles for use in everyday life. The majority of the North Americans moreover, have not produced these products of theirs with the intention of exchanging them for foreign gold and hoarding the gold; they produced in order to use the products for the maintenance of life, but not as a means of amassing gold. The producers in the United States took, on their own and their assistants' behalf, their food-stuffs, manufactured goods and other products to the American traders in exchange for gold to be distributed among them all, and to be employed in the repurchase of the production. As each one chooses what suits him best, the North American producers and their assistants will discover, while repurchasing, that the American year's production contains more provisions, more oil and tobacco, and also more of several kinds of manufactured goods than they can consume. The oil-producers and their assistants—to take a single class—will come to the American traders with the gold they have received for the oil, and repurchase with the greater part of it American goods from the year's production, principally articles of food and manufactured goods. With the rest of the gold received for the oil, they might repurchase still more of these American products, but being unable to consume more American wheat, manufactured goods, etc., they prefer to use the rest of their gold for the repurchase of products from abroad. And the other

American producers and their assistants, like the oil-producers, will reject, in repurchasing, quantities of their American products as superfluous, and claim permission to repurchase foreign products. The American traders must therefore export the surplus American products, and in return import foreign products. As the American export trade is principally with Europe, it should be from that part of the world that the Americans obtained their imported goods. For this purpose products might be chosen that are manufactured in Europe, and are either not produced in the United States, or, if they occur, are deficient in quality or are not produced in sufficient quantities for the home consumption. There are not, however, very many such European products, as almost all kinds of goods produced in Europe are also produced in the United States. There are some European products, however, that are suitable for the purpose, both luxuries and other articles ; but Europe has not been able to pay for all her imports from the United States with these, nor have the States obtained in them all the foreign products they required.

Have not the Europeans, perhaps to a great extent, paid the United States with products from Asia, Africa, South America and Australia ? As it was quite impossible for the present author, before beginning to write this book, to give time to the study of the literature of political economy, with which he is thus quite unacquainted, he is unable to give any decided answer to the above question. But if his supposition is correct, it was formerly chiefly England, who, on Europe's behalf, exported English manufactured goods to the above-named four continents, and, with the products received thence in exchange, paid for a large proportion of the United States' exports to Europe. Of late years other European states have presumably taken part in this work. How a transaction such as this might take place will be seen from the exemplification below, which starts with the assumption that the European country of Norway has received implements of labour, hardware, flour, etc., from the United States, and paid for these goods, with England's assistance, with Chinese tea, The various events which take place in such a connexion may be imagined to be as follows :

I. The United States send implements, hardware, flour, etc., to Norway.

II. Norway sends timber to England.

III. England sends cotton goods to China.

IV. China sends tea to the United States.

What has here taken place is practically that Norway, in order to pay for the American merchandise she has received, requests England to have tea sent from China to the United States. Norway then comes to terms with England by sending timber, while England makes things straight with China by exporting thither cotton goods. This is very much what will occur. The changes that the employment of gold will make in this outline are more apparent than real. Norway will not make any real request as above to England, but will place her timber-gold in England at the disposal of the United States. The States, who had themselves ordered the tea to be sent, in their turn place the gold at China's disposal, in payment for the tea. And finally, China will pay with the gold in England for the cotton goods received. Regarded in this way, the exports from the United States to Norway are paid for with tea from China. In this respect, the employment of gold has made no change (cf. also the example given in §§ 34 and 36).

By their high duty the United States have of late years made it impossible for Europe to any great extent to pay for the American products with European merchandise, as was formerly done. Nor can the payment be continually made with European gold, as we have said, at any rate not if the gold is to remain in the United States to be made into a medium of circulation and ornaments. But Europe must pay the United States with something, if the States are to continue to pour their food-stuffs, oil, cotton, manufactures, etc., into Europe. It would therefore be well for Europeans if they possessed in their ships and, as here assumed, in what was due to them from other parts of the world, means to liquidate a considerable part of the debt. It seems, however, as if it were the intention of the States to refuse these last European means of payment. Plans are in progress which aim at procuring by degrees for the United States a mercantile marine large enough to oust the ships of other countries from trade with America, and indeed, as far as possible to take their place elsewhere in the world. It is not certain that this will succeed, but should it do so, it will mean that thenceforth they themselves will become the owners in the first place of such American products as they had formerly to give to European ship-owners, and in the next place partly also of the production of other countries in order to convey it across the sea. The United States also appear to cherish a wish to pay for their Asiatic, African, Australian and South American goods, as far as is feasible, with North American manufactures. Should this wish be fulfilled, Europe's power to pay the United States, or, as it may also be expressed, to import from the United States, will be still further diminished. Europe will then be informed by the four continents that they now obtain a number of products from the United States, and therefore do not need so many European manufactured goods as before. The consequence of this to the United States would be that in the same measure that they gained a footing with their American articles in the four above-mentioned markets, their trade with Europe would fall off, for, under the circumstances described, the Europeans would lose a means of payment with which they had hitherto bought from the United States. In Europe, all producers of the various goods that were formerly sent out to Asia, Africa, South America and Australia, in exchange for articles to give to North America as payment for her exports to Europe—all these European producers and their assistants would now have to cease their operations, and disappear. In an example that has just been used, we imagined cotton goods exported from England to China, through which Norway acquired Chinese tea with which to pay for implements, hardware, etc., sent from the United States to Norway. If the United States had been able to send American cotton goods to China, the consequence might have been that England had to leave off producing her English cotton goods, and also would have been prevented from importing Norwegian timber. In Norway, the production of timber and the importation of goods from the United States would have fallen off in a corresponding degree.

As regards the United States, they would lose their customer, Europe, or at any rate the transactions with that customer would decrease; but as a set-off they obtain the four other continents as new customers. In order to keep them, however, the States would have to treat these new customers otherwise than their former customer, Europe. THE COUNTRY THAT WISHES TO EXPORT MUST ALSO BE WILLING TO IMPORT. If the United States wish to continue to export their manufactured goods to their new customers, it will not do, as we have said, in the long run to demand only gold in payment, and keep out the new customers' own products. There is hardly any question of this, however, in the case of several of the countries. Tea and india-rubber, for instance, can hardly be produced in North America, so there are no protective reasons for refusing it admission.

It is not, however, impossible that the prospects as regards Europe may improve. There may still be regions in which new markets might be opened for England's cotton goods and Norway's timber. It may be, too, that Europe will rouse herself. The Europeans, and especially the English, distinguished themselves in the eighteenth century and the first half of the nineteenth, quite as much by their industrial inventions and organization of labour, as the Americans have done in our own day. Perhaps in this century we may see Europe not only adopting the American methods in her factories, but also once more astonishing the world with new inventions in the industrial field.

In conclusion may be named a hitherto unmentioned European medium of payment for American products. In former times the United States probably borrowed to a considerable extent from European savings in order to transform them in America into railroads, factories, etc. (cf. § 116, *b*). If this be the case, they will probably, with their rapidly increasing income of late years, have paid what they owed to Europe. Each year they have saved a considerable amount from their production, and some of these saved goods may have been among the exports to Europe. Arrived in Europe, they may have been exchanged for North American bonds or shares which were then sent over to the United States. During this interchange gold was of course employed as medium of exchange. The Europeans who owned the American securities then found themselves after having given up the scrip in possession of European gold entitled to repurchase saved American products now in the hands of the European traders. It will then depend upon these European capitalists or their successors, whether these same saved American products or an equally large amount of European products should be made profitable to Europe, or be wasted.

(*h*) Protection in Countries with small Population, will scarcely make them Exporting Countries.

The small state, like the large, will be able by imposing high duty upon the most ordinary foreign manufactured goods, to manufacture what it requires of them itself. But here the similarity ceases. Whereas the great nation after having attained this temporary object was able as its next step to start exporting, this can hardly be done by a small nation. The latter seldom possesses the necessary qualifications for competing out in the world's markets with the great nations in the sale of the same kinds of manufactured goods. In order to enter into competition, production must be cheap. The more there is manufactured of one kind of goods in the country ; the more practised managers and workmen there are to choose from, the more cheaply can the raw materials be purchased, and the better can the work be organized in the way of economics in the process of production. By these means the cost of production is lessened. With protection these aids to the manufacturers will gradually increase in the large country, but will not develop properly in the small country, owing to its limited resources. The result will be the reduction of the expenses of manufacture for the great nation (cf. *d*), which can then with advantage take the surplus of its manufactures not required in the country itself, and export them to all parts of the world where duty-walls do not as yet keep them out ; an example which it would be difficult for the small nation, producing at greater cost, to follow.

If the manufactures of a small protected nation, notwithstanding the fact that they were dear and in no respect better than those of the larger commercial nations, nevertheless are expected to sell abroad, the small nation's commercial houses would have to establish branches abroad. But the attempt is seldom made, both because the nation has little of its own goods to send, and because this little would be too dear.

When a small protected country, therefore, at last finds itself able to produce what it requires of certain kinds of manufactured goods, and to leave off importing, the production will practically henceforward remain at the same standpoint. Every subsequent attempt at further increase of the production will be followed by a reduction of the same, with partial stoppage of work, and possibly closing of factories. The manufacturers with the best powers of resistance will hold the field, until, after the lapse of more or less time, the production again exceeds the necessary amount, when the same thing will once more be repeated.

As regards the prices of manufactured goods in a small protected country such as this, they will probably suffer a temporary fall when the number of home factories has become too large, and the competition between them too keen. Trusts and cartels to which great protected nations have recourse in such cases in order to keep up the home prices are probably less suitable for the protected goods of small nations. In any case such associations are not frequently met with in smaller countries. The fall in prices in the small country will sometimes be occasioned, not only by the keen home competition, but by the importation of foreign manufactured goods, which, for some reason or other, are sent into the country from foreign factories in spite of the protective duty and sold at a loss. But as soon as ever the manufacturing conditions in the small protected nation again become quieter, and foreign countries at the same time see no occasion to defy the duty-wall, the result will again be a rise in the price of manufactured goods. There will scarcely be any question of any lasting reduction in prices in quite small nations such as this, as long as the duty is maintained.

It is a different matter with branches of manufacture specially suited to the country occupied by the small nation. As an instance may be mentioned the wood-pulp factories in Norway. Forests of fir and waterfalls are of importance to these, and there is abundance of both in Norway. But let it be observed that in such a case the factories spring up without protection, and therefore need not be dealt with in this chapter, in which only "duty" created factories are treated of.

§ 118. A Community can be so Small that Protection within its Borders is an Impossibility

The boundaries of a customs territory coincide with the political boundaries of the country. Each country, therefore, forms a separate customs territory.

But in addition to the national homogeneity that binds the inhabitants of a country together and gives them common interests, there is a certain "district" patriotism which must be taken into account. The whole country presents a definite solidarity against foreign lands; and similarly each district is animated with a like feeling against other districts within the same political boundaries. The inhabitants of a province or a town pre-eminently desire advancement for their own province or town. Their country as a whole is given a secondary place.

in a country with thirty millions, rising to 150,000 krones when the population has increased to forty millions. The circumstances would rather be that the increase in the shares of the production that annually fall to the lot of these more prominent men does not make real progress until the period during which the nation is growing from a medium-sized to a great nation.

In addition to the increased personal comfort resulting from these large incomes, there are other advantages connected with them, both for their possessors and for the country. By this is meant the opportunity for increased savings and their consequences. The more a person earns, the more he can save; and the greater the amount saved, the larger are the fortunes. Even before the raising of the duty the nation may have been so great that considerable incomes and fortunes were not uncommon in the country. But when, owing to the effects of the duty, both the population and, in the case of many persons, incomes increase largely, fortunes will at the same time not only show an increasingly high percentage, but also far exceed the earlier fortunes in size. This results on the one hand in increased activity in utilizing the resources of the country, and on the other hand in more abundant donations to institutions of public interest, such as the army and navy, hospitals, universities and other educational institutions, libraries, art collections, etc. This is another result that may be entered upon the credit side of duty.

It may also be regarded as an advantage that by means of the factories called forth by the duty, the country is enabled to manufacture its own necessary articles. This may be of special importance in time of war.

It must not, however, be forgotten that the position gained for a large country by means of duty may to some extent be lost by increasing competition on the part of other large countries. Its position might also be greatly weakened if ever the whole of the rest of the world were to exclude its goods by protective duty. If all countries determined to make the importation of foreign manufactured goods impossible, each of the manufacturing countries that now export would find its manufacture greatly diminished, reduced to meeting the needs of its home consumption.

As a set-off against the various advantages that a large country can undoubtedly obtain by adopting high duty-rates on manufactured goods, the inhabitants must put up with several disadvantages. The protected articles will, as we have said, be dearer than they were before the added duty ; and while they become more expensive, the income of large numbers of the inhabitants of the country remains unchanged. Civil Servants and others receiving fixed salaries do not have their salaries raised if high duties are introduced. It is doubtful, too, whether the wages of working-men rise after increased duty. It may seem hard that all these persons should pay dearly for their manufactured goods in order that some of their countrymen may become manufacturers. District might reason in the same manner against district. Why should one district that supports itself by navigation and mining submit to a high duty on manufactured goods, imposed for the purpose of enabling another district with incipient manufacturing industry to extend its operations ? Here, too, the duty is apparently unjust. But to counterbalance this, there are the various advantages connected with being a member of a great and wealthy nation, advantages which benefit all the inhabitants of a country, irrespective of their position in life or place of abode. With the nation's growth in population and resources brought about by the duty, new possibilities present themselves to those who do not directly profit by the protection, of nevertheless profiting indirectly by it. In return for these chances and advantages it may be argued they ought to submit without murmuring to the high price of manufactured goods.

It thus seems incontestable that strong reasons may be adduced to show that those of the country's inhabitants who do not directly profit by the protective duty, ought nevertheless to put up with its disadvantages. Their sacrifice is made for the purpose of increasing both the ability and the wealth of the country, by making it into a great manufacturing country that can compete with the rest of the world as regards the number, quality and cheapness of its manufactured goods. Until this goal is reached, there is much to be urged in favour of the necessity of submitting to the duty ; but if, after that, the duty is utilized for the purpose of maintaining the high prices on the home market, to the advantage of the new native manufacturers (cf. § 117, *e* and *f*), the rest of the population might have real cause of complaint.

One unfortunate result of duty is that if it induces a vigorous manufacturing industry, there arises at the same time a large artisan population whose existence may occasion anxiety both to themselves and to others. Manufacture is sometimes more rapid than is necessary for both home and foreign consumption, making the discharge of workmen necessary. At other times, the workmen themselves strike work in the hope of obtaining by force a larger share of the country's annual production—higher wages. When there is a cessation of work in the factories, whether necessitated by over-production or voluntary, many are exposed to privation and hunger. Circumstances are sometimes still further aggravated by disturbances started by the workmen's leaders. In the next place, the presence of a large factory population will be very embarrassing in the event of a war. To procure food for all these persons, when the food must often be obtained from other countries, might be a matter of difficulty at such a time. The country was spared anxieties of this kind before the duty made it into a manufacturing country.

§ 120. What are the Advantages and Disadvantages of High Duty in a Small Country?

In a large country considerable advantages are gained by duty to compensate for the drawbacks. It is doubtful whether this is the case with small countries, and whether it is worth while to encourage them by duty to establish factories. From what has been said above, it will appear that the high price of manufactured goods occasioned by the duty, will probably be permanent there, and not merely temporary, as is the case after a time in large protected countries, provided events are allowed to take their natural course (cf. § 117, *e*). The sacrifices that the people must make to the protected manufacturers are perpetual in the small nation, while on the other hand the latter does not have the large country's compensation for its sacrifices, in seeing its population, resources and capability advancing by leaps and bounds. The small nation will be a small nation after the raising of the duty as it was before. If all the factories belonging to a country of two million inhabitants, that owed their existence to protective duty, were put together, the addition they would make to the population would be found to be too small to greatly alter the qualities and circumstances of the nation (cf. the close of § 116, *c*).

If a small nation expects its claim for protective duty to be granted, it could only be because in spite of its small population, it possesses certain natural conditions for developing into an important manufacturing country. Norway may be instanced as a country of this kind ; its numerous waterfalls can produce an immense amount of electricity, thus providing that country with an aid to manufacture similar to the coal of other countries. The idea of accustoming the Norwegians, through protective duty, to manufacture, in order to make them by degrees utilize these waterfalls, seems reasonable. In such a case, by submitting to the sacrifices laid upon him by the protective duty, the Norwegian of the present day may possibly assist in making Norway, at some future time, an important manufacturing country. This, however, is only a very distant possibility, so it is questionable whether the Norwegians of the present day ought on the whole to make any such sacrifice.

§ 121. Duty upon Agricultural Products

It will have been observed that the duty on corn, meat and other agricultural products has not up to the present been mentioned. Duty on agricultural products imported from abroad has long been known, but has certainly seldom been imposed for the purpose of encouraging the extension of home agriculture, and therefore differs from the high duty on foreign manufactured goods discussed above. It was formerly employed by a few European countries in order to replenish the exchequer, and was thus a fiscal duty, which, from its small amount, did not hamper the consumers. Some years ago, however, agriculture attained to such great productiveness in certain parts of the other continents, that large quantities of wheat, meat, etc., began to be thrown thence upon the European markets. Owing to the trifling expense of the production of the foreign goods, it paid to send them all the way to Europe, and sell them there at prices lower than those of the European agricultural products. The farmers in several European countries now earnestly represented that competition from the other continents would ruin European agriculture. To remedy this, a rather high protective duty on agricultural products was demanded, and has since been introduced in certain places. There may possibly be some exaggeration in the European farmers' fear of their transmarine rivals ; but if their fear is in any degree justified, so that the abandonment of cultivated areas was to be feared, and ruin among the European farmers was to be the consequence of the continued competition from other parts of the world, a protective duty sufficiently large to prevent such a calamity would seem to be expedient. In almost every European state, agriculture must be regarded as the principal livelihood of the country, and the one by which the greater part of the population make a living. In addition to the landowners, there are innumerable other persons who obtain their annual share of the yield of the corn-fields and meadows. The land-owners with their direct and indirect assistants make up the greater part of every nation. If, owing to the failure of agriculture, all these persons received little of their country's year's production, it would be synonymous with a very great decrease in the amount of the year's production and with starvation and want for the majority of the nation. And this would not be all ; for artisans, manufacturers, etc., formerly accustomed to exchange their productions with the products of the farmers, would be unable to continue to do so, and be compelled to make a great reduction in the amount of their production. Thus the well-being of the other classes in Europe depends in a very great degree upon the prosperity of the rural population. If the farmers are impoverished, their misfortune also affects all others in their country. It is therefore to the gain of each of the latter to make some sacrifice to the farmers, and submit to a protective duty upon home food-stuffs ; in other words, pay rather more for their articles of food than they would in the case of either free importation or the employment of fiscal duty.

It must be repeated, however, that the above argument starts with the express understanding that the land-owners' assertion of the impossibility of competing with other parts of the world without duty is entirely correct. If this assertion has no truth, protective duty upon articles of food loses every pretext for its existence, for it would not be required in order to preserve home agriculture, if agriculture in Europe can exist in spite of competition from without. And as the duty on food in that case could not be excused on the plea of inducing agriculture, as agriculture has existed and been known all over Europe for ages past, the protective duty, under these circumstances, would only mean giving the land-owners the opportunity of profiting at the expense of their fellow-countrymen.

Protection for manufactured goods is often brought forward as an argument in favour of protection for agricultural products; but there seems no occasion to put a duty upon foreign agricultural products on this account. With regard to the effect upon the population of the duty upon manufactures, the land-owners of a large nation must be classed with the above-mentioned Civil Servants, workmen, and others with fixed salaries. The growth of a great manufacturing industry in the country is of interest to them all, and perhaps even more to the land-owners than to the others, for a numerous manufacturing population in their midst increases their prospects of selling their agricultural products. They ought all to share the burden of the protective duty on manufactures; in any case, far from there being any question of lightening the burden for land-owners at the expense of the others, the conditions should rather be reversed.

It may be that manufacture, like agriculture, has developed in a country without the assistance of duty, but on account of subsequent competition from abroad, finds its existence seriously threatened. If in such a case, a protective duty were put upon the new foreign goods, a duty such as this should perhaps be classed with the recently-mentioned duty upon foreign articles of food, in order to help the home agriculture.

CHAPTER XVII

Means of Production and Trading Capital

§ 122 MEANS OF PRODUCTION

IT has been already remarked that no one can produce by recourse only to two empty hands. He who wishes to produce wheat meat and butter, must possess cultivated fields; mines are required for the production of metals and coal; factories are necessary in order to produce clothing materials, glassware, hardware, etc. The objects with which both the above-named and all other products are produced, we will call means of production. In accordance with this, the means of production consist of cultivated fields, forests, mines, oil springs, the kinds of earth used in the making of bricks, etc., waterfalls, factories, fishing-vessels, etc.

Steamers and railways may perhaps also be classed under means of production, although they cannot be employed directly for production. But they make the final stages in the process of production possible, namely, the conveyance of the finished products to the places of consumption, and are therefore nearly allied to the means of production.

Things such as houses, furniture, libraries, warships, etc., cannot be reckoned among means of production. Objects such as these, however useful or indispensable they may be, are now employed in production.

§ 123. TRADING CAPITAL

In order to be able to produce, the producers require not only various means of production mentioned in the preceding paragraph but also trading capital.

It is not sufficient for the butter-producer to possess land, or for the manufacturer to own a cotton-factory full of machinery. Possessing nothing but these two means of production, the former would not be able to produce butter, nor the latter cotton. The former, in order to utilize his means of production, must procure horses, agricultural implements, and above all cattle; while the manufacturer cannot do without the raw cotton, nor without coal and oil for his machinery, etc. Both, moreover, require products that serve to maintain life for themselves and their work-people during the time of production. It is all this that we here call trading capital.

The various things required in the processes of production form the producers' trading capital. Agricultural implements, animals and their fodder, clothing, etc. for the labourers, form the trading capital of the butter-producer, while in the case of the cotton-manufacturer, it consists of cotton, coal, oil, fittings, food and clothing for the work-people. Of these various things forming part of the trading capital, implements of labour have already been mentioned in another connexion (see § 47).

The traders also have their trading capital, consisting mainly of goods and warehouses.

Having now given the definition of the objects called means of production and trading capital, we will remind the reader, before we go farther, that these objects have already been mentioned in the chapter on wealth. They form, together with some non-productive objects such as houses, furniture, libraries, war-ships, etc., the wealth of mankind.

§ 124. What Economic Effects has the Emigration of its Rich Men upon a Community?

In judging of this matter, the question is whether the emigrant is one of the direct producers, or lives upon an income derived from interest, dividends or rents.

In the first case, the wealth of the emigrant may consist of means of production such as land, forests, mines, factories, ships, etc. If he leaves the district, he can take the ships with him to his new place of abode, but nothing else. The other means of production must be left behind at the place he leaves, for further employment in producing. They will either continue to belong to him, when, although living elsewhere, he will still direct their production from his new place of abode, or he will sell the land, forests, etc., to his former neighbours in the community when he emigrates. Supposing this to be done, his former neighbours continue the working of the means of production he has left. They may not be quite so productive under the altered management as when he personally directed their employment ; but they will still produce, and the outcome will not differ much in amount from what it was in his own time. The entire production of the community is therefore scarcely, if at all, diminished in consequence of his departure. The community will have annually about the same quantity of products to distribute after his emigration as they had before it.

His departure will occasion some change in the employment of the production of the community, whether he keeps his means of production or sells them. All his direct assistants, it is true, will receive their share of the production as before, and consume it at the place of production ; or, to be quite accurate, repurchasing gold is paid to them for the purpose of repurchasing that share or other products of the same value, which they consume on the spot.

But it is a different matter with the departing producer and rich man, who has hitherto done the same. If he keeps his means of production, he has his share of the production annually sent him, i.e. gold intended for the repurchase of the share. If he sells his means of production, such as land, factories, etc., to his former neighbours, they will perhaps pay him the purchase-money with their interest-bearing bonds to be repaid by certain yearly instalments. The emigrated producer in that case may be considered as a lender to the subsequent owners of his means of production. They are his debtors, just as they would have been the debtors of a third party, if they had borrowed gold from him to pay for the first man's—the emigrating rich man's—means of production. The last-mentioned is therefore joint-owner of their production during the period of the loan, as explained in § 72. In accordance with this, there is sent him at his new place of residence as much gold as is necessary for the repurchase of his share of the production produced by the means of production that were formerly his. As regards the payment of the purchase-money, the buyers of the departing rich man's means of production will have annually to place at his disposal an amount of gold equal to the amount of the instalment agreed upon. They may send him the amount in gold, but in conformity with the existing practice of avoiding as far as possible the sending of gold, they will probably arrange the matter by sending saved products, selling them, and having the amount they fetch delivered to him at his new place of residence. The saved products in that case, owing to the rich man's departure, cannot be transformed at the place of production, his former home, but will be transformed by him or his agents (joint-stock companies, limited companies, or borrowers) at his new place of residence, increasing its collection of transformed objects. It was assumed above that the new owners, in payment for the emigrating producer's means of production, would give him their interest-bearing bonds to be repaid by certain annual instalments. It may be imagined that instead of bonds they wanted to pay him the entire amount of the purchase-money down. If their place of residence possessed more media of circulation than were necessary, they might possibly, on his departure, give him the amount in money; but probably their engagements would be so arranged that they sent securities or saved products from the place to be sold, and had the amount realized handed to him at his new place of residence, in payment of the sum given for the means of production he left behind him. The buyers of the means of production would not, in that case, have to give part of their production to the former owner. On the other hand, the place in which they live has lost saved products which should properly have been transformed there (cf. § 54), or lost securities with the shares of the year's production resulting from them, shares which formerly benefited the place.

But if the emigrating producer cannot take with him such means of production as land and factories, there is nothing to prevent him from taking his ships. Ships, which in a previous paragraph were referred to the class of means of production, are not attached to any particular place. They can therefore accompany their owner if he changes his place of residence. If the ship-owner who is about to emigrate decides to take his ships with him, the consequence may be that he breaks off his relations with his assistants at his former place of residence, and mans his ships with men from the new place of residence. Whereas hitherto that part of the world's production which the ships annually earned was divided between himself and the assistants belonging to his former home, that share will hereafter be divided between him and his assistants at his new place of abode. His former assistants will lose their previous occupation in the service of production, and must seek some other employment.

After having found out what happens to the emigrating producer's means of production and the products they produce, the next subject to be discussed is his trading capital. This, as regards his farming, consists of cattle, agricultural implements, etc., and if he is a manufacturer, of raw materials, fittings, etc. He and his assistants, moreover, must live during the period of production, and therefore, in addition to his other trading capital, he has had to have necessaries of life for this purpose, or rather he has had to have an amount of gold at his disposal, with which he again and again paid his assistants their wages and purchased necessaries. Whatever he possesses of such gold at the time of his departure, he will take with him. The other objects belonging to his trading capital, he will sell in return for gold ; and this gold he will also take with him. The stock of gold at the place where he has hitherto lived will diminish in the same degree. The inhabitants of the place, seeing their circulating gold diminish, replace it in some way or other. One of these ways consists in being able to send their saved products to his new place of residence, in return for his or others' gold, and bringing this gold back to their own district. They were assumed just now to have done something similar when paying the departing rich man for his means of production, thereby avoiding the diminution of their circulating gold. The reader may compare this with the previous information given concerning the interchange of gold, for instance in § 36.

At the beginning of this paragraph a distinction was made between emigrating producers and persons of independent means who emigrate. Having said what there is to be said about the former, we will briefly discuss the person of independent means. His departure need not be associated with sale. If he is satisfied with his securities, there is no reason why he should part with them, merely because he is leaving the place ; he can simply take them with him to his new place of abode. If they are shares or bonds issued in the community to which he has hitherto belonged, he, as their owner, has year by year shared in the production of that community, and will continue to do so after his removal ; but whereas his share of the production was formerly consumed by him on the spot, it will now be sent after him to his new place of residence. Regarding the manner in which this is done, the reader is referred to what has been said before. If his shares and bonds originate from other districts, he formerly consumed their dividends in the community in which he then lived, but after leaving that place, he consumes them where he now lives.

Briefly recapitulated, the departure of a wealthy producer, or of a man of large independent means, will not as a rule bring about any decrease in the production in the community he leaves. If he is a ship-owner, this may happen, but hardly in other cases. With regard to the employment of this production, his departure will cause parts of it for the present to be sent to his new place of residence. In reality, the gold for the purchase of the products, or of other products, is placed at his disposal in the place to which he has removed. The quantity of products sent away may at first be rather large if the owner is a producer, and sells his means of production and trading capital to his former neighbours ; but if he continues to owe them, or if his property consists of securities, the community in which he has lived will have less to send him of the year's production.

While living at his former residence he had annually to give small fractions of his share of the production to certain assistants, e.g. artisans, shopkeepers, doctors, etc., for their assistance, and to the state in the form of taxes. All this ceases with his departure, and a corresponding reduction takes place in the incomes of these persons, and in the taxes. This reduction will be of no appreciable significance, however, in a fairly large community, if the number of rich men that leave it is small compared with the number of those that remain.

§ 125. Concerning the Sale of certain Means of Production to Foreigners

It sometimes happens in a thinly populated country that natural means of production lie idle. In Norway, for instance, iron occurs in large quantities in various places, waiting to be used. According to Norwegian law, it is the discoverer of lodes of iron who becomes the owner. He must, indeed, share his right to some extent with the owner of the land on which the iron is found, but retains practically the entire disposal of the locality. There can be no question of his beginning to mine it himself ; the kind of man who makes discoveries of this nature in wandering over mountain and forest is far too poor for that. If a man in Norway finds a large deposit of iron, he must turn to others for assistance, if he is to gain any benefit from his discovery. Through others, means must be found of working the bed of iron he has discovered. In return for a small compensation he will make over his right to one or other of his countrymen, who is better fitted than himself to negotiate. We will assume that the bed of iron possesses every possible condition for becoming a capital concern. It is only a question of finding the right men to put at the head of it, men with the special technical and mercantile qualities necessary for mining, and then placing at their disposal savings to be employed partly in changing the occurrence of iron into the means of production, a mine, as described in § 82, and partly subsequently as trading capital. The managers must have gold with the power of repurchasing saved products, in order to transform them into roads, railway-lines, quays, buildings, levels, shafts, and other things. The managers also require gold as trading capital, to be given, for instance, as wages to the miners, who will buy from the old products, using them to maintain life while they prepare the future products, iron (cf. § 97).

A mine such as this, in full work, will increase the population of Norway with its functionaries, its miners and their families; and the mine will increase the year's production of Norway with its annual production of iron. The greater part of the iron produced will probably accrue to the owners of the mine, while the remainder will belong to the officials and work-people. They will all again give shares to their assistants, such as shopkeepers, artisans and medical men. For information on this subject the reader is referred to previous parts of the book where the partial exchange of the production for foreign products and the subsesequent division among the owners have frequently been mentioned.

If this future prospect is to become a reality, it will scarcely be with Norwegian capital. The technical and mercantile experience required in order to start an undertaking such as this is not always at the command of a little nation untried in the modern mining industry. The result of this circumstance at present is that although a few of those who save in Norway may be able to help forward the establishment of one, or even of several iron-mines, yet a want of confidence in the management and the happy result of the undertaking, holds them back in most cases. They prefer to employ their savings for other purposes than that of opening out the country's locked-up stores of iron.

The end of the matter is that the Norwegian owner of the lode of iron turns to foreigners. In the large states there are plenty of persons skilled in this business, and plenty of savers willing to employ their savings in mining in distant countries. They will purchase his iron lode for a trifle compared with its actual value, and set to work to utilize it.

With the aid of foreigners Norway will get her lode of iron changed into a lucrative iron-mine, and find her population and production increase. The production will be divided in the manner just described, when it follows that the greater part will be sent to the foreign owners of the mine, and after exchanging it for other products, will be partly consumed, partly saved and transformed by the owners—not in Norway, but abroad. If a large proportion of Norway's natural means of production, such as metal-bearing rocks and waterfalls, were to be worked with foreign money, because the Norwegians are not yet able to utilize them, Norway would see a large working population, but few rich men, grow out of this busy activity. The new rich men would consist principally of traders employed in exchanging and distributing the working population's share of the production, and possibly some manufacturers producing clothing materials, etc., for the working-men, but not of the above-mentioned owners of the new undertakings, for they would live abroad. The advantage of having a large number of rich men in the country—which was touched upon in the chapter on the protection of labour against foreign competition (§ 119)—is therefore gained only imperfectly by a country that sells her unutilized natural means of production to foreigners. This will, at any rate, in the meantime be the result of the sales. Whether the future will bring any change through the repurchase of the undertakings by the nation in whose midst they are found, is a question that it is impossible to answer in advance.

CHAPTER XVIII

Loans

§ 126. Need for Mutual Borrowing

We spoke in § 82 about the dependence of civilized peoples upon each other, of which several examples were given. Another sign of this interdependence, not already treated of is their need to borrow from one another: borrow in the fullest sense of the word. What they borrow consists not only of gold but of many other objects. In civilized society no single individual can ever be the possessor of everything he may consider necessary for his well-being. It does not follow however that he must do without these objects. If he does not possess them himself he borrows them from others in exchange for a remuneration to their possessor.

The more expensive an object becomes—and consequently the more difficult for a single man to obtain—the more important it is for him to possess the opportunity to borrow it in return for the price of hire. If it were necessary for every one to own a steamship in order to go from Europe to America, very few could undertake the journey. And if one person in order to be able to telegraph from Sweden to England, or go by rail from Paris to Vienna, were first obliged to lay down a submarine cable under the North Sea or build his own railway from France to Austria, he would be absolutely cut off from enjoying these conveniences. But fortunately for the progress of nations there exists for those individuals who do not possess these things an opportunity of borrowing the use of them against hire. If any one wishes to telegraph, he borrows the cable for a moment from the possessor, the company, and gets his telegram sent to its destination, or if it is his purpose to travel he joins others in hiring a steamship or train for the necessary period in which to complete the journey against payment to the owner of hire. One need not, however, in his search for conveniences that lie beyond the reach of the ordinary buyer go so far as to consider railways, steamships, and telegraph lines. How many people can afford to buy their own houses, although it is an absolute necessity of existence to have a roof over one's head and though a house can be obtained at a much lower price than the above-mentioned conveniences. If every one were obliged to choose between either living in his own house, or out in the open air, most people would be obliged to choose the latter. Or let us take a horse and carriage; a very small percentage of the population can afford to buy these things. Why there are few who even own the bed in which they sleep at night or the furniture used by them in the daytime. Fortunately for them they are not cut off from the use of these necessities. The owners come to the aid of the non-owners and hire to them the things in question. Houses and carriages can be hired by the non-owners against payment for hire, i.e. the borrower of the house and the carriage cedes a portion of his share in the yearly production of the country to the owner of the house and carriage. And as regards furniture, it is the duty of every householder to place his belongings without compensation at the disposal of his children and servants gratis.

Another kind of loan may here be mentioned: farming, chartering of cargo boats and the hire of railway trucks.

Unlike the loans spoken of above, where the things borrowed were essentially used to increase personal comfort, in the latter instance the borrower of land, cargo boats and railway trucks will use the objects borrowed for production, direct or indirect.

By loans of the kind treated of in the present section, it is assumed that the borrower, at the expiration of the time of loan returns the borrowed object itself to the lender.

§ 127. Loan of Gold

Besides the loan of useful articles, there is another kind of loan, also forming one of the foundation pillars of modern social life, namely the loan of gold.

There is some difference between these two kinds of loans. The borrower of an article of use wishes to use it for the whole period for which he has hired it. If he has hired a house he uses it daily, and it becomes his home. The borrower of gold, on the contrary, will as soon as possible get rid of what he has borrowed.

He does not borrow gold in order, day after day, to be able to gaze at the coins, but by their help to procure other articles necessary for him.

From this results another difference between the two kinds of loan. While the lender of an article of use expects the article itself to be returned at the expiration of the time appointed, the lender of gold presumes that the repayment can be made with any gold, provided it is of the same quality and weight as the gold originally borrowed.

Lenders often personally lend their gold, but more often make use of banks as mediums ; they confide the gold to the banks and leave to them the further lending of the gold. On this point and also on interest, information will be found in the preceding chapters on Savings and Deposits. With regard to borrowers, they consist of private persons, as well as of companies and corporations. Under the last head come also towns, countries and states.

§ 128. Impoverishing Loans

It should be the aim of every individual always to save something of his share of the yearly national production. If this is impossible he should at any rate not use more than his share. In other words, every one ought to manage his income so as not to incur debt. Consistently, the same should be expected of any body of persons. It should be required of state and corporation that they alone by the year's taxes, not by loan, satisfied similar public needs.

It is not, however, treated so strictly in practice. People, who for some reason or another do not for the time being take part in the work of yearly production, are often seen to borrow gold in order to support life and therewith buy the productions saved by others. And with regard to the larger communities, it happens that raised public loans are partly used in the same manner, in so far as sometimes part of such a loan is used for the maintenance of Civil Servants and other persons engaged in public work.

Such loans are called impoverishing loans. Their characteristic consists in that the borrower consumes the products acquired for the loan, without leaving the least trace behind, thus weakening his economical position. The loan disappears, only the debt remains. The borrower's property has, through the loan, received no accession, which can balance his new debt. This debt with its interest cannot be covered when due by the borrower by help of the loan, as this has vanished. From future savings or by increased levying of taxes his impoverishing loan must be paid back. The loan has left him poorer than he was before he raised it.

Although these impoverishing loans from an economical point of view may be considered objectionable, it cannot on the other hand be denied that they have occasionally some justification. In the case of war—to take one single instance—it is natural that the State borrows for the support of the fighting army, in spite of the fact that by doing so it is weakening its own economical position.

§ 129. Enriching Loans

We said that the loans mentioned in the former section impoverished the borrowers. The contrast may be called enriching loans; these are the more numerous and are raised in order to enrich the borrower. He borrows gold in order to obtain articles with which he hopes sooner or later to increase his prosperity.

We can distinguish between three kinds of enriching loans according as the loan is employed for the obtainment of:—

(1) Products for transformation.

(2) Products for trading capital for manufacturers, farmers, ship-owners, traders, etc

(3) Older objects, such as land, forest, manufactories, houses, ships, stocks, etc.

A number of special instances of enriching loans will be gone through in the following paragraphs. A single instance was however mentioned in § 59. Here we assume that gold belonging to a Civil Servant and others has been lent to the owners of a useless bog, who for the gold repurchases the equivalent products saved by the Civil Servant and the others. The bog and the products then become transformed by the borrower into cultivated land.

§ 130. The Power of Loans to produce New Employers in the Service of Production

In a progressive land, the number of producers will always be rising. The same is the case with their helpers, of whom we might especially mention the traders. At the same time death will thin the ranks of the older producers and the traders. On account of these two circumstances fresh supplies of individuals are always needed to step into the ranks of the survivors. Every one must, in order to carry on his work, bring with him either means of production or trading capital.

These new participators in production could have obtained the said things through inheritance or gifts. The number of such men is, however, limited, and not nearly large enough to fill the vacancies left by their elders, much less increase their numbers.

Economy is another means of acquiring means of production and trading capital. But relatively speaking we find a very few economists. In order to save one must earn more than necessary for one's personal needs. Only a very few find themselves in this position. Labourers, mechanics, and others who live by manual labour, form the majority of acquisitive individuals. Every one of them can decline to repurchase all his part in the production lying at the traders' and place its equivalent in gold in the bank, in other words save a part of his income. Should he continue doing so every year, his deposit at the bank will successively increase. This can, and does happen. However, such a man's share in the production is so small that as a rule it is all necessary for his maintenance. It is, therefore, an exception to see a man of the working classes, lay by a part of his income ; and should it happen, the amount would be so small that he would be an old man before it had grown large enough for the obtainment of a farm, a shop stocked with goods, or any similar business. Besides these labourers there is in the land a minority of young men more or less ranging over them in knowledge. With regard to income, this minority is on an average in a better position than the labourer, but they do not save more, since the greater part use up all their income. We are near the truth perhaps in saying that 90 per cent. of them save nothing, while 10 per cent. yearly lay by a little. But savings of any importance are, for them, quite out of the question, as they do not earn sufficient. To save the sum of 5,000 krones in gold would take many years of a young engineer's or shop assistant's life.

In short, in order to enter into the service of production, as a producer or trader, one must be in possession of the means of production and trading capital. The younger men who in consequence of inheritance, gifts or savings are enabled to fulfil these conditions, are comparatively very few.

It is evident that this minority is much too small to be able to constitute the only contingent to swell the ranks of the employers in the service of production. It has, therefore, become necessary to find means to turn young men, without capital, into producers and traders, when they possess the other qualities demanded thereto. This means is called a loan. Young, well-reputed men, owning nothing themselves, obtain means of production and trading capital by help of borrowed gold, or through another form of loan called buying on credit—this latter expression will be explained in a future paragraph on the giving of credit. The result in both cases is the same: a practically unlimited increase in the number of young men from whom the employers in the service of production are recruited. In addition to the few owners of gold, we have the immense number of gold borrowers, and these together are more than numerous enough to supply the contingent annually needed to keep the number of employers complete.

The needs of these beginners may be great or small, according to the nature of their employment.

The greater part do not need much. If the son of a farmer wishes to purchase a farm; an artisan to begin a trade; an engineer to establish a small engineering shop; or a shop assistant to open his own shop, they will not for these small concerns need much gold in order to obtain the necessities for their respective businesses. Say on an average 10,000 krones, to keep to a definite sum. The amount will vary in the different cases, thus some beginners need 10,000 krones and more, while many can do with less. When the prospective beginner possesses nothing himself, which according to the showing is practically the rule, he borrows the 10,000 krones on mortgage, obtaining the guarantee of some friends; or buying on credit from, let us say twenty different producers, 500 krones from each. As the risk for each guarantor, or seller, thus becomes very small, it will not, in spite of his poverty, be difficult for him to raise the amount.

As soon as he has completed his preparations, the work begins in earnest. If he is a producer he will use his means of production and trading capital, acquired by means of the borrowed gold, for supplying products, and will thus become co-owner in the yearly national production. If he is a shop-keeper, his trading capital consists of goods, the greater part of which are bought on credit. By his work of distributing these goods among the population he also becomes a co-owner of the yearly production. Their shares in this production are partly consumed for the maintenance of life, and partly saved. Thus they will continue month after month and year after year. Started by the help of the small loans they will continually carry on work useful for the whole of society, but just as profitable to themselves, as by it they live and acquire a fortune. As their savings increase, they are enabled to lessen their loans, unless they extend their business, of which more later on.

Those commencing in a larger way, could not, as is seen from the words themselves, manage with a small amount. For with 10,000 krones in gold, which was sufficient for the small business, no one can build manufactories of any size, buy steamships, or carry on a wholesale business. The need of gold to each of them, answers to the extent of his task. If one man considers 80,000 krones in gold or things to that value sufficient for him, another may need 160,000 or 320,000 or 640,000 krones and so on.

Thus, as before stated, those starting large businesses may likewise be obliged to borrow. This is quite natural, as beginners with fortunes of from 80,000 to 640,000 krones, or upwards, belong to the minority. It is also as necessary for them to borrow as it was for the small beginner. But still there is a difference between them in two particulars :—The small beginner borrows little while the other borrows much—the small beginner can practically borrow everything he needs, but while the other can certainly borrow a considerable part of what he requires he cannot always borrow it all, by a long way ; he must necessarily have capital to begin with. If the former needs 10,000 krones he can practically borrow the whole amount ; if the latter wants to borrow 80,000 krones in order to begin his work he may possibly only be able to raise 55,000 krones, in which case he must himself possess 25,000 krones to begin with. Such a requirement is only natural, as when the tradesman in a large way borrows, large sums of money are involved. If the borrower were unfortunate the lender's loss might be considerable on account of the large sum at stake. The borrower's fortune must stand as a guarantee against any possible loss. If the borrower's undertaking fails, the loss is covered by his fortune, since the lender recovers his own out of the realization of the objects, which were originally purchased by the borrowed money. This is at any rate the object in requiring the borrower to have original capital.

We, therefore, often see a young man with experience in some branch of business or other but without means, associating himself with some one who by inheritance or gift has capital, in order to do business on a larger scale jointly. Another way to raise the means of production or trading capital for a contemplated extensive business is as follows :—The producer or trader who is beginning on a larger scale may formerly have traded or produced in a smaller way, as mentioned above, and in this position he may have saved the capital which his more extensive works requires. Such instances often occur. A smith who does repairs for the neighbouring manufactories sees the number of his helpers as well as his part in the yearly national production increase annually, until he has at last saved so much capital that he can raise a larger loan and with his own and with the borrowed means build for himself a workshop and himself become a manufacturer. Another one begins with a small shop, which he extends, and at last when his capital has become large enough, so that others run little risk in lending him larger sums, he ends up as a wholesale man.

Whether he has begun business with the capital saved by himself during his former work in a small way, or by fortune inherited by his partner, he will still in the years to come often be obliged to borrow large sums to be able to keep his manufacturing, his wholesale business, etc., going. Not until he has increased to such a point that he can stand on his own legs will he be able to leave off borrowing and continue his large business with means of production and trading capital entirely his own, or, if he began with a partner, then his also.

From what has been written we can see the effect of the borrowing system on production. The producers either borrow the means of production—this is the case with farmers—or what is more common, borrow gold therewith to buy the means of production. In the same way producers as well as traders obtain their trading capital to a great extent by loan. If these loan systems did not exist and if the producers as well as the traders could only be supplied by the few owners of means of production and trading capital the production would very speedily retrograde on account of want of participators. Or more correctly the production would never have reached its present standpoint. That this has been the case is due in large measure to the loan system, which has shaped and still shapes most beginners in small and large branches of business, which beginnings without access to loans would never have existed.

§ 131. Loans for the Building, and the Purchase of Houses

For the erection of a house, bricks, mortar, wood, metals, glass, paint, etc., are required, also a plot of ground and manual labour in order to fashion the raw material into a house. If it were necessary for every one who wished to build a house himself to possess the gold required for the purchase of these objects, and for the necessities of life for the labourers, not many persons would engage in building, and in consequence but few houses would be erected. And if in the same way people who wished to buy ready built houses were expected to own as much gold as the house was worth, there would be few buyers. For to save valuables, or gold answering to the cost of a house is only attained by the few, and takes, at any rate, the greater part of a person's life. If every one were obliged to wait until they could build a new or purchase a ready built house on the above conditions most of them would be obliged to put off the undertaking until old age, or, in many cases, give it up.

But we know that a way out of this difficulty has been found. If a man wishes to build or to buy a house, and possesses nothing with which to build or buy the house, he overcomes the difficulty by borrowing. If he enjoys a good enough reputation it will not generally, at any rate in Norway, be difficult for him to find some one willing to lend him the necessary gold. He dares to undertake himself the building or charge of a house, but possesses no gold. Another man, better off, possesses gold which he would like to exchange for a house, but dare not do so for fear of trouble, or for want of the knowledge necessary for such an undertaking. The same plan fills the thoughts of both, but alone they can neither of them realize them. Only by joining together can they reach their aims, and therefore the well-to-do man lends the poor one his gold. The latter either exchanges the gold for saved products to transform them into a new house, or he buys with the gold an already existing house. Rightly speaking the house ought now to belong to them jointly. But such is not the case. The owner of the house is alone the borrower, but a mortgage on it is given to the lender (see §§ 85 and 87).

In respect to the income arising from the building, it may be said:—If an owner hires out the house to others, they must give him a portion of their share in the yearly national production as a compensation for living in the house. The case is similar if the borrower himself lives in his house. He has always set on one side a portion of his share in the yearly production for house rent for himself. Formerly, when he lived in another's house, he paid this part to the owner. Now, for the present he keeps it himself. *For whether the occupier of a house is an outsider or the owner himself, he must pay house rent consisting of a part of the yearly production. House rent belongs to the* borrower and the lender jointly. A portion of it is given to the lender as interest. The rest, with a deduction for taxes, repairs, etc., belongs to the borrower, who can now place the remainder, which is not much—on an average in Norway about 2½ per cent. of the value of the house—to his other part of the yearly production in order to consume it. But as a rule he uses his profit on the house in another way.

Just the same as every other kind of loan, his loan for the obtainment of the house must be paid back. We here suppose the borrower—the owner of the house—to use his part of the profits of the house for this purpose. Naturally many years will pass before such a small annual payment as 2½ per cent. can fully cover the loan. But this is what both parties wish. It would be impossible for the borrower, who is supposed to possess nothing but his newly obtained house, to pay back the whole loan at once. It is perhaps all he can do to pay the abovementioned annual 2½ per cent. balance of the house rent in instalments of his debt. This arrangement also suits the lender, who has lent in order to increase his income yearly with the interest due, and therefore does not wish the loan too quickly paid back.

Roughly speaking, this is the way in which the loan system connected with the building and purchase of houses is carried loan systems did not exist and if the producers as well as the traders could only be supplied by the few owners of means of production and trading capital the production would very speedily retrograde on account of want of participators. Or more correctly the production would never have reached its present standpoint. That this has been the case is due in large measure to the loan system, which has shaped and still shapes most beginners in small and large branches of business, which beginnings without access to loans would never have existed.

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Just the same as every other kind of loan, his loan for the obtainment of the house must be paid back We here suppose the borrower—the owner of the house—to use his part of the profits of the house for this purpose Naturally many years will pass before such a small annual payment as 2½ per cent. can fully cover the loan. But this is what both parties wish. It would be impossible for the borrower, who is supposed to possess nothing but his newly obtained house, to pay back the whole loan at once. It is perhaps all he can do to pay the above-mentioned annual 2½ per cent. balance of the house rent in instalments of his debt. This arrangement also suits the lender, who has lent in order to increase his income yearly with the interest due, and therefore does not wish the loan too quickly paid back.

Roughly speaking, this is the way in which the loan system connected with the building and purchase of houses is carried on. There may be some differences in the details. Thus it seldom happens that the borrower himself possesses no gold, but must borrow all. As a rule a man has saved a little before he ventures to obtain a house. If 100,000 krones is required for the house, the owner has perhaps 5,000 krones himself and borrows 95,000 krones. It is also seldom that the borrower gets all the gold from a single lender. As a rule the loan is supplied by several. The lender who holds the first and best mortgage on the house, willingly lets his loan stand over free of instalments, so that the owner's balance, here placed at 2,500 krones annually, may be used exclusively to pay off the other lender's dues. Further, it may be mentioned that a buyer of a ready built house usually pays the seller in that way, that he assumes the latter's debt in connexion with the house. The buyer only procures gold equal to the difference between this debt and the value of the house. If the former owner of the house has reduced his debt from 100,000 to 90,000 krones, the buyer undertakes to pay the latter amount, so that 10,000 krones in gold is all that, by a new loan, or in some other way, he is obliged to procure and hand over to the seller.

It would have been very unfortunate for the population on the whole if the system of loans against mortgages in houses had not existed For in that case it would only have been the owners of gold who could have built houses. But it is seldom that the owners of gold will take so much trouble as is required first with the building and secondly by the management of a house. If they were not able to shift the work over on to the borrower, but were themselves obliged to do it, few houses would be built.

The consequence would be a smaller increase in the number and prosperity of the population, for want of houses, even if all other conditions for economical progress were forthcoming. This is avoided by the inactive well-to-do men lending their gold to the aspiring men, without fortunes, who are interested in the building and owning of houses. Although, in this case, the well-to-do men do not themselves use their gold and work, still they place others in a position to do so, who without such help would have been able to do nothing. The existence of both parties is just. As we have said, the well-to-do men, with their loans against mortgages in houses, do the whole population a service. But they benefit principally themselves and the borrowers. The loans in question act as an inducement to both towards economy, the well-to-do men hoping for increased interest by lending their savings, and a prospect opening for the borrower also to become wealthy by saving the yearly balance from the house.

§ 132. The Giving of Credit to Shop-Keepers

After having spoken in the former sections of two loans of gold—the one raised for the obtainment of products for transformation, the other for the obtainment of a pre-existent object, we will, in the present section, speak of the borrowing of gold for the purpose of obtaining products for trading capital. Producers as well as traders borrow for this purpose. Shop-keepers will here be the object of our examination.

It has often been pointed out, earlier in this book, that the producers bring their products to the traders, of whom the shop-keepers form a subdivision, against gold in exchange, to be used by the producers and helpers, i.e. the population, for the re-purchase of the products now lying at the traders'. It may here be remarked that the shop-keeper does not always get the products direct from the producer; perhaps just as often this is done through the wholesale man—who acts as middleman between the shop-keeper and the producer. But we shall not here consider the intervention of the wholesaler.

These products and gold form the trading capital of the shop-keeper. Strictly speaking, a shop-keeper beginning business ought to possess, before opening his shop, a trading capital in gold large enough to pay for his house rent, his stock, and to cover the wages of his assistants, etc. Then when the shop-keeper, with gold in exchange, has received the goods from the producers, his trading capital should consist partly in goods and partly in gold, all belonging to himself.

However, it is very seldom, on beginning business, that he possesses a sum of gold such as mentioned. As a rule, this class of persons were formerly shop-assistants, i.e. assistants to the older shop-keepers. These shop-assistants usually come from families without money, so that they cannot reckon on inheritance or any other help from their relations. Besides this they receive a very small salary for their work. Even if a shop-assistant is economical, it will as a rule take him the greater part of his life to save from his salary sufficient gold with which to stock his shop. If, therefore, every one were obliged to possess this quantity of gold or its equivalent in notes, exchangeable with gold in the vaults of the note-issuing bank before he could open his business, few persons would be able to embark upon such an undertaking, and consequently there would be very few shops. As we know, however, such strict conditions are not compulsory. For the capable and enterprising shop-assistant without capital an easy way is opened to become a shop-keeper himself At first for a few years he lays aside as much as possible of his small salary to inspire others with confidence in his sense of economy and order. When, then, the time comes for him to open his own shop, let us say a draper's, he will possess some gold, but not nearly sufficient to answer to the value of a well-stocked shop and its belongings. The greater part of the deficiency he obtains by loan. But he does not try to borrow gold with which to acquire his goods. For the owners of gold only lend it to well-to-do people or to those persons who can procure guarantee for the certain repayment of the loan, which requirement the shop-assistant is not able to comply with.

But another way to borrow is open to him. As the banks and the capitalists will not lend him their gold, the manufacturer takes upon himself to help him. The manufacturer sees his interest in selling his goods to the shop-assistant on credit, as it is called. There is some risk connected therewith, but he is willing to run this risk. What he might possibly lose by a single shop-keeper's failure he regains from solvent shop-keepers. Selling on credit is conducted in the following manner.—As the manufacturers bring the shop-keeper their productions they ought really, immediately on delivery of the goods, to receive gold in exchange, but instead of this they offer to wait for the payment of the gold till a future period, usually three or four months. The shop-keeper who, as before said, does not himself possess so much gold accepts this offer. He promises to pay the gold at a stated period, which promise he often makes in writing in the form of a bill of exchange. This is to sell and buy on credit.

The existing transaction—the giving of credit—could it perhaps be described as a loan of goods given by the manufacturers to the shop-keeper? On near investigation, however, this position cannot be maintained. In the case of a loan, at the expiration of the time of loan, the borrowed object is itself given back ; or else the lender—if tne thing lent consists of gold, corn, cotton, coffee, etc.—gets his loan paid back in things of the same kind as those he lent. In order that sale on credit could be called the lending of goods, the articles sold or other goods of the same appearance, after the lapse of a certain space of time, must by the buyer be brought back to the seller. But these two parties, however, do not stand in this relation. The one party parts with his goods under the firm conviction that he will not receive these goods back from the other party, nor similar goods, but that widely different object or thing called gold. Therefore by sale on credit no lending of goods has taken place. Another definition must be sought.

It sounds more natural to explain sale on credit as an exchange business where gold is exchanged for other objects, but with the following modification While in general, with exchange, both objects are at the same time present so that they can exchange owners simultaneously, the rule is different with the exchange business which is called sale on credit. Here the rule is that the two objects are not exchanged at the same time. First the goods are delivered to their new owner, some months afterwards the same thing takes place with the gold.

Still a third definition can be given according to which the sale on credit can mean that the seller of goods lends the buyer gold in order that the latter may pay for the goods on the spot. In support of the supposition that such a loan has taken place it may be mentioned that after a sale on credit the relations between the manufacturer and the shop-keeper will be exactly the same as would have been the case between them if the manufacturer had lent a sum of gold to the shop-keeper. In both cases the manufacturer has to claim and the shop-keeper to pay the amount after the expiration of a certain period. Applied to the case in question in accordance with this definition the cotton manufacturer as seller has lent his gold to the shop-keeper, as buyer, by the latter to be used on the spot to pay for the manufactured goods. No doubt it would scarcely happen with any of the numerous sales on credit, that the two parties themselves are conscious that in this way they are lending and borrowing gold. But when neither manufacturer nor shop-keeper has thought or purposed to lend or borrow, how, in the face of this fact, can a loan be said to exist ? We may here answer that the true nature of a thing is not altered, because the persons interested are in ignorance of the real facts of the case. Proofs of the truth of this are given daily by another use of gold. How many people know on receiving bank-notes they become the owners of the equivalent sum of gold in the vaults of the note-issuing bank? On most occasions when notes are exchanged neither the giver nor the receiver thinks that his action transfers the right of possession or any of this gold from the one to the other. And yet this is what they unconsciously and unintentionally do. In the same way therefore the manufacturer and the shop-keeper on the conclusion of a sale on credit can very well have brought about a loan of gold, even if this side of the affair has escaped their notice. It may be urged that at the supposed moment of borrowing, no gold is forthcoming, wherefore, at this period, no loan can take place. But it must be remembered that the absence of gold is purely a case of convenience. The supposed lender may have let the gold remain at home, as immediately after the loan he will again become the possessor of it by virtue of his other character as seller. If the manufacturer delivered both goods and gold to the shop-keeper, he would at once get the gold returned as payment for the goods. For the manufacturer then to deliver gold would only result in his being obliged to take it back again with him. Better take no gold at all than let it go the same way backwards and forwards! In this connexion it may be remembered that, by the help of banks, many payments are made without the appearance of either gold or notes. If on effecting the sale on credit between the manufacturer and the shop-keeper, no gold is forthcoming, from this fact, no argument can be urged against the opinion that when sale on credit is dissolved into its simple components, not only the delivery and receipt of goods is contained, but also the loan of gold with its consequent repayment at a later period.

Perhaps one comes nearer the truth by calling the sale of goods on credit a combination of exchange and loan.

How are these loans paid back? The manufacturer possessing gold is presumed to lend it to the shop-keeper and at the same moment to get the gold back from the shop-keeper in exchange for his manufactured goods. The next step for the manufacturer is to divide his gold between himself and his direct and indirect helpers, whereupon they all with the gold repurchase their manufactured goods from the shop-keeper. The latter keeps back some of the goods, of which more later, and then gives the greater part of the goods to the repurchasers against the returning of all the gold. Possessing all the gold, he thereupon pays his debt to the manufacturer, after which his bill of exchange is delivered back to him. His debt is paid and the goods have vanished with the exception of the few articles he kept back as his share in the production, due to him for his connexion with its distribution Of course this illustration must not be taken quite literally. The shop-keeper probably sells the manufactured goods to other persons than those mentioned here, and uses these other persons' gold to pay back the loan to the cotton manufacturer. He can sell them, for instance, to persons dependent on the metal manufacturers. In return the cotton manufacturer and his helpers will be able to repurchase metal goods, which those directly or indirectly interested in the metal industry did not repurchase from the metalware shops.

Readers wishing to go more deeply into this matter are referred to § 97, sections (*d*) and (*e*), where the starting points for a further examination of the matter are to be found

The shop-keeper beginning business who by purchase on credit is enabled to open his new shop, obtains from his first turning over of his goods some goods as profit. Of these he uses for his support as much as is required for that purpose. As he cannot maintain life solely with manufactured goods, he will, as soon as possible, sell them all with the exception of the few goods which he needs as articles of clothing for himself and his family. For the gold received by the sale he will obtain the things, outside manufactured goods, which are necessary for the maintenance of life.

These sales must be supposed to take place between the traders mutually from their own shares in the production—as the remaining part of the yearly national production is needed by the population and repurchased by them—and under the employment of the traders' ordinary gold, because the so-called repurchasing gold does not lie with the traders but with the people.

The shop-keeper beginning business does not use all the profits of his first stock of goods, as described here, for the maintenance of life; he saves some of them. How does he use these first saved goods? As mentioned in § 97, sections (*d*) and (*e*) the cotton manufacturer as well as all the other producers must give gold in advance to the population, with which gold the population, in order to maintain life during the work on the year's seven hundred million Production, undertake anticipated purchase from the already completed stock of produce. The shop-keeper beginning business may be supposed to sell his first saved goods to these buyers. Instead of saved-up goods he now possesses gold. When later on more cotton goods of the year's production are finished, the cotton manufacturer will bring him some of the goods against his gold in exchange. The shop-keeper has now got the recent loss of his saved stock replaced. The cotton manufacturer on his side need not give the gold to his assistants, who have already, earlier, received gold paid out in advance by him ; and now he keeps back the gold received from the shop-keeper, placing it with the rest of his gold.

The shop-keeper beginning business by the sale of his first saved-up goods, has for the first got them renewed, and then also obtained a little profit. On the one side he sells his old saved-up goods at a high price, gets more gold for them than their worth in the purchase from the cotton manufacturer. And on the other side, by using this gold to pay cash down for the new goods from the cotton manufacturer, he now received more goods than he would have done by buying on credit. What he saved of the goods is therefore not only renewed, but has also gained a little in quantity through the fortunate sale of the old goods and the cheap cash purchase of the new ones.

As before said, the shop-keeper beginning business has sold his first goods bought on credit, and paid his debt. His shop must, however, again be filled. It was for this reason, that he, as just now remarked, used his own gold obtained by the sale of his saved-up goods. He used this gold for the cash purchase of new manufactured goods from the manufacturer. This is, however, only a fraction or part of what his shop requires, therefore he again buys goods on credit from the manufacturer. He continues in this way year after year, steadily increasing his savings as just explained. As he becomes older the quantity of goods in his shop bought on credit will decrease, and his saved stock increase. The increase in his saved-up goods, however, depends on his not losing too many goods through his customers failing to pay, or by fall in prices, or by using them for the obtainment of securities, etc. (cf. § 103).

For this man, the opportunity in his young days and later on of being able to buy on credit has been of the greatest benefit. Through the giving of credit he has been placed in a position to undertake the yearly saving of products in order at last to possess all the goods in the shop without owing anything on them. The rest of the population in the country have also found it to their advantage, that he, by the help of the giving of credit, could open his shop and later on annually save something of his part in the production. For only by the sale to the shop-keepers on credit is it possible that the distribution of the production among the producers, with direct and indirect assistants, can follow its natural undisturbed course Further, the population of the country are interested in being in touch with large old established stores, when they undertake their anticipated purchase for the maintenance of life while they help to work to get the seven hundred million Production ready. The giving of credit to the shop-keeper helps not a little in the increase of these stores. The saved-up products of the shop-keeper, which the credit system places them in a position to save, and which principally lie with the elder well-to-do shop-keepers, will always form the greater part of this old stock. The rest is formed of the saved-up products belonging to the whole-sale men, also of newly finished products from the year's seven hundred million Production sold on credit to the traders, or by reason of over-production, still lying with the producers.

§ 133. Loans to Wholesalers

A wholesaler needs a larger stock of goods than a shop-keeper. Where five sacks of coffee are sufficient for the needs of the latter the wholesaler will be obliged to keep five hundred sacks in stock. And the same is the case with wholesalers trading in other goods.

Besides the stock of goods the wholesaler also possesses claims on the shop-keepers. As suggested in the former section he sells his goods to the shop-keepers. In order to be able to do this he must, just as in the case of the manufacturers, sell on credit.

His outstanding claims on the shop-keepers amount to a large sum. For a part of the claims he gets written acknowledgements from the shop-keeper, the so-called bills-of-exchange. But a great part of his claims stand as mere book-debts. A wholesaler who sells yearly dress materials to the amount of nearly 2,000,000 krones, can perhaps at any time have 300,000 krones' worth of book-debts in his favour, or owing to him from the shop-keepers, to which is added what is due to him from bills amounting to, let us say 200,000 krones.

Some few wholesalers in Norway sell more than the sum here mentioned. But for many of them the yearly sales do not reach 2,000,000 krones. Still, however, the stock of goods and outstanding claims of even a wholesale man in a small way will amount together to a not inconsiderable sum. How does a wholesaler commencing business procure this large trading capital? Can he practically borrow the whole in the same way as the shop-keeper beginning business? As we have seen in § 130 this is impossible for the wholesaler. He can borrow much, but not all. The suppliers, or the lenders, run, as just explained, far greater risk in their dealings with a wholesaler than with a shop-keeper. They therefore demand of the wholesaler that he shall possess a part of his requisite trading capital, before they consent to hand him over the deficiency. If he himself owns 50,000 krones in valuables, and can borrow 100,000 krones in goods or gold from his business connexions, his contingent loss would effect himself alone, so long as it did not exceed 50,000 krones. The chances that the loss during the short time of credit would exceed that sum might be discounted. As long as he keeps intact this reserve of 50,000 krones he is in a solvent condition to continue business

There is another point of difference between the shop-keeper beginning business and the wholesaler in the same position. The shop-keeper seldom, if ever, seeks to increase his trading capital by borrowing gold from a bank, but the wholesaler often does so.

We have just stated that the wholesaler procures part of his trading capital, either by buying on credit from the producers, or by borrowing gold from his bank. His credit purchases and repayments proceed on the whole in the same manner as the process followed by the borrowing shop-keeper. The producer may be supposed to lend his own gold to the wholesaler, who in exchange for this gold acquires the very same producer's goods. The producer shares the gold among himself and his direct and indirect assistants in order to repurchase with it the products. But while in the former section the repurchase took place from the receivers of the products themselves, the repurchase here must take place from the receiver's (the wholesaler's) proxy to take the delivery of the gold. The shop-keepers act as proxies. The gold is brought from them to the wholesaler, who therewith pays his debt to the producers, contracted at the moment when the producers sold him their goods on credit.

At these repurchases, however, the producers and their assistants generally decline to repurchase their own goods, but prefer those from other producers.

For their connexion with the distribution the wholesale man and the shop-keeper can claim some of the goods as their part of the production, in other words as profit. Consequently the wholesaler keeps back the quota of goods due to him, giving up the rest to the shop-keeper who does the same; selling the remainder to the producers and their assistants. It is all this gold which then goes from the shop-keeper to the wholesaler and from him at the end of the time of credit or—to call it by another name—the end of the lending period, to the producers. If the wholesaler received goods to the value of 40,000 krones on credit, he would perhaps send a $\frac{19}{20}$ part of them to the shop-keepers declaring them to be worth 40,000 krones. Later on when the repurchase takes place, the shop-keepers will keep back for instance $\frac{2}{20}$ part and against the repayment of the 40,000 krones in gold sell the remaining $\frac{17}{20}$ parts of the products to the repurchasing population, stating these $\frac{17}{20}$ parts to be worth 40,000 krones in gold. The wholesaler and the shop-keepers have, according to the general usage, earned respectively 2,000 krones and 4,000 krones over the transaction. What then takes place with the wholesaler's and the shop-keeper's saved goods may be seen in the former section. Everything said there about the profits of the shop-keeper relates also to the wholesaler.

Whether the wholesaler obtains trading capital, as just shown, by borrowing gold from the producers—that is to say by buying goods on credit from the producers—or by adopting the other means, borrowing gold from a bank, it will come to about the same thing in the end. In both cases the same methods are used during the re-sale to the population, as well as by the obtainment and use of the traders' profit. The difference in the latter case is, that in the bank the wholesaler has got an assistant with whom he must divide his saved goods, under the form of interest. In order to do this he sells some of his saved goods.

and gives the bank as interest the gold received. This is really the way in which he pays the interest, whether he is conscious of it or not, and even if the interest perhaps for the time being is paid by him with gold received from other sales.

In respect to the advantages both for the nation and for the wholesaler resulting from the latter's opportunity of buying on credit from the producers, and borrowing from banks, the case is practically the same for the wholesaler as for the shop-keeper. At the close of the former section all information on this point so far as the shop-keeper is concerned will be found.

§ 134. Loans to Farmers

In the writer's native land, Norway, it formerly frequently happened that the farmers did not themselves possess, but borrowed their means of production—the land. They rented the land. The reason for this was to be found in the fact that at that time there were but few means by which the well-to-do in Norway could make use of their savings. In consequence of this they often used to exchange their savings for farms. Some men might possess several of these farms, and the well-to-do man left the working of them to others Every time he became possessed of a new farm he hired it out to a farmer, who was then obliged yearly to hand over to him a portion of the farm's butter, meat, or other natural productions. These farms were very seldom entailed. On the death of the owner they were divided among the heirs to be ultimately dispersed among strangers. But at all times a number of the farms were rented out to farmers.

The Norwegian farmers now seldom borrow their means of production, the land, but instead in our days, they often borrow gold in order to buy the land and so become the owners of the land. Since the appearance of banks, shares and other securities the well-to-do man in Norway interests himself no longer in land. Some few large farms and a considerable part of the forest-grown mountain tracts are still owned by them; but they have got rid of the cultivated farms and left them to the farmers. All these innumerable small farms now belong to the farmers themselves. If a farm is to pass into the hands of a new owner he must be sought among the farmers. Usually the farm to be sold belongs either to a still living owner or to several heirs of the late owner. Under these circumstances the new owner of the farm is required to pay for it. He must exchange gold for his farm, and there is little gold to be found among the farmers. There are relatively few farmers who themselves possess gold enough for the purchase of a farm. If one of the conditions for the purchase of a farm were that the buyer himself possessed the equivalent in gold, not many farms could be sold. But fortunately for society in general and especially for those wishing either to get rid of, or to purchase the means of production—farms—there is, as already implied at the end of § 85, a way out of the difficulty, by borrowing the gold With the borrowed gold he applies to the owner of the farm, whereupon the two parties exchange gold with land. In real life the exchange does not literally take place as here shown. One makes arrangements in the same way as shown in § 131 on loans for the obtainment of old buildings. What was shown in that paragraph applies also, on the whole, to loans for the purchase of land. It is specially taken for granted that the re-payment should be made successively by the help of the land's yearly production. In most cases, the former owner of the farm, or the co-heirs—if the farm belongs to the estate of one deceased, and is to be taken possession of by a single heir—act as part lenders of the gold. The new owner can, just as was the case with the purchase of goods on credit, be supposed to borrow gold from the seller, which gold the buyer on the spot uses for payment of the farm, giving the seller his written acknowledgment—mortgage deed—that the loan exists. The buyer does not, however, usually borrow all the gold required from the seller. He must procure some in another way, either by taking his own possible savings, or by borrowing from others For this purpose, besides borrowing from private people, he will also be able to do so from a local savings bank, if his friends will go security for him. In this connexion it may also be mentioned that a public Norwegian landed loan office in Christiania, which has received the greater part of its gold from German savers, gives loans to farmers against a first mortgage on their farms.

Another kind of loan is also in vogue amongst farmers. They borrow not only to buy land, but also in order to be able to improve the land. A farmer may wish to bring an uncultivated part of his farm under the plough, to increase the yield of the already cultivated fields by draining them, to re-build his houses, etc. If he does not himself possess sufficient savings to take in hand these improvements, he will borrow gold in the before-mentioned landed loan office, or from others, and with this gold re-purchase the equivalent saved products to transform them into cultivated fields, into drainage and into houses. The mode of procedure has already been described (§ 59).

Farmers also frequently borrow for yet another purpose. We have seen that they borrow first to procure the already existing objects, farms, and secondly to make improvements in their means of production on those farms. Besides these two purposes they further borrow to supplement their trading capital. This latter often takes the form of credit purchase from the shop-keepers. The farmer, in this case, would buy on credit artificial manure, seed and cattle foods from the shop-keepers, and use these products for the purpose of carrying on his farm. The trading capital—as far as it consists of this seed, of artificial manure, etc.,—is used up under the process of bringing forth new products. The phenomenon is not peculiar to farmers; it can also occur in other branches of production. The trading capital of the manufacturer consists thus partly of oil and coal, to oil and drive his machines. These two objects disappear entirely, but are compensated for by the manufactured goods partly owing their existence to them.

On the expiration of the time of credit the farmers have grown agricultural products which they exchange for re-purchasing gold with the wholesalers. Of this gold the farmers then take the necessary part as payment to the shop-keepers for the artificial manure, etc., received some months previously. Should the shop-keepers prefer to receive payment in the agricultural products themselves, there is of course nothing to hinder this.

§ 135. Loans for the Purchase of Securities

A man may have formed the opinion that a certain kind of security will rise in price. If he could purchase 100,000 krones' worth of them he would, he believes, in a short time, be able to sell them for 105,000 krones. But he lacks gold.

Another thinks that in a few months' time he will have saved 10,000 krones, or get in a claim of the same amount. In the meantime he wishes now beforehand, to invest this gold in a security worth 10,000 krones just now for sale. But he has not yet received the gold.

In such cases these persons, if they have any credit at all, will often borrow money in order to take up the securities in question. If all goes well, then after having paid back their loans, the speculator will have 5,000 krones in gold left forming his profit, whereas the other man instead of his new savings or incoming claim, sees himself the possessor of the security of the value of 10,000 krones, which, without the loan, would probably have gone into the possession of another.

Numerous loans of this description are daily arranged throughout the world, principally in towns with large stock exchanges.

§ 136. Who Else appears as a Borrower

The various kinds of borrowers known to economic laws is not yet complete. The rest, however, do not require any special mention, as they all use one or other of the forms of loan already described in the foregoing paragraphs.

The manufacturer borrows gold with which to buy saved products and change them into new machines, or the enlargement of his manufactory. He likewise borrows gold either for the obtainment of an old-established manufactory upon mortgage or for trading capital, in the latter case generally through a bank.

For the same purpose owners of ships, of forests, mines, quarries, etc., borrow money.

In the case of joint-stock companies formed for the acquisition and carrying on of railways, tramways, telegraph-lines and telephone-lines, it often happens that the amount subscribed proves insufficient. In this case the companies borrow gold, the intention usually being to employ the gold to buy saved products in order to transform them into new constructions needed by the companies for the supplementing of their old works.

§ 137. The Use of Deposits[1]

This, I think, is the place to take up and continue the previously interrupted examination of deposits. The author's experience of deposits is gained in a Norwegian bank. But

[1] By deposits is here meant all money deposited in banks, repayable after or without notice.

the conclusions at which he has arrived in the following pages will probably apply equally well to the methods and processes in vogue in banks generally throughout the world.

The subject has already been dealt with (" Savings " chap. 8, § 59 ; chap. 10 ; and " Wealth," chap. 12, § 87).

In these paragraphs it was shown *inter alia* that deposits were made with re-purchasing as well as with ordinary gold. As depositors of the re-purchasing gold were reckoned the savers, next the state and the corporation, railway and steamship companies, insurance companies, to which may also often be added manufacturers. Concerning the deposits of ordinary gold it was shown to proceed from traders as well as from others, amongst whom were specified the sellers of securities, land, forests, ships, buildings, in short, of all older objects.

We also touched lightly on the fact that the banks lend the deposits partly to transformers, partly to traders and business people, and partly to the purchasers of older objects.

And lastly it was shown that a depositor cannot consider his deposit as an object of wealth. His wealth does not consist of the deposit, but of the object, which the borrower of the deposit by its help obtains, and which object, in a way, belongs to them jointly.

In this paragraph an attempt will be made to explain how deposits are used. The problem may be solved in two ways, either by analysing a single deposit, or by examining the entire deposits of the bank collectively.

To take an isolated deposit. We spoke earlier of the right of the Civil Servant's 250 krones in gold to repurchase his saved products. Instead of concerning himself further herewith, he places the amount in a bank. What the bank further undertakes with the 250 krones remains unknown both to the Civil Servant and to the bank itself. For the bank at once mixes the 250 krones with the rest of its money. As all money is alike, the Civil Servant's 250 krones can no longer be recognized after the mixing. No one knows who originally paid into the bank every note or every gold coin lying in the bank's cash-boxes. If therefore the bank's cashier later on, during one or several disbursements, chanced to take the Civil Servant's money, it happens without the cashier's knowledge ; he limits himself to counting the money paid out, but does not trouble himself to keep count of the identity of such money in respect to the person from whom it was derived. However, there is nothing to hinder the bank, though unconsciously, from taking just these 250 krones as part payment of 10,000 krones to a borrower, who desires to use it for the improvement of his land.

When the work is finished, the borrower will become the lawful owner of the cultivated bog, but must keep back a part of the corn yearly gained from the land and give it as interest to the bank, which, on the part of the depositor, becomes secondary owner in a $\frac{1}{40}$ part of the land.

But it is not the meaning, that this state of things should always remain unaltered. On the concession of the loan it was assumed that the borrower should use the object brought into existence with the help of the borrowed products saved by the Civil Servant, to bring forth new products, himself save as much as possible of these last and use them for gradually paying back the loan from the Civil Servant. When the re-payment is completed the borrower's lawful right to the object alone remains; the secondary right in the object, which belonged to the lender, vanishes. If from the bank's $\frac{1}{40}$ part of the land there could be harvested in one year so much corn that the borrower thereof can save corn to the value of 25 krones, he brings it to the traders in exchange for gold. In that case the corn will form a part of the same year's saved products, and the gold will entitle the possessor to claim this corn or other products to the value of 25 krones issued from the traders. The farmer then goes to the bank and hands in the gold. In the relationship between the borrowing transforming farmer and the lending bank there is now this change, that the secondary right in the land, due to the bank on behalf of the depositor, the Civil Servant, for $\frac{1}{40}$ part, has gone down to about $\frac{1}{44}$ part. In return the bank has received for the Civil Servant as depositor, 25 krones in gold, entitling to the disposal of the farmer's saved corn or other products lying with the mercantile classes. While the farmer's lawful right to the land after he has paid back the 25 krones of the loan suffers no loss, but is rather strengthened, so the position for the depositing Civil Servant has become such that the bank for his originally saved and deposited 250 krones now no longer possesses the secondary right in the land for the whole amount; but has got the secondary right for 225 krones in the land, and for 25 krones in the saved corn lying with the mercantile classes.

If the same thing repeats itself every year the borrowing transforming farmer will in the nine following years bring the bank 25 krones in gold per year, entitling to the repurchase of corn or other products from the traders. The secondary right to the land, which the bank possesses on behalf of the depositing Civil Servant will yearly decrease by 25 krones, and in the tenth year it will quite cease ; while as a counter balance against which the bank holds for him secondary right to the farmer's saved corn at the traders'.

What does the bank do on behalf of the Civil Servant with the yearly paid off 25 krones entitling to the repurchase of the farmer's saved corn ? Perhaps the bank will yearly lend the received 25 krones to some transformer, just as was described with the lending out to the farmer of the 250 krones. In each of the following ten years, perhaps every year, a new borrower will come to the bank to borrow gold and therewith obtain saved products to be transformed :—

1st year for the Opening of a Quarry.
2nd „ into an Aqueduct.
3rd „ „ a Brick-work.
4th „ „ a House.
5th „ „ a Floating Dock.
6th „ „ an Electrical Work.
7th „ „ a Steam Ferry
8th „ „ a Dairy.
9th „ „ a Thrashing Machine.
10th „ „ a Saw Mill.

Among the loans which the bank pays out for these purposes are found by chance every year the 25 krones paid back by the farmer as part payment of the 250 krones' loan given him by the bank with the Civil Servant's deposit for the cultivation of a bog.

As these ten constructions are finished, the bank on behalf of the depositing Civil Servant gets a secondary right of 25 krones in each of the objects produced, from the quarry down to the saw mill, while at the same time the secondary right for the 250 krones in the land correspondingly decreases and at the conclusion of the last year ceases to exist. The Civil Servant's 250 krones' deposit still exists after the expiration of ten years ; but instead of the deposit originally in a way being secured in the cultivated bog, it is now, after the expiration of ten years, secured in the quarry and the other objects mentioned. In order, however, that the latter result may be obtained, the ten last borrowers must omit to pay back instalments of their loan. But if, like the farmer, they successively repay the bank their respective 25 krones' loans from the Civil Servant's deposit, and if then these re-payments again find themselves among the bank's loans to other transformers in the course of the ten years, the Civil Servant's deposit can at last be subdivided by the bank into a quantity of small portions lent to numberless transformers.

The supposition has hitherto been, that the Civil Servant's deposit—250 krones—entitled to the repurchase of his saved products were lent to any one who repurchased and transformed his products to a permanent object. But the bank—especially if the Civil Servant, instead of using the country saving's bank, pays in his money as a deposit to a bank in a large town—has many borrowers besides transformers. When the Civil Servant's deposit of 250 krones directly upon deposit into the bank is lent out by the bank, it can, just as easily as it is given to the farmer, find itself among the money given by the bank as a loan to a wholesaler with which to obtain products from the manufacturer, or to another, in order to purchase securities, or to a third to enable him to pay the cash deposit of the purchase amount of a ready-built house. The Civil Servant's gold is then given by the respective borrowers, either to the manufacturer for goods, to the former owner of securities, or to the seller of the house. In these goods, securities or house, the bank then gets a kind of secondary right for itself and its depositor, the Civil Servant. When the wholesaler, if the Civil Servant's gold is first lent to him, has re-sold the goods to the community against payment of the gold, he brings this latter to the bank and pays his debt. The bank, which has now got the Civil Servant's gold back, can lend the gold for instance to an intended buyer of securities. As long as the latter stands as the borrower, the shares will be the object in which the bank possesses the secondary right for itself and the Civil Servant. If the borrower sells his shares and uses the gold, received in payment, to repay his debt to the bank, this secondary right disappears. The Civil Servant's gold, now once more in the bank, is lent to the purchaser of the house which thereafter can be imagined to give the secondary security to the bank on behalf of the Civil Servant as depositor.

As long as the Civil Servant remains a depositor in the bank, his deposit will, either collectively, or more probably in small transforming farmer will in the nine following years bring the bank 25 krones in gold per year, entitling to the repurchase of corn or other products from the traders. The secondary right to the land, which the bank possesses on behalf of the depositing Civil Servant will yearly decrease by 25 krones, and in the tenth year it will quite cease ; while as a counter balance against which the bank holds for him secondary right to the farmer's saved corn at the traders'.

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10th	,,	,, a Saw Mill.

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As long as the Civil Servant remains a depositor in the bank, his deposit will, either collectively, or more probably in small portions, be again and again lent and repaid, just as described.

It may be asked, what becomes of the Civil Servant's unappropriated saved products lying at the traders', if his gold, instead of being lent to the transforming farmer, is lent to a wholesaler or to a buyer of shares, or to the purchaser of a house. His 250 krones in gold ought to repurchase his saved products, but is used instead to increase the wholesaler's stock with newly produced goods, or for the purchase of securities and house. In order that these, the Civil Servant's products, shall not be lying unappropriated with the mercantile classes, ordinary gold must now be taken to repurchase the products. The deposited repurchasing gold of the Civil Servant and the ordinary gold for 250 krones deposited by one or several other persons change places. The latter gold in consequence becomes repurchasing and is given to the borrowing farmer with which to repurchase the Civil Servant's saved products and transform them into a part of the cultivated bog.

The purchaser of the Civil Servant's products need not, however, have received his gold through a bank loan, but may himself be the owner of ordinary gold and use it to obtain the products mentioned.

The Civil Servant may year after year be standing as a depositor in the bank. But at last there comes a time when either he himself or his heirs demand the deposit paid back. What will be the consequence of this ? It depends upon how the Civil Servant's gold at that time was lent out, and also on the gold used to pay him back. If the Civil Servant's originally deposited 250 krones is lent at that time in portions of 25 krones to the before-mentioned ten transformers, and a new depositor's gold is used to pay the Civil Servant, then the new depositor will enter into the secondary rights, which the bank has hitherto held for the Civil Servant. It will be unnecessary to go further into the many contingencies which may be supposed to occur through the taking out of the deposit ; it would on the whole only be a repetition of what has already been said.

If the Civil Servant's deposit of 250 krones in gold, with the right of repurchasing his saved products, had not been chosen as the subject for analysis but another deposit of, for instance, ordinary gold had been selected, the method of analysis would have been the same. Everything before stated about secondary right for the lending bank in the objects obtained by the loan, also the change of place between the different deposits, can also be applied here.

Light may be thrown on the use of the deposits, not only by going through the history of a single deposit, but also by taking the whole deposits of a bank and treating them as one. Let us imagine a Norwegian bank with deposits amounting to twenty-five million krones. In the course of time a single deposit has grown into innumerable deposits. The first depositor has been followed by thousands of depositors. People come daily into the banks either to pay in new deposits or to take out old ones. But in the case of a well-managed bank the tendency with the public to put in is greater than the tendency to withdraw.

After a year the bank's deposits amounted to perhaps one million krones in gold, which afterwards gradually grew to twenty-five millions. What the bank at any time possessed of unclaimed deposits it always tried to lend out.

By new deposits and paid back loans the bank's stock of gold daily increases, but again decreases on the paying back of claimed deposits, and the granting of new loans.

The twenty-five millions total deposits has been lent by the bank to different borrowers, in many cases against guarantee documents, and other methods of security, which documents, however, will not here be considered. The number of these borrowers is large, even if less than the number of depositors. The difference in number arises from the fact that there are a great number of small deposits, but comparatively few small loans. The single borrower will seldom be satisfied with such a small amount as a single small deposit, but needs, as a rule, a larger sum, the amount of which in every single instance depends upon the size of his projected undertaking, and often swallows up a great number of small deposits. Thus, on the whole, many depositors stand against a single borrower, the depositors being much more numerous than borrowers.

The gold which the bank lends out comes from the depositors. It is really the depositors who lend the gold, using the bank as their agent.

Different people and companies have successively become the owners of twenty-five million krones in gold by selling permanent objects, by saving, by collecting taxes, by traffic revenues, etc. The owners could have hidden the gold in secret hoards, or refused to lend it out. But they do not do so. By degrees, as the gold comes into their possession they lend it—not personally, but through the bank either for a short time or a long time.

When the loans gradually mature and are paid back to the lenders' agent, the bank, these lenders, or in other words, the depositors as owners of the twenty-five million krones in gold, again possess the opportunity to hoard the gold. But they do not use the opportunity this time either. Instead of demanding the gold back to hoard it, they once more lend the gold through the bank to new borrowers.

This process is repeated unceasingly year after year. It certainly happens that in the course of time many depositors cease to be lenders in consequence of their withdrawing their deposits in order to use the gold for making some purchase or other. But their place is filled by others who have just received gold in one of the ways mentioned, and now deposit the gold, thereby bringing the amount up to its old total of twenty-five millions. From the circle of lenders or depositors, as they are generally called, some few go out daily, either for a time or for ever. The last ones are soon replaced by others, who, instead of hiding their gold, prefer to lend it out through their agent, the bank.

With regard to the borrowers from the bank, it is a matter of indifference to them who borrow gold for trading capital and for the obtainment of old permanent objects, how the gold-owning depositing public obtained this gold. Whether the public has received the gold by the sale of existing objects or in other ways and then leaves the gold in the bank as deposits to be lent out, the borrower will be able with any portion of the gold to obtain in exchange objects of the same value and also use it as trading capital. As far as the borrowing transformers are concerned, it is, on the contrary, not sufficient to be able to borrow gold. Saving must also have taken place, if the transformers are to have any use of the borrowed gold. Before they receive their loans, the partakers in the year's seven hundred million krones' Production must have failed to repurchase all their share in this production and deposited in the bank the gold entitling to the repurchase of the unused products. It is this saving part of the gold-owning public which through the bank must lend gold to transformers if these latter are to make use of the loans. With the gold in hand they repurchase the lenders', that is to say the depositors', saved products and change them into ships, machinery, etc. How dependent these borrowers are on the existing saving would be understood if one could imagine that all the population, the traders included, for a time ceased to save. In that case the whole of the production would be bought by the population and consumed. If then any one wished by loan to be enabled to transform saved products into a ship or other object, and through the bank got a loan of gold, obtained by the lender—the depositor—through the sale of an existing object, the borrowing transformer would not with the gold be able to buy products with which to produce a ship; for all the products would have vanished, the community having bought them for the maintenance of life

The twenty-five million krones' deposits in the bank could now be supposed to be lent out as follows.—A part of the deposits is lent out by the bank as trading capital to traders, manufacturers, owners of ships, forests, etc. The borrowers obtain all kinds of goods with the loans. The goods lie in the wholesaler's warehouses, or are brought from the wholesaler to the shopkeeper. Many of the goods are found in the manufactories as raw material in a natural state, or partly prepared; others are brought on board ship as provisions for the crew; others again consist of hewn trees waiting to be exported abroad in the shape of planks. Then the bank lent another and considerable part of the deposits to the borrowers, who with the loans intended to obtain accumulated objects, such as forest, old ships, etc. Lastly the bank from the deposits has granted loans to persons who with the borrowed gold will repurchase saved products in order to transform them into new steamships, manufactories, houses, the extension of an electric tramway, etc. It may be remarked, parenthetically, that the objects mentioned could neither be very numerous, nor on any large scale, as the whole deposit at the bank only amounted to twenty-five million krones.

On behalf of its depositors, the bank at this time possesses a secondary right in all these objects for an amount of up to twenty-five million krones. To that extent the bank can pursue the objects mentioned if the loans are not repaid. The depositors themselves could with their gold have obtained by degrees the objects named, to the whole value of twenty-five million krones, but preferred through the bank to lend the gold to the borrowers and let them obtain the objects in exchange for a kind of tacit secondary right in the objects, and for a right to participate in the borrowers' production. Their deposits consisted of gold which has vanished; and instead they now possess twenty-five million krones' worth of claims on those who took and borrowed the gold, secured so to say in the objects obtained by the borrowers with the loan. The twenty-five million krones' deposit means that different persons have borrowed twenty-five million krones in gold from the depositors, and therewith obtained goods and old or new permanent objects.

The objects, in which the bank on behalf of its depositors possesses a tacit secondary security up to twenty-five million krones, constantly change. To-day they consist of certain tangible parcels of coffee, tea, sugar, flour, wine, manufactured goods, timber, cotton, coal, etc., and of certain forests, steamships, manufactories, buildings and the already-mentioned electric tramway. In a year's time the bank will still on behalf of its depositors possess secondary securities in objects up to the amount of twenty-five million krones, but not in quite the identical articles. For in a year all the goods would probably be consumed. Likewise several of the permanent articles in that time would probably have passed out of the bank's list of secondary (implied) securities. But the vanished goods and objects have in the course of the year been replaced by new goods and objects. This change of objects is due to the paying back of the old loans, and the granting of new ones.

On the occasion of repaid loans, goods and objects pass out of the bank's secondary ownership daily, and others come in as a result of new loans. But there always exists a collection of goods and permanent objects to the amount of twenty-five million krones, in the same town as the bank, or elsewhere, to which the bank on behalf of its depositors is at all times secondary owner.

There is no fixed rule for the duration of loans. The lender (the depositor) expects his agent, the bank, on every new loan of the gold, to contract for the shortest possible period for lending. With loans for trading capital the bank is also often fortunate enough to be able to stipulate speedy repayment. But this rule, however, cannot always be observed in practice. If a bank refused to lend out its deposits except on speedy repayment it would not find borrowers enough, and the gold would accumulate in its safes. Only a part of the loan-seeking public, principally those who use the gold for trading capital, can use these short loans. But all borrowers, who for the gold wish to obtain old objects or products for transforming, are, as a rule, under the necessity of repaying the loans by the help of their yearly incomes. In consequence of which they must stipulate for a long period for the repayment. If the bank refused this they would refrain from borrowing.

The reason why the banks, as far as practicable, keep from lending out deposits on long periods of repayment is that notice in the meantime might be given of the withdrawal of the deposits. If this notice of withdrawal occurs to any very large extent, and deposits lent do not fall due for a long time, it will be difficult for the bank to pay out the withdrawals. It cannot at any rate be done with the original deposits now on loan. If the bank does not now at the same time receive new deposits, with which the old withdrawing depositors can be satisfied, it must declare itself unable to meet its liabilities and fail.

If the depositors of the country have allowed the gold deposited to-day to be lent out through their banks for a long period the consequence will not, however, be that this gold during the long lending period cannot again be lent out. It is quite true that these depositors themselves will at this time be prevented from re-lending their gold through the bank. It has for the time being vanished from them, or more correctly speaking from their agent, the bank, whom they employed to lend out the gold for them. But the borrowers will give the gold to others in exchange for permanent objects, etc. The new owners of the gold will then deposit it in their banks, to be again lent out by the banks, this time on behalf of the new depositors. That a bank has tied up its gold with long credit loans does not, therefore, mean that this gold cannot now for a long time be re-borrowed. As a new deposit, either in the same bank or in some other bank, the gold will once more be lent out.

§ 138. Loans Granted Outside the Banks

As mentioned in the former paragraph, such banks as obtain their gold through deposits from the public only grant loans on long credit, because they cannot do otherwise.

Loans for the purchase of land and houses and for the building of houses are very slowly paid back. Most loans of this kind are obtained in Norway from well-to-do private men ; also from solicitors having gold to invest for their clients ; from Secretaries of State, as guardians of fortunes belonging to the State ; from magistrates of the towns as owners of legacy funds ; from chief guardians wishing to invest the fortunes of their wards ; from insurance companies and perhaps many others. There exists in Norway—to keep to a single lender—a considerable public fund appointed to promote instruction in the country. This money which is managed by the Secretary of State for Ecclesiastical Affairs is mostly invested in mortgages. All those who through him have borrowed gold from this fund for the purchase of existing town houses, or the building of new houses against mortgages in the buildings, receive house rent from the tenants ; that is to say gold entitling to repurchase products from the tenants' yearly share of the yearly production, as far as Norway is concerned, supposed to be worth seven hundred million krones per annum. The borrowers must divide this gold with the Government, that is to say, pay interest. They must also save a part of the gold and give it to the Government as reimbursements of the loans. The Government pays out the greater part of the interest for the promotion of public objects, but probably saves yearly a part with which to increase its capital. This gold saved by the Government, and also the gold received as part payment of the loans, can be again lent out by the Government. Both kinds of gold are, as stated, qualified to repurchase an equivalent of saved products. If the Government now lends out this gold for the building of new houses, the gold in this case will also be used for the repurchase of saved products to transform them into houses. But if the Government lends out its gold to a person wishing to purchase existing houses, the gold is paid to the former owner of the house, and it now depends upon him, or the future possessors of the gold, whether the products saved by the Government shall be transformed or wasted. A few exceptions from the preceding rule may be specified.

On the building of new houses in Norwegian towns two kinds of loan are often taken up. First a provisional loan is received which is later on redeemed by the real loan. The borrower must in this case first borrow the gold from a private man, and then repurchase the Government's saved products and transform them into a house. Not until then does he obtain the Government's gold, which was entitled to repurchase these products and with it redeem his provisional loan from the private individual. The other exception is this, that the gold borrowed for the building or purchase of a house is seldom given by a single lender. This, however, has already been treated of in § 131.

Another kind of loan operation which is also less suitable for banks than for private individuals is to assist the State. For with these kinds of loan a very long credit is usually stipulated, extending to even sixty years and upwards.

But the banks cannot be said to be altogether outside the above species of loans. The persons and companies referred to do not themselves take charge of their unused gold, but deposit it for the time being, each in his bank. When they purchase mortgages or take part in the subscriptions to a new public loan, they must, when they take these papers into their possession, draw out from their bank deposit as much gold as is necessary to pay for them. The banks, which in the meantime have lent out the gold, must now use old called-in-loans, or new deposits in order to meet the demands of these drawing-out purchasers of securities. Banks have also direct connexions with public loans. They take upon themselves to negotiate them, as it is called. The meaning of this expression is, that the State does not apply direct to the gold-owning public for a loan, but leaves it to the banks to carry out this work against compensation.

Among loans negotiated with other entities than the banks may also be included loans for the purchase of land and existing houses, also for the building of new houses, obtained from the so-called "landed loan offices."

It is true that these last in some countries call themselves banks, but they differ, however, in their organization so completely from the real banks, that they cannot be considered as such. The real banks receive deposits on short notice of withdrawal and lend out these deposits; this is their characteristic. The landed loan offices on the contrary, at any rate in Scandinavia, obtain their gold in the same manner as the State, against their bonds re-imbursable through a long lapse of years, even up to sixty or seventy years. As these institutions keep their gold for a long space of time and always know how much they must pay back each year, they are enabled to again lend out the gold to such borrowers who can only use long loans. To these kind of borrowers belong the purchasers of land and existing houses as well as persons undertaking the building of new houses. We mentioned above that loans of this description are generally given by rich private men, or from money belonging to public funds. Through the landed loan offices the lesser saver, purchasing one of their bonds, is also included in the privilege of taking part in the bestowal of long loans with security in real property.

§ 139. The Deposits remained Low, so long as it was not Customary to Lend them out

The first to receive deposits were probably the London goldsmiths spoken of in a former chapter. From goldsmiths they gradually turned into being bankers and received gold coins as deposits. If I am not mistaken England at that time possessed no note-issuing bank. At any rate, we will assume here that only gold coins were circulating in the land, that bank-notes did not exist, and that the deposits made with the goldsmiths consisted entirely of gold coins, not of notes. And also that no regard was paid to token coinage.

At the commencement of their banking operations the goldsmiths confined themselves simply to the keeping of the deposited gold. In return for their trouble they made a charge to the depositors at the end of the year. At that time the goldsmiths did not concern themselves with the lending out of the deposited gold.

The deposits increased at each payment made to the goldsmiths and conversely decreased at each re-payment.

At those times when business life was quiet and less gold was needed for the existing exchanges, the gold payments to the goldsmiths rose and therewith also the deposits. The same thing happened if gold was imported. Some of the imported gold went in that case to the goldsmiths and increased the deposits.

If on the contrary business was brisk, and more gold was needed among the population for exchanges, the consequence was that gold was withdrawn from the deposits. And if gold was to be exported, it would also often lead to withdrawals being made from the deposits. In both cases the deposits decreased.

The rise and fall in the deposits was not equally divided among the different goldsmiths. The deposits might rise with one, while at the same time they fell with another. But all the deposits taken as a whole, would rise or fall, according as one or other of these factors influenced them.

How high could the deposits rise as long as the gold was only received for safe keeping by the goldsmiths and not lent out by them? The highest conceivable sum to which, in this case, the deposits could reach, would be equal to the amount of the gold coins in the land. If in England at that time there were ten million pounds sterling in gold coins, and if at the same time, there had been found goldsmiths everywhere willing to receive the deposits, ten million pounds sterling would have been the largest amount to which the deposits could be conceived to have risen. Had all these ten million pounds sterling been deposited there would be nothing left to deposit. The deposits could not have risen further. They might have been decreased by later withdrawals and again been brought up to ten million pounds sterling through new deposits, but not higher. In reality the deposits would not even have reached so high as to ten million pounds sterling—so high as to a sum equal to the assumed amount of gold in the land. For in order that this should happen every gold coin, without exception, must have been deposited with the goldsmiths. But this would have been an impossibility. Even under the greatest facilities of getting the unused gold throughout the land into the keeping of the goldsmiths, the population would never have been able to part with all their gold. Some of it would never have been deposited, but would day and night have been circulating among the community. A considerable fraction, therefore, of the gold coins of the land was the most which at that period under favourable circumstances could have been delivered into the keeping of the goldsmiths.

When this fraction of the gold coins was deposited, there was no more to deposit. All unused gold was now at the goldsmiths', owned and amassed by them. There were no other owners of unused gold in existence. There were no others who could deposit unused gold with the goldsmiths. The deposits had reached their highest limit and remained for the present comparatively unchanged at this height. Temporary fall might arise. Withdrawals might cause temporary decrease in the deposits. But when the gold was no longer needed out among the population, it would return to the goldsmiths, once more bringing the deposits up to the above-mentioned height.

§ 140. In Order to Increase Deposits they Must be Lent Out

Such was the state of things at the beginning of the goldsmith's banking operations. Before any change could take place herein, and the deposits begin to increase further, gold must once more be thrown out into circulation among the community. After a time a part of this would not be able to be used, and as unused gold would be brought by its owners to the goldsmiths as deposits. But where was the gold to come from? And who could the new owner be? Both questions received a satisfactory answer, and therewith the process of deposits entered a new phase.

Concerning the first question it has just been explained that at that time there existed two stocks of gold, the one lying with the population, the other on deposit at the goldsmiths'. It was not possible to take the former gold, and through its owners get it deposited with the goldsmiths as unused gold; for the population needed this gold, kept it day and night without ever being separated from it. It was quite impossible to take it to the goldsmiths as a new deposit.

The other stock of gold in the land must be used for this. As it was already deposited with the goldsmiths, these latter must desist from their old custom of keeping the gold and transfer it to others to be re-deposited by them or their successors.

If, however, such a course on the part of the goldsmiths was to lead to the deposits' later increase, it was necessary that the withdrawal of the gold from the goldsmiths should bring no decrease in the old deposits. When in that case, the withdrawn gold returned to the goldsmiths as new deposits, these were to be added—not to diminished but to unchanged old deposits, with their increase as a consequence. And herewith we come to the second question.

To have let the gold depositors become the owners of the gold, or, as it is called, withdraw it, and either themselves or through their successors re-deposit it, would for the time being have diminished the deposits, which, as we have seen, was to be avoided. But if borrowers became the new possessors of the gold, no such decrease of the deposits would take place, these would before as well as after the paying out of the loans remain unchanged. If, therefore, a part of the lent-out gold could not be used by its later possessors and was deposited by them as unused gold, these new deposits, on being delivered up to the goldsmiths, would meet with undiminished old deposits and bring them an increase. And so it happened—the goldsmiths lent out the deposited gold.

The goldsmiths had themselves borrowed the gold from depositors and possessed it with the right of a borrower. This right consists in, that the borrower at the moment of borrowing the gold becomes the owner of the gold. One consequence of this is that he places himself under no obligation to repay the lender at the close of the time of credit with the same gold coins which he borrowed, but he can repay his debt with any gold coins of the same kind as those borrowed.

Because of these circumstances the goldsmiths could dispose of the deposited gold as if they owned it, and thus lend it out to others who now in their turn will have become the borrowers of the gold and own it. The gold in this case will have belonged to first the depositor, then the goldsmiths, and last the new borrowers or their successors.

As already mentioned the goldsmiths did not at first make use of their right to lend out the deposited gold. They still perhaps considered the gold as a trust, belonging to others and not to themselves. And when later on it became evident to them that they themselves were become the owners of the deposited gold, and entitled to lend it out, they perhaps held back from doing so, for fear of having any unpleasantness with the depositors. These latter could give notice of the withdrawal of their deposits. If anything of the kind should happen and the goldsmiths had lent out the gold, they would not be able to meet their liabilities, they would be declared bankrupts. However, in the course of time the goldsmiths became conscious that this danger was more imaginary than real. Many years' experience showed them that the deposits never wholly, but only in part were withdrawn, to be shortly replaced by new deposited gold.

Certain of never being asked for more than a part of the deposited gold, they commenced to give the other part of the deposited gold to borrowers. Their idea in thus introducing this new method for the treatment of the deposits was to procure themselves an extra profit. That their lending out of the deposited gold would lead to a rise of the deposits they were scarcely conscious of themselves. But this, as already stated, became the case.

The former owners of the gold, first the depositors and later on the goldsmiths, had not been able to use it. But the borrowers, who now possessed the gold, could use it for different purposes. They needed the gold as trading capital for the bringing about and the distribution of the year's production, for the obtainment of existing objects, for the purchase and transformation of saved products. The borrower thus making use of the gold, which, from the moment of borrowing belonged to himself, it would pass on to new owners and their successors. Among the last and newest owners of the gold there will be found several who could not use their fraction of the gold. The saving ones would especially come into this class. They would, therefore, bring their unused fraction of the gold to the goldsmiths as a deposit. After this gold had formerly by its then existing owners been deposited with the goldsmiths and produced deposits which still exist, the very same gold was again by its present owners deposited, forming new deposits to add to the old still existing deposits. The new deposits were not formed immediately after the payment—paying out of loan. Some time lapsed between these two events. As a rule the new deposits did not attain to the amount of the whole sum lent out, but only to a fraction of it.

An example is here given in illustration of the case. A depositor brought £1,000 of unused gold as a deposit to the goldsmith. The latter lent out the £1,000 in gold to a trader, by which the goldsmith lost the gold, while the deposit, in spite of the removal of the gold from the goldsmith, remained unchanged, £1,000. The trader now buys products from a producer for the £1,000 in gold, which gold is divided between the producer and his assistants, to be used for the repurchase of the products, each one choosing from the year's national production the products most suitable for himself. The £1,000 in gold which had successively belonged to the depositor, the goldsmith and the borrowing trader is now owned by the producer and his assistants. These latter will save £100 and bring the £100 unused gold to the goldsmith as a new deposit. The £100 in gold comes thus for the second time as a deposit to the goldsmith raising the deposits from £1,000 up to £1,100. The deposits have risen as a consequence of the loan. This was all we intended to prove. But for the sake of completeness it may be added what may possibly happen later on with the £1,000. The goldsmith again lends out the £100 just received as a new deposit, this time to a transformer (see § 54). The remaining £900 in gold are still supposed to remain with the producer and his assistants. The next step both for the producer and his helpers and for the borrowing transformer is now to repurchase. In order to simplify the case, it may be here supposed that they repurchase their own products and not what others have produced. With their £900 and £100 in gold they go to the trader and repurchase the production. With the £1,000 in gold thus received the trader pays back his loan to the goldsmith. The latter then possesses deposits for £1,100, or more correctly speaking owes his two depositors £1,100, but on the other hand he owns £1,000 in gold in his safe and a claim for the amount of £100 on the transformer.

With the goldsmith's beginning to lend out the deposited gold the deposits entered into their second period. Their former stability is substituted by a new growth, which continues as long as the need is found with the public to borrow the deposited gold. When activity slackened and the need for loans, therefore, became less, so that the gold could not be lent out, the growth of the deposits was likewise checked. When, on the contrary, stirring activity once more set in, the lending out of the deposited gold and through this also the deposits once more began to rise.

The rising of the deposits was a sign of the increasing wealth of the population. For as the deposits were lent out against secondary right in goods, buildings, ships, etc., as mentioned in § 137, the rising of the deposits implied also a rising in the number and extent of these objects.

Through the example of the London goldsmiths there have later on been established numberless banks throughout the world. All of them are engaged with receiving deposits and lending out these deposits. But the gold itself is, however, now seldom seen when it is received by the banks as deposits and later on lent out. Bank-notes are used instead—bank-notes exchangeable with the gold lying untouched in the vaults of the bank of issue. Sometimes even the bank-notes are not used, but this subject will be treated of later on.

With the London goldsmiths, the two periods for the rising of the deposits could be distinctly separated. The later established banks took advantage of the goldsmiths' experience and commenced from the first day of their existence to lend out their deposits. In the younger banks, therefore, both the factors for the growth of the deposits began to work simultaneously. But this growth has not, however, taken place with perceptible quickness. For not all the money lent out returns to the banks as deposits. Much of the money lent out is not deposited, but is used to redeem old loans from the banks. Only the remainder is brought to the banks as new deposits. In the former example only one tenth part of the loan was supposed to be used for this purpose. Of the £1,000 lent out, only £100 was re-deposited, and £900 used as part payment of the loan, when it later on fell due. On the other hand it may also happen that all the money lent out is paid back to the banks as new deposits. The £1,000 might have been lent out to the purchaser of some object or other, such as a ship, instead of being lent to the trader. If the seller of the ship does not need the £1,000, he will deposit it and give the old deposit of £1,000 a new addition of another £1,000. The total deposits will now amount to £2,000, the half part of which has been created by the lending out and the return of the original deposit of £1,000.

§ 141. Withdrawals, with the Temporary Fall of the Deposits as a Consequence

Withdrawals will cause deposits to fall from the height which they might at any time have reached through being lent out. On the withdrawal of deposited money, the deposits at the same moment correspondingly fall. But the fall is often only momentary. Just as the borrower's successors, in reference to the example already given, had no use for a part of the borrowed money, and therefore pay it in again as a new deposit—of the lent out £2,000 were £1,100 later on deposited—thus in a much greater degree, the same thing will happen with the withdrawers' successors. When the withdrawers have circulated the money taken out, it will sooner or later come into the possession of people who have no use for it. These people will bring the unused money to the banks as deposits. The withdrawn money has, after a period of absence, once more returned to the banks. The withdrawing has been followed by depositing, and the deposits have once again reached their former height. Only a temporary fall in the deposits—all the banks in the world being taken collectively—has taken place. The money was taken out by the old depositors to be re-deposited by new depositors.

If, however, the withdrawn deposits are sent to uncivilized countries in the form of gold or silver the fall in deposits will be permanent.

§ 142. The Failure of Banks causes a Permanent Fall in the Deposits

A permanent fall in the above-mentioned deposits will—all the banks in the world being taken collectively—be brought about by bank failures If a bank with twenty-five millions in deposits or debt to the depositing public and twenty-five millions lent out or due from the borrowing public, is obliged to stop payments, then the bank will at once take measures for calling in the money it has lent out. If by degrees the bank manages to get back twenty millions of its loans the money will be given to the depositors, who will probably deposit it in other banks. The deposits will have fallen with twenty millions in the bank that failed and have risen twenty millions in the other banks, that is to say, to that extent have remained unchanged. The borrowers are quite unable to pay back to the broken bank the remaining five millions and the bank is in this manner prevented from paying the last five millions of the deposits. This money must be crossed out as lost. The collective deposits of the world have by reason of the bank's failure suffered an ultimate decrease of five millions.

In this connexion the following experiment of thought can also be made. If the banks throughout the whole world could be supposed to wish to get rid of their deposits, then they must, besides leaving off giving fresh loans, also call in all running loans.

Successively as the borrowers now could get possession of the money circulating among the population, they would therewith partly pay off their debts to the banks. These banks would then let the money return to the depositors with the decrease of the deposits as a consequence, and then refuse to receive the money again as new deposits. From the depositors the money would be circulated among the population, and then again and again go the same circular course until all the loans were redeemed and all the deposits paid back. But all this is only theory. Any process of the kind here described would mean the cessation of all bank operations, which would be quite impossible.

On the contrary, instead of diminishing their deposits, their debt to the public, the banks increase them yearly, by lending out their money and getting it back as savings or as proceeds obtained by selling existing objects.

§ 143. PERMANENT FALLS IN THE DEPOSITS ARE CAUSED BY WITHDRAWALS DESTINED FOR THE PAYING BACK OF DEBT IN THE BANKS.

There is a kind of withdrawal different from the others—which we must now speak about—withdrawals for the paying back of debts in the banks. With the before-mentioned withdrawals of deposited money the deposits are diminished correspondingly, but rise to their former heights when the money in the shape of new deposits returns to the banks. The decrease of the deposits has only been temporary. But it is different in the case here presented. Here also the deposits are diminished by the amount of the withdrawals, but contrary to the former cases the money withdrawn does not go out of the banks, and can therefore not return as new deposits to bring the fallen deposits up to their former height. Falls in the deposits are a permanent result of these kinds of withdrawals. The banks' loans have gone down at the same time as their deposits. A corresponding amount must be written off them both.

It may, however, be mentioned that in countries where cheques are not very much in use the repayment of loans from the banks will often be made with money taken from the population, and not by the withdrawing of the borrowers' deposits. In the example given here, the trader thus paid back his £1,000 loan with money formerly lent out from the bank and now given him by the public, but he did not settle his debt by taking out any deposits which he might possibly possess. But this last manner of repayment is not, however, quite unknown, even in lands where the use of money is universal.

When these withdrawals for the payment of bank debts take place it is not usually the deposits acquired by saving, or by the sale of existing objects that suffer; these payments are generally made from deposits arising from unused trading capital. The example already given, will, with a slight change, show what is here meant. The trader has borrowed £1,000 from a bank, delivered it over to a producer and received it again later on in two sums of £100 and £900, which he gave to the bank in payment of the debt. If, which can easily happen, he receives the £100 and £900 some time before his loan becomes due at the bank, he will deposit the £1,000 unused trading capital in the bank in order to get the interest, and so as not to run the risk of taking care of the money himself for the few days. The deposits and the stock of money both rise therewith to the extent of £1,000. A few days later when he takes out the money in order to pay his bank debt, he leaves the money in the banks; their stock of money remains unchanged, but their deposits as well as their loans fall £1,000.

§ 144. The Comparison between the two Periods of the Deposits

If the two periods in the history of deposits are compared with each other it will be seen that the people's unused gold in the first period stayed stagnant at the goldsmiths' and was locked up by them, while in the second period it was both by the goldsmiths as well as by their successors—the banks—sent on through loans to new owners in order to be in part re-deposited.

From having lain still at the goldsmiths' the money now went in a continual circular course among old depositors, banks, borrowers and new depositors.

During its stay at the goldsmiths' the gold money had created deposits in amounts equal to the gold itself. But during the circular course of the money it created by degrees with the goldsmiths and their successors—the banks—many times the amount of the deposits, by which is meant the depositors' claims at the banks, also as a balance against this, a multiplied amount of claims owned by the banks on their borrowers. A single gold coin could in the course of time produce deposits and loans many times greater than itself.

CHAPTER XIX

Gold

Continued from Chapter III

§ 145. The Need of a Medium of Exchange

Every one desirous of parting with some object, and passing it on to some other person, really takes gold in exchange. (Chap. III).

Individuals in such a position are not only willing but are actually obliged to accept gold in exchange for what they have to offer.

Let us imagine that the medium of exchange, money, was suddenly removed, and that in consequence the only resource left was bartering, exchanging goods and permanent objects for things of a similar kind. What under these conditions would become of the interchange of productions between man and man?

If, in such a case, a farmer in Norway wished to obtain—in exchange for his crops—coffee, sugar, tobacco, spirits, clothes, boots, earthenware, saucepans, and spoons he would soon find out how difficult his wish would be to realize. How could he in Norway get his corn exchanged for coffee belonging to a Brazilian planter? It may, it is true, be imagined that even if media of exchange are not used traders might still exist all over the world, to whom the producers and their assistants might take their products to be distributed among the world's inhabitants. In such a case there might exist a chance for the Norwegian farmer to exchange his corn for Brazilian coffee; but it would at any rate take a long time to barter goods for goods, whether the farmer made the exchange at the traders', or, in the case of goods produced in his neighbourhood, visited the producers himself. Instead of attending to his farming, he would be compelled to go about with his corn in order to find persons who could supply him with other necessaries in exchange. Nor would he be likely to obtain the full value for his corn if he were obliged to barter it. If it were a horse, instead of corn that the farmer desired to part with in exchange for the above enumerated goods a fresh difficulty would arise, namely, that the horse would hardly correspond in value with any one of the goods that the farmer required. The amount of coffee that he needed would only make up $\frac{1}{6}$ of the horse's value ; and as a horse cannot be divided, the exchange, on this ground alone, cannot be made. It will thus be seen from the above that in the case of the farmer, the consequence of direct barter would be smaller production and too little return for what was produced, and would, indeed, often end in his having to entirely renounce the acquirement of things that were desirable for his comfort or prosperity in life.

A system of barter such as this would in the case of some producers be actually ruinous. Imagine a manufacturer of cloth, who could no longer obtain gold in exchange for his cloth, but all the year round received as payment from the consumers or from the traders, dried fish, timber, cattle, hides, butter, iron, bricks, and other productions of the country. How could the manufacturer store all this quantity of various products that were always pouring in upon him as payment ? Will he succeed in getting his work-people to receive their share of the year's production in the form of bricks, hides, and other things taken from the supplies sent him ? And if his work-people agreed to this, how could they, any more than himself, get rid of the goods received ? Both the cloth-manufacturer and the cloth-workers would from the beginning to the end of the year spend their time going about trying to exchange fish, bricks, timber and iron for articles that they absolutely needed. It is probable, indeed, that in many cases they would not succeed in making the exchange, because after all their trouble they would not find any producer or trader who combined the two qualifications of requiring bricks and at the same time being able to give the manufacturer and his work-people what they wanted in return for the bricks. All this time their proper work of manufacturing cloth is neglected. Taken together, these various disadvantages would soon compel the cloth manufacturer to discontinue his manufacture. Deprive him of the accustomed medium of exchange and you eventually drive him to close his factory.

The owners of railways share indirectly in the production by conveying persons and products from place to place. Every railway company can, therefore, claim a share in the year's production, but none of them can receive the share in kind. They could not possibly sell tickets or place their carriages at the disposal of the community in return for payment in kind in the shape of cart-loads of hay, timber, manufactured goods, etc. ; for, in the first place, there are not buildings enough at the railway stations along the various lines in which to store such quantities, and in the next place the railway companies would not be able to distribute these goods as wages to the railway officials, or in payment of supplies of coal, rails, etc., or as dividends to their shareholders. The companies would find themselves in the same difficulty as the cloth manufacturer and his factory hands ; and in consequence of this hypothetical disappearance of all money they would soon be obliged to close their lines.

And how, finally, would it fare with the owners of accumulated articles after the withdrawal of the medium of exchange ? If the owner of a factory had a desire to exchange his factory for an estate, it would be a remarkable coincidence if he found an estate-owner that was desirous of parting with his estate in order to become a manufacturer. The owner of the factory would probably be obliged to keep it ; and this is what would happen as a rule in the case of other accumulations.

It is thus clear that bartering is associated with several great disadvantages.

The first disadvantage of importance consists in the difficulty of finding any one willing to take the proffered object in exchange for another particularly specified thing. The more valuable the two objects are, the more difficult will it be to bring about an exchange. If, for instance, a manufacturer wished to exchange a large factory for an equally valuable estate, in ninety-nine cases out of a hundred he would have to give up his plan, because no estate-owner could be found willing to entertain the proposal.

Another drawback to bartering arises from the property possessed by a number of things, of being either hardly, or not at all, capable of division. This kind of disadvantage would have presented itself to the manufacturer if he had required the value of his factory to be given half in an estate, and half in a ship. His difficulty in finding any one with whom to negotiate would now be doubled. As his factory cannot be divided, the other party to the exchange must own both the estate and the ship. Difficult as it was for him to discover an estate-owner who wished to become a manufacturer, his difficulty would be considerably greater if the other party had to be the owner of both the estate and the ship, and moreover must desire to hand them both over to the manufacturer in exchange for his factory. Or, if we take the case of the horse, it might be that the owner demanded groceries, china and hardware in exchange. If a single trader chanced to possess all these three articles, and at the same time desired to have the horse, the owner of the horse might have his wish fulfilled ; but if he had to apply to three different traders, it would be a different matter. The horse cannot be divided into three parts, one to be given to the owner of the groceries, another to the owner of the china, and so on. He would be obliged for this reason to keep his horse, and give up the three kinds of goods mentioned. But what has been said about the horse may also be applied to a number of other indivisible things, great and small, used in daily life. If, on the contrary, the person in question possesses a divisible object, such as meat, milk, or cloth, it will be easier for him to get the article exchanged at the trader's or others, for various things put together, of the same value as his meat, etc. But even in this case, it might be long before two parties, each willing to give what the other desired, came together.

And here we come to a third disadvantage attending barter. Bartering requires time, which would be better employed upon the work that constitutes each man's calling in life.

All these disadvantages disappear on using gold as the medium of exchange. We have just been speaking of the difficulty a manufacturer would have in realizing, by direct exchange, his wish to part with his factory in return for an estate and a ship. Let us see how easy it is all made for him if he has recourse to the medium of exchange, gold.

When a factory and other things are to change hands, the new owner will not, as a rule, be able to offer in return exactly what the seller wishes. The things he happened to possess would rarely suit the manufacturer, so the latter must take in exchange something for which he has no special use, and chooses gold, a valuable which the purchaser of a factory, or anything else, always possesses, either because he owns it or has borrowed it. For want of anything better the manufacturer takes the gold, he loses his factory and temporarily invests his wealth in gold. When he accepts the gold, although he neither requires it for ornaments nor for any other similar purpose, he does so from a consciousness that multitudes strive for gold as a temporary investment of wealth (see chap. III), and that he can therefore, whenever he wishes, obtain in exchange for gold something that is more necessary for him than gold. He is not disappointed in this expectation. As we have said, he wished to part with his factory, and instead obtain an estate and a ship. He has succeeded in the first, and sooner or later his second wish will also be fulfilled. The owners of two such commodities will exchange them, for instance, for securities. But it may be difficult to find two holders of securities wishing to become, one a land-owner, and the other a ship-owner. They cannot exchange their estate and ship with holders of securities, but will be able to do so with owners of gold. Among the latter, the former manufacturer is now to be found. Dividing his gold into two portions, he purchases the estate and the ship, and thus his second wish is also fulfilled. By using the gold as the medium of exchange, the manufacturer had to make two exchanges instead of one. He first had to part with his factory in exchange for gold, and then with the gold acquire what he desired, namely, the estate and the ship. But it has been to his advantage to do so, for a single direct exchange, if it could have been effected at all, would certainly have given him far more trouble than the two exchanges with gold as the medium.

Similarly, gold contributes towards an easy and rapid distribution of the year's production. The producer and his assistants refrain from running about with their products in order to exchange them for such things as each requires, and instead exchange their products with the traders for gold. After having for a time seen their products represented by gold, they make the second exchange, this time obtaining for their gold what they require.

It will be seen from the above that bartering is associated with the greatest disadvantages, which, however, disappear upon the employment of gold as medium of exchange. This is the reason for the necessity of employing media of exchange in the transfer of objects from one owner to another.

§ 146. How do People obtain their Gold?

In recent times, the greater part of the gold discovered has come from America, Australia, and South Africa. When the gold-washer, or the owner of a gold-mine, and his assistants, have obtained a certain amount of gold, they exchange it for products for their own maintenance or for transformation, and for older things such as securities, buildings, or land. In theory, when the gold-digger wishes to purchase with his new gold products for his subsistence or for transformation, he only purchases them from the stores of products saved by others. He cannot buy from the rest of the world's year's production; for, as we have seen, that is disposed of to the traders all over the world in exchange for gold, and will be repurchased by its producers and their assistants, who need it to live upon. If, therefore, the gold-digger wanted to repurchase from that production, he would theoretically be met with the answer that it was intended for others, and, as we have said, be referred to the saved products. When he thereupon buys from the world's store of saved products for his maintenance and for transformation, that store is diminished, but at the same time the world's store of gold increases. By the gold-digger's various acts, some of the world's savers have had their saved products transformed into the permanent object, gold. They have lost their saved products, and have seen new gold take their place.

A distinction has previously been made between repurchasing gold and ordinary gold. The gold-digger's gold must thus be assigned to the latter class as regards its relations to the product-mass of the world. The new gold also, with which the gold-digger acquires older objects, comes under the head of ordinary gold, and for the present retains this property in the possession of the new owner of the gold. If he wishes to purchase products with the gold, it must be imagined in his case as being done from the saved stores, and not from the year's production intended for the rest of the people.

When once the new gold has come in this manner into circulation, it is afterwards used exactly as the old gold, as we have several times described. It becomes repurchasing every time it has to be given to the community for the repurchase of the year's production. After having thus been used for the distribution of the year's production, it once more goes into the remaining store of ordinary gold, acting as medium of exchange in the transfer of older objects from one owner to another.

If the gold is obtained in great quantities, as in the Transvaal, only some of it can be used in the country itself. The gold-producers and their assistants will not be able to find, either in the neighbourhood or in the country itself, all the products and older objects that they want in exchange for their gold. Large quantities of gold therefore go out of the country, principally to Europe, where it is exchanged for saved products. The former European owners of these saved products find them disappearing to be replaced by Transvaal gold, their saved products have been transformed into new Transvaal gold with a corresponding increase in Europe's store of gold. To South Africa are sent as many of the products as the gold-producers and their assistants wish for their subsistence and possibly for transformation in South Africa into permanent objects. The remainder of the products was allowed by the South African gold-producers to remain in Europe, and be there transformed into permanent objects. The permanent objects of Europe were recently added to by the South African gold just obtained, and now belonging to the European savers; and their amount is still further increased with transformed permanent objects belonging to the South African saving gold-producers. The transformation in Europe may be effected by the South African gold-producers taking shares in new European industrial companies, or joining European limited liabilities companies. If the South African gold-producers purchase with the gold old European securities, European estates, or something of that kind, the former European owners of these things can use the Transvaal gold for repurchase and transformation, in which case the Europeans become the owners of the Transvaal gold and of the new European objects, while the South African gold-producers become the owners of the old European objects.

The transmission of gold from the place of production to a country where gold is not found may be made directly or with the intervention of one or more other countries. In Europe it is principally England that has gold sent to her direct from the gold-producing countries. With some of this gold the gold-producers buy English products and other English commodities; and what they then have left of their supply of gold in England, they employ in paying for products and other things that are not English. Thus if Norway sends some cargoes of timber to the Transvaal, she is paid with Transvaal gold now lying in England. Some of the timber from the Norwegian saved products of the year has thereby been transformed into Transvaal gold now in

Norway. It may be that the timber cannot be considered as belonging to the saved products of the year's Norwegian production, in which case the gold will remain abroad, e.g. in England, as payment for English products sent to Norway. Upon this assumption, the final result will be that Norwegian timber is consumed in South Africa, and English saved products in Norway, while at the same time English savers have the saved English products they have lost replaced with new South African gold, occasioning an increase in England's supply of gold.

In the days when Europe in general employed silver as medium of exchange, the silver was obtained in a similar manner to that now employed with regard to gold.

§ 147. Token Coins

Owing to the great value of gold, gold coins representing trifling amounts would be too small to be handled. It would thus be impossible to coin a gold Scandinavian 10 öre piece, or a French 10 centimes, or similar small coins. Made of gold, each of these coins would prove totally unfit for circulation owing to their small size.

This is unfortunate, for there are numbers of things of less value than the smallest gold coin in each country. In Scandinavia, no smaller gold coin is issued than the 10 krone piece, equivalent to nearly eleven English shillings. Now if some one wishes to exchange an article worth one krone in gold for coin of the country, no gold piece of that value is obtainable. In order to meet this want, every country, in addition to its gold coin, issues other coins, some of silver mixed with copper, and some of bronze, which are called token coins. These silver and bronze coins are used for small exchanges. They do not, it is true, possess the same value as their denomination, so that the seller of an article worth one krone in gold, receives one silver krone not worth nearly so much as one krone in gold. The people, however, accept these less vaulable token coins in exchange for other productions quite as readily; for token coins are indispensable. No one, however, will accept large quantities of them, and there is no legal compulsion to do so. In large transactions, token coins are not used.

At the close of 1902, Norway probably possessed about forty million krones in gold coins, while at the same time eight million krones in token coins were supposed to be in circulation. The value of the eight millions amounted to only four millions. The difference went to the revenue of the Norwegian State, by whom the coinage is done.

The Norwegian State possesses a mint in the little town of Kongsberg, near its silver mines. Until recently, the token coins, when ready, were sent in to one of the ministerial departments in Christiania, the so-called Finance Department, whence they were sent out to the people, who in payment had to give bank-notes to the Department, exchangeable for gold in the vaults of the bank of issue. If, on the other hand, any one in his business received more token coins than he required, he could hand them in to the same Department, and receive notes in exchange. Of late the Government has let this handing out and in of token coins be done in a bank.

§ 148. THERE ARE NOT ENOUGH GOLD COINS

From the gold-producing countries, great quantities of new gold are annually sent out into the world. Of this, some is used for ornaments, etc., while the remainder is coined. But the annual increase in the number of gold coins in the world has not up to the present been able to keep pace with the increasing need of gold as the medium of exchange. The fact is that there are not enough gold coins in the world for the distribution of the production and the transfer of older objects from one owner to another. In order to supply this want, artificial means are employed. A token currency is a means of this kind. Its true purpose consists in acting as a medium in small sales; but in addition to this, it to some, though only trifling, extent supplies the want of gold coins. We come to two other such media in the two following chapters on bank-notes and cheques.

CHAPTER XX

Bank-notes

§ 149. WHAT ADVANTAGE IS GAINED BY THE USE OF BANK-NOTES?

IN the issuing of bank-notes, there are two objects in view, namely, to limit the transfer of gold coin, and, as the world does not possess enough gold coins, to supply this want as far as possible.

If gold coin always had to be brought whenever a production was exchanged for gold, this would give rise to two inconveniences, namely—

(1) Diminution of the gold through wear, and

(2) Trouble for the parties concerned whenever large sales were effected, and a heavy weight of gold had to be conveyed from place to place.

These inconveniences may be avoided by using bank-notes entitling the holder to receive gold stored at a place named upon the note, a so-called bank of issue. When any one wishes to obtain a production in exchange for gold, he takes with him his bank-notes entitling the holder to receive payment in gold from the vaults of the bank of issue. The bank-notes are then given in exchange for the production. The seller of the product can now go to the bank of issue with his notes, and demand their payment in gold. This, however, he will seldom do; for the knowledge that he can at any time obtain gold for the notes is generally sufficient for him, in which case he leaves the gold in the bank of issue. In a few countries, e.g. Norway, this disinclination to change the notes is so strong that gold is seldom, if ever, seen in the possession of the people. If a gold piece chances to come into circulation, it will not be long before it is paid into a bank, and sent by the bank to the nearest branch of the Bank of Norway (the bank of issue). On the other hand, there are also countries where gold coins to large amounts circulate with the bank-notes.

The second purpose of bank-notes is attained by issuing them for amounts exceeding the amount of gold in the vaults of the bank of issue.

Owing to the division of the world into countries, there is no bank of issue belonging to the whole of mankind in common. Each country has its own bank of issue, sometimes several of them. In all essentials they are organized in the same manner. To go through one of them will therefore be sufficient. For this purpose the bank of issue in the author's native country is chosen, being the one with which he is best acquainted. We shall return to this in detail in § 151.

§ 150. THE CIRCULATION OF BANK-NOTES

When any one has become the owner of an object, he does not generally part with it at once. Land, a house, a factory, etc., the owner in many cases will keep until the day of his death, and if he sells an object of that kind in his life-time, he has generally first been its possessor for some time. It is very similar in the case of the more perishable things, such as provisions, clothing and furniture. The owner keeps them to consume or wear out, but rarely sells them, except, of course, in cases where the owner of the article is a manufacturer or salesman.

When the article is bank-notes, the case is different. The possessor of bank-notes does not wish to keep them, but endeavours to get rid of them as soon as possible. He either exchanges them for other things, or places them in a bank. As soon as the bank has come into the possession of the notes, it also parts with them by lending them. The lent notes now become the property of the borrower, whereupon they are at once transferred by him to a new owner in return for other things.

In consequence of this difference between bank-notes and other things as regards the length of time during which they remain in the possession of their owner, things such as land or furniture, when once sold by their owner, will scarcely be likely to come into his possession again. This cannot be said of bank-notes. Any one who parts with his bank-notes may easily find them come back to him. This happens especially often in banks. Quantities of notes are daily committed to the care of a bank, and immediately pass in the form of loans into the possession of others. Many a bank-note has therefore, during its existence, repeatedly belonged to the same bank, each time to become once more the possession of another.

§ 151. Norway acquired her Bank of Issue in 1816

The management of the finances of a country is always regarded as a State matter. When, therefore, in 1814, Norway was separated from Denmark, and, as a consequence of her union with Sweden, obtained her own government and her own national assembly, this was one of the first matters to be attended to by the country's new rulers.

The token currency occasioned them little trouble. There was a considerable amount of Danish token coins at the time in circulation in Norway, and in spite of the political change that had taken place, they continued to circulate for many years, only now and then supplemented with new Norwegian token coins (cf. § 147).

It was a more difficult matter, however, with the other coins and the notes. Norway's supply of these in 1814 was very small, and she was under the necessity of using the old Danish bank-notes. But for reasons upon which we cannot now enter, they were no longer adapted for use. It became necessary to procure silver, and upon the basis of this silver to issue new Norwegian notes.

The Norwegian people were accordingly enjoined to bring their silver, such as teapots, bowls and spoons, to the value of eight million krones ; and these things the Government thereupon had melted down and made into so-called silver dalers. In both size and purity these coins were superior to the token currency. This took place in 1816. The Government might have given back the eight million krones' worth of silver dalers to the owners of the silver, to serve as a medium of exchange in the country ; but, as already indicated, another mode of procedure was chosen. On the basis of the eight million krones' worth of silver dalers, bank-notes were issued. As the Government had opened its own mint, and had there had the silver coined into dalers, it ought strictly speaking itself to have taken the further needful steps, and stored the silver dalers in the Treasury, while printing and issuing notes for this silver. The Government, however, did not wish to undertake this task, which was then, in accordance with custom and usage in such cases, intrusted to a bank. There was no such thing in Norway in 1816, but a joint-stock company was now formed, called the Bank of Norway, to which these eight million krones' worth of silver coins was handed over to form the bank's capital. Certificates were issued in the names of those from whom the silver had been asked. Since that time the shareholders have annually received their share of the profits of the bank, but have no influence in its management, which is reserved for the Norwegian national assembly.

During the succeeding years, Norwegian exporters and shipowners often brought silver to Norway from abroad, either in the form of bars or of foreign silver coins. As the silver in this form could not be used as medium of exchange in Norway, the owners took it to the Bank of Norway, which thereupon had it converted into Norwegian silver dalers at the State mint, and added these to the eight million krones' worth of silver from 1816. In this way the Norwegian Bank's original supply of silver amounting to eight million krones received by degrees considerable additions. Bank-notes were also issued for this new silver, and delivered by the Bank of Norway to the last owners of the silver.

In 1874, Norway adopted a gold standard. Henceforward gold was to be used as the medium of exchange. All the silver in the vaults of the Bank of Norway was accordingly sent abroad to be exchanged for gold. We may say in passing that if the country to which it was sent had no use itself for the Norwegian silver, it would have to send it farther, for instance, as household goods to the Transvaal in exchange for new gold, or to Asia for Asiatic products, which had then to be shipped to the Transvaal in exchange for new gold from the mines. According to the balance-sheet given on p. 246 the amount of gold in the vaults of the Bank of Norway and in the hands of its foreign agents at the close of 1901 was $40\frac{2}{10}$ million krones, of which eight millions were obtained for the silver paid in in 1816 as share-capital, while the remaining $32\frac{2}{10}$ millions were added by others, partly as silver exchanged for gold in the seventies, and partly as actual gold. There was really much more metal than $32\frac{2}{10}$ millions brought in between 1816 and 1901 ; but as at the same time during these years, metal was again taken out to send back to foreign countries, the increase in the Bank of Norway was limited to $32\frac{2}{10}$ millions.

It is, as we have said, with this store of metal as foundation, that the Bank of Norway issues notes for which their holders may claim payment in coin. In 1816, when the bank was started, eight million krones in notes, founded upon the eight million krones in silver, could be issued. By the end of 1901, in the same way, $40\frac{2}{10}$ millions in notes were issued, founded upon the $40\frac{2}{10}$ millions in gold to which the stock of coin had in the meantime increased.

Few, however, of the $40\frac{2}{10}$ million krones in notes will be presented at the bank for payment in gold. A few million krones in gold would be sufficient to pay the comparatively few notes that might be presented for that purpose. Assuming that under the least favourable circumstances only the fourth part of the notes were presented for payment, about ten million krones in gold would be all that the bank would require in its vaults in order to meet its engagements with the holders of the $40\frac{2}{10}$ million krones in notes. With forty million krones in gold in the vaults, the bank would even be able to issue 160 million krones in notes. The Bank of Norway does not venture, however, to go so far with its issuing of notes, and takes a middle course. It is always allowed to have 35 million krones' worth of so-called unfounded notes in circulation. With the above-mentioned $40\frac{2}{10}$ million krones in gold in its vaults, the Bank of Norway can issue $40\frac{2}{10}+35=75\frac{2}{10}$ million krones in notes.

Abstract Balance Sheet, December 31, 1901.

Liabilities.		Kr.	Öre
Paid up capital		15,494,789	52
Reserve fund		7,867,584	46
Set aside for bad and doubtful debts		1,440,928	32
Balance of profit-and-loss account carried forward		2,189,582	19
Notes issued		75,228,527	60
Current accounts		8,432,449	28
Set aside, the greater part for the building of new bank premises		1,255,139	09
	Krones	111,909,000	46

Assets		Kr.	Öre
Gold in Norway and abroad		40,228,527	60
Discounts		42,763,456	70
Securities		7,290,448	40
Loans, Advances, etc		6,318,543	36
Claims against various estates		2,615,668	63
Bank premises	Kr. 1,815,900		
Notes in hand		12,692,355	77
	Krones	111,909,000	46

§ 152. How are the Notes put into Circulation?

Where are these $75\frac{2}{10}$ million krones in notes? The answer is that they have gone out to the people in the two following ways. It was mentioned not long ago that $32\frac{2}{10}$ million krones of the metallic currency in the vaults of the Bank of Norway originated from Norwegian exporters, ship-owners, etc., who personally or through their banks brought foreign silver and gold to the Bank of Norway. For the sake of simplicity we shall henceforth take the two metals together and call them gold. After having been coined in the Government mint, the gold was placed in the vaults of the bank. The bringers of the gold received in return from the bank its notes, which they distributed among the people by using them partly for purchases and partly for loans. In this manner $32\frac{2}{10}$ million krones in notes found their way out to the people. But in addition to these notes there existed eight million krones issued for the gold obtained by the bank for the eight million krones in silver from 1816, and further 35 million krones issued without equivalent gold in the vaults; in all, 43 million krones in notes. In order to set these notes in circulation the Bank of Norway resorted to the expedient of lending them; they found their way to the people through loans. For the sake of completeness it may be mentioned that out of the $75\frac{2}{10}$ million krones in notes, composed of the two amounts $32\frac{2}{10}$ and 43 millions, $12\frac{7}{10}$ million krones had returned temporarily to the Bank of Norway by the end of 1901.

§ 153. Issue Department and Banking Department

It has been stated that the Bank of Norway has lent a specified store of notes amounting to 43 million krones. From this it will appear that besides storing gold in its vaults, and issuing notes on that cash basis, the Bank of Norway also carries on general banking business in the course of which it lends notes issued by itself. This combination of various kinds of transactions makes the circumstances incidental to the bank of issue somewhat complicated.

In order to obtain a correct understanding of the working of a bank of issue, one must divide it in imagination into two distinct departments. A bank of issue, such as the Bank of Norway, consists in reality, in spite of its unity, of two separate companies, one belonging in a manner to the Government, and intended to issue notes and keep the gold set aside for the covering of these notes, the other belonging to the shareholders, and intended to carry on general banking business. To distinguish them from one another, each has its distinctive name, being called—

(1) the Issue Department, and

(2) the Banking Department.

Properly speaking each company should have separate premises and separate managers, but for the sake of convenience they are both under one roof and managed by a common board.

§ 154. THE OPERATIONS OF THE ISSUE DEPARTMENT

The so-called issue Department in the Bank of Norway was that which in 1816 received the eight million krones in silver dalers coined from the silver articles given by the people, and then in 1870 exchanged these silver dalers for foreign gold. It was also to the Issue Department that the exporters and others brought their silver and afterwards their gold, the Issue Department taking these metals, and after having them converted into coin at the Government mint, placing them in their vaults.

In return for these metals, to which we still give the common denomination, gold, the Issue Department printed a corresponding amount of notes exchangeable for the gold in the vaults, these notes being given to those who had brought the gold. The shareholders, or, more correctly speaking, their representative, the Banking Department of the Bank of Norway, received eight million krones in bank-notes to be employed as capital for the department. The remainder of the bank-notes amounted at the close of 1901 to $32\frac{2}{10}$ million krones, which had been paid by the Issue Department to the bringers of the gold. These two sums together amounted to $40\frac{2}{10}$ million krones in bank-notes paid by the Issue Department, and covering which an equivalent amount of gold lay in their vaults.

As, however, these $40\frac{2}{10}$ million krones in notes exchangeable for gold would not be sufficient for the country's exchanges, the Government, which is supposed to own the company called the Issue Department of the Bank of Norway, let that department further print notes to the value of 35 million krones, also exchangeable for gold in the vaults of the Issue Department, so that for $40\frac{2}{10}$ million krones in gold, there were now $75\frac{2}{10}$ million krones in bank-notes. As explained at the close of § 145, there was no risk connected with this transaction.

As already indicated, the Issue Department's store of gold varies, gold sometimes being imported from abroad and soon finding its way to the Issue Department, while at other times gold is taken out to be sent abroad. Any one who goes to the Bank of Norway with gold must be supposed to apply to the Issue Department of the bank and there hand in the gold in exchange for notes. In the same way all who desire gold to send abroad or for other purposes present their notes to be honoured with gold from the vaults of the department. In the first case the gold and circulating notes would increase. In the second case the gold was diminished and also the circulating notes, as the Issue Department must either destroy the returned notes, or, if they are kept, must regard them as worthless paper.

§ 155. The Operations of the Banking Department

The Banking Department is neither more nor less than a bank like the other banks of the country, although the principal one. Like any other bank the Banking Department of the Bank of Norway possesses its paid-up capital—amounting in 1816 to eight million krones in notes exchangeable for silver—and its reserve fund, and receives deposits which it again uses for loans.

§ 156. The so-called Unfunded Notes may be regarded as a Deposit made by the Government in the Banking Department, and one upon which the Government should receive Interest

The largest deposit, if such it may be called, in the Banking Department is formed by the thirty-five million krones' worth of so-called unfunded notes. The intention in issuing them was to distribute them among the people, to be employed in exchanges. The distribution had to be effected by lending the notes, and this could not very well be done from the Issue Department, which prepared the notes; for that department does not concern itself with banking business. The distribution required the intervention of some one who lends money, that is to say, the assistance of a bank. The Issue Department accordingly had the thirty-five million krones in notes paid into the Banking Department, which should be imagined as occupying another building, or even in another town, although in reality they are under one roof, under the guidance of one manager. The Banking Department received the thirty-five million krones' worth of so-called unfunded notes as a kind of permanent deposit.

For this deposit of thirty-five million krones, the Banking Department must pay interest to the Issue Department as depositor, which, in its turn, makes over the interest thus received to its ostensible owner, the Government At a rate of interest of 2 per cent. the Government should receive through its Issue Department 700,000 krones in yearly interest on the deposit. The calculation is not based, however, upon a definite amount of interest ; but in its place the Issue Department receives on behalf of the Government a share of the profits of the Banking Department, this share, according to the bank return for 1901, amounting to about 500,000 krones for the previous year, 1900. In addition to this, the Issue Department receives compensation from the Banking Department for its expenses in connexion with the storing of the gold and the printing of the notes, an expenditure which is properly chargeable to the Government or its representative, the Issue Department. This expenditure as a rule amounts to a comparatively small sum, owing to the custom which obtains in both the departments of sending out again old notes that have come in, as long as they are not torn or very much soiled. If the Banking Department were immediately to send back old notes that they have received to the Issue Department to be exchanged for new notes, and if the Issue Department always gave new notes for gold brought in, the printing expenses would be greatly increased. But as we have said, whether the expenses are small or great, the Issue Department, which has temporarily defrayed them, is entitled to have them made good by the Banking Department, besides receiving its share of the profits.

As opposed to this fictitious deposit of thirty-five million krones in notes, the actual deposits amounted on December 31, 1901, to only $8\frac{4}{10}$ million krones. The reason why the amount was so small is that the Bank of Norway pays nothing for deposits, and therefore most people are accustomed to use other banks that pay them interest.

§ 157. The Profits of the Banking Department

It is as well to repeat that the Issue Department of the Bank of Norway makes nothing beyond what it receives from the Banking Department to give to its supposed owner, the Government. For the year 1900 this was 500,000 krones. It is only the Banking Department that makes profits in the Bank of Norway.

This department lends the greater part of its paid-up capital, reserve fund and deposits, among which are the thirty-five million krones' worth of so-called unfunded notes, to various borrowers, to be used by them for various purposes. Manufacturers, agriculturists and traders desire trading capital, which they do not possess. Others wish to acquire older objects, or intend to purchase saved products in order to transform them into permanent objects. They all need notes that can be exchanged for gold, since, with the notes in their possession, they can obtain in return for them what they require for their purpose. There are few, however, who own a sufficiency of notes to effect this.

It is to such persons that the Banking Department of the Bank of Norway lends its notes. In return the borrowers pledge themselves to give a part of their share of the year's production to the Banking Department as interest, and to repay the lenders with notes as they become due.

The borrowers do not pay the interest in kind, but with notes that are entitled to repurchase their equivalent in products from the year's production in the hands of the mercantile class. Thus, to say that the Banking Department receives, let us suppose, 5 per cent. interest on fifty million krones in notes lent, means that for the service rendered to the borrowers, the latter make it the owner of products worth two and a half million krones in gold.

Some of these products the Banking Department saves, and by these savings the reserve fund is formed, of which we shall say more presently. The rest of the products are distributed in various directions, principally to the employés of the bank for their work, and to the Issue Department to be given to its ostensible owner, the Government. The products that are left are given to the Banking Department's shareholders as dividends on their shares. Just as the Banking Department itself received interest in the form of notes and not products, so its distributions are made with notes, leaving those who receive them to repurchase from the year's production what each requires.

§ 158. Increase of the Paid-up Capital

The paid-up capital of the Bank of Norway has increased in course of time. From eight million krones in 1816 it had risen to fifteen and a half millions at the close of 1901, and may be still further increased to twenty-five million krones if the board see fit.

What does this increase of the capital really mean? Does it mean that the shareholders of the Bank of Norway, in addition to the eight million krones from 1816, have further paid in seven and a half million krones in gold to the Issue Department of the bank, enabling it, upon the basis of their metallic payments, to issue fifteen and a half million krones in notes in 1901, as against notes for eight million krones in 1816? In other words—has the augmentation of the paid-up capital of the Bank of Norway had the effect of increasing the ability of the Issue Department to issue bank-notes?

If the shareholders in exchange for the shares brought to the Bank of Norway either gold ornaments, or imported gold bar, or foreign coined gold, the Issue Department would undoubtedly have been able to issue new notes on the basis of this gold, and deliver them to the Banking Department to form the increased capital and to be sent out as loans to the people. If this form had been adopted for the payment of new subscribed capital it would certainly have resulted in an increased ability on the part of the Issue Department to print and circulate fresh notes. The country's demand for more notes, if such a claim existed, would have been satisfied by the augmentation of the paid-up capital.

It was, however, only at the opening of the bank in 1816 that the shareholders paid for their shares with metal. At subsequent augmentations of the paid-up capital of the Bank of Norway shareholders have given notes in exchange for the new shares—notes taken from the mass circulating in the country.

Will this form of payment also occasion an increase in the quantity of notes? This depends upon the manner in which the notes paid are employed.

The Banking Department which hands over the shares and receives the notes in payment can with these buy from the Norwegian exporters certain foreign claims, and on their becoming due bring the gold to Norway, hand it in to its neighbour, the Issue Department, and receive in return newly issued notes.

By using the notes in order to acquire foreign claims, the bank classes itself with those whom we have called the bringers of gold to the Issue Department, and for the time being becomes one of them. If the Banking Department proceeds in this way, an increase in the country's gold and bank-notes will in this case have resulted from the augmentation of the paid-up capital of the Bank of Norway. In passing, it may be said that by choosing this method of procedure, the bank withdraws some Norwegian saved products from transformation into permanent objects, but has them exchanged for foreign gold, adding this gold to the accumulated products of the country. If, to take an instance, there is some saved timber in Norway, it would be natural to exchange it for foreign products, and then in Norway transform the whole into permanent objects. In the meantime the Bank of Norway raises its paid-up capital, and requires the amount of the shares taken to be paid in old, circulating notes. The saved Norwegian timber sent abroad has there been exchanged for repurchasing foreign gold. Now the Norwegian importers should have obtained possession of this gold, purchased foreign products with it, and imported them to Norway to be transformed; but instead of this, the Bank of Norway obtains the gold by acquiring the Norwegian timber-exporters' claims abroad in exchange for the above-mentioned notes. The Bank of Norway does not repurchase the foreign products, but prefers to take the gold to Norway. If the foreign country wishes to have its lost gold made good, the un-purchased foreign goods must be sold to a gold-producing country for newly found gold.

Another expedient of the Banking Department is to lend the notes received for the new shares; that is, refrain from buying foreign claims. Assuming this to be the case, the new subscription of shares in the Bank of Norway will have no influence upon the size of the country's store of gold and notes. They will both be the same after the subscription as they were before it. The taking of new shares in the Bank of Norway will in this case merely transfer existing notes from the shareholders' pockets or banks to the Banking Department of the Bank of Norway. Whereas it formerly depended upon the shareholders or their bankers how these notes were to be used or lent, this right, by the taking of shares, was transferred to the Banking Department of the Bank of Norway. It is this department that can now lend the notes.

A slight weakening of the lending-power of the other banks and a corresponding strengthening of that power in the Banking Department, would in that case be the only effect of the increase of the paid-in capital of the Bank of Norway.

§ 159. THE RESERVE FUND

The reserve fund of the Banking Department must not be confounded with that department's reserve. They are two different things.

By the close of 1901, partly through persons bringing in gold to exchange for notes, partly through the Banking Department, the Issue Department of the Bank of Norway had let notes for $75\frac{2}{10}$ million krones pass into circulation. Of these notes the other department, called the Banking Department, owned $12\frac{7}{10}$ million krones' worth, which lay unemployed in its safe. It is this store that is called reserve.

By the reserve fund is understood something quite different. The Banking Department, or, to designate it by another expression, the shareholders in the Bank of Norway, lend notes exchangeable for gold in the vaults of the Issue Department, and for the assistance they rendered may claim of the borrowers the transfer of part of their share of the year's production as interest. The transfer is effected by the Banking Department receiving from the borrowers notes entitled to purchase their equivalent in products. Some of these notes the Banking Department will retain, that is to say not use for the purchase of products, but on the other hand save the products. The Banking Department's savings for the first year formed the beginning of the reserve fund. An endeavour is made to repeat this as far as possible every year. It is customary to add annually a fresh saved amount to the reserve fund, which is therefore steadily growing, and on December 31, 1901, amounted to $7\frac{9}{10}$ million krones. The Banking Department at the same time possessed some other saved amounts that had a certain resemblance to the reserve fund, but stand on separate accounts.

It depends upon the manner in which the reserve fund is employed, whether its existence is to occasion an increase in the country's gold and circulating notes. On this point, reference is directed for the most part to the latter part of the preceding paragraph. If the Banking Department uses the retained notes for the purpose of purchasing Norwegian products to be exchanged abroad for gold, or—to express it somewhat differently—if the Banking Department employs the notes in order to acquire claims abroad, an increase will take place in the Issue Department's gold and circulating notes.

If, on the other hand, the Banking Department lends the notes it has retained, the gold and the quantity of notes remain unchanged. It may be remarked in this connexion that the first loan of amounts newly come into the reserve fund ought properly, on account of the repurchasing nature of the notes, to be granted to transformers to be used in the repurchase and transformation of the saved products of the Banking Department. It oftens happens, however, that the notes are lent to persons who acquire with them older objects or other things, in which case the Banking Department's saved products must be repurchased with ordinary gold by any one who may need them.

Where is the reserve fund of the Banking Department to be found? It is lent in the manner explained towards the end of § 137 in the case of the deposit of twenty-five millions belonging to the bank there spoken of—namely, partly to serve the borrowers as trading capital, partly for the acquisition of older objects, and partly to transformers. In all the things that the borrowers have obtained by the aid of loans from the reserve fund the Banking Department possesses a kind of secondary right. The reserve fund of $7\frac{9}{10}$ million krones means that a number of persons have borrowed from the Banking Department $7\frac{9}{10}$ million krones' worth of notes exchangeable for gold in the vaults of the Issue Department, and with them have acquired either the Banking Department's saved products for transformation, or other goods and permanent objects in which the Banking Department may be said in a sense to possess a tacit security. These objects are subject to a never-ceasing renewal; every day some go out but are replaced by other new objects that come in.

It may be remarked in passing that the Banking Department has a similar security for its lent capital and for the lent thirty-five million krones' worth of unfunded notes and other deposits.

§ 160. Who owns the Gold in the Vaults of the Issue Department?

At the close of 1901, there lay in the vaults of the Issue

Department $40\frac{2}{10}$ million krones in gold, while $75\frac{2}{10}$ million krones in notes were given out. As the owners of the notes could claim to have them exchanged for gold, the gold in reality belongs to them. The Banking Department, which possessed $12\frac{7}{10}$ million krones in notes, and the people with their $62\frac{5}{10}$ million krones' worth of notes, can claim the gold on the Issue Department. Are not they then also the owners of the gold ? Does not the gold belong to them in the proportion of 75 to 40, so that each holder of 75 krones in notes can be put down as owner of 40 krones in the gold in the vaults of the Issue Department ?

Theoretically yes, judged from the point of view of fairness, but not legally. The Issue Department is under no obligation to distribute the gold in the manner indicated, when the notes are presented for payment. It is not obliged to give 40 krones in gold in exchange for each amount of 75 krones in notes shown. Far from this being the case, the Issue Department must even pay full value for the notes, as far as the gold will go. For this reason alone the theory put forward is untenable, but other reasons may also be adduced.

Even if it were possible by law to establish the bank of issue as two separate companies, as, in order to be the more easily understood, we have supposed them to be in the preceding pages, this mode of procedure is not followed in practice. The two departments generally form a single company, carrying on their business in common. In theory, the Issue Department with its vaults full of gold should belong to the Government, in order to be used in the manner described above, while the Banking Department was owned by the shareholders. In reality, however, it is to the last-named that both the Banking Department and the Issue Department belong. The consequence of this is that if a bank of issue failed, both the Banking Department's assets and the Issue Department's gold would have to go into the estate to be divided among the creditors. These last would consist of various persons who had made deposits in the Banking Department. The Government could not, however, be reckoned among the depositors in the case of a bankruptcy for the thirty-five million krones so-called unfunded notes deposited in the Banking Department by the Issue Department on behalf of the Government. On the other hand, if, in the case of bankruptcy, the payment of gold for notes was refused, the owners of notes would presumably be able to claim to be considered as creditors, and receive a share in the bankrupt bank of issue's assets.

To recapitulate—the gold intended to cover the notes is owned by the bank of issue itself and not by the holders of notes.

The bank of issue's opportunities of using this gold, however, are very much restricted. The bank of issue cannot dispose of the gold with the perfect freedom of an owner, and cannot, for instance, employ the gold for the purchase of land or other objects. There is only one object to which the bank of issue can give out the gold; it is allowed and enjoined to pay the gold to holders of notes who wish to have them redeemed; but it is forbidden to make any other payment with the gold.

§ 161. THE RELATION OF THE BANKING DEPARTMENT TO THE NOTES

Both the Banking Department and the private persons mentioned in § 152 stand in a two-fold relation to the seventy-five million krones in notes that formed the bulk of the country's supply of notes at the close of 1901

Together they undertake to set the seventy-five million krones' worth of notes in circulation, when their first concern with the notes ceases. What they subsequently have to do with the seventy-five million krones' worth of notes is of the same nature as in the case of the rest of the population, and dates from the point of time when they had completed their task of putting into circulation the various new amounts of notes with which the country's supply of notes gradually increased from about sixteen millions in 1816 to seventy-five millions in 1901.

As regards the Banking Department in particular, with its 43-million-krone portion of the 75 million krones in notes, its relation to those 75 million krones, after having accomplished their first task, is exactly the same as that of any one else in the country.

Just as any person or any company in the country can become the temporary owner of notes belonging to the 75-million-krone supply, so can the Banking Department. After having been the first to own and put into circulation 43 out of the 75 millions, the Banking Department has frequently become the temporary owner of notes belonging to the 75-million-krone supply, indeed of the identical notes. Take a single 5-krone note—whether originally put into circulation by the Banking Department or by one of the private persons mentioned in § 152 is immaterial. A note such as this may change hands on an average three times a day, which means 1,500 transfers from one owner to another in the course of a year. Every 5-krone note has its series of owners, forming a heterogeneous collection of savers, borrowers and purchasers. A few of them will be found in several places in the series, provided that by the force of circumstances the note returned several times to the ownership of the same person or company. In the series of owners through which the 5-krone note passes, the Banking Department of the Bank of Norway may be found a greater or smaller number of times. If the note originally belonged to the 43 millions, the Banking Department first became its owner on its being sent from the Issue Department. If, on the other hand, the Issue Department originally gave the 5-krone note to one of the bringers of the 32 million krones' worth of foreign gold, the Banking Department will first become the owner of the note, if, in the course of time, it is paid into the Banking Department by its owner for the time being. When the 5-krone note, no matter in which of the two ways it has come in, is then again lent by the Banking Department, the latter disappears from the ranks of owners. When the Banking Department subsequently has the loan paid back, and thereupon pays out money to new loans, the 5-krone note may very well be among the bundles of notes used for that purpose. After the 5-krone note has passed through the hands of a number of owners, which is added to year by year, and among whom the Banking Department has a place from time to time, it will at last, as worn out, come to rest in the Banking Department, whence it is sent to the Issue Department to be exchanged for a new note to take the place of the one worn out. For besides printing notes to increase the note-circulation when this is allowed, the Issue Department also issues new notes to replace the worn-out ones. It is for one of these latter that the worn-out 5-krone note in question will be exchanged.

§ 162. The Circulation of the Notes must not be Impeded

The exchange of notes for objects and claims of great value takes place daily throughout the community. It is not an impossibility for the exchanges on a single day to reach, let us say, 100 million krones. One hundred million krones in notes would then be required on such a day, but there are only 75 millions. In order that the exchanges under these circumstances may take place without hindrance, the 75 million krones in notes must be daily used in turn by several persons, or at any rate partly used several times a day. As the notes are thus daily needed by several persons, no large part of them must be monopolized by one. Every large user of notes must as far as possible divide his requirements for a given space of time in such a manner as to use some notes every day, and avoid concentrating large payments that are to be made to him for simultaneous settlement.

The above remarks are specially applicable to banks which are the largest users of notes. Among banks again, the Banking Department of the bank of issue occupies the principal place. The Banking Department must therefore also give its attention to the division of its payments and receipts. If it has the disposal of 60 million krones in notes, the payment of this money cannot be made in one sum each time the Banking Department lends the money, and each time the loans are subsequently repaid. The impossibility of this is clear. There are only 75 million krones in notes, and of these it is impossible for the Banking Department on one day to possess 60 millions. The Banking Department must, therefore, like any other bank, so arrange that the paying out of money in loans and its repayment are divided over the whole year in more or less equal daily portions. If the Banking Department daily lends one million krones in notes for two months, in the course of sixty days the sixty million krones in notes will be lent. On and after the sixtieth day, an old loan will daily be repaid with one million krones in notes each time, thus supplying the Banking Department with notes for new loans. By some such arrangement, the Banking Department will have all its sixty millions lent, while at the same time only a moderate demand is made upon the circulating 75 million krones in notes, for an amount of no more than one million krones can, without difficulty, be spared from the rest of the circulation to satisfy the Banking Department's daily need of notes for lending.

§ 163. How has the Banking Department of the Bank of Issue invested its Funds?

As explained above, the Banking Department has received eight million krones in notes as paid-up capital, and further, thirty-five million krones as a kind of Government deposit of notes issued without an equivalent in gold. In addition to these forty-three million krones in notes, the Banking Department has also received other amounts in notes for the augmentation of the share-capital, the formation of a reserve fund, and as ordinary deposits. These various sums form the original funds of the Banking Department.

The question as to the manner in which the Banking Department has invested these funds has already been briefly answered several times, but will here be more carefully investigated.

All who become possessed of notes from the 75 million krones in notes may do what they like with their notes. The shareholders, to whom the Banking Department of the bank of issue belongs, form theoretically no exception to this rule. They might direct the Banking Department to hide away their notes, but of course anything so absurd is out of the question, for the Banking Department's first duty is the very opposite of hiding the notes, and consisted in bringing them into circulation. Or, if the shareholders had allowed it, the Banking Department might have exchanged its notes for land. As it came into possession of its 8-million krone capital and its 35 million krones' worth of notes deposited by the Issue Department on behalf of the Government, the notes might have been immediately put into circulation by being employed for the purchase of estates. The Banking Department might subsequently have made a similar use of the notes that it saved from the interest and added to the reserve fund; it might have repurchased saved products with them, and transformed them into some permanent object or other, such as a factory or something of the kind. But in this case the Banking Department would have become the owner of property for, let us say, 60 million krones, and have had nothing further to do with a corresponding amount out of the circulating 75 million krones in notes, a condition of affairs that is not in accordance with the aim of the Banking Department.

Instead of hiding away the notes, or exchanging them for real property, the Banking Department lends its notes. After having possessed the notes for a short time, it lets them go to the borrowers, and now possesses claims upon the borrowers, with a secondary right in the objects they have purchased with the borrowed notes. When the borrowed money is repaid after a time, the Banking Department once more for a short time becomes the owner of notes taken from the 75 million krones' worth in circulation, and then again lends them as before. This goes on incessantly. The Banking Department has both its own and its foreign funds alternately invested in notes taken from the 75 million krones in circulation, and in secondary rights. Its ownership of the notes is always of short duration, whereas its funds are almost continually invested in secondary titles to the objects owned by the borrowers.

The main point in this manner of investing funds is that the Banking Department never permanently parts with its notes. If it exchanged all the notes it received for real property, it would have permanently lost the notes, at any rate until it once more sold the real property; but by lending them it loses them only for a time. When the loan becomes due, it is the borrower's duty to procure an equivalent amount in notes, and pay them to the Banking Department, which now once more finds itself in possession of notes, and able to acquire things in exchange for the notes. If the Banking Department to-day owns a million of the 75 million krones' worth of notes in circulation, it does not buy estates for one million krones, and lose the notes for all time; but it lends the one million krones in notes on a secondary security in the things bought by the borrower with the notes. In the course of a few months the borrowers will have to procure from the 75 million krones' worth of notes in circulation the sum of one million, and hand it to the Banking Department. This institution, finding itself once more the possessor of one million krones in notes, has it once more in its power either to exchange the notes for things such as land, or to lend them. It chooses the latter. The result of the second loan will be the same as that of the first, with the one difference that the former borrowers and secondary rights have been replaced by new borrowers and new secondary rights. A fraction of the Banking Department's funds, amounting to one miillon krones, has been invested in new claims secured by new secondary securities. Persons and securities change, but there is permanence, if with short intervals, in the Banking Department's ownership of secondary titles to objects. During the intervals the funds of the Banking Department are represented by notes taken from the people's 75 million krones in notes.

The Banking Department's employment of its funds as here described, differs in no respect from the manner in which other banks employ their notes. They all become possessors of notes. When this has taken place, they retain the notes for a short time and then lend them on a secondary security in the things the borrower has purchased with the notes. In comparing the banks with the other inhabitants, it will be found that the former have more to do with the notes than the latter. This is due to the fact that the banks lend their notes, and therefore only lose them for a time, after which they come back to the banks; whereas as soon as the other inhabitants have received notes, they will exchange them for objects and part permanently with the notes.

It is not only notes which flow into the Banking Department and temporarily constitute its funds. Token coins and gold—the latter provided it circulates among the inhabitants of the country—find their way to the Banking Department. What has just been said about bank-notes is also applicable to the token currency and the circulating gold. The metal will temporarily represent a part of the funds of the Banking Department, to be exchanged the next moment for claims upon borrowers, backed by secondary securities in the borrower's property.

§ 164. Some Figures from the Balance-Sheet of the Banking Department

In the account of the Bank of Norway, no distinction is made between the two business branches of the bank. In the account, and presumably in the offices of the bank, the two are mixed together. As far as I am aware, work, some of which has to do with the storing of the gold and the printing of notes, and some comes under banking business, is all done in the same room and by the same persons. The division into an Issue Department and a Banking Department, as far as the Norwegian bank of issue is concerned, is therefore purely arbitrary and resorted to only in order to make the relations of the bank to its own notes more easy of comprehension.

By taking, however, out of the balance-sheet, of which a copy was given above, the various figures that are more or less concerned with the actual banking business of the Bank of Norway, it will be found that the fictitious Banking Department possessed at the close of 1901—

15·5	million krones' worth of	paid-up capital;
35·0	" " " "	so-called unfunded notes, deposited as a separate deposit from the Government by its agent, the Issue Department,
8·4	" " " "	other deposits;
7·9	" " " "	reserve fund;
2·2	" " " "	funds not distributed;

Total 69·0 million krones,

to which must be added some other temporary savings which, however, may be disregarded in this place.

How are these figures to be understood? The Banking Department on several occasions has become the owner of a total of 69 million krones of the country's 75-million-krone stock of notes, not all at once, but gradually. In § 152 it was explained that 43 million krones in notes were put in circulation by the aid of the Banking Department, which, for this purpose, from 1816 up to about the close of the century, received by degrees the 43 million krones in notes from the Issue Department. In this way the Banking Department of the Bank of Norway became the original owner of 43 million krones in notes, which, however, it did not retain, but exchanged for claims upon borrowers, or, as it is called, for secondary rights to the borrowers' property. It has happened time after time since then that the Banking Department has once more got back 43 million krones in notes taken from the amount in circulation, only to exchange them again for claims upon borrowers. In addition to these 43 million krones in notes, the Banking Department has gradually also become the temporary owner of other 26 million krones in notes from those in circulation, these 26 millions together with the 43 millions constituting the 69 million krones to which, according to the above calculation, its various funds amounted to. The payment of the 26 million krones was made by the shareholders to increase the paid-up capital by the depositors, and lastly by the borrowers in the shape of interest. The Banking Department employed the 26 million krones in the same way as the 43 million krones, that is to say, in 1901 it had paid 69 million krones in notes towards the acquiring of claims upon borrowers.

Neither the paying in nor the paying out of the whole of the Banking Department's 69 million krones in notes took place on one day, but was divided over a long period, only comparatively small amounts being paid daily. If we imagine, however, that the whole of the 69 million krones in notes came in and went out on one day, they would form, after being paid in, the funds of the Banking Department, both its own and those entrusted to its keeping. The Banking Department did not wish, however, always to have its 69 million krones invested in notes. It wished to have its funds invested in some other way, but not in land or things like that. It did not buy land for its 69 million krones in notes, but lent the notes to borrowers upon a secondary right in the things they acquired with the 69 million krones' worth of borrowed notes, and upon their promise of speedy repayment. The Banking Department's funds, amounting to 69 million krones, now consisted of the secondary right to things. But these funds once more disappeared upon the repayment of the borrowed money, and were again replaced by funds consisting of 69 million krones in notes, though not permanently ; for the Banking Department soon lent the 69 million krones in notes again on the same conditions as before. In this manner it has since always been continued. The Banking Department at one time has its funds invested in notes, and at another, when the notes are gone, in a secondary right to the things for which the borrowers paid 69 million krones.

As we have said, the payment into the Banking Department of the whole of the 69 million krones at once was only a fiction. In reality, the Banking Department received its 69 million krones in notes little by little, and also lent them little by little. In this way the repayment of old loans and the paying out of new loans is continued. The consequence of this is that the Banking Department's funds never on any day consist of 69 million krones in notes, and on the following day of claims to the amount of 69 million krones. In reality, a few millions of its funds are daily placed in notes, and many millions in claims. The size of the two objects of wealth may vary. One day the Banking Department owns perhaps nine millions out of the country's 75 million krones in notes, and 60 million krones in claims; while a few days later, its funds are perhaps formed of 15 millions in notes and 54 millions in claims. Sometimes the Banking Department possesses few notes and many claims but at other times more notes and fewer claims. On December 31, 1901, the Banking Department possessed—

(*a*) 12·7 million krones out of the 75 million krones' worth of notes in circulation,
(*b*) 56·3 million krones in claims upon borrowers, with a secondary right in the borrowers' things,

Total 69 million krones.

The 56·3 million krones were invested as follows:—

42·8 million in discounts,
7·3 million in foreign securities,
4·2 million in mortgage-bonds,
2·0 million in advances on cash-credits granted both upon personal security and upon the security of public funds.

56·3 mil.

Within a few days later the proportion would certainly be altered. A partial repayment of the 56·3 million krones lent had taken place, for which the borrowers used notes taken from those in circulation in the country. In this way one of the Banking Department's objects of wealth, namely the notes, increased while the other decreased. But at the same time new loans were granted, which had the opposite effect. In any case the two amounts, $12\frac{7}{10}$ and $56\frac{3}{10}$ million krones, presented a somewhat different appearance at the end of these few days. At the same time the secondary rights in things underwent another change, inasmuch as they were partly exchanged for new rights.

§ 165. Notes issued without Equivalent in Gold in the Vaults of the Bank of Issue, are quite as good as other Notes

At the end of 1901 the Issue Department of the Bank of Norway had $40\frac{2}{10}$ million krones in gold in its vaults, but had issued bank-notes to the amount of $75\frac{2}{10}$ million krones, that is to say 35 million krones' worth more notes than gold. In everyday language the 35 million krones' worth of notes are called unfunded. This term, however, is not literally applicable; the 35 million krones in notes have just as good a foundation as the remaining $40\frac{2}{10}$ million krones in notes. The whole of the $75\frac{2}{10}$ million krones in notes are based upon the $40\frac{2}{10}$ million krones in gold in the vaults of the Bank of Norway. Every note bears upon its face the intimation that it can be exchanged for gold in the Issue Department. The notes accordingly do not differ in appearance ; there are not two kinds, the one professing to be better than the other. They differ in size only, being in other respects exactly alike, and representing amounts of 5, 10, 50, 100, 500 and 1,000 krones.

§ 166. THE NOTE IS NOT A MEDIUM OF EXCHANGE. ONLY GOLD AND SILVER ACT IN THAT CAPACITY.

Every one who sells or produces anything, consciously or unconsciously, expects to receive gold in exchange. People have become accustomed, however, to take paper called bank-notes in payment instead of gold. In Norway this is always the case, but there are countries where both methods are employed. When the seller or the producer readily takes the notes in exchange, although considered as paper they are worthless, he does so because just this kind of paper can be exchanged for gold in the vaults of the Issue Department. Although he has apparently given up his valuable article or product for paper, he has in reality received gold for what he brought, but leaves the gold lying in its depository in the Issue Department. The principle of only selling in return for gold has not been departed from by his acceptance of notes as payment.

Since, therefore, gold—or silver in countries with a silver standard—must be regarded as the only medium of exchange, more gold—or silver—must be procured if it is desired to increase the medium of exchange. An increase in the country's medium of exchange can take place in no other way, and certainly not by allowing the bank of issue to issue notes for a sum exceeding the amount of gold in its vaults.

§ 167. BY ISSUING NOTES FOR A LARGER AMOUNT THAN THAT OF THE GOLD THEY REPRESENT, THE BUYING CAPACITY OF THE GOLD IS INCREASED

The fact that the bank of issue is allowed to issue notes beyond the amount of gold in its vaults has another advantage; it makes the purchasing power of the existing gold more capable of utilization. In Norway, by the end of 1901, the system of note-issuing employed had practically doubled the efficiency of the $40\frac{2}{10}$ million krones in gold. The correctness of this will appear if we imagine the inhabitants of the country on the last day of the year in question divided into four equal groups, two selling and two buying. One of the selling groups wished to sell things for $40\frac{2}{10}$ million krones, and the other has the same wish, so that together there are things to be sold for $80\frac{4}{10}$ million krones. The two groups of buyers intended to take over these things, each receiving articles to the value of $40\frac{2}{10}$ million krones.

Now if notes were unknown in the country, and the supply of gold on December 31, 1901, amounted in all to the $40\frac{2}{10}$ million krones existing on December 31, 1901, it may further be imagined to belong to the first buyer, whence it would follow that the second buyer possessed no gold on that day. By the aid of his gold the first buyer can now bring his business to a close; but on account of the lack of the medium of exchange the second buyer and seller will be unable to do so.

The case would be different if the $40\frac{2}{10}$ million krones in gold remain in the vaults of the Issue Department, and the $75\frac{2}{10}$ million krones in notes are used in paying for the above objects. In order to work with easier figures, we will imagine the Issue Department's privilege of issuing notes extended by some few millions, and getting rid of all fractions imagine the $75\frac{2}{10}$ million krones in notes raised to 80 millions, and 40 million krones in gold in the vaults. The 80 million krones in notes are supposed to belong to the two buyers, each having 40 millions.

The first buyer should then, properly speaking, with his 40 million krones in notes fetch his gold from the Issue Department in order to give it to the other party to the bargain in exchange for the 40 million krones' worth of commodities. He does not do this, however, but gives the notes themselves to the other party, the first seller. The latter willingly takes the notes instead of the gold, confident that the holders of the circulating notes for 80 million krones will only in exceptional cases avail themselves of the opportunity of exchanging notes for gold, and that there will thus always be an abundant supply of gold in the vaults of the Issue Department for him to change his newly-acquired 40 million krones in notes, if, contrary to the assumption, he should wish to have any of them changed. The second buyer with his 40 million krones in notes does the same with regard to the second seller.

Whereas the 40 million krones in gold, without the aid of the notes, would only have been able to pay for 40 million krones' worth of things, the same 40 million krones in gold, with the aid of notes for double that amount, have been enabled in the same space of time to pay for 80 million krones' worth of things.

The system has this disadvantage, namely, that with a note-circulation of double the amount of the supply of gold, each piece of gold in the vaults of the Issue Department theoretically always has two owners among the people, these owners using it simultaneously for the purchase of other objects. This circumstance, in the event of failing confidence, will cause the notes to fall in value; but for this anxiety to arise, either the bank of issue must long have suffered under exceedingly bad management, or the Government have depleted it of its gold.

§ 168. Notes issued by the Public Swedish Banks

In Sweden public banks have for many years issued notes, a privilege, however, which is soon to cease, and pass entirely into the hands of the State bank of issue, the State Bank of Sweden. Unlike many other banks of issue, the State Bank of Sweden is not a joint-stock bank, but belongs to the Swedish State.

According to the arrangement hitherto in force, the State bank alone has been obliged to keep gold in its vaults as foundation for its notes. The public banks resorted to other means in order to inspire confidence in their notes.

The public banks bought—

(*a*) easily realizable Swedish bonds issued by the State, corpoporations, or the public Mortgage Bank, and certain foreign Government securities, which always have more or less the same value on foreign exchanges.

(*b*) mortgage-bonds on Swedish country property at within half their rateable value, and on town property within half the insurance value, or other rateable value. At least half of the securities bought have to be of the kind mentioned under (*a*). The securities are handed by the bank to a representative of the Government, to be approved by him and taken into his keeping. Chiefly on the basis of these securities the public bank could then set about printing its own notes and bringing them into circulation. As a further security for the future owners of the notes, the shareholders of the bank undertake, with all their property, to be jointly and severally responsible for the bank's engagements. The bank might also, in addition to the above-mentioned securities, issue notes upon the basis of another security more particularly indicated in the law. But for the sake of brevity we will here leave this out of consideration, all the more as the majority of the notes were issued upon the basis of the above-mentioned securities.

Upon what are the bank-notes, issued in the manner here described, founded? Their foundation is apparently upon public bonds payable to the bearer and upon mortgage-bonds; but only apparently. If the seller of a town property has to do business with a purchaser who is willing to give him 100,000 krones in public bank-notes, the exchange of the town property for notes will take place without demur on the part of the former as these notes are universally accepted in Sweden. If, however, the reason is asked of the seller's willingness to part with his house in exchange for the 100,000 krones, it will immediately be clear that he does not do so from a consciousness that at the worst he can by the aid of the notes look to one of the bank's mortgages on town properties for that amount, with the prospect of becoming owner of the mortgage; for he cannot be supposed to have parted with his own town house in order possibly at some future time in this roundabout way to come into possession of another house. Take the case of a trader who sells 100,000 krones' worth of cotton to a manufacturer for 100,000 krones in notes. It was not his intention either to part with his cotton, only perhaps to be obliged to hold to the deposited security for the notes, and instead of owning the cotton become the owner of Swedish and foreign Government bonds or mortgages on Swedish properties.

Gold (silver) is the only medium of exchange of which civilized countries make use. When therefore the Swedish sellers of the town property and of the cotton parted with their property in exchange for 100,000 krones in Swedish public bank-notes, secured, they did so solely because, consciously or unconsciously, they took it for granted that they could at any time get these public bank-notes exchanged for gold. For the Swedish trader in particular, the possibility of exchange for gold may be of practical importance, if, owing to the balance of trade, there is no opportunity for him to buy Swedish claims on other countries so that he has to pay for his imported goods with the asistance of Swedish exported gold. In such a case it is of the greatest importance to him to be able to change the notes of the public bank into gold at the bank in question, in order to export the gold, or by paying back the notes into the bank, get the latter to send the gold for him.

The notes of the Swedish public banks can actually be exchanged for gold. Before we begin to examine the ways in which this is done, it may be advisable to give the following table :—

December 31, 1897.	Twenty-seven Public Banks	State Bank of Sweden	Total.
	Kr.	Kr.	Kr.
Gold	8,165,740	38,720,930	46,886,670
Total issue of Notes . . .	94,083,036	83,720,930	177,803,966
Notes in circulation . . .	72,202,751	68,840,183	141,042,934
Unemployed Notes . . .	21,880,285	14,880,747	36,761,032

As far as we can see from the bank abstract for December 31, 1897, from which the above figures are taken, the balance of trade with foreign countries at that time must have been on the side of Sweden, and as moreover the public notes, then as now, enjoyed general confidence, it would scarcely occur to any one at the close of 1897 to procure gold by the aid of their public notes. But let us now suppose that for some reason or other this had not been the case, and that there had been a rush of people to the public banks to get gold for their notes. It will be seen from the above table that public bank-notes to the value of $72\frac{2}{10}$ million krones were in circulation, and that the banks possessed a supply of gold amounting to $8\frac{2}{10}$ millions. The owners of such notes would therefore at first be able to get their notes exchanged for gold, if they so wished, from the store of gold belonging to the issuing bank itself. This would come to an end when the public banks had paid with gold $8\frac{2}{10}$ millions of the $72\frac{2}{10}$ million krones' worth of notes in circulation, as their supply of gold would then be exhausted. There were still 64 million krones of their notes in circulation. As no gold will be found in the public banks on the presentation of any of these remaining 64 million krones, the bank must procure gold for their payment from the State Bank. In view of this contingency, each bank will certainly always know how at short notice it may obtain State bank-notes, which it exchanges for gold at the State bank, to be employed for the redemption of its own notes. But if the public bank should prove to be unable to obtain State bank notes, the holder of the public bank's notes would have to sell, according to law, the property of the bank and the shareholders for State bank-notes, from which would be taken what was necessary for the payment of the public bank-notes that he possessed. With the State bank-notes in his possession, he could then demand their exchange for gold at the State bank.

On closer examination, therefore, the State bank's $38\frac{7}{10}$ million krone supply of gold is not only the foundation of its own $83\frac{7}{10}$ million krones' worth of notes, but also of 64 million krones of the public banks' notes. In accordance with what has previously been explained, the gold in the vaults of the State bank will be transferred from one person to another, without appearing at all, and by letting State bank-notes pass between the two persons. But the same influence is also exerted upon the gold of the State bank, according to the above explanation, by the transfer from hand to hand of these public bank-notes—together amounting to 64 million krones on December 31, 1897—for the payment of which there is no gold in the issuing bank.

By according the public banks permission to issue notes, it has become possible for Sweden to utilize to a high degree the paying capability of her gold. If the country's supply of gold amounting to $46\frac{9}{10}$ million krones were to appear at the exchanges, it could, during a given period, pay for $46\frac{9}{10}$ million krones' worth of things. But by using the $177\frac{8}{10}$ million krones in notes, and letting the gold remain in the banks, the above-mentioned $46\frac{9}{10}$ million krones in gold could, during the same period, pay for $177\frac{8}{10}$ million krones' worth of things, or, if only the circulating notes are considered, for at any rate 141 million krones' worth of things. But on the other hand, the system is attended with some risk. The large amount in notes as against the small supply of gold might, for instance, during periods in which the balance of trade was unfavourable, have had an embarassing effect upon the country. It has, however, always worked well.

If the notes of the public banks had not existed in Sweden, the country would long since have been obliged to increase its store of gold. The State bank in that case would have been the only bank of issue. As foundation for the $177\frac{8}{10}$ million krones in notes existing in Sweden on December 31, 1897, the State bank, had it followed the rule then prevailing of issuing only 45 million krones' worth of notes more than the amount of its gold, must have possessed $132\frac{8}{10}$ million krones in gold, instead of the $46\frac{9}{10}$ millions which at that time formed the entire supply of the whole kingdom. It is probable that in such a case the 45 million krones' worth of uncovered notes would have been put considerably higher, and the State bank have obtained permission to issue far more than 45 millions' worth of such notes; but nevertheless its gold must have been considerably increased. Owing to the public banks' right to issue notes, the State bank has postponed the procuring of more gold. It might, for instance, have procured it in the course of years by putting by reserve funds and increasing its paid-up capital. With the notes paid in for this purpose, the State bank would have had to acquire saved Swedish products, and exchanged them abroad for gold to be added to the country's store of old objects, keeping the gold in its vaults to form a foundation for the notes. In consequence of the issuing of notes by the public banks, it has been possible to use the saved products in another way; they were converted into factories, ships, or other saved permanent objects. Now that the right of the public banks to issue notes ceases, an increase such as this in the supply of gold will be found necessary.

CHAPTER XXI

The Cheque

§ 169. What is a Cheque?

The wording of a filled-in cheque in its native country, England, is as follows:—

London, *January 31st,*

Mercantile and Commercial Bank,
London.
Pay F. G. Robertson, Esq., or Order
Twenty Pounds.

& C°

M. R Gibson.

Before M. R. Gibson can issue a cheque such as this, he deposits money in the Mercantile and Commercial Bank, requesting to be furnished with a book of cheque-forms. He then tears out a form, fills in the date, Mr. Robertson's name, and the amount in the various blank spaces, and signs his own name The rest of the text of the cheque is printed upon the form. With regard to the two oblique lines with "& Co." written between them, an explanation will be given in a subsequent paragraph

As will be seen, the issuer of the cheque addresses a request to the bank to pay out of his account a sum of money to the owner of the cheque. The cheque is therefore a deed of conveyance, by which a creditor transfers his notes or gold, lying in the bank's safe, to some one else.

§ 170. The Cheque is used for the Purpose of making Payments

The cheque is used as payment instead of money, principally in England and countries where English is spoken.

It is true that gold—in countries with a silver standard, silver—is the only medium of exchange ; but when nevertheless the seller is willing to give up his property or his production in return for a cheque, he is led to do so through a consciousness that the cheque can be exchanged for gold. The purchaser apparently pays him by the transfer of a claim upon a bank ; but in reality the seller receives his payment in gold ; for by presenting the cheque at the bank upon which it is drawn, he can have it changed into gold, or at any rate receive the amount for which it is made out in bank-notes that are exchangeable for gold in the vaults of the bank of issue. The bank upon which the cheque is drawn is bound to cash the cheque with gold or bank-notes when required, because the writer of the cheque has money to his credit in the bank, and can lay claim to some of the bank's notes for himself or for any one to whom he may transfer his right by cheque.

But say that the writer of the cheque had nothing to his credit in the bank ! In that case the cheque would be refused. The payee of the cheque would have obtained it in exchange for valuable consideration in the belief that he was to receive gold in return, but finds himself instead the possessor of a worthless piece of paper. The existence of such a possibility does not generally, however, deter the payee from taking the cheque as payment instead of money ; for when once the use of cheques has become a system anywhere, no sensible or honourable man will write a cheque upon his bank without having something to draw upon. To act contrary to this rule would be not only dishonourable but risky. The act of writing a cheque upon one's bank, and then giving it as payment, contains indeed a promise that the writer has money in the bank for the payment of the cheque. If it afterwards appears that there is no money, the writer of the cheque will thereby not only injure his credit, but run the risk of being called to account for fraudulent conduct. The necessity of having money in the bank when writing a cheque is such a self-evident thing, that no express affirmation of it made by the writer on the cheque itself is needful. Nor is this required in the English cheque-forms. The reason why it has nevertheless been required in certain countries, and the writer is made to declare in so many words on the cheque itself that he draws upon deposit, must be that it is considered advisable to remind the writer, whenever he draws a cheque, of his duty, as a guide for himself and an additional assurance for the payee.

§ 171. The Foundation for the Cheque

Just as the gold in the vaults of the bank of issue is the foundation for all the bank-notes issued, so is this same gold the foundation for all the cheques drawn.

At the close of 1901, the amount of gold coins in Norway was $40\frac{2}{10}$ million krones lying in the Bank of Norway. This amount was the foundation for about 75 million krones in bank-notes, and in the next place for all cheques that on that particular day had not been cashed by their respective banks. If, on that day, besides the $40\frac{2}{10}$ million krones in gold in the Issue Department's vaults, there were also gold in the coffers of those banks—which, however, can only have made up a trifling amount—this gold also served as foundation for the cheques drawn. In addition to the gold of the Issue Department, the small sums of gold in the other banks did duty as foundation for the cheques.

The reason why the gold of the bank of issue is the foundation for the cheques of the country is that an owner of a cheque, as mentioned in the preceding paragraph, by the aid of the cheque, can become possessed of gold in the bank of issue. He can let the bank on which the cheque is drawn cash the cheque in notes, and can afterwards require the notes changed into gold at the bank of issue.

§ 172. The Exchange of Cheques

In writing a cheque, the writer does not intend the person in whose favour it is drawn to require it cashed in notes and then exchange the notes for gold in the vaults of the bank of issue. On the contrary, the intention in using the cheque is to avoid as much as possible the use of notes and gold. In order to attain this end two rules must be observed: in the first place the owners of cheques must not present themselves at the banks on which they are drawn, but must each depute this duty to his own bank; and in the second place the banks, after having in this way during the course of the day become possessed of cheques, must exchange them with one another, not require them cashed by the banks on which they are drawn.

The banks in London were the first that made a system of the exchange of cheques (clearing-house). The period at which this took place, as far as I remember, is not known, but it was probably some time during the eighteenth century. Representatives from the banks meet daily at a common place of meeting called a clearing-house, each bringing with him all the cheques received since the last meeting, which they thereupon exchange. It is scarcely probable that the cheques brought from one bank drawn upon the other banks will together come to exactly the same number of pounds as the cheques drawn upon itself and brought by the representatives of the other banks amount to. If the bank on one day brings to the clearing-house cheques for £245,000, drawn upon the other banks, which on their side send cheques to the amount of £250,000, drawn upon the first bank, this last should pay the difference of £5,000 to the other banks. In reality, however, the bank pays the £5,000 by drawing cheques for this amount on the Bank of England, and giving them to the other banks. If the bank has nothing to draw upon, it must take £5,000 in notes out of its coffers, and send them to the Bank of England. Properly speaking, the bank, on the day in question, should have demanded from the other banks the payment of £245,000 in notes or gold, and at the same time have paid them £250,000 in notes or gold. All this bringing to and fro of large sums of money is avoided by the exchange of cheques at the clearing-house.

By an ingenious extension of the system, not only London cheques proper, but also a number of provincial cheques are exchanged at the London clearing-house ; but several English provincial towns have their own clearing-house, in which most of the local cheques are exchanged.

The exchange of cheques takes place in a similar manner in many other parts of the world, principally in countries in which English is spoken.

§ 173. Transfer of Money Due

In the preceding paragraph we spoke of the effect which the exchange of cheques has upon the banks upon which they are drawn. By exchanging, every bank avoids the necessity of paying in currency the greater number of the cheques drawn upon it, and at the same time renounces its claim to have its own cheques, drawn upon other banks, paid in currency. The cheques are exchanged, and only the difference is paid by the various banks in money.

The exchange also has its consequences for those from whom the banks receive the cheques. As the cheque is a deed of transfer, in which the claimant to the notes or gold lying in the bank upon which the cheque is drawn makes over his claim to another, the payee of cheques in a town with several banks often has money due to him at banks with which he has no concern. He might go round to the banks and have the money delivered to him by each one, but the exchange of cheques saves him this trouble. By the aid of the clearing-house, his claims upon strange banks, entitling him to demand a certain sum from their notes or gold, are transferred to his own bank, from which he has the right to demand the payment of a sum of money equal to the total amount of the cheques.

§ 174. The Crossing of Cheques

If a cheque is stolen or lost in the post, the person concerned runs the risk of having his cheque cashed by the unlawful bearer at the bank upon which it is drawn, when loss may ensue. There is, however, a very effectual remedy against this danger in the so-called crossing of the cheque. If a cheque is to be crossed, two parallel lines are drawn obliquely across the face of the cheque, and the words " & Co." written between them (see the cheque given at the beginning of this chapter, which has been crossed). When this is done, it is the duty of the bank upon which it is drawn to require that the cheque shall be presented through another bank, and to refuse to cash it if it is presented by any other than a bank. In consequence of this, the owner of a crossed cheque, or, if it falls into wrong hands, the finder or thief, cannot get it cashed except through his own or a friend's bank. But this will not be easy for a wrong-doer, as such persons and their friends are scarcely likely to have accounts at banks. The missing cheque will remain in his hands as worthless paper, owing to the crossing.

In addition to this protection against wrong-doers, the crossing of cheques also gives them the advantage of not requiring to be paid in cash, but to be set off one against another at the clearing-house with a saving of currency.

§ 175. The Cheque increases the Paying Capability of the Gold

Gold is the metal generally employed, at any rate in Europe, as the medium of exchange. In a previous chapter it was mentioned that there was not gold enough in the various countries, and that this want has been adjusted by issuing bank-notes for an amount exceeding that of the gold stored in the vaults of the bank of issue, in order to increase the paying capability of the gold.

But even this resource has not always proved sufficient. There are countries in which the existing gold even with the assistance of notes is only partially able to act as medium in the exchanges of older things, and also in exchanges occasioned by the distribution of the year's production. In order still further to increase the purchasing capacity of the gold, the employment of the cheque has been devised in addition to the bank-notes It was scarcely certain at its invention that it would have this effect.

In discussing bank-notes, some such imaginary case as the following was put. The population of Norway is divided into four groups, two of which separately wish to sell things worth forty million krones, or together worth eighty millions, to the remaining two groups. If one of the purchasing groups succeeds in becoming possessed of all the gold, the other purchasing group with the corresponding selling group must give up for the time being all thought of effecting an exchange If, on the other hand, the country determines to gather the forty million krones in gold into a bank of issue, founded for that purpose, and to issue bank-notes to the value of eighty million krones, with the right to be presented for payment with gold from this forty million krone supply, all parties would be benefited. Each of the two purchasing groups now procures forty million krones in notes, and with them purchases the things from the two selling groups, which, on their side, renounce their claim to receive eighty million krones in gold, and agree instead to take eighty million krones in notes. Their readiness to take paper instead of gold is easily explained. Each of them assumes that the other will not take the gold ; each reasons that if, contrary to expectation, it should require to handle gold, it will always, owing to the other's concurrence, be able with its notes to obtain from the bank of issue as much gold as it may require. On the strength of this assurance, it willingly takes notes instead of gold as payment.

By issuing eighty million krones in notes founded upon forty million krones in gold, this gold is enabled to perform double work. Its purchasing power is doubled. But it may happen (as indicated at the beginning of the paragraph) that even the resulting increased capacity of the gold is not enough. Instead of two groups, each desiring forty million krones in gold in order to buy from the rest of the population, there are perhaps four groups, each inspired with the same wish. The country possesses only forty million krones in gold upon which are issued eighty million krones in notes. These notes are sufficient for the requirements of only two purchasing groups; the other two, finding it impossible to procure a similar sum, will not be in a position to purchase.

One way out of the difficulty would be to increase the country's stock of gold, in order thus to increase the quantity of notes usable from say 80 to 160 million krones.

There exists, however, yet another way out of the difficulty, viz. the cheque. The bank-note in the above example doubled the purchasing capacity of the gold, the cheque too can double the purchasing capacity, and indeed more than double it. If gold and notes remain as before at the figures forty and eighty million krones respectively, but the cheque is used in addition to the notes, all four groups of purchasers may be enabled simultaneously to buy things worth together 160 million krones, in which case none of the groups will attempt to touch the forty million krones in gold in the vaults of the bank of issue.

Two of the four purchasing groups may be imagined now as before making use of the eighty million krones in notes.

The remaining two groups of purchasers, on the other hand, take out their cheque-books and write cheques for eighty million krones upon their banks, giving the cheques in payment for the desired commodities. It is true that the sellers will only part with their possessions in return for gold—eighty million krones in gold. By taking the cheques they do not, however, depart from this principle; for they know that they can have gold for their cheques in the vaults of the bank of issue It may be objected that there are only forty million krones in gold there, while the cheques are for eighty million krones. How, under these circumstances, can the sellers expect to receive eighty million krones in gold for the things they have sold? If every one required to have the gold in his hand, anything of the kind would be impossible. Most receivers of cheques, however, have no wish to have the gold paid to them; every one rests satisfied in the belief that very few will fetch their gold, and that if he himself, contrary to expectation, should need gold for his cheque, there would always be enough for the bank on which it is drawn to take from in the vaults of the bank of issue, with its store of forty million krones.

The eighty million krones in notes and the eighty million krones in cheques have together multiplied several times the purchasing power of the forty million krones in gold. If these forty million krones in gold had had to be present at the exchange of gold for other objects, only forty million krones' worth of such objects could have changed owners. By letting the gold remain in the vaults of the bank of issue, and transferring it from former to new owners, partly by the aid of notes, and partly by that of cheques, the forty million krone supply of gold is given simultaneously in payment to each of the four groups, each of which had things to sell to the value of forty million krones, together with 160 million krones in gold.

That an average of eighty million krones' worth of unpresented cheques should at any time exist in Norway, as indicated above, is only a hypothesis. In reality there are very few cheques in Norway. The people seem to be able to do with their circulating bank-notes. But if, in a land with forty million krones in gold in the vaults of the bank of issue, and a note-circulation of eighty million krones, an extensive employment of cheques had come about, the whole eighty million krones' worth of bank-notes would certainly never at any one point of time have been employed in the purchase of objects, while eighty million krones' worth of cheques was similarly employed in other quarters. If, at a given point of time, things to the value of 160 million krones were to be bought, these things in a country such as this would probably be paid for, the smaller number with notes, the greater number with cheques, since all the notes cannot be used for exchanges. A number of them would be in the possession of owners who will not willingly give them up. Among these owners may especially be mentioned banks which must always have notes in their tills in order to meet every claim. If thirty-five out of the eighty million krones in notes were in banks and in the possession of other owners who were unwilling to part with them, forty-five million krones in notes could be used for the above-mentioned purchase of 160 million krones' worth of articles. The remaining commodities must be paid for with 115 million krones in cheques. Instead of eighty millions in notes, and cheques for eighty millions, there were used in such a case forty-five million krones' worth of notes, and cheques for 115 million krones to effect these purchases.

§ 176. ARE THERE PAYMENTS IN WHICH ONE OF THE THREE METHODS, CHEQUES, GOLD, OR NOTES IS EMPLOYED IN PREFERENCE TO EITHER OF THE OTHER TWO?

In countries where the use of cheques has become widespread, most large and many small payments will probably be made by cheque. In the case of the former especially, the advantage of using cheques is evident, as both the risk and the expense of transmitting money are thereby avoided and the time spent in counting it is saved.

For smaller exchanges, token coins and also gold coins—if, in addition to the stationary gold in the bank of issue, there are gold coins circulating among the people—will probably be employed to a still greater extent than the cheque.

Even if the cheque is generally used by the people, the Banking Department of the bank of issue will nevertheless take every possible opportunity of fulfilling its obligations by paying out bank-notes.

The numerous bank-notes which, even in countries where cheques are used, have found their way out among the people, are used in various ways. As we have already pointed out, the banks must have a supply of notes in their tills. Further, there are perhaps certain transactions in the settlement of which, according to old custom, notes are preferred to cheques. It may also be that certain portions of a country, unlike the remainder, have not become quite used to the employment of cheques, and therefore require notes for their larger transactions.

For the rest, there will be a large number of transactions all over the country in which bank-notes, cheques, gold and token currency are used indiscriminately.

§ 177. COMPARISON BETWEEN THE BANK-NOTE AND THE CHEQUE

Both the bank-note and the cheque used for payments are based upon the gold in the vaults of the bank of issue, and increase the purchasing capacity of the gold. Concerning these points of similarity between the two, the reader is referred to the preceding paragraphs.

But against these points of resemblance between the bank-note and the cheque, there are points of dissimilarity. Only such an amount of bank-notes can be issued as the law allows. The bank of issue is permitted to issue as many notes as amount to the quantity of gold it has in its vaults, and further an amount the determination of whose limits is contained in the laws. There is not, and cannot be, any such rule with regard to cheques. The law cannot interfere in this matter, which is a private affair between the country's banks and their customers. There is a tacit agreement between them that cheques must only be drawn upon credits in banks. The sum of the cheques issued must not exceed the amount of the issuers' current accounts. This is the extreme limit to which the amount of cheques can rise. It never reaches this limit, however, for the depositors, from long experience, will never on any day draw cheques for more than a fraction of their accounts. This fraction may be large or small, its size depends upon the amount standing at the moment to the credit of the depositor, and upon the proportion of it required for payments.

The bank-note allows the gold to change hands without touching the gold The cheque manages to let not only the gold, but also the bank-notes, change hands without moving them from the safes of the banks.

A bank-note can be employed to effect a long series of payments There is nothing to prevent it passing from owner to owner year after year if it is carefully handled and not soiled or torn. A cheque, on the contrary, as a rule, does duty only once. After being paid by the drawer to the payee, it is generally paid by the latter into his bank, which immediately sends it to the clearing-house to be exchanged. This ends its short existence. There is, however, no prohibition to prevent the cheque passing from owner to owner; and it may therefore, if circumstances permit, pass through so many hands that it is at last worn out.

This is scarcely likely to happen, however. In the case of a crossed, and therefore non-negotiable cheque, it can of course never happen.

When the bank-note, either worn out or used, returns to the so-called issue department of the bank of issue, with a request from its owner for a new bank-note, the owner's wish can be complied with. The existence of the old note is continued, so to speak, in the new note. The gold in the vaults of the issue department, which the owner of the worn-out note was entitled to receive, is still at his disposal as owner of the new note. It is otherwise with the cheque. If a cheque that was once given out as a blank form by a bank, returns to that bank filled in, there can never be any question of issuing a cheque for the same amount in its place.

This follows from the different ways in which the two papers come into existence. The bank-note is issued by the bank of issue, which promises on it to pay to the holder of the note the amount it represents in gold. It is seldom that any demand is made to the bank of issue to fulfil its promise. The note passes from hand to hand, but no one makes use of the bank's promise to give him gold. Ultimately the note is worn out, but this circumstance does not release the bank of issue from its promise to pay the bearer of the note gold. The promise is renewed in a new note, which is given by the bank of issue to the owner of the worn-out note

The cheque, on the other hand, is not issued by a bank, but upon a bank. It owes its existence to a customer of the bank Like the bank-note, it contains a promise, although of another kind. The drawer of the cheque promises in that document to transfer to a third person a sum of money belonging to him in the bank But whereas the owner of a note never practically requires the fulfilment of the promise contained in the note, but passes on the note with its promise to the next owner, the owner of a cheque proceeds in a different manner By means of the clearing house he has his cheque paid immediately The drawer of the cheque has therewith fulfilled his promise, and there is no question of a renewal of the promise in a new cheque. We could only imagine such a request being addressed to him in the case of the cheque having passed from hand to hand without being presented for payment at the bank upon which it is drawn, until it is at last worn out. But this does not happen, and could not happen, because, for one reason, the drawer would be averse to a lengthened circulation of his cheque.

A bank-note received in payment gives the owner the right to require it exchanged for gold in the vaults of the bank of issue ; but it would be ineffective to present a cheque at the bank of issue, with a demand to have its amount paid out in gold. If a cheque is taken as payment, the receiver must in the first place apply to the bank upon which it is drawn, in order to get notes in return for the cheque, and will then go to the bank of issue for gold. It will thus be seen that whether the seller takes bank-notes or cheques as payment for his products and other objects, in both cases he has sold for gold. The only difference is that with bank-notes he can, if necessary, more quickly come into possession of the gold than is possible with a cheque.

§ 178. Transference as used in Germany (Giro)

Transference (Giro) has long been known in Hamburg, and from this town has lately spread all over Germany.

Like the cheque, transference permits of payments being made without the actual presence of the money at the time of paying.

The two parties may have accounts at the same bank, in which case the one who is to pay sends a written request to the bank to transfer the amount from his account to that of the creditor.

Or the two parties may have accounts in different banks, e.g. the Commersbank and the Vereinsbank, both in Hamburg. The payer then desires his bank, the Commersbank, to transfer the amount to the Vereinsbank, to be there entered to the account of the payee. If now the Commersbank on one day receives orders from its depositors to make 212 payments to depositors in the Vereinsbank, the former immediately has a list of these 212 amounts made by one of its clerks. Let us suppose that in the course of the same day the Vereinsbank has to pay on behalf of its customers 176 different amounts to depositors in the Commersbank, of which a similar list is prepared. These two lists are exchanged at noon to be entered in the various books. If the Commersbanks's list is, say, 10,000 reichsmarks larger than that of the Vereinsbank, the former draws a cheque for that amount upon the Hamburg branch of the Reichsbank and sends the cheque to the Vereinsbank.

Transference can also take place between two persons living in different German towns. In this case the German Reichsbank helps the process. A person in Hamburg who banks in the Commersbank has to pay 5,000 reichsmarks to a business man in Berlin who has an account in the Deutsche Bank in Berlin. The former therefore desires the Commersbank to transfer 5,000 marks to the Hamburg branch of the Reichsbank, requesting this last to cause the Reichsbank in Berlin to transfer the amount to the Deutsche Bank, there to be placed to the credit of the business-man in question.

It is principally by business-men that transference is employed. Unlike the cheque it is not adapted to every one's use.

§ 179. Loans granted by a Bank may be transferred to the Bank's Deposits

In addition to the ordinary or actual deposits that have frequently been mentioned in the foregoing pages, there is also a kind of fictitious deposit originating in the transfer of banks' loans to their deposits. The borrower borrows money of the bank, and immediately deposits it in the bank. As the notes in these two transactions do not leave the bank, the formality of letting the cashier of the bank hand the notes over the counter to the borrower to be paid back to the cashier the next moment as a deposit is dispensed with. A simple entry in the books of the bank is all that takes place, after which both the loans and the deposits of the bank have undergone an increase. As regards the latter, the actual deposits have been increased, in consequence of the transactions that have taken place, by a fictitious deposit.

These fictitious deposits resemble true deposits in that they increase the amount of the bank's deposits ; but in other respects there are differences between them. True deposits are first made by one person, and are then borrowed by another ; but in a fictitious deposit both transactions are performed by the same person and in the reverse order, the amount being first borrowed at the bank and then again deposited in the bank. A true deposit will moreover bring about an increase in the cash or reserve of the bank ; the fictitious deposit, made by the transfer of loans to deposits, does not increase either the cash or the reserve of the bank : it leaves them both unchanged

§ 180. To obtain an Increase, the Deposits must also be lent when Cheques are Employed

The results recorded in §§ 139–144 were based upon the exclusive use of money in all payments, but are also applicable in the main, if, in addition to money, the cheque is employed to a great extent in paying.

It was stated in § 140 that in order that the existing amount of deposits may increase, the deposits must be put out on loan. This had reference only to money; but the statement is also applicable where the cheque is used. When employing the cheque, the banks' deposits must also be lent, if they are to increase still more. The increase does not, however, take place in quite the same way in both cases.

In countries where there is an extensive use of cheques, the banks always have loans that are granted transferred to the deposits, as just explained, to be drawn by the borrowers by cheques. Where the cheque is unknown, a transfer such as this seldom takes place, the borrowers taking the borrowed money itself with them from the banks.

In the one case—that of the cheque—the loans will give to the true deposits an addition of fictitious deposits, but this fictitious growth disappears once more on the repayment of the loans, as will appear from what follows. In the second case, where money is exclusively employed, the loans seldom, if ever, occasion a fictitious growth such as this in the deposits.

In both cases more or less of the loans will subsequently pass into the possession of other persons, representing their savings or the purchase-money of older things that they have sold. Whether the cheque has been systematically introduced among the inhabitants of the country, or the inhabitants have kept solely to the use of money, these parts of the loans will be transferred to the banks as new actual deposits to be added to the old undiminished actual deposits. The increase in both cases is the same as regards amount. How this comes about when money only is used has already been explained (see § 140). The example there made use of may also serve with some alteration to illustrate the manner in which the rise takes place when the cheque is employed.

A bank lends £1,000 to a trader to be drawn out by cheques. By this transaction, the loans of the bank are increased by £1,000, and the deposits are also increased by a fictitious deposit of £1,000. If, before the loan, the deposits amounted to £1,000,000 after the loan they will rise to £1,001,000, in consequence of the fictitious deposit. As the borrowing trader does not take away the borrowed money but leaves it in the bank, the bank's supply of money will not, in spite of the loan, be diminished. Both the deposits and the loans are increased by £1,000, while no change has taken place in the bank's supply of money. The trader then uses his £1,000 to obtain from a producer products from the year's production, still without taking out the £1,000 he has borrowed and had transferred as a fictitious deposit to his account. Instead, he transfers his right of ownership in the £1,000 to the producer by drawing a cheque for £1,000 upon the bank, and giving the cheque to the producer. The drawing of the cheque will diminish the trader's deposits and increase those of the producer, but the actual amount of the deposits, recently risen to £1,001,000, remains unchanged. The producer will thereupon, also without removing the money from the bank, transfer by means of cheques his right of ownership in the greater part of the £1,000 to his assistants, supposing here, for the sake of convenience, that the producer does not prefer to take out money for such small payments to his assistants. These cheques will be handed in to the bank as deposits, and occasion new transfers from depositor to depositor, but will still leave the total amount of deposits, £1,001,000, undiminished.

When the trader's cheque for £1,000 is distributed, as just described, over the banking accounts of the producer and his assistants, the next step is that with their £1,000 in the bank the producer and his assistants repurchase the products, each choosing from the year's national production the products best suited to his wants. The producer and his assistants will not, however, use all the £1,000 for repurchase. They will save £100, and leave this £100 on their accounts ; they will let £100 out of their deposit of £1,000 remain in the bank They will make their repurchases with the remaining £900. They will not, however, take the £900 out of the bank to give to the trader, but will merely transfer their right of ownership in it to the trader, by drawing cheques for £900 and giving them to the trader

Up to the present there have only been repurchased products for £900 from the trader. He still has products for repurchase to the value of £100, which the producer and his assistants ought, properly speaking, to repurchase. But they will not use their last £100 for this purpose ; they leave the £100 in the bank, where the amount passes from the fictitious to the true deposits. The £100 is lent by the bank to a transformer to be drawn out by cheques. The loan of £100 given by the bank to the transformer is transferred as a fictitious deposit to the earlier deposits of the bank, which now, from £1,001,000, rise to £1,001,100. The £100 originally belonged to the £1,000 lent by the bank to the trader, as also to the fictitious deposit of £1,000 made by transferring the trader's loan to the deposits. Subsequently the £100, still without leaving the bank, belonged to the producer, and was then owned conjointly by the producer and his assistants, the right to the money being each time transferred by cheque from owner to owner, namely, from the trader to the producer, and from the producer to his assistants.

When the £100 originating from the trader, and kept as deposit in the bank by the succeeding owners, the producer and his assistants, has been lent by the bank to the transformer, the latter uses the £100 in the producer's and his assistants' stead, to repurchase the remaining products from the trader. Without taking the £100 out of the bank, the transformer transfers it to the trader by writing a cheque for £100 to his order, and thus giving him the transfer of the money in the bank. In addition to the cheques for £900 already received, the trader now possesses also a cheque for £100. His £1,000 worth of products have all been repurchased, even though the repurchasing gold itself has not been placed in his hands. Just as he on his side obtained products in exchange for money in the bank, which, without actually handling, he transferred by cheque to the producers, so the various persons repurchase the products in question from the trader with gold or notes in the bank, the money itself not being brought out, but transferred to him by cheques.

The trader, who has received cheques for £1,000 in all, pays with them his debt to the bank, which now gets back its right to the possession of the £1,000 that, in a way, it has taken care of for the trader, then the producer and his assistants, then the transformer, and finally the trader once more. The loans of the bank are lessened by £1,000, and likewise its deposits. As regards the latter, the cheque drawn by the transformer causes his deposit of £100 to disappear, while the cheques drawn by the producer and his assistants cause the deposits of those persons to fall from £1,000 to £900. With the handing in by the trader of the cheques for £1,000 in payment of his loan, the deposits fall from £1,001,100 to £1,000,100.

When the borrowed money to the amount of £1,000, as assumed in § 140, was taken from the bank by the borrower, we said that £100 of this amount returned to the bank as a new deposit added to the former, undiminished deposits, which were now increased by £100. According to the explanation now given, something of the kind also takes place when the borrowed money remains in the bank, so that the disposal of the loan and all subsequent payments are made by cheque ; but in that case it does not do to use the expression " return " in speaking of the £100, for the £100 has never left the bank. The circumstances here may most correctly be described by saying that the bank has lent £1,000 to the trader, which, during the period of the loan, is sometimes deposited and sometimes taken out—the last time in order to pay back the loan—without at any time leaving the bank. As a final result of all these transactions the deposits will exceed the withdrawals. This surplus, amounting to £100, belonged originally to the fictitious deposits, but has gone over to the true deposits, and represents the savings of the producer and his assistants, balanced by the bank's claim upon the transformer, and embodied in the object produced by the transformer by the aid of the saved products.

§ 181. The temporary Decrease in the Deposits occasioned by their withdrawal in Money is avoided when the Depositors dispose of the Deposits by Cheque

When the money itself is taken from the bank, the withdrawal of deposits occasions for the time a corresponding decrease in the deposits. But this decrease, as already explained in § 141, is only temporary, as the money, considering all the banks as one, is sooner or later redeposited by the next owners.

The withdrawal of deposits by cheque has not quite the same effect. The illustration already employed of the £1,000 that the trader is to take out by cheque has touched upon this matter. If he withdraws his deposit in the form of money, the bank's deposits suffer a decrease of £1,000. If, on the other hand, the withdrawal is made by the trader's writing a cheque to the order of the producer, who pays the cheque into his bank as a deposit, no temporary decrease in the deposits will take place. The cheque, it is true, will reduce the trader's deposits, but this reduction is balanced by the increase in the producer's deposits. There has been no temporary decrease in the deposits ; their total amount has throughout remained unchanged. If two banks are used, the deposits will indeed, owing to what has taken place, decrease in the trader's bank and increase in the producer's bank ; but considering the banks as a whole, the total of deposits will be the same after as they were before the withdrawal.

§ 182. A Permanent Decrease in the Deposits is occasioned by Withdrawal for the Payment of Debt to the Banks, whether the Withdrawer demands Money from the Bank, or draws a Cheque upon it

In the preceding paragraph, the withdrawal was assumed to be for the purpose of transferring the £1,000 in the bank to a third person, but without taking it out of the bank. But the withdrawal might also have taken place in order to pay a debt to the bank, as described in § 180. The cheques used for this purpose will cause a permanent decrease in the deposits. When the trader paid back the £1,000 he had borrowed with the cheques for £900 and £100 given him by the producer and others, £1,000 disappeared from the deposits of those persons. The deposits of the bank were reduced from £1,001,100 to £1,000,100.

§ 183. Cheques make the Deposits of the Banks somewhat larger than they would have been if Money only had been used

The increase in the deposits, occasioned by the lending of earlier deposits, takes its regular course whether money only is used or cheques largely in addition to money.

But even if the deposits, by means of loans, would thus have increased without the assistance of the cheque, it must on the other hand be owned that the cheque keeps them somewhat higher than they would have been if money only were used. In the first place, by using cheques, the temporary decrease in the deposits resulting from withdrawals in the form of money is avoided. Moreover, according to § 180, when the cheque is systematically employed, and all loans granted by the banks are transferred to the deposits, a regular addition will be made to the deposits of the banks equal to the sum to which the outstanding loans at any time amount. A transfer such as this may also, it is true, take place when the cheque is not used ; but without the cheque, or without the "Giro" mentioned in § 178, this treatment of loans would scarcely have found any application.

The cheque therefore, together with the "Giro," may be said to have occasioned the above-mentioned addition to the deposits.

There is still another way, not yet mentioned, in which an extensive use of the cheque will cause some addition to the deposits. As mentioned in § 139, the circulating money may be divided into two portions, one of which is deposited in the banks, while the other is always in the hands of the community, who never part with it. These two portions into which the country's money is divided must not, of course, be considered as two distinct amounts, of which the one never comes within, and the other never goes out of, the doors of the banks. On the contrary, probably every single coin in the land has been in the possession of a bank once or oftener. All that is meant is that the people will never at any given moment have all their money deposited in the banks, but only a portion of it. After beginning a systematic employment of the cheque, each inhabitant requires to have less money in his keeping them formerly. The fraction of the circulating money of which the people themselves always take charge undergoes a reduction. Conversely, the remaining fraction of the people's money, which, being unemployed, can be deposited in the banks, increases.

Consequently by employing the cheque, there will be a larger portion of the people's money in the possession of the banks than there was at the time when the cheque was unknown. It results from this first, that the deposits are increased by the amount of this money; next, that the loans are increased by an amount perhaps several times greater than the above-mentioned money, owing to the fact that it remains in the banks and at the same time can be lent to several persons, who take the loans in cheques; and lastly, that the deposits undergo a still further increase in consequence of the transfer to the deposits of the banks of the loans thus granted.

CHAPTER XXII

Banks

§ 184. Retrospect

INFORMATION respecting banks will be found in several places in the preceding pages.

The part they take in the exchanging of gold, by which the transmission of gold from place to place and from land to land is avoided, was mentioned in § 35 and several other sections.

The negotiation of public loans through the co-operation of banks was spoken of in § 138.

The receiving and lending of deposits by the banks has also been made the subject of detailed treatment in several of the previous chapters.

The way in which banks make their income was explained partly in § 72, on the subject of interest, and partly in § 157, in describing the business of the bank of issue.

In §§ 161 and 163 will be found the solution of various questions connected, indeed, with circumstances concerning the banking department of the bank of issue, but also capable of application to all other banks. From the explanation there given, it appears that a bank stands in the same relation to the notes in circulation as any private individual. The bank, like a private person, becomes the temporary owner of notes exchangeable for gold in the issue department of the bank of issue. During the existence of any bank, its name will be found several times in the series of owners to whom each bank-note has successively belonged. The bank, like any other owner of notes, may use them as it sees fit, and therefore, if it so pleases, keep them permanently. This, however, few do; on the contrary, they get rid of them as soon as possible. Persons exchange their notes for real property, goods, etc., or let the banks have them as deposits. When the bank becomes the owner of the notes, it chooses another mode of procedure; it does not exchange its notes for land, etc., but lends them. In consequence of these two different methods of employing their notes, private persons will have parted permanently with their notes, while the bank gets back the notes for the purpose of lending them again: they leave the bank again and again, only to return to it as often. One result of this is that the bank has its funds invested alternately in bank-notes exchangeable for gold in the state bank, the bank of issue, and in secondary rights in the objects that the borrowers from the bank acquire with the notes lent by the bank.

§ 185. The Growth of the Production and of Wealth

After having long remained, if not stationary, at any rate in a state of stagnation, both the production and wealth began to make rapid strides at the beginning of the nineteenth century. Several factors had co-operated in producing this result. Of these, four may be especially mentioned.

First and foremost were the numerous inventions, such as the employment of steam, electricity, and new chemical processes, which in their turn led to the building of innumerable factories, steamboats and railways, the laying of telegraph lines, and the manufacture of other previously unknown objects of wealth.

A second factor in this growth of wealth consisted in increased economy.

At the same time, ranging as the third factor, must be counted the extension of limited liability companies and industrial companies.

Finally, as the fourth factor, greater facilities for lending and borrowing were introduced.

There might further be mentioned a fifth factor, banks, which have contributed in no small degree to the increase in the production and in wealth, inasmuch as without banks the preceding four factors could either not have been utilized to the full, or to some extent would not even have existed.

§ 186. Banks encourage Thrift

The basis of the progress of the century is to be found in the increasing amount of saved products. Inventors and organizers built upon this foundation. Without increasing offers of saved products, the numerous railways, steamers, and factories worked by steam-power could not have come into existence. The invention of the steam engine would have been of little use without increasing frugality. It was therefore necessary that side by side with the inventions, the desire to save should begin to grow in the nations. This has been the case, and has continued undiminished throughout the century. Originally few, the saved products have steadily increased during the past hundred years, at first slowly, afterwards by leaps and bounds. At the beginning of that period the population was small, the production small, and therefore the savings were also small ; but as the population and the production grew by the aid of the new means of production created by the transformation of the previous years' saved products, the new savings of each year increased, and with them both wealth and production in the same proportion.

The increased desire to save could not possibly have been aroused and developed further, if it had not been helped on by the banks. It is true that people also saved before banks came into existence more than a hundred years ago ; but their savings were small. The fact is that many only save because there are banks ; they would leave off saving if the banks disappeared. The reason of this is to be found in the unwillingness of those who save to take care of their own savings. The saver does not indeed need to have the products of which his savings, on a closer examination, consist under his own supervision, as they are in the hands of the traders ; but in the absence of banks he must himself take care of the gold that entitles him to receive these saved products, in his house. Lying thus unemployed the gold, or the notes exchangeable for gold, would bring him in no income, and would moreover be a cause of anxiety from the fear of losing the money by fire or thieves. These circumstances would have had a subduing effect upon the saving sense. Every one would be tempted to repurchase from his share of the year's production as much as possible for his personal use, and leave as little as possible lying at the traders' as saved. The savings would never have reached more than a small fraction of the great amount of saved products that were required in the nineteenth century to produce the transformed things called factories, steamships, railways, etc. But the establishment of banks relieved from such anxieties all those who wished to save. Henceforward, the person who saved could shift all anxiety as to the safety of the gold on to the bank, and receive profits from his gold into the bargain. From that time every one who possessed the natural gift of saving began to reduce his personal consumption of products to a greater extent than formerly. He would often at the same time increase his share of the production in order to be able to save more. The gold he received, which entitled him to the repurchase of these saved products, he took to the banks as a deposit. For the time being, the gold lay in the bank and the saved products in the hands of traders, waiting to be transformed into factories, etc.

§ 187. Banks facilitate the Formation of Limited Liability Companies and Joint-Stock Companies

The first condition for the increase of wealth and of the production, namely, greater supplies of saved products, was now, by the aid of the banks, fulfilled. The numerous products required in order to supply the world with new factories, railways, etc., with the assistance of the inventions that were made, were gradually produced. The existence of saved products on the one hand, and the need of modern factories or other improvements on the other, were not, however, sufficient. It was good as far as it went, that after the appearance of banks it was possible to gather stores of saved products, and that men were aware of the way in which these saved products could be transformed; but it still remained to find those who could take upon themselves the work of transformation.

The savers themselves were seldom equal to this work, because as a rule they lacked the necessary skill, and above all, because each one of the works in question generally swallowed up far more saved products than the individual saver was able to save.

The transformation should be performed by others than the savers themselves, if the work is to progress with any rapidity. One expedient which is often resorted to is for the saver to find an agent to undertake the transformation. Newly-founded industrial joint-stock companies and limited liability companies are suitable for this purpose. The lack, on the part of the saver, of technical knowledge and of a sufficiency of saved products, is a fault that is not found in the above-mentioned associations. To be the manager of a joint-stock company, to take the one example, some one can be found possessing the special knowledge that the saver lacks; and the company avoids the saver's second defect, namely, that his saved products are too few to allow of his producing from them any large permanent commodity, by joining the products of several savers into one mass, whereby the necessary amount of savings required for the contemplated transformation, is obtained. The single saver, to take an instance, can very seldom change his savings into a steamboat, both because he has not experience in that kind of work, and because the products required for the construction of a steamer far exceed the amount of saved products in his possession. If, on the other hand, a joint-stock company takes up the matter, it will succeed. The manager of the company understands how the steamer is to be built ; and he gathers together several savers, in order to produce the steamboat by the aid of their aggregate saved products. Each one of them becomes the owner of a fraction of the ship, or a shareholder, as it is commonly called. What has just been said about joint-stock companies also applies to limited liability companies, only that in the latter the participators are interested to larger amounts.

The industrial joint-stock and limited liability companies are therefore one of the factors that in a very great degree have contributed to economic progress in the nineteenth century. But here again the influence of the banks is manifest ; without them these joint-stock and limited liability companies could scarcely have come into existence. It would not, indeed, have been impossible, even in the absence of banks, for an intending manager of a contemplated joint-stock company, whether it were his intention to build a factory or a steamboat or construct a railway or some other undertaking, to apply to those who saved to take shares. In such a case, this would mean that they brought him their gold, which they had hitherto stored in their houses, to be employed by him to repurchase from the traders their corresponding products, with subsequent transformation into one of the above-named objects. This could happen if there were no banks, and would certainly have happened ; but such cases would have been exceptions. If banks had not existed, the appeal to the public to take shares would not, as a rule, have been responded to, because without banks there are not enough saved products to transform into the object that was to constitute the aim of the company. Concerning this, the reader is referred to the preceding paragraph. It was another matter when banks were instituted. With their power of encouraging the desire to save, the banks occasioned an increase in saved products. Owing to the existence of banks there gradually arose a great number of persons who saved, and with their saved products were just the kind required to form industrial joint-stock companies. The banks had an important share in the production of savers; and it is to the latter in their turn that the joint-stock companies owe their existence. The banks have thus indirectly given rise to joint-stock companies.

§ 188. The Banks facilitate the Obtaining of Loans

It was said above that the presence of saved products in sufficient quantities, is a fundamental condition for the economic progress of mankind. If the fundamental condition is not observed, there will be nothing to transform, in which case the idea of calling into being the instruments—in this case joint-stock companies—for performing the transformation, must also be given up. It is not only the companies that are dependent in the first place on the development of the taste for saving, and in the next on the banks which call forth this taste, but also the other instruments by whose aid the transformation of saved products takes place.

By this is meant transformation by borrowers. These persons, as the word implies, are also dependent upon the making of savings and the encouragement of the saving instinct induced by the establishment of banks.

Borrowing transformers such as these can obtain their loans from mortgage associations, who issue bonds, and sell them to small savers in exchange for saved repurchasing gold. When the gold is in their possession, they give it to the borrowers, who repurchase with it the products of the small savers, and transform them into houses or use them for other purposes, such as the cultivation of land or the building of factories and steamboats.

Now if banks were unknown, and the lending mortgage associations offered their bonds to the public, they would fare in the same way as the recently-mentioned offerers of shares; they would not get their bonds exchanged for the small savers' unemployed products—properly speaking, for gold entitled to repurchase products—because without banks there would not be enough of such savings.

Other borrowing transformers obtain their loans from wealthy private persons. As already mentioned, a great number of houses in Norwegian towns owe their existence to this kind of loan. The saved products of the wealthy lender are transformed by the borrower into a house. These wealthy lenders, however, could hardly have existed without banks. The sum required for the erection of a house amounts often to a small fortune. But what individual saver would have sufficient gold at his disposal to make up a sum of this size, if he had not an account at a bank? Few if any persons would venture to run the risk of keeping such large sums in their own house, even if, owing to their large share of each year's production, they were able annually to lay by much repurchasing gold. Long before the gold laid by had assumed the proportions required if its owner were to lend money for building, the owner would have paid out the gold in portions for other purposes, rather than add new gold to the old, and feel regarding the safety of the gold an uneasiness that increased in proportion to the increase of the gold. Lenders such as these would seldom exist without banks. As they receive the gold entitling them to the repurchase of their share of the year's production, and do not use all of it for themselves, they must be able to put what they do not use into the bank. Here it is immediately paid out to a depositor withdrawing, or to a borrower about to purchase some earlier object, or to others. When finally one of the first-named depositors finds his deposit large enough to be lent on a building loan, he requests the bank to pay him the amount.

In addition to the transformers who borrow from wealthy private persons and through mortgage associations, there is a third class composed of those who borrow from the banks themselves the savers' repurchasing gold. If the banks disappeared, these borrowers would henceforward have to apply directly to the savers, or rather, relinquish all thought of borrowing saved products for transformation, e.g. for the extension of a factory, the building of a steamboat, etc.; for in the first place, if all banks ceased operations, the savers would soon find their desire to save considerably lessened. The annual addition of new products would be so small in comparison with what it had been, that the borrowers would be prevented from borrowing from the savers for transformation. But even if it were possible to imagine the savers, notwithstanding the disappearance of banks, continuing their endeavours to maintain their annual savings at the same level as before, a new obstacle would present itself in the fact that the persons who saved and the transformers who borrowed would have a difficulty in finding one another without the intervention of banks; and as a consequence transformation by borrowers would be hampered, notwithstanding the temporary presence of saved products.

In conclusion there is yet another aspect of the banks' deposit operations that must be briefly touched upon. They do not only receive deposit gold entitled to repurchase a corresponding value of saved products, as has been hitherto assumed in this paragraph; but their deposits come also to a great extent from the other portion of the country's gold, here called ordinary gold. With no banks in the country, this ordinary gold would be put away in the various houses and would be out of the reach of borrowers; but by being deposited in the banks it can be further lent, either as trading capital to the producers and their assistants, the traders, or to persons desirous of becoming the owners of accumulated objects. In both cases the ordinary gold thus lent by the banks is of both direct and indirect assistance to the production, assistance which the production would have had to dispense with if, owing to the want of banks, the gold had remained in the possession of its various owners.

§ 189. What would have become of the Deposits, if Banks had not existed?

It was, of course, possible for the gold to have been given to the borrowers without first being taken by its owners to the banks as deposits to be given by the banks again and again to the borrowers, both on the receipt of the deposit, and subsequently on each fresh repayment of the loan. The owners of the gold could themselves have undertaken the lending of it. A store of loans might have existed, even if there had been no banks and therefore no deposits; but the loans would not have been given by banks, nor would the corresponding claims upon the borrowers have belonged to the banks as a counter-balance of the banks' debt to the depositors. The owners of unemployed money would not have been able to deposit them and become possessors of claims upon banks, or deposits as they are called. Instead of this, the owners of unemployed money would have had to perform the work of the banks and lend the money directly to the borrowers. The depositors of our time, and not the banks, would have become the owners of the present lending-store of the banks.

This store, however, would have been of small size compared with what it is now, since the savings would have been small, and lender and borrower would have had difficulty in meeting without the bank as intermediary. A blight would have hovered over all lending operations

CHAPTER XXIII

The Money Market

§ 190. Introduction

By a market was originally meant a place where persons from various districts met by appointment to do business and exchange goods. The word has subsequently acquired an additional meaning connecting it with some other word, such as corn, cotton, or money. When used in this connexion the place and the persons concerned are not so much denoted as the commodities which form the objective of their transactions. Every one who sees in a paper an article headed "The Money Market," will understand that the lines that follow do not contain reports of any meeting of persons to conclude money transactions, but that on the contrary the article gives information regarding the present supply of money, offers of, and demands for, money, its disappearance and return, floating balances, rising and falling interest, what the bank of issue will do in all these circumstances, etc., etc.

In the middle ages and far down into modern times, the money market was everywhere easily scanned and easily understood. In those times there was very much less to buy and sell than is now the case. As the purchases were so few and small, little money was required for the payments that followed. The store of metallic currency did not therefore require to be very large. Notes, banks, and everything connected with them, were practically unknown. Every man took care of his own coins and put them away, often in a manner altogether foreign to the ideas of the present day. The money market must then, as now, have been subject alternately to abundance and scarcity, but presumably was most frequently in the latter condition. The symptoms in both cases were easy to understand. When, for instance, the tax-collectors had gone round a district and extorted from the people the circulating coins for the payment of the tax and sent it to the capital of the kingdom, the reason of the subsequent scarcity and the nature of that scarcity must have been clear to even the most ignorant of the inhabitants.

In our own day the money market has become, with its bank-notes, cheques, bills of exchange, securities, foreign bourses, exchanges, deposits, and banks as obscure and complicated as it was simple in former days.

§ 191. A Conclusion as to the Condition of the Money Market may be arrived at from the Rate of Interest

Money is acquired either in exchange for productions or by borrowing. As regards the latter, large sums daily find their way from their owners into the hands of borrowers. The borrowers pay for the hire of the money in what is termed interest or discount.

The raising of the rate of interest is a sign that the borrowers have a difficulty in obtaining money, and are therefore willing to pay more for it, i.e. higher interest. The raising of the rate of interest shows that the supply of money is beginning to be insufficient.

If, on the contrary, the rate of interest falls, it may be concluded that the lenders find a difficulty in getting rid of their money and lower the interest in the hope of thereby inducing borrowers to come forward. The supply of money has exceeded the demand.

High interest, ordinary interest, and low interest, are accompanied respectively by scarcity of money, a steady supply of money, and a superabundance of money.

Fluctuations in the rate of interest are coincident with fluctuations in the money market.

§ 192. On the Causes of Fluctuations in the Money Market

In every land it continually happens that events occur that cause disturbance in the money-matters of the country. These events manifest themselves in various ways, but may be divided into—

(*a*) Increasing demand for money;
(*b*) Decreasing demand for money;
(*c*) Diminution of the country's store of money, and

(*d*) Augmentation of the country's store of money.

Every fluctuation of the country's money market may be traced to one or other of these four factors.

§ 193. An increasing Inclination on the part of the People to do Business tightens the Money Market

The production of a country often remains stationary for a long time, this stationary period being then succeeded by one in which there is a need of more products. The old means of production are utilized to their utmost extent, and new means of production are procured in order to increase the production as much as possible. The bad times are over, and good times have come. Simultaneously with the increase in the production there occurs an increase in the sales of earlier objects. Whereas during the period of stagnation these earlier objects seldom changed hands, the new impetus given to the process of production will now cause them to be frequently bought and sold.

The increased production and the more frequent transfer of earlier objects from owner to owner will require more money. The demand for money and the withdrawal of deposits will increase, a greater need of loans will arise, and the existing store of money will scarcely suffice for the increasing number of exchanges. There will be a scarcity of money.

§ 194. On certain Days in the Year, a more than ordinary Need of Money may arise

In many places, certain days in the year are marked by a constantly recurring increased demand for money. On such days, the existing supply of money will hardly suffice for all the exchanges. Requests for loans and demands for the repayment of deposits come in in such numbers to the banks—where, as already mentioned, most of the unemployed money is deposited—that they sometimes have great difficulty in meeting all these claims. A scarcity of money occurs.

In countries with bourses,[1] this state of affairs may often be observed at the end, and in some places also in the middle, of the month, when transactions in securities concluded since the previous settling day are regulated

[1] English readers will be aware that the bourse in London is called the Stock Exchange

In Denmark, a condition of affairs has developed which makes June 11 and December 11 serious days for the banks. Every year on these days there is a scarcity of money in Denmark, which lasts for a few days. From olden times it has been the custom in Denmark to make the interest and instalment on mortgages payable on June 11 and December 11. It is also usual for tenants to pay their rent to the landowners on these two days ; and the same two days are probably used as settling-days in other cases as well. The consequence is that on these days, numbers of people simultaneously fly to the country's money-supply. The banks suffer especially, for they have a considerable part of this money in their keeping. Depositors and borrowers vie with one another in endeavouring to draw their deposits. There would hardly be money enough for all, if only the country's ordinary supply of money was at their disposal. In order to satisfy the demands of all, the Danish bankers resort every year to the costly expedient of drawing money from abroad into Denmark for a short time every June 11 and December 11. Sweden supplies a large amount of this money. Properly speaking, the Swedish banks that lend should send Swedish gold to the Danish banks, to be delivered by them to the Danish bank of issue in exchange for Danish notes to be given to the Danish public. And when the settlements of the June 11 and December 11 end, and the Danish banks get back their notes from the public, one would expect them to exchange the notes for gold in the Danish bank of issue, and send the gold back to Sweden. Owing, however, to an agreement between the Scandinavian banks of issue, the transit of the gold to and fro is as a rule avoided. The gold remains in Sweden all the time, but belongs to the Danish bank of issue, which, on the basis of this foreign gold, issues and gives out notes to the Danish banks. When the latter wish to exchange the Danish notes for gold to be sent to Sweden, the Danish bank of issue transfers its Swedish gold to the Danish banks, which now possess gold in Sweden with which they redeem their recently made loan.

§ 195. Certain Districts, at certain Times, absorb large Portions of the Country's Store of Money

It occasionally happens that money becomes scarce in one district, because it finds its way into another. An instance of this is to be found at the beginning of every year in Bergen and some other towns on the west coast of Norway in connexion with the annually-recurring large cod-fisheries in the Lofoten districts in the north of Norway. At that season of the year immense shoals of cod come in from the ocean to spawn near the coast. About 30,000 fishermen are employed in catching the cod, salting it, and selling it to traders, principally in Bergen, whence it is afterwards exported to Roman Catholic countries where fish is eaten on fast-days. Cargo upon cargo is shipped at certain times of the year. While the fishing is going on in Lofoten the traders in the towns send notes for the purchase of the fish. Such large amounts in notes are sent from the towns to the fishing places that the stock of notes in Bergen and other towns diminishes, the notes being sent to Lofoten to give to the fishermen in exchange for their fish. While the supply of notes in Bergen and other towns diminishes, among the fisher population in Lofoten it rises in a corresponding degree The notes do not remain there long, however. The fishermen, who have taken their produced fish to agents for Bergen traders, and received notes, i.e. gold, in exchange, will soon be obliged to take the notes back to the local traders, who are acting as agents for the Bergen traders, for the purpose of repurchasing equivalent commodities. Originally consisting of fish, their production has now been exchanged abroad by the traders for corn, clothing materials, etc., these goods now representing the fishermen's production in its changed composition. Finally the notes go back from Lofoten to Bergen and the other towns.

§ 196. Too large an Importation of Goods for Consumption weakens the Money Market in the Importing Country

In general, a nation will import goods for its consumption to the value of the goods it has exported. Each individual person may claim a share of the year's production, its existence being in some measure due to him. His share is taken to the traders, who in return give him gold, or notes exchangeable for gold in the vaults of the bank of issue. Part of his share will thereupon be exported and replaced by imported foreign goods. When this is done he will, with his notes, repurchase from the traders his share of the production, now consisting partly of foreign goods. This is at any rate approximately the process. It was said that his share had been partly exchanged for foreign products. Theoretically, there is nothing to prevent his requiring the whole of his share of the year's production repurchased in the form of foreign goods, in which case the whole of his share will be exported, and foreign goods to the same value be imported. But he cannot, with his annual income, cause a larger importation than is covered by the exportation of his own home products. He can pay for so many foreign goods with his income, but no more. Since all the other members of the nation act exactly as the above person acted, it may be concluded that the importation of foreign goods intended for the consumption of the nation is generally covered by the exportation of the nation's production brought forth by the national labour in the course of the year.

An importation keeping within a boundary drawn in this way should never need to be paid for with gold from the importing country ; for simultaneously with the importation there is an equally great exportation of the products of the country. The importers' foreign debts may then be paid with the exporters' claims of foreign gold. To fit the exportation to the importation, however, so that the former always pays for the latter, is a feat not possible of accomplishment. The importing traders do not know the value of the exportation taking place, nor do they inform one another how much each of them is about to import. For these two reasons it may sometimes happen that they import more than the nation requires. The imports have exceeded the value of the exports. This disproportion will also occur if the exportation of certain home produce is delayed by natural circumstances or other causes. In Norway, the fishing in Lofoten, mentioned in the preceding paragraph, may very easily one year occur later than usual. If the importation of corn and other things to the fishermen has taken place as usual, there will be no foreign claims for fish at the importers' disposal for the payment abroad of the imported corn.

If, however, for reasons already mentioned, more has been imported than exported, or if the importation has taken place somewhat earlier than the exportation, the importers will withdraw or borrow notes from the banks, exchange them for gold in the bank of issue, and send the gold out of the country to pay for the imports, or rather, they let the banks undertake the transmission of the gold. The notes with which the banks obtain gold from the bank of issue cannot be sent out again. The supply of money has diminished, the money market is stringent. This condition need not last long, however. The subsequent exportation will put matters straight and bring the gold back to the country, after which the notes will again be able to be put into circulation and increase the supply of money. Circumstances that are not connected with exportation and importation may of course supervene, and in spite of the exportation cause a continuation of the scarcity in the money market; but in that case the exportation will at any rate have had some effect in mitigating the scarcity of money.

§ 197. Bad Years and their Effect upon the Money Market

Theoretically speaking, bad years should not cause scarcity in the country's money market. Every man is under the necessity of living upon his income. If this is large he can consume much; if it decreases, he must reduce his consumption. What is applicable in this respect to a single individual is also applicable on the whole to every collection of persons, and thus also to the entire nation. From this the following may be deduced as regards Norway:—If Norway's production in an ordinary year has a value of 700 million krones, while in a bad year the total value of the production is 600 million krones, the nation ought, in the bad year, both to consume and to save in all 100 million krones less than in the ordinary year. In the one year the people took their 700 million krone production to the traders, receiving notes in return; and after some of the production had been exchanged for foreign products, they repurchased the somewhat differently composed production to live upon, and partly for transformation. In the second year the people, theoretically speaking, proceed in exactly the same manner, except that they are now operating with a production that is $\frac{1}{7}$ less in bulk and value. But both in the good year and the bad year, the importation has been paid for with the exportation of goods without the sending of gold and reduction of the country's supply of money, though both have been larger in the good year than in the bad.

The rule that the individual ought to spend within his income is, however, in practice, subject to modifications. If, in a bad year, the people were content to reduce their consumption from 700 to 600 million krones, the importation could be covered as before by a corresponding exportation. But suppose that the nation finds it impossible to bring its consumption down lower than to 625 million krones, the imports will then no longer be balanced by the exports. The nation has produced for 600 million krones, and of this amount uses 400 million krones' worth of products as they are. The remainder, worth 200 millions, is exported and exchanged for foreign products, which are imported. The 400 and 200 millions together make 600 million krones' worth of products. But it may be imagined that the nation is determined to consume another 25 millions' worth of products, and in that case, as many of them as are not found among the country's accumulations, must be imported and paid for with gold sent from the country's money-supply. Hence a tightening of the money market may occur in consequence.

This is what happens in a bad year. If, in such a year, a man's reduced income proves to be insufficient, he will use his earlier savings, he will require his deposits paid back, or sell earlier objects in order to employ the gold he receives for them in obtaining either products from the traders' previously saved store, or imported foreign goods, or if he does not possess any savings, he will buy on credit from the traders, who, in payment for foreign goods so sold, must withdraw or borrow gold from the banks.

It is very unlikely, however, that a bad year would be experienced in all parts of a country simultaneously, unless that country were one of the smallest as regards area. In countries of greater extent, only a few provinces at a time will as a rule be affected. The effects of a bad year upon the money market will therefore rarely be felt throughout the country, but will mainly be confined to those provinces in which the bad year has occurred.

If a bad year had occurred, not in Norway, but in a country having commercial connexions with Norway, this might also have an effect—though one of less significance than in the preceding instance—on the Norwegian money market. Rye is the grain principally used in Norway for bread-making. The country itself does not produce enough, so that large quantities of rye are imported. The Russian provinces on the Black Sea supply the greater part of this import. It may happen that during an ordinary year in Norway, with its customary 700 million krone production, the harvests in Russia are bad, sending up the price of rye 50 per cent. The consequence of this to Norway is that she must pay Russia 150 krones for a quantity of rye that the year before cost 100 krones. But, strictly speaking, Norway does not need to export gold on this account. The 700 million krone production in Norway should be sufficient, in spite of the bad year in Russia, for Norwegian consumption and transformation ; but in such a year, when Russian grain is dear, Norway must to some extent reduce her consumption of rye and also of other foreign articles, such as tobacco and coffee. There will also be less than usual saved in Norway after a bad rye-harvest in Russia.

If, notwithstanding the high price of rye in Russia, Norway did not reduce her foreign consumption, she would have—assuming that the prices of other goods were unchanged—to take gold from her store for the partial payment of the imports, and the money market would be tightened.

§ 198. The Purchase of Foreign Implements of Production, or of Foreign Materials with which to make them, as also the Purchase of Foreign Securities, may occasion a Scarcity of Money in the purchasing Land

When the year's production, which, as regards Norway, was assumed to value 700 million krones, has been partially exchanged for foreign products, the nation buys the greater part for its subsistence. The other smaller part is saved ; that is to say, the savers, either themselves or through agents, repurchase the saved products in order to convert them into saved objects. Sometimes almost exclusively home products are employed for this purpose, while in other cases the transformers use principally products taken from the above-mentioned foreign imports ; indeed, the saved home products are often exchanged for fully completed things of foreign origin, e.g. steamships. As long as the imported articles intended for consumption or to be saved are balanced by the exports, the purchases will effect no reduction in the money-supply of the country. If the country one year produces to the value of 630 million krones for consumption, and 70 million krones for savings, in all 700 million krones, and of this exports for 250 million krones, of which 225 millions comes under consumption and 25 millions under savings, while at the same time foreign things to the value of 250 million krones are imported, these imports will be covered by the exports. The 25 million krones' worth of things imported to be placed among the nation's earlier saved objects will not have caused any gold to leave the country.

But a year may come when the people want to use 725 million krones instead of the 700 million krones' worth of products produced, the extra 25 million krones being employed for the acquiring of foreign means of production—in other words, the people will use altogether 50 million krones for this purpose. How are these 25 million krones that they owe to foreign countries to be paid ? The year's 700 million krone production is used up ; the payment cannot come from that. It must be made either by exporting from the country's earlier stores of saved products, or, if there are none or not enough of these to be had, by sending gold, in which case the country's money market will be tightened.

At the time these lines are being written, an outflow of gold from Norway is taking place, due probably to some extent to the circumstances just described. During the last few years, numerous Norwegian joint-stock companies have been formed with the object of acquiring steamboats. Many of the ships are bought complete abroad ; the remainder are being built in Norway, but the materials employed in their construction are mainly imported from abroad. If those who take shares in these new companies pay the amount of their shares by the aid of savings made in the course of the year, gold need not be sent out of Norway to pay for the foreign steamships. In this case the managers of the companies do not repurchase the saved products of the shareholders, but allow them to be exported by others. They then acquire the exporters' claims for gold abroad, and buy the steamers with this foreign gold. If, on the other hand, the country's savings are employed in the course of the year, partially or wholly for other transformations, so that none of them, or too few, can be employed in acquiring steamships, the case is different. Under this assumption the shareholders must withdraw their earlier deposits from the banks or borrow gold from them to pay for their shares. The manager of the steamship company cannot with this gold purchase saved products from the year's production to export and exchange for a foreign steamship, for there are no longer any such products. For this purpose he can either purchase from the traders' earlier saved store (cf. chap. XIV), for which the foreign steamship is afterwards exchanged without the sending of Norwegian gold, or he, or rather his bank, will exchange the notes for gold in the Norwegian bank of issue, to be sent abroad to the sellers of steamships. It is the latter process which has probably to no small extent taken place all over Norway. The continued diminution of the gold in the bank of issue is certainly due in great measure to the excessive purchase of steamships from abroad.

When the gold, as in the case just mentioned, is obtained from the deposits, either by withdrawing them or by borrowing them, it might appear as if the existence of the deposits was concerned in the scarcity of money resulting from too large purchases of foreign means of production. This conclusion, however, would be premature, for if, as previously explained, neither banks nor deposits existed, the savers would have been able to lend their gold to private persons. If they then took the above-mentioned shares, instead of as now fetching the money they had deposited in the banks, they would require its repayment from their private borrowers. In both cases the older savers could draw gold out of the country. Something similar would have taken place if the shareholders, in the absence of deposits, had borrowed gold from the savers themselves.

In the heading of this paragraph, the purchase of foreign securities was also mentioned as something that can cause a scarcity in the money market of the purchasing country. After what has been explained above, it will be unnecessary to enter further into this subject. As long as only the year's savings, whether they consist of home products or of foreign products abroad, obtained in the course of the year as interest on earlier loans to foreign countries and other similar things, are employed for these purchases of new foreign securities, no money will leave the country, nor will its money market be affected by the purchases. If, on the contrary, money is withdrawn or borrowed from the banks for this purpose, a stringency in the money market may ensue.

§ 199. Will the Payment of Interest on, and Redemption of, National Debt and other Public Loans taken up abroad bring about a Scarcity in the Money Market of the Country on whose Side the Debt is?

The above question is an important one to countries whose indebtedness to foreign countries is large, but is of less interest to those with principally home national debt and public loans.

The interest and paying-off by instalments on public loans are paid by taxes. With regard to the latter, it has already been explained that they consist of products from the year's production. The Government and corporations receive the taxes and rates from the inhabitants in the form of notes entitled to repurchase a corresponding amount of products from the traders. Both Government and corporations leave unpurchased as many products as correspond in value to the foreign interest and amount to be paid off on the debt, let others export the products, deliver the notes to the exporters against their foreign claims, and employ the foreign gold for the payment of interest and redemption. Thus the year's disbursements for the foreign debt have not occasioned any departure of gold from the debtor country or stringency of its money market.

That a great increase of the debt may cause these payments to foreign countries to be felt extremely burdensome to the inhabitants is another matter. Heavy taxes, necessitated by the increase of the public debt, do not only diminish the inhabitants' ability to consume and save, but often make it difficult for them to produce as cheaply as their foreign competitors.

§ 200. Artificially produced Scarcity of Money

The Bank of England sometimes brings about an artificial scarcity of money in London by borrowing from the other banks, and thus reducing their supplies of money. The manner in which this is said to be done is that a confidential broker takes securities from the Bank of England, and borrows from other banks upon them, transferring the amounts of the loans to the Bank of England. Endeavours are made to conceal from the lending banks the fact that the Bank of England is the borrower. The purpose of the loans is to obtain for the bank a firmer control of the money market.

§ 201. Diminishing Trade relieves the Money Market

When a period of great activity has lasted for some time a reaction generally sets in. Both the production of the country and the sale of earlier objects decreases. Less money is required for exchanges, so that the existing supply can now without difficulty meet all payments. Every one who possesses the necessary qualifications can obtain money if he needs it. But the number of applicants for money diminishes with the decline in trade. Demands for loans from the banks are no longer so frequent as before. Capital no longer ventures to appear, to describe the situation in popular terms. The demand for money has become less; the money market is relieved.

It sometimes happens that the two factors, less demand for money and the exportation of gold, simultaneously affect the money market. The object of the first process is to relieve the money market; of the second to tighten it. The strongest gains the day. Under these circumstances it is possible to see an abundant money market, notwithstanding that the supply of money is diminishing day by day by the exportation of gold. But the reverse may also happen. The diminution of the money supply may gain such an ascendancy that the smaller demand for money is not capable of relieving the money market.

§ 202. A large Exportation of Goods may occasion a Superabundance in the Money Market of the exporting Country

Just as too large an importation of goods occasions a scarcity of money, so, on the other hand, a large exportation of goods may result in superabundance. Money may become, as it is called, cheap.

If, as we have supposed, in one year Norway saves $\frac{1}{10}$ of her production, or products to the value of 70 million krones, and out of this exports 25 millions, the country can import 25 million krones' worth of foreign products for transformation in Norway, in which case the country's supply of money will be of the same size after the movement of products as it was before. But it may now happen that Norway exchanges the 25 million krones' worth of saved Norwegian products for twenty millions' worth of foreign products and five million krones in foreign gold, these two things being then imported to Norway. The gold, to give an example, may be obtained by sending Norwegian timber to the Transvaal, to be paid for with newly-dug gold from the Transvaal mines. The transaction may also be accomplished with another country as middleman between Norway and the Transvaal.

In any case, Norway, in a year such as this, will have exported more goods than she has imported, and brought the difference home in the shape of gold. The result of this circumstance upon the Norwegian money market will be that more money to the amount of five million krones will come into circulation, and those who need money will be able to obtain it more easily.

§ 203. Gold from Abroad, sent to another Country for Financial Purposes, relieves the Money Market of the latter Country.

One country may send gold to another country to be put out at interest in the banks, to be employed in the purchase of bills, to serve as the payment of interest on, and redemption of, public debts, or to pay the dividends on shares or something similar. These transmissions of gold will increase the supply of gold in the receiving land, and help to create a well-supplied money market, until the gold again leaves the country.

These transmissions of gold occur frequently. This is the case between the Scandinavian countries; but it is in London that it takes place to the greatest extent. If, in a single day, one million pounds in gold should come from Russia to London, the event would exert a considerable influence upon the London money market during the next few days. Offers of money would increase considerably after the arrival of such a shipment.

§ 204. Payment of Public Loans raised Abroad

In England, France, and of late years also in Germany, the Governments and towns of other countries have raised loans to be employed for public purposes. When a loan such as this is handed over to the borrower, a superabundance of money will ensue, at any rate for the time being, in the borrowing country.

The superabundance does not usually last long, however, for the money soon disappears and goes back to the places whence it came. This must be so, for more reasons than one.

According to a Norwegian newspaper, the Norwegian Government at the beginning of 1900 owed about 230 million krones in gold to foreign countries. This debt has subsequently increased. If to this amount are added the foreign loans of Norwegian corporations, it may certainly without exaggeration be taken for granted that during the last generation Norway has raised public foreign loans to the amount of at least 300 million krones.

There was no use for all this gold in Norway. It was stated earlier in these pages, that at the close of 1901, Norway possessed a supply of gold amounting to $40\frac{2}{10}$ million krones, which proved more than sufficient for the country's exchanges. If Norway had kept the 300 million krones in gold, the total supply would have been $340\frac{2}{10}$ million krones, whereas at the most $40\frac{2}{10}$ millions were required. For this reason, if for no other, the borrowed gold had to leave Norway again.

Norway's intention in raising these loans was to acquire railways, telegraphic systems, warships, guns, rifles, etc. To procure these things in Norway by the aid of the borrowed gold would have been impossible. The greater part of each year's Norwegian production was required by the people for their maintenance. The remaining saved part was required for transformation into means of production, such as factories, land improvements, etc. In consequence of this, the people of Norway could spare practically nothing from the year's production for transformation into railways, warships, and the rest of the above-named things wanted by the government and corporations. If the authorities had attempted to make them of Norwegian products acquired in Norway with the borrowed 300 million krones of foreign gold, the attempt would have proved futile. These things had therefore to be created from products brought from abroad, or even, as regards things such as warships, purchased complete abroad.

Considering the nature of the loans, such a mode of procedure must be considered as the most natural. The 300 million krones in gold lent to Norway certainly represented for the most part foreign savings. Persons abroad had received gold entitled to repurchase their shares of the foreign production. They repurchased the greater part of them, each choosing what he specially needed ; but some of the products they left untouched, and saved, after which they lent the gold to Norway, with its right to repurchase the foreign products. The foreign savers determined—to use a previously occurring expression—to transform their saved products with the assistance of agents, and as such to use borrowers. For this purpose Norway was chosen, who partly undertook the transformation herself, and for this purpose retained unemployed Norwegian workmen who were on the point of emigrating because there was no room for them to take part in the Norwegian production. Norway also effected part of the transformation abroad with foreign workmen. The way in which the transformation may be supposed to have taken place is that with money from the borrowed 300 million krones in foreign gold, Norway repurchased food and materials abroad, in order to have them changed abroad into warships, guns, rifles, railway rails, telegraph wire, etc. ; or rather, Norway gave the gold to the foreign manufacturers, leaving them to make the repurchases of the saved foreign products required for the making of warships, rails, etc. With the rest of the money from the 300 million loan, Norway acquired saved foreign products adapted for the maintenance of life. Everything that had been obtained abroad with the borrowed 300 million krones was thereupon imported into Norway, where the Norwegian workmen who had been kept from emigrating now began to make the railways and telegraph lines. In doing so they made use of the rails and telegraph wire, while they maintained life with the other products, all obtained abroad with gold from the foreign loans amounting to 300 million krones.

If there had been any ordinary gold among the 300 million krones, gold that the foreign lenders had obtained by the sale of earlier things, and not by savings from the year's production, the borrower, Norway, would have been under the necessity, theoretically speaking, of making her purchases, as far as that portion of the gold is concerned, not from the saved foreign products of the year, but from earlier foreign stores of products.

An exception may be imagined to the above rule regarding the return of public loans from the borrowing to the lending country. Public loans of gold from abroad do not always leave the borrowing country, but now and then remain there. This happens when a scarcity of money prevails in the borrowing country at the time of the loan's negotiation, in consequence of which the loan is not intended for the purpose of acquiring warships, railways, etc., but may, for instance, be given by the Government as a loan to the bank of issue, in order to increase the supply of gold.

§ 205. Rise in the Rate of Interest

The money market is relieved, we have said, when the demand for money decreases, or an importation of money takes place. One of these factors is caused by stagnation in business, the other being frequently due to a supervening tendency abroad to send gold to the country. Both factors can be artificially stimulated, the means thereto being the raising of the rate of interest. If the tradespeople find themselves obliged to pay a higher rent (interest) for the money they need for their business they will limit their operations and make less frequent demands to the banks for loans. At the same time, neighbouring countries with lower rates of interest will send gold into the first-named country in order to enjoy the benefit of the higher rate of interest there. It is the banking department of the country's bank of issue that determines the rate of interest in a country; but its decision is not always followed by the other banks.

§ 206. The Reserve

As mentioned in a previous chapter, the bank of issue may be imagined to consist of the Issue Department and the Banking Department, each of which might well be installed in its own building. The first receives gold to take charge of, giving receipts in the form of notes, and delivering up the gold on the handing in of the notes. It is not unnatural that a particular interest should be shown in following the fluctuations of this supply of gold, as the amount of the country's notes increases or diminishes with the gold. Great interest is also felt for the Banking Department of the bank of issue. This department carries on ordinary banking business, and owing to this circumstance, becomes in its daily work the possessor of some of the bank-notes of the country, in order to give them out again to borrowers or withdrawers of deposits. The other banks, like the Banking Department, each daily possess their share of the country's notes. These notes are generally called the cash of the bank, but the cash of the Banking Department receives the special name of "reserve." In Norway, the words "unexercised privilege of issue" are employed in addition to the name "reserve." Except that this reserve is larger than the cash of any of the other banks, there is no difference between them; but as we have indicated, the reserve is most spoken of. Its growth or diminution denotes respectively abundance or diminution of money in the Banking Department, with the prospect of falling or rising rate of discount, another name for interest. The amount of the cash of the other banks is taken little account of by the public. With the assistance of the telegraph, weekly reports of their aggregate amount could easily be brought together and published ; and, together with the weekly returns of the Banking Department, would be useful in showing the amount of the available supply of money in the country. Even without such returns, however, the Banking Department has a feeling of the condition of the money market in the country. The occasion for changes in the rate of interest is given to the Banking Department by the amount of its own reserve, by the decrease and increase of gold in the Issue Department, and by the state of the tills of the other banks.

§ 207. The Cheque can relieve the Money Market

In Denmark, as previously mentioned, there is an unusual demand for money on the two days, June 11 and December 11. So many persons wish to use the money of the country on these days that the supply proves insufficient, and foreign gold must be brought in to supplement Denmark's own supply. Even with this assistance, there are probably many who have difficulty in procuring the money that they require.

A change would take place in this condition of affairs if the Danes were suddenly to introduce the cheque into their business transactions. As far as I am aware they use notes as a rule for their payments. But let us suppose for the sake of argument that just before June 11, or December 11, they determined for the future to use cheques as extensively as they are used in England. What would be the consequence of this ? In § 181 it was pointed out that the deposits temporarily decreased if they were taken out in the form of money, but, taken as a whole, retained their former size if withdrawn by cheques to be interchanged at the clearing-house. It might have been added that it is the same with the cash of the banks ; in the first case it suffers diminution, but, considering the total of all the banks, remains unchanged if cheques and the clearing-house are used. This would be the case in Denmark under the above supposition. While the deposits and cash in the banks is temporarily greatly diminished on the two settling days, their amount, considered as a whole, after the sudden introduction of cheques, would be little affected by the settling days. Under the present system, a Danish bank may begin with, let us say, five million krones in cash on the morning of June 11, and in the course of the morning may be compelled to pay out more and more of this money to its depositors and to borrowers, until towards the close of business hours it does not know whether it will be able to satisfy all who may yet present claims for money. By using cheques and the clearing-house, on the other hand, the bank would be able from a strictly theoretical point of view to meet these claims for money from their customers, without in reality paying out a single krone ; for all the borrowers from the banks, after the introduction of cheques, would have their loans transferred to the deposits of the banks ; and in the next place, both these depositors and the earlier depositors, when they now disposed of their deposits to pay the interest on mortgage bonds, or rent, or anything similar, would not demand the money from the banks, but would let it remain there, and transfer by cheque the right to the money to the holders of the mortgage bonds and the land-owners. Some of them would probably, for some reason or other, continue to withdraw their deposits in the form of money ; but the number of these persons would not be great. With the cheque, the above-mentioned bank would not need to have much more money as cash on settling days than was necessary to meet the claims of other banks at the clearing-house, for which a far less amount than the former five millions would be sufficient.

It may be mentioned in this connexion, that another means of avoiding the ever-recurring scarcity of money on June 11 and December 11 would be to divide the payments among the 300 working days of the year, instead of as now concentrating them upon two days. This would perhaps be a more practical means than waiting until the people shall have become accustomed to the cheque.

The accumulation of payments to be made simultaneously might become so great that, to prevent a catastrophe to the banks, it might at length be found necessary to arrange by law at various places in the land lists of the days for the payment of certain debts, with power for the drawers up of the lists to decide the days of payment.

§ 208. Does the Circumstance that Borrowers take out their Loans by Cheque enable a Bank with little Loose Cash to continue to lend without Limit ?

If a borrower has the notes themselves (exchangeable for gold) paid out to him, they disappear from the bank, and the bank cannot again lend them. But if the borrower leaves the notes in the bank, as is the case when cheques are used, the bank can again lend the notes.

But if, when cheques are used, the bank can lend notes to a borrower who presents himself on the opening of the bank in the morning, and immediately afterwards can lend the very same notes to a new borrower, the question arises: How often can the bank continue to lend the same amount of notes?

Since it is assumed that borrowers who take out their loans in cheques should not require the borrowed notes to be paid to them, but allow them to remain in the bank, a bank with one million krones set aside for loans should, theoretically speaking, be able to go on lending these notes many times daily, week after week and month after month, while all the time the one million krones in notes lay untouched in the bank. In practice, however, this theory would meet with great limitations.

As one of these limitations it may be mentioned that a certain proportion should exist between the amount of a bank's own capital and the amount of its deposits, a proportion which should never be exceeded. If a bank possesses five million krones in paid-up capital and reserve fund, it is often the case that the by-laws of such a bank only allow it to receive, say up to fifty million krones in deposits. Let us suppose that the deposits to-day amount to thirty million krones. If, according to the above-enunciated theory, the bank began to lend its one million krones ten times a day, to be taken out by the borrowers in the form of cheques, the notes remaining untouched, the bank would at the same time have to transfer the loans to its deposits. The subject of this transfer was discussed in a previous paragraph. The consequence would be that after two days' unlimited credit-giving, twenty fresh millions of krones would be added to the bank's deposits of thirty million krones, which would thus have reached the highest limit allowed, namely, fifty million krones. All further loans would thereupon have to wait until a diminution of the deposits had taken place. In this case it was the regulation relating to a certain proportion between the capital and the deposits of a bank that kept the loans within a certain limit that must not be exceeded.

But even apart from this, another limitation will stand in the way of continued new loans of the one million krones supposed to be lying untouched in the bank, while the loans are taken out by cheque. This hindrance consists in the fact that it would not be possible for the bank to find borrowers for ten million krones a day. Ten million krones is double the amount of the capital of the bank. If every bank in the land were daily to grant loans to twice the amount of its capital, the total amount offered would be altogether enormous and many times in excess of what the borrowers could use.

A third limitation to the power of the bank to lend its money freely, even if the loans are supposed to be taken out by cheque and not paid in cash, lies in the necessity for the bank always to have a certain proportion established between the amount of its current accounts and that of its supply of money. Just as, according to what has been stated, a certain proportion shall exist between deposits in general and bank capital, so it is with the particular deposits called current accounts and the bank's supply of money. To the latter belong, in this connexion, both money and liquid reserves. The supply of money in the bank must amount to an as far as possible stationary fraction of the current accounts. If, therefore, these increase, the bank must make its supply of money increase. If not successful in this, the bank must see that the current accounts diminish, in order to bring about in this way the right proportion between current accounts and supply of money. Applied to the case before us, the following facts can be deduced from these essentials:—The bank possesses to-day a money supply amounting to one million krones, and thirty million krones in deposits, of which we may suppose twenty millions to be deposit accounts and ten millions current accounts, in which case the supply of money amounts to $\frac{1}{10}$ of the current accounts, perhaps a sufficient amount in a land where the employment of the cheque is general. If cheques are seldom used, the fraction must be greater—as much as $\frac{5}{10}$, to mention a figure; but in the case before us $\frac{1}{10}$ is assumed to be sufficient. Properly speaking, the bank should now not be able to grant further loans until the deposits had fallen below ten millions; but if it disregards this precautionary measure, and to-day and to-morrow grants fresh loans to the amount of twenty million krones to be transferred to the current accounts and taken out by cheque, the current accounts increase from ten to thirty million krones, and the fraction decreases from $\frac{1}{10}$ to $\frac{1}{30}$, which is far too small a proportion. As the bank has no opportunity of increasing its supply of money from one million to three million krones so as to re-establish the old proportion, it must abstain from lending more until the current accounts have decreased from thirty to less than ten million krones, if in the meantime it has not failed, a fate that is not unlikely to overtake it.

To this it may be said : What has money to do with the lending of these twenty million krones ? Why is the bank to have one million or three million krones' worth of notes, or indeed any notes at all in hand, because of this loan of twenty million krones ? It is assumed that this loan of twenty million krones is not to be paid in money, but to be transferred to the bank's deposits, and taken out by the borrowers in their new character of depositors, by cheques. These cheques then find their way to the clearing-house to be exchanged without the use of money. It is true that the essential features of the cheque are given in these words. The object of using cheques is that their payment will not be demanded of the banks upon which they are drawn, but they will be exchanged at the clearing-house. It must not be forgotten, however, that in order that the exchange may take place, each bank, besides being presented with cheques drawn upon itself, must also possess cheques upon the other banks. Under ordinary circumstances, this condition will as a rule be fulfilled. On most days of the year, the bank will probably receive sufficient cheques from its customers, drawn to their order, upon the other banks, to cancel the cheques upon itself that are in the possession of the other banks. But a bank must also reckon upon the possibility that some day or other a far greater amount of cheques may be drawn upon itself than it receives of cheques upon the other banks, in which case the bank must pay the difference in currency. As long as the cheques upon the banks are in the hands of the first receivers, the bank will not as a rule lose much money, as these holders as far as possible forbear to claim to have their cheques cashed at the bank upon which they are drawn ; but if the cheques pass from the receivers to the other banks, these other banks both can and will claim money from the bank on which they are drawn, if the latter does not possess counter-claims in the form of cheques upon those banks. That every bank must have cash in hand is less for the purpose of meeting claims for money from private persons, than to satisfy the demands of their fellow-banks for money to pay the balance between the cheques at the clearing-house. With ten million krones in current accounts, and one million in cash, a bank will probably feel tolerably secure. The total amount drawn by cheques from the ten million krones of current accounts will be kept within such bounds that a possible difference at the clearing-house between them and the bank's cheques upon other banks, will scarcely come up to one million krones that the bank has to pay ; and this balance it can pay in currency. If it is accustomed on an average to receive every day from its customers three million krones in cheques upon other banks, and to be presented at the clearing-house for cheques for three million krones drawn upon itself, the amount on each side will certainly daily differ somewhat from these average three millions, but not enough, with such low figures, to mount up to a difference of one million krones or more. But if the bank committed the folly of suddenly granting new loans to the amount of twenty million krones, to be transferred to the deposits, it would be another matter. The customary amount of about three million krones would continue to come in daily from the old customers, from whom the bank receives its cheques upon the other banks ; but instead of the cheques drawn every day upon the bank forming, as they had previously done, a similar amount of about three million krones daily, cheques for many millions of krones would now suddenly be drawn upon the bank by the new borrowers. With its three million krones in cheques upon other banks, and its one million krones in cash, four millions in all, the bank would perhaps meet cheques for twenty million krones at the clearing-house, drawn upon itself and owned by the other banks, in which case the other banks would demand seventeen million krones in currency from the imprudent lending bank, which only had one million krones to offer, and would now be obliged to suspend payment.

If, therefore, with a general use of the cheque, fresh requests for loans are made to a bank, the bank—briefly to recapitulate the foregoing—must first compare the amount of its deposits with its paid-up capital and supply of cash. Only if it appears that the right proportion between these factors will be maintained, even in according the new loans, can the bank grant them, and proceed to transfer them to the deposits to be taken out by cheque.

Thus any attempt to relieve a country's money market by no opportunity of increasing its supply of money from one million to three million krones so as to re-establish the old proportion, it must abstain from lending more until the current accounts have decreased from thirty to less than ten million krones, if in the meantime it has not failed, a fate that is not unlikely to overtake it.

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If, therefore, with a general use of the cheque, fresh requests for loans are made to a bank, the bank—briefly to recapitulate the foregoing—must first compare the amount of its deposits with its paid-up capital and supply of cash. Only if it appears that the right proportion between these factors will be maintained, even in according the new loans, can the bank grant them, and proceed to transfer them to the deposits to be taken out by cheque.

Thus any attempt to relieve a country's money market by giving opportunity, notwithstanding the scarcity of money, for the issuing of unlimited cheques, is impossible.

§ 209. The Cheque does not render Money superfluous, but only makes a Reduction of the Supply of Money possible

Part of the money of a country is in the hands of the people, while the rest is stored in the banks.

It will be understood that the money that is in the hands of the people could not be dispensed with, even if there were an extensive use of the cheque in the country. The cheque does not make this part of the country's money superfluous. Just as it was usual, before the appearance of the cheque, for every one to keep in his pocket or some other safe place as much token currency, gold and notes—the last-named being exchangeable for gold in the vaults of the bank of issue—as his position in life demanded, so will every one keep up this custom, even after the country has gone over to a systematic use of the cheque. After the occurrence of this event, the people will use money and cheques promiscuously, but not exclusively cheques.

Nor will the other part of the country's money, which is taken care of by the banks, be rendered superfluous by the cheque. Of this money may be mentioned the gold in the Issue Department of the bank of issue, intended as the basis for the notes issued. This gold must, of course, be kept, notwithstanding the newly-arisen employment of the cheque. The notes just mentioned that are out in the possession of different persons must be based upon gold. Both for this and for other reasons the country must have a supply of gold in the Issue Department, whether cheques are used or not.

But it was not really this gold and the Issue Department that was meant when reference was lately made to that part of the money of the country that is in the care of the banks, but of the other banks, of their token currency, gold and notes, the last-named exchangeable for gold in the Issue Department. When cheques were not used in the country, the banks had always to possess supplies of token coins, notes and gold, if it circulated among the people. The necessity of this remains in force even after the introduction of the cheque. The reason why the banks must also possess money when there is an extensive use of cheques was last shown in the preceding paragraph ; but the question had also been introduced previously. In this respect the reader may be reminded that a cheque is a document intended to transfer money from one owner to another, so that the presence of money is a condition of the very existence of the cheque.

But even the cheque does not render money superfluous, it must on the other hand be allowed that after having accustomed itself to use cheques to the greatest possible extent, a country requires less money than would have been the case with the exclusive use of money. This applies to both portions of the money, both that of the people and of the banks.

The inhabitants, who have hitherto made all payments by personally handing in the money, will reduce the number of payments of that kind, and thus need less money in their possession. The remainder of their payments they will make with cheques, or, as it may also be expressed, with money lying in the banks and belonging to various persons, who transfer by cheque the right of disposal of the money to other persons.

The banks on their part had also formerly, practically speaking, used money for all their transactions. The depositors came with their money, and put it into the banks, whereupon it was given by the banks to borrowers, who subsequently, with money in their hands, paid back the loans. If, finally, the deposits were withdrawn, the banks handed the required money over the counter to the depositors. Money daily passed in large amounts out of the banks to earlier depositors and to borrowers. No general rule, applicable to all cases, exists with regard to the size of the supply of money in countries where money is exclusively used ; but a careful bank, with fairly large current accounts, will probably always try to have at its disposal a sum of money equal to one-half or two-thirds of the current accounts. The cheque changes all this. Payments in the banks, consequent on deposits and loans, are principally made, when the cheque has become general, by the aid of cheques. In the withdrawal of deposits and the payment of loans, both depositors and borrowers require the least possible amount of money, and generally draw cheques upon the banks. If there is only one bank in the town, the bank has the amount of the cheque transferred from the drawer's account to that of the receiver ; if the town has several banks, the cheques are exchanged at the clearing-house. Individual depositors and borrowers may of course still require their deposits or loans paid in money instead of drawing cheques ; and banks in other towns, or other banks in the same town, may become possessed of more cheques upon a single bank than that bank possesses upon the other banks, in which case money also goes out of the bank, namely, to pay its debt to other banks. For this purpose, all banks, even after the introduction of cheques, need a certain amount of money in their tills, but much less than when money is exclusively used for all payments. If, during the last-named period, the banks used to keep a supply of cash equal to half or two-thirds of their current accounts, they will perhaps, under the rule of the cheque, find it sufficient to possess a supply of money equal to a tenth or an eighth of their current accounts. Banks with a total of fifty millions in current accounts might, perhaps, before cheques were used, be obliged to have twenty-five millions of money in hand every morning, but after the introduction of the cheque could begin the day with, let us say, five millions in their tills. This implies that under the above assumption, these banks, when the employment of cheques is systematically carried out, can manage at any time with twenty millions less money than was possible formerly.

§ 210. What is done with the Money that can be dispensed with on Account of the Cheque ?

What does the country do with all this money that the people and the banks, on account of the cheque system, no longer need ? As much of the circulating gold as the country is able to do without could be withdrawn. The same could be done with the notes, those withdrawn being exchanged for gold at the bank of issue. The next step would be to export the gold for the purpose of exchanging it for securities and other things in countries where gold was scarce. The exportation of the gold could not take place all at once, however ; for the transition to the systematic use of the cheque does not come suddenly, but is a matter of slow growth. The first year will witness a decline in the custom of having money on the spot on the occasion of every possible kind of payment ; while at the same time some payments will be made by cheque. Each succeeding year will show a similar decrease in the use of money, and increase of cheques. In consequence of this, only a small amount of the country's gold will annually become unnecessary, as long as the period of transition to the universal use of the cheque continues. Should the exportation of unnecessary gold be undertaken during the period, it must at any rate be done in small annual portions. If the business-life of the country were to stand still, so that the annual amount of payments neither rose nor fell, a little of the country's gold could be exported every year as no longer necessary for its transactions, as the cheque came more and more into use. This, however, is hardly the mode of procedure that will be employed in order to utilize the unnecessary gold. Instead of going back, the country will probably advance in material respects; in which case the annual amount of payments will rise, and the country will need a reinforcement of its paying-medium, gold. The nation, owing to its increase, must have more money in its keeping; and the banks must also increase their supply of money, because of the increasing amount of current accounts. If the country had been unacquainted with the cheque,saved products would have had to be sent out and gold imported in exchange. Under the assumption here made, however, the country is acquainted with the cheque in so far as it has made its entrance and continued to gain ground, whereby gold is left unemployed. The state of affairs now is that the increasing employment of cheques makes the country's gold to some extent unnecessary and ready to be exported; while, on the other hand, the economic progress requires the increase of the gold. The exportation of the first-mentioned gold will therefore immediately be followed by the importation of the last-mentioned gold; therefore both proceedings may as well be omitted. It is better to keep the gold that has been rendered unnecessary by the cheque, in the country, than to export it; for it can be used by the new inhabitants and the banks, the latter requiring more money to meet the increasing current accounts and other engagements. It is in this way that we may assume that the gold rendered unnecessary by the cheque will be employed in a country where the cheque is gradually making its way.

Some figures are here given as a further illustration of the matter. A little farther back, it was assumed that at the conclusion of the period of the full employment of money the banks had twenty-five millions of money in cash, and fifty millions in current accounts, as there should be a proportion of one to two between the cash and the current accounts during that period. Let us imagine that during the period of transition to the full employment of the cheque in addition to money, the current accounts of the banks have increased, owing to the improvements in economic conditions, and amount to 250 millions at the moment when the cheque may be said to have become predominant. According to the above, the proportion one to two has now, after the introduction of the cheque, been succeeded by that of one to ten. The supply of money in the bank will then be $\frac{1}{10}$ of the current accounts, to mention a specific figure. With 250 millions in current accounts—the amount they have reached during the period of transition to the full employment of the cheque—there thus requires to be twenty-five millions in cash in the banks. In spite of the ousting of gold from exchanges by use of the cheque, the twenty-five millions in gold are still needed. The banks required them when they had fifty millions in current accounts and employed only money for payments ; and they still require them when they have 250 millions in current accounts, and payments are made promiscuously in money and cheques.

§ 211. Are Changes in the Amount of the Money Supply felt more in a Country with Cheques than in a Country without Cheques ?

By allowing money to remain in the banks, the cheque can both relieve scarcity of money on busy days (cf. § 207), and enable the country to manage with a smaller supply of money than it could have done without the cheque. But there must be a supply of money, even if of a comparatively small amount, when cheques are employed. If the money supply diminishes, the banks, both in countries with cheques and in countries without cheques, must reduce their loans. If on the contrary the supply of money increases, the banks in both countries may increase their loans. It is the increase or decrease in the supply of money that in both countries occasions relief or scarcity in the loan market (cf. conclusion of § 208).

It is possible, however, that the fluctuations in the supply of money are more felt in the cheque-employing country. In a comparison between the two countries, the point of departure may be assumed to be fifty millions in current accounts in the banks of both countries. In the country without cheques, according to the proportion one to two, the banks with current accounts to that amount, should have 25 millions in cash. If the current account depositors withdraw two millions, and send it out of the country in the form of gold, the current accounts and the supply of money go down to 48 and 23 millions respectively. In order to re-establish the ratio of one to two, the banks must then call in one million of their loans, thus bringing the supply of money up to 24 millions. In the country with cheques, according to the proportion one to ten, the banks should have five millions in cash. If two millions of this goes abroad, the current accounts and the till-money fall to 48 and 3 millions respectively. If the ratio of one to ten is to be re-established, the banks must either reduce their current accounts from 48 to 30 millions by calling in loans, or increase their cash by $1\frac{8}{10}$ millions. They may perhaps employ both means at once. If they procure one million of money, their supply of money increases to four millions, which entitles them to 40 millions in current accounts. A calling-in of eight millions of loans must consequently take place in order to bring the current accounts down from 48 millions to 40 millions. As thus represented, the diminution of the supply of money by the sending abroad of two millions of gold, would have necessitated the reduction of the loans by one million in the country without cheques, and by eight millions in the country with cheques. If, on the contrary, gold had come into the country, this, in a corresponding manner, would make larger loans possible in the country with cheques than in the country without cheques. Something very similar might be observed in a single district of a country, when money passes from it to other parts of the country and back again.

The above argument may look plausible enough on paper, but it is doubtful whether it could ever be fully realized in practice. In addition to the above-mentioned factors, there are others that have not been mentioned, which would affect the result. As one of these it may be mentioned that the two ratios of one to two and one to ten are nowhere recognized as a standard to which the banks have to conform. Nor was any regard paid to the people's supply of money, the amount of which may occasion deposits or withdrawals simultaneously with the departure of the two millions of money. The effect of circumstances such as these, or similar to them, may be that the exportation of the two millions of gold, while tightening the loan market in the country without cheques, has no such effect in the country with cheques.

§ 212. Banking Credits

In a London paper, whose money-market articles the author is accustomed to read, expressions such as bankers' credits, floating credits, unemployed balance, etc., frequently occur. Mention is made of deficiency or superabundance of these credits, of scarcity of floating balances, of a market flooded with unemployed balances, etc. All these may probably be understood only as roundabout expressions for what is elsewhere called scarcity and abundance of money. The mode of expression is probably connected with an institution peculiar so far as we know, to London, and consisting in the refusal of the banks on many occasions to enter into direct communication with the borrowers, and the employment of intermediaries for the issue of loans to borrowers. These intermediaries are called discount-brokers, bill-brokers, or stock-brokers.

An intermediary such as this has his customers in the business world to whom he lends money. But as his own capital is not sufficient for this purpose, and as it does not come within his sphere of business to receive deposits from the general public, he procures from the banks more or less of the money he needs for his loans. The actual money lent, however, the broker does not generally have paid him by the bank in question. Owing to the extensive employment of cheques, the bank transfers the loan to its deposit accounts, and authorizes the broker to call it in by issuing cheques on the bank. A credit has been established. The broker has procured a banking credit, a floating credit, an unemployed balance, or whatever else it may be named.

If the banks' supply of money increases the brokers will easily be able to obtain this kind of loan. As at the same time the loans are transferred to the brokers' accounts, there ensues superabundance of these balances, these floating credits. Superabundance of these thus arises from superabundance of money in the banks, and signifies that the banks are plentifully supplied with money.

If, on the other hand, the supplies of money in the banks diminish, the brokers will find it more difficult to obtain the loans. There will be little to transfer to their credit in the banks, and therefore their balances at the banks, or floating bank-credits, decrease. Scarcity of credits is therefore synonymous with scarcity of money in the banks.

If the bill-brokers feel that a scarcity of money is impending, they will moreover try in advance to borrow from the banks, but for the present will refrain from lending money to their customers. This was once expressed in the above-mentioned London paper in the following manner: "Balances generally are being kept within reach, in view of a further advance in discount; and their volume is temporarily enlarged bv the increase in discount business done."

Owing to the expected "advance in discount," the bill-brokers in this case abstained for the time being from lending to their customers, that is to say, from taking their customers' bills and in return giving them cheques on their balances in the banks. Indeed the bill-brokers even took older bills out of their portfolios, and let the banks discount them at the low discount still in force, and transfer the amounts to their former credit, or, as it is called, to their earlier balances. These increased temporarily in consequence of the increased discount. The bill-brokers thus left themselves an opportunity of discounting bills for their customers when the expected advance in discount (interest) had taken place. They kept the increased balances "within reach" in order to call them in by their cheques on the banks after the advance in discount, which cheques they then intended to give their customers in exchange for bills.

As we have said, when the broker has established for himself a banking-credit, unemployed balance, or whatever it may be called, he does not use the loan thus granted for himself; but he uses the money for further loan—not that he takes out the money in order to lend it, but he draws a cheque on the balance and gives this cheque to the borrower. The latter pays the cheque into his own bank as a deposit upon which he can thereafter draw cheques to give to those from whom he buys.

It will be understood from the above that not nearly all deposit accounts are called bankers' credits, floating credits, balances, etc. These names are only given to those deposits that are made by money-lenders. What all the other depositors have to their credit is called simply deposits. This, at any rate, appears to be the state of the case, from the point of view of an outside observer.

§ 213. Do increased Deposits ease the Money Market? and will a reduction of the Deposits tighten the Money Market?

If an increase or decrease in the deposits is always accompanied by an easing or tightening of the money market respecttively, it might be imagined that these respective processes are a matter of cause and effect.

If we investigate the matter, however, we shall find that this is not the case.

It may indeed happen that simultaneously with an increase in the deposits, the money supply of the banks increases, with an easier money market as a consequence; or the decrease of the deposits is accompanied by a decreasing supply of money in the banks, and greater stringency in the money market.

But on the other hand it may also happen that the deposits increase while the money supply of the banks decreases, because the banks are inundated with requests for loans, and, in order to meet the demands, are obliged to lend, not only all their new deposits, but also to some extent their earlier supply of money, after which, notwithstanding the increased deposits, they are left with less money than formerly. Their deposits have increased, but their supply of money has decreased, and money becomes tighter.

On the other hand, the deposits may sometimes be diminished by withdrawal, while at the same time the paying out of new loans may be so small that both the decrease in the deposits and these new loans are more than covered by the re-payment to the banks of old loans that have matured. In such a case the diminishing deposits, far from being accompanied by a diminishing supply of money and a more stringent money market, will be attended by an increase of the supply of money in the banks, and an easing of the money market.

It will thus be understood that an increase in the deposits is followed now by an easier, now by a more stringent money market; and that after a decrease of the deposits, either an easing or a tightening of the money market occurs according to circumstances. An easing of the money market may arise during both the rise and fall of the deposits. The same may also be said of a tightening of the money market; it may occur during both increase and decrease of the deposits.

According to this, the fluctuations of the deposits have no influence upon the state of the money market. There are other factors that determine this. The size of the supply of money, and the degree of demand for it, alone determines whether the money market is to be called easy or stringent. It is therefore not from fluctuations in the amount of the deposits, but from the amount of money in the stores of the banks, that conclusions may be drawn as to the state of the money market at a given moment.

In this connexion, the reader may also be reminded that the existence of large deposits in a country does not necessarily mean a superabundance of money. If the deposits amount to 10,000 millions, and the whole amount is out on loan, a scarcity of money prevails notwithstanding the 10,000 millions.

The above remarks are applicable whether money alone is used in a country or cheques are in general use. In both cases it is the adequacy of the existing money supply, and not the increase or decrease of the deposits, that determines the state of the money market.

A distinctive position is occupied by such deposits as are formed, in countries where cheques are used, by the transfer of loans to the deposits, and subsequently on the redemption of the loan once more disappear. Moreover, these fluctuations in the deposits have no influence upon the money market, their increase in particular indicating no easing of the money market. It is rather a sign of the approach of a tightening of the money market; for the increase shows that the banks have lent much, and will perhaps soon be obliged to reduce their loans in order to keep the right proportion, one to ten, between their money and their current accounts. In the same way, a decrease in these deposits does not signify that a tightness has supervened, but rather that an easing may be expected, as the banks will now have old loans repaid, and thus have new means for lending.

§ 214. Over-Production of Gold

Although there are very large supplies of gold in the various countries, more is annually needed. Gold is lost among other ways by wear, shipwreck, and fire. Much is used for ornaments, for gilding, and other industrial purposes. Finally, the need of gold coins increases from year to year owing to the growth of the world's population, and its economic development. The steadily increasing exchange of goods and other commodities requires more and more gold as medium of exchange. There is, therefore, as yet no question of actual superabundance of gold, but rather the reverse. We still see precautions taken, now in one country, now in another, with the object of keeping back the gold ; and this does not exactly indicate superabundance (cf. § 148). All newly produced gold will probably be immediately absorbed for many years to come. Over-production of gold, however, is not an impossibility. If some discovery or other were to occasion a great increase in the supplies of gold, and great quantities of gold were suddenly to be thrown out for exchange for other things or as deposits in banks, considerable inconvenience would be felt by those who live upon their private means, or have a fixed salary, as also by others. A slowly occurring over-production of gold would have a less embarrassing effect, but even such a slower process brings about great changes in the course of time. A rise would gradually take place in all prices, and also in all incomes.

The over-production of gold might at last become so great that the question of finding a new metal for coinage might arise. But what metal could be chosen ? At the present time scarcely any metals are known that could take place of the gold. Another expedient might present itself, namely, that of letting bank-notes take the place of the gold, the notes being guaranteed by the State. But it is not all States whose finances are in such order that the recipients of the notes would accept the guarantee and part with their commodities for this paper. And what would be the effect of this State guarantee ? Only, of course, that it would be answerable for the proper exchange of the worthless piece of paper, the bank-note, for something else, if the bank-note should be presented for that purpose at the guaranteed bank of issue. But if this something else was not to be gold, what could be put in its place ? Cultivated land, goods, or anything similar ? None of these is suitable as a medium of exchange. Bank-notes of the State, guaranteed to be exchangeable for these things, are not therefore suitable for a medium of exchange. The only expedient in the case of over-production of gold would be to try by artificial means to produce a kind of scarcity of gold, remove it from the open market. For this purpose, as the superabundant gold increased the gold coins might be made heavier without increasing their face value; the new heavy gold coin should have the same value as the old light one. A ten-krone piece might be given the weight of the old twenty-krone piece; as much gold might be employed for a half-sovereign as is now used for a sovereign; but the new heavy coins must continue to be ten-krone pieces and half-sovereigns. Another means that might come to be employed, is to forbid the banks of issue issuing notes without being fully covered, and require of them that the face value of every note issued should be found in gold in the vaults of the issuing bank in question. Large quantities of new gold would thus find their way thither, and would be prevented from swelling the previously existing supply of gold used in circulation. Furthermore, obstacles might be placed in the way of the use of cheques, transfers and liquidations, by heavy taxation, in order thereby to force the public to use bank-notes instead. The employment of bank-notes will thereupon increase; their number would have to be added to, and a quantity of gold removed from the open market for the purpose of backing in the vaults of the bank of issue the new bank-notes that were required to take the place of the cheque, transfer, etc.

§ 215. Can a Town or a District, by its Exportation of Gold, cause a Scarcity of Money elsewhere in the Country?

If a town's foreign purchases exceed its foreign sales, it must pay the difference in gold. In consequence of this mode of procedure on the part of the town, the country's supply of gold diminishes; notes must be withdrawn from circulation, and a scarcity of money may arise. How far will this scarcity of money extend? Will it confine itself to the town in question, or spread farther?

Take an example from Norway. The greater number of the two million inhabitants live round an extensive, uninhabited waste, bearing the general name of mountain plateau. On the east lies the capital of the country, Christiania, with about 225,000 inhabitants. On the west coast lies the already-mentioned second largest town in the country, Bergen, with 72,000 inhabitants, who live principally by exporting dried fish to the

Mediterranean and importing foreign goods for the fisher population of the west coast. They moreover possess a number of steamers employed in the carrying trade to all parts of the world. Now if the fisheries one year yield small profits, but the traders in Bergen nevertheless determine to let the fishermen have the necessary corn, etc., on credit until the following year's fishing, the traders in Bergen, by importing corn from the Black Sea, will incur a debt to Russia. The year before, they paid their debt to Russia with gold obtained by the sale of the dried fish in Spain and the neighbouring countries, but as this year little dried fish was exported, the gold from Spain will not be enough to pay Russia. Perhaps simultaneously with the bad fisheries companies have been formed in Bergen for the purchase of so many new steamers in England that their cost exceeds the amount of gold saved from the freights of the older steamers. Norwegian gold must now go abroad to pay for Bergen's corn and steamers. Of late years, when exporting gold, Norway often employs the capital of Sweden ; Stockholm acting as go-between in the transaction. In the present case Bergen would perhaps let banks in Stockholm pay for the corn and the steamers out of their outstanding foreign funds, and would then cause a bank in Christiania to pay Stockholm. In accordance with this charge, the Christiania bank must then take gold from its supply of money, and send it to Stockholm to settle the debt that Bergen has just incurred to Stockholm, or, with similar results, the Christiania bank may request the Issue Department of the Bank of Norway in Christiania to perform that office. In both cases, the money supply in Christiania diminishes.

Bergen's debt for the corn and the steamers has now been transferred to Christiania. This debt must also be paid. The Bergen debtors obtain the money for this chiefly from the banks of their town, by the withdrawal of former deposits and by loans. On behalf of the debtors, the Bergen banks pay all the notes into the Bergen branch of the Bank of Norway, which, through its principal office in Christiania, makes over the money to the right Christiania bank. The money is thus removed from Bergen's money supply to make up for the decrease that took place in the Christiania money supply upon the transfer of the gold to Stockholm. A diminution has taken place in Norway's supply of money to the extent of the exportation of gold for the payment of Bergen's foreign debts. But the diminution has only affected the money supply in Bergen, elsewhere in Norway there is just as much money as there was before. Still less could the effects of Bergen's transactions go beyond the country's boundaries and reduce the money supply of foreign towns. The Bergen transactions have affected only Bergen's money market, no other.

But even put the case at its highest, Bergen will not be altogether denuded of money. As already mentioned only part of the money of each place is deposited with the banks. The rest of the money always remains in circulation. It was principally from the banks in Bergen that money was sent out by way of Christiania and Stockholm to pay for the Russian corn and the English steamers. A want of money now occurred at the Bergen banks, making it difficult for borrowers to obtain loans. But of this money in circulation very little found its way out of Bergen ; since for the most part it was out of the reach of the corn importers and the steamship owners.

It has hitherto been assumed that Bergen only has its own money-supply at its disposal to pay for the corn and the steamers, in which case its purchases affect only Bergen's money market. It may be imagined, however, that Bergen has it in its power to put itself in possession of other money, in which case its purchases abroad of corn and steamers may also have an influence upon other money markets.

As already intimated, there is a branch of the Banking Department of the Bank of Norway in Bergen. Could Bergen procure money hitherto employed in other parts of the country through this branch ? This same Banking Department which carries on general bank business receives unemployed money as deposit at the head office in Christiania and at each of its branch offices in different parts of the country. Out of these deposits loans are granted to the people in all the towns where the Banking Department is established. A sum is placed at the disposal of the branch for the loans at each place consisting partly of the deposits of the district and partly of money taken from the Banking Department's paid-up capital and reserve fund and from the unfunded notes (§ 156). The loans are negotiated at an identical rate of interest all over the country. Even if the other banks in a town should raise their interest on account of scarcity of money at that place, the branch of the Banking Department there will continue to lend money at the lower rate of interest in force elsewhere as long as the department has anything to lend. To return to Bergen. That branch of the Banking Department, as also the other banks in the town, take money from the people's deposits and from their other resources, and lend money to the Bergen importers of corn and steamships. But if these importers, after having borrowed all that the Bergen banks, including the Banking Department, have to lend, still continue to import and require fresh loans to pay for their imports, they cannot expect to obtain the loans at the Bergen branch of the Banking Department. If they can obtain further loans there at all, it can only be by the head office in Christiania placing at Bergen's disposal some of the deposits in other branches, in which case the Bergen importers would take this money belonging to other parts of the country, and send it via Christiania and Stockholm abroad, in the manner described, with the consequence that the money supply of the rest of the country will be reduced owing to the excessive importation in Bergen. But there will be no question of large sums. To recapitulate, the Bergen importers cannot through their branch of the Bank of Norway draw appreciable sums from the rest of the country to pay for an extensive importation. The fact that the Banking Department of the Bank of Norway had opened a branch in their midst would not procure for them much money from other towns.

If Bergen were to have any prospect of obtaining money belonging to the rest of the country, it must have other resources than the one now mentioned. In this category may be mentioned the calling-in of money that Bergen had lent to other parts of the country, the loan of money from banks in other parts of Norway, the raising of interest in Bergen in order to attract deposit of unemployed money by private persons in other parts of the country, and finally the sale of securities and other things by owners in Bergen to purchasers from other districts. If the Bergen importers succeeded in obtaining the disposal of this money from other towns, they could send it as before via Christiania and Stockholm to pay for the Russian corn and the English steamships. By the large purchases in Bergen of corn and steamers the supply of money in the rest of the land under the last-mentioned circumstances will be reduced and be followed by a scarcity in the money market.

It rarely happens, however, that a single town is able to obtain sufficient money from other towns to occasion a scarcity of money in the rest of the country. It is possible that the commercial capital of the country may sometimes effect this; but as a rule no single town or district has the power of denuding the remainder of the country of money to any appreciable extent. It is only when large importations are going on simultaneously in various parts of the country that the peaceful inhabitants of the rest of the country are prepared to be troubled by the feverish transactions of their countrymen elsewhere in the kingdom.

§ 216. Does the Cheque menace the Gold of the Bank of Issue?

The possessor of notes can demand their exchange for gold in the bank of issue. No such privilege is granted to the owner of a cheque. It is therefore notes and not cheques that have the power of taking gold from the Issue Department of the bank of issue.

Indirectly, however, the cheque can also reduce the supply of gold in the bank of issue; for the extensive employment of cheques causes the existing notes, as previously explained, to change hands more frequently than they would if cheques were not in use. The more quickly a certain number of notes changes hands, the greater is the chance that at last an owner takes the notes and exchanges them for gold at the bank of issue, thus reducing the supply of gold. If, in the country using cheques, a certain number of notes in the course of a week can belong successively to thirty different persons, while in the country not using cheques, the same amount, owing to the slower circulation, may be assumed to have at the most ten owners in a week, the chance that the notes may pass into the possession of some one who intends to exchange them for gold is greater among the thirty persons than among the ten. Since it is only with the use of cheques that it becomes possible for so large a number of persons as this supposed thirty to have the notes under their control, with the consequent greater chance of their being exchanged for gold, the cheque may in this manner indirectly occasion extra claims upon the gold in the bank of issue.

§ 217. Panics

The Issue Department of a bank of issue is hardly likely to be the victim of panics; the present author cannot, at any rate, recollect having heard of any instance of the kind. What might give rise to a panic there would be the fear that, owing to a decrease of gold, the Issue Department might be under the necessity of refusing to give gold for the notes. We might then imagine the owners of the notes presenting themselves in a body at the Issue Department in order to make sure of getting gold for their notes while there was still time. If I am not mistaken, however, the anxiety expresses itself in another way; it reveals itself in the falling value of the notes. Discount, as it is called, is paid on the notes. The lower the supply of gold in the Issue Department sinks, the lower falls the value of the notes (cf. conclusion of § 167).

The ordinary banks, on the other hand, do sometimes become the victims of panics which may quickly lead to their suspending payment. If the bank is a bad one it perhaps deserves its fate, but a panic can also overtake a perfectly solvent bank. It is its depositors that are seized with panic. Without any cause a fear may arise for the safety of the bank, and in their anxiety they rush to the bank to get back their deposits. Gold and notes are both equally acceptable, provided there is at the time no fault to find with the management of the Issue Department. As long as the bank possesses gold or notes in its coffers the depositors' demands for the repayment of their deposits are complied with; but if it has paid out all its money, and the scare has not subsided, it must stop payment and declare itself bankrupt.

Panics occur more readily in countries where the cheque is generally used than in those that are unaccustomed to its use. Of two equally well managed banks, one in each of two such countries, the bank in the country with cheques will be more likely to have a run upon it than the other bank where the cheque is not employed. The cause of this must be looked for in the circumstance that the first-mentioned bank has a small supply of money and large current accounts; while at the last-mentioned, both the supply of money and the current accounts are small. The reason for this has been given in a previous paragraph. The state of the case is that an unfavourable proportion exists between the supply of money and the current accounts in the bank with cheques. The depositors instinctively have a feeling of this, and in the consciousness of it the ill-defined feeling of panic grows. In the bank without cheques there is sufficient money as compared with the amount of the current accounts. Here, in the event of a run on the bank, not merely a minority, but probably the majority of the current account depositors would be paid with the money in hand. The depositors therefore feel safer; they are not so easily scared.

If it has gone so far that a panic has arisen on account of either of the two banks, the one with cheques will have smaller prospect of weathering the storm than the bank without cheques; for the first bank's supply of money will soon be swallowed up by the numerous depositors who are jostling one another in the bank's offices; while the other bank's money will last longer because of the smaller number of depositors demanding the repayment of their deposits, and may indeed last so long that the depositors may finally be reassured by seeing that every one is being paid. In the first bank the panic has not time to subside, but the panic may be allayed in the case of the second.

CHAPTER XXIV

Hindrances to Production

§ 218. Want of Capital and Experience

Let us imagine two countries equally well equipped by Nature with fertile land, forests, coal, metals, navigable rivers, and fishing-grounds.

One of these countries has been inhabited so long that in the course of time the people have procured quantities of cattle and agricultural implements, opened coal and other mines, founded factories, constructed roads and railways, built ships, etc. In other words, the country is well furnished with capital, to make use of an expression employed at the conclusion of § 91. The production has in consequence been brought up to a high standard of development, both as regards quantity and quality.

The other country, on the contrary, has long remained uninhabited, and has only recently been thrown open for immigration. The scattered inhabitants are surrounded by abundant natural means of subsistence, but lack as yet the above-enumerated means of production. The production here will be trifling, and the reason is the inhabitants' want of capital, which hampers the production and prevents it from assuming the proportions that it might attain under favourable circumstances.

The production is similarly influenced by the experience of the inhabitants. In thickly-populated districts there is generally more knowledge and more experience regarding everything concerning the production than is the case in a thinly-populated community. If we compare two millions of human beings crowded together upon an area of 25,000 sq. kilometres, with another two millions scattered over a territory of 500,000 sq. kilometres, the latter will in all probability understand less about production than the former. If the question arises of opening up fresh spheres of activity adapted to both countries the want of experience may prevent the project from being carried out in the thinly-populated country, and deprive it of the prospect of increasing its production (cf. § 119).

§ 219. Inadequate Public Administration

The production of a country is often checked in its development by circumstances and transactions that are either directly brought about by the Government, or, if they originate from private persons, could have been stopped by the authorities, had the latter forcibly interfered. In such a case, the production may be said to be kept down on account of inadequate public administration.

One result of inefficient administration is exorbitant taxes and rates. The Government and the national assembly have it in their power to keep the taxes within reasonable bounds. The determining of the taxes comes directly under the department of these authorities, and they can also ultimately restrain the extravagance of corporations and municipalities. It would be sufficient in this respect to fix a percentage beyond which the rates must not go. If the Government and national assembly neglect to do their duty in these respects, but let the rates and taxes go on increasing, their action may be characterized as inefficient public administration of affairs, calculated to place hindrances in the way of the growth of the country's production. In the first place, under such circumstances, every employer of labour is obliged to give up so much of his share of the year's production, and keep so little for himself that there is very little to encourage him to set up factories, cultivate land, work mines, build ships, or begin on any other such undertaking for which he might possess the necessary qualifications. He is tempted to remain inactive or to settle in some other country where such hindrances do not exist. In the next place high taxes will on the whole reduce the number of that kind of person, inasmuch as the taxes place difficulties in the way of effecting those savings from the shares of the production with which the above-mentioned enterprises are carried out.

Socialism is another deterrent on production that can gain an ascendancy through weakness or inefficient rule on the part of the Government and the national assembly. There are two kinds of socialism, both injurious, though not equally, to the growth of the production. Almost everywhere of late a mild socialism has gained an inroad, partly in consequence of too much sentiment in the rulers of the country, and partly from their wish to gain votes from the masses at the elections to the national assembly of the country or to the corporations. The milder form of socialism declares itself in an increasing tendency in the rulers to devote a large proportion of the general taxes to the especial benefit of the working-man. As instances of this may be mentioned the lavish expenditure of money on the fitting-up and working of board schools, and the numerous small appointments that without really being required are created and given as sinecures to persons from the uneducated classes. The reason why this mild form of socialism is a hindrance to the development of production is that it necessitates the raising of the taxes, which, as already mentioned, moderates the desire of both intending and existing employers of labour to engage in production.

True socialism is still worse; agitation is carried on in its favour in all countries. The aim of this socialism is practically to take every man's property and divide everything equally among the inhabitants of the country. The introduction of a state of affairs such as this would, of course, kill every incentive to increase the production. Who would trouble about saving and transforming his saved products into new means of production, or on the whole extend his production, if he knew that all that he acquired would be taken away from him? Under a strong government, true socialism would never get the upper hand or realize its ideals in the way of community of goods. Should such a condition be established, the blame, both for it and for the consequent falling-off in the production, must be laid upon the Government and their weak rule, which allowed socialism to obtain sway over the country.

The combination of working men in trades unions, if carried too far, will hinder the growth of production, and even cause it to decline. As such excess can only take place when the Government connives in it, the consequent falling-off in the production must in justice be laid to the charge of an inefficient Government. No one will forbid the working men to form trades unions or through such agencies to arrange strikes; but this must be done legally and without infringing the just rights of others, under which reservations the production will be comparatively less affected by strikes. But the workmen must not be allowed to perform with impunity acts that would be punishable by the law if committed by persons not of the working classes. If a manufacturer, as a result of being dissatisfied with another manufacturer, were to assail him with abusive epithets or with threats and violence, frighten his subordinates from going to work, or assault him, he would fare very badly. A heavy fine or imprisonment or penal servitude would be his certain fate. What a manufacturer is forbidden to do working men ought also to be forbidden. All should be equal in the eyes of the law, but this is not universally accepted. The working man in many places occupies a peculiar position. Acts that would bring punishment upon the manufacturer, may be performed with impunity by his work-people, because the Government curries favour with them in the hope of gaining their votes at the next political election. Frequently working men are permitted to use violence to prevent those of their fellow-workmen who have not wished to join them from working, greatly to the detriment of the production ; and the trades' unions are permitted to interfere impudently in the manufacturer's private affairs, to forbid him to use new time-saving machinery, to forbid him to engage workmen outside the unions, etc.

Perhaps the best remedy against this evil would be to turn the paid leaders of the trades unions into Government officials, appointed by the Government.

§ 220. Army and Navy

If the expenditure on the army and navy assumes such proportions that the taxes in consequence become too heavy, this increase in the taxes will keep the production down, as explained in the preceding paragraph in the discussion of taxes. The army and navy, by raising the taxes, have prevented the production from attaining that stage of development which it would have reached in the absence of these institutions.

There is another injurious effect of the army and navy that we often hear put forward, namely, that through them much working power is wasted that might be employed in increasing the production of the country. Instead of employing soldiers and sailors in military exercises, it would be better to let all these young men work in the service of the production.

If they could all find places, the assertion would be justifiable. But is it certain that they could? In Europe there seems to be more working power than is required; at least so the annual emigration to other continents indicates. If the already over stocked labour-market, after the disbanding of armies and navies, were to be flooded with new labour-seekers, it would be difficult to find work for them in Europe. The European production therefore is scarcely hampered by losing all these young men, who are called away from their homes to stay for a couple of years in a garrison, or spend a similar period on board a man-of-war.

In talking of armies and navies, the mind not unnaturally turns to war. As long as a European war is going on, the production will generally fall very much in the belligerent countries; while at the same time it is somewhat stimulated in other countries in which the powers at war might raise loans. When peace is concluded, the production will improve in the countries that have been at war, sometimes in a very marked degree.

§ 221. THE DOMAIN OF CUSTOMS

Mention has already been made in a previous chapter of the influence of the customs upon production; but as a rule only one side of the question was touched upon, namely, the power of protective duty to increase the production in the protected land.

Protective duty has, however, also another effect. While it encourages production in its own country it acts as a hindrance to production in other countries, this being hampered in its growth or even diminished. Prior to the protective duty the country that is now hedged round with customs sent some of its natural products abroad, to be exchanged among other things for foreign manufactures. After the levying of the protective duty, the country manufactures these goods itself. The natural products that were previously exported remain in the country, and are practically given to the producers of the new protected home-manufactured goods, in exchange for those goods. The manufacturers abroad, who can no longer send their goods to the now protected country to be exchanged for the above-mentioned natural products, will at best, if they succeed in discovering new markets, find their production stagnate on account of the protection in the other country, or in the absence of new markets, may even have to reduce their production.

§ 222. The Domain of Coinage

The world is divided up into coinage-territories. The boundaries of a coinage-territory and of a country are generally coincident, as is the case with duty. The United States, England, Germany, Austria, Russia and Holland each have their several coinages. The Latin group of countries use the franc, while the Scandinavian kingdoms employ the krone ; but everywhere the metal is the only legal medium of payment, while the bank-notes of one country cannot claim to be accepted as payment in another country.

It would seem at first sight that the circumstance of the money of a country or a coinage union not being legal means of payment outside the land or union in question, must be a hindrance to the growth of the production. By the various systems of coinage —it might be argued—the free international exchange of products is rendered difficult, the consequence of this again being smaller production. If, on the other hand, the whole world possessed one common system of coinage international exchange would have progressed more easily, for which reason the production, in order to keep pace with this large exchange, is bound to rise.

But on a closer inspection it appears that the international exchange of goods is affected very little by the various systems of coinage. The exchange of products between country and country is effected mainly by the traders. Whether both countries use the same coinage, or one uses marks and the other roubles, is of very little consequence to the traders, for they soon learn to make the calculations required by a difference in coinages in order to be able to compare the prices of the goods of either country. If the traders of a country import for a time more than they export, so that they must send gold abroad in payment of the surplus imported goods, the existence of different systems of coinage will not occasion them any difficulty in this case either. This, too, will be only a matter of a calcuation that is quickly learnt. The prospect of having to pay foreign countries by sending gold will therefore not deter a trader from buying goods abroad, the less so as he himself refuses this trouble with the gold, and lays the burden of it upon his bank.

As the variety of coinages of which the countries thus make use does not affect the international exchange of goods, this exchange is probably in the same proportions as it would have been with a common international system of coinage; and if the division of the world into coinage territories has not impeded the growth of the exchange of goods, neither has it impeded the growth of the production.

Attention has been paid in the above only to the exchange of products between European countries. No notice has been taken of the transmarine trade.

§ 223. Bad Time

Bad times seldom occur simultaneously in all parts of a country, but generally leave a larger or smaller number of them untouched by the misfortune. Countries possessing a considerable area, very varied geological formations, and long coast-lines, run the best chance of being only partially affected; for within the borders of such a country, the means of livelihood are so varied, that bad times for one need not mean bad times for the others.

This is the case in the author's native country, Norway. In eastern Norway, with Christiania and Trondhjem as centres, agriculture and forestry form the two principal sources of income. In western Norway, on the other hand, with Bergen as centre, the configuration of the land and the climate cause agriculture almost everywhere to be of little or no importance, and there are hardly any forests to be found. The staple industry there is fish. In addition to the three means of livelihood here mentioned, shipping takes an exceedingly important place in the country's economy. It is principally the towns that own the ships. Among other businesses may be mentioned manufacture, which is principally carried on in the south-east of Norway, but also in many other places, and finally, the exporting of ice, ores and minerals.

It would be a remarkable mischance that could cause all these varied means of livelihood to fail at once. At the worst, probably only a few of them would suffer; and their distress would not consist in their altogether ceasing to produce during the bad year, but show itself in a smaller production than usual. Even if a bad year occurs, a business will always produce something, although it may be little as compared with previous years. As a type of bad times in Norway, we may take a year in which agriculture yields small profits as regards eastern Norway, owing to drought, while at the same time the yield of the forests is small on account of the small demand abroad for timber. On the other hand we may suppose western and northern Norway to have had good fishing, while shipping and the exportation of ice, ore and minerals has been up to the annual standard. The profits of these means of livelihood are this year the same as usual, but as the production of agricultural products and timber in eastern Norway, without altogether ceasing, is small compared with other years, and perhaps 100 million krones less than in ordinary years, the entire production of the country in a year such as this will fall from the usual 700 million krones to 600 millions. All those who have had a part in the production, enumerated previously in this book, and forming the whole population, in the bad year will only produce products to the value of 600 million krones, to be divided among them, as opposed to the 700 million krones' production of the normal year.

How is the distribution of the smaller production to be accomplished? This year the entire production has been $\frac{1}{7}$ less than previous years. Will every one therefore this year receive $\frac{1}{7}$ less than last year? As we know this will not happen. The reduction that must be made at the distribution of the year's products in consequence of the smaller quantity to be disposed of will principally affect persons engaged in the depressed industries, and will be less, if at all, felt by the rest of the population. The fact that this year there will be 100 million krones' worth less of products to distribute than last year, will chiefly affect those who produced less, namely, the farmers and forest-owners in the Christiania and Trondhjem region. The value of the products that these persons this year will be able to divide among themselves will be 100 million krones less than the value of those products from last year's production that were divided among the very same persons. As we have said, they will hardly become entirely destitute. Their farming has yielded some profits, although the amount is not large; and they have exported some, if only a little, timber. Their production, however, is not sufficient for them. To supplement their small share of the year's production this year, they will take from their savings—for instance, sell cattle and horses—or borrow from the traders. For the influence that this has upon the size of the supply of gold, see §§ 197 and 215 in the preceding chapter. But even with this addition, both they and their assistants will have to put up with privations and reduce their personal expenses. This would be the case with others who might be dependent upon the farmers and forest-owners of eastern Norway, even if they live elsewhere. The greater their dependence the more will they suffer from the bad year that has overtaken this part of the country. Among such persons may be specially mentioned traders and manufacturers doing business with the distressed country-people.

The want of rain and the small demand for timber abroad which are this year the cause of distress among the farmers and forest-owners of eastern Norway will not greatly embarrass the people in the western and most northern parts of Norway, for there the inhabitants gain a living chiefly by the fisheries, and these have given the same yield as in ordinary years. The inhabitants can obtain this year in exchange for their fish the same amount of foreign products as in previous years. The inhabitants of the west and north need not undergo any privations on account of the local bad year in other parts of Norway. It is only the inhabitants of eastern Norway, who have been visited with a bad year, that must this year eat less and clothe themselves more economically than usual.

In the same class with the inhabitants of the western and northernmost parts of Norway may also be placed certain businesses and certain classes scattered all over the country. By these are meant all who take part in navigation and the production of ice, ore and minerals. These means of livelihood have also been as successful as could be desired. Their workers' shares of the national production of this year, are of the same size as formerly. It is not theirs, but only those of the rural population of the east country, that have been reduced. The same may be said of the Civil Servants of the country, and all others with a fixed salary, whether they live in or out of the distressed districts. Further must be mentioned the holders of interest-bearing claims. All these persons will enjoy the same income in bad years as in good. Their salaries and interest will, this year as last, generally be paid them in full.

As regards Civil Servants in particular, it may be said that by keeping order in the country they have taken part in the work of completing the year's national production, and can therefore claim their share of the same. The manner in which they become possessed of their share has been already explained. This share never alters in size, but remains the same every year. If, in the good year, they received from the taxes five million krones in notes entitled to the repurchase of products worth five million krones, the same amount will be paid to them this year, notwithstanding the fact that a bad year has partially affected the country.

Deviations from the process above described can occur, but are of no very great significance. Owing to the common interests that in certain respects exist between members of a nation, a bad year, besides seriously affecting the various persons associated with the suffering trades, is also slightly felt by the rest of the people. The taxes to the Government may, for instance, be imagined to rise somewhat all over the country, when a bad year occurs in one part of it. If the direct taxes to the Government are assumed to be ten million krones every year alike, in a bad year the favourably situated districts must pay more of that amount than would have been the case in a good year.

Savings are also made in bad years, although on a smaller scale than in good years. In eastern Norway during the bad years it will be difficult for the rural population to save, most of them will use the whole of their share of the year's 600 million krone Production for the maintenance of life. But the population of the rest of the country, and all others who are not affected by the bad year—such as civil servants—will this year obtain just as much of the 600 million krone Production, as they did last year of the 700 million krone Production. They will therefore, on account of the size of their share, find an opportunity of making savings this year as they did last.

Has the bad year hindered the country's production? The answer will appear from what has just been said. It has, of course, done so in the affected districts. The production there was assumed to have fallen by 100 million krones owing to the bad year. Among the other producers of the country only those were affected who send their products to the rural population. The 700 million krone Production would, therefore, in the bad year just described fall even lower than the assumed 600 million krones; but in order not to have too many figures, no notice has been taken of this in the above explanation.

CHAPTER XXV

The Destruction of Savings

§ 224. Natural Forces

A PART of every year's production is generally set aside as unused and saved. The products thus saved remain to some extent unused for the time being, thus causing the earlier stores of saved goods to increase. They are, however, principally transformed into permanent things.

Everything human is perishable, however, and human savings are no exception to the rule. Not only does wear and tear and the action of the air and water help to consume them, but they may be suddenly destroyed by unfortunate events such as fire, shipwreck, earthquake, flood, and other events of a similar character. Fire and shipwreck in particular cause many savings to disappear. The earlier savings that are thus destroyed are replaced by new savings. If there has been comparatively little decrease in the course of the year, it will soon be made up. If the reverse is the case it may take a longer time before that which has disappeared can be fully replaced.

§ 225. Insurance

To insure in an insurance company does not prevent the destruction of savings. The only result of insurance is that the loss is not borne exclusively by the person who has suffered it, but is divided among a number of persons. It is possible, too, that the replacement of what is destroyed by new savings takes place somewhat more rapidy by the aid of insurance, than would be the case without it.

Those persons who are desirous of insuring took some of the bank-notes given them by the traders for their share in the year's national production—which in Norway has previously been assumed to possess a value of 700 million krones—to the insurance companies as premiums. The notes may be imagined to be divided into two portions. One portion of the notes received as premiums is kept by the owners of the insurance companies and their employés. With it they repurchase from the year's national production such products as they require. This forms their share of the production for their work in relieving others, who take a direct part in the creation of the production, from the risk of loss through fire or shipwreck. The other portion of the premium notes, with which is similarly associated the right to repurchase products from the year's national production, must be regarded as saved notes, or rather, the corresponding products have been saved by the persons desirous of insuring. Properly speaking, each of these persons should now own as many of the products thus saved as could be repurchased with the premium notes he has paid in, minus the notes given to the owners of the insurance companies and their employés. But every single person desirous of insuring renounces his right to his saved products, and transfers this right to those of his fellows who have lost things by fire or shipwreck. To take a concrete example—an insured person has lost a steamer. From the premiums formed by the money paid in by all the persons desirous of insuring, there are then given him notes with which he repurchases the corresponding products saved by his fellows, and transforms these products into a new steamer. If this takes place in Norway the saved products will practically be exported to foreign countries, and there by a roundabout process exchanged for a complete new steamer.

Whether he had been insured or not, a ship had disappeared, and the amount of the country's earlier savings been correspondingly reduced. In both cases the decrease had to be made good with new saved products from the country's total production for the year. But these saved products would have continued to belong to the savers themselves had the insurance companies not existed. Owing to the insurances taken out, however, the saved products of the others pass out of their possession and into that of the one who has sustained the loss, in the form of a new steamer. Insurance has not been able to prevent the decrease in the earlier savings of the country through fire or shipwreck, but its use consists among other things in its compelling those desirous of insuring to immediately save out of their share of the production as much as is required in order to instantly bring the earlier savings up to the point at which they stood before the fire or shipwreck. Notwithstanding these misfortunes, the earlier savings retain their former dimensions in consequence of the insurance, which they could hardly have done without it, for without insurance, perhaps the savings called premiums would not have been made, but the products would have been consumed. And further, insurance, as we have said, has removed one of the greatest risks associated with production, namely, that of losing the implements of production and the products by occurrences such as the above. Insurance thus makes it easier for the producers to continue their productive labour.

§ 226. Wastage of War

Little need be said regarding the destruction of earlier savings by armed conflicts. History supplies many instances. In the first place that fraction of the earlier savings of the belligerent powers called supplies of war suffers severely at such times. Rifles, guns, ammunition, uniforms, provisions, warships, etc., are destroyed, and must afterwards be replaced out of the taxes, which for that matter may to some extent be considered as forced savings out of the year's national production. In the next place there is a great destruction of other things. Bridges are blown up, railway-lines torn up, buildings burnt, etc., etc.

§ 227. Want of Judgment or Misfortune

Savings are often lost through a mistaken transformation of the saved products into permanent things. The mistake may arise either from want of judgment or misfortune.

Supposing a man borrows on his own and other co-interested persons' account one million krones entitled to repurchase saved products, and then transforms the products into a factory somewhere in the country for the purpose of preparing sugar from beetroot. After the factory has been erected it is found that it cannot be worked because the beetroot in the district is not suited to the manufacture of sugar, or for some other reason. The factory is consequently closed, and will subsequently stand there useless as a memorial of mistakes made in bygone days. The large brick building with its tall chimney in some remote corner of the country is scarcely likely to be used for any other purpose. The numerous saved products from the national production of the year which has gone to the transformation and have been changed into the above-mentioned sugar manufactory will have been thrown away to no purpose. They still exist, it is true, in the form of a large factory-building; but this existence cannot benefit any one. In this case, the erection of a factory in a wrong place was the cause of its having to be closed. There may also be other causes of closing, among which may be specially noticed the over-production of factories; the number of factories may grow so rapidly, that some of them have to be abandoned.

Other unfortunate enterprises which result in the destruction of products include faultily constructed ships; newly-opened mines which prove valueless; new docks which cannot attract shipping; or ill-laid railway-lines. In all these cases, the saved and wrongly-transformed products must be regarded as lost and destroyed. They will be of no more use to any one, either the original transformer or any one else.

§ 228. Waste

Waste is another cause of the destruction of savings. In this case the destruction only affects the products, and not the permanent things, as in the preceding paragraph. The saved products can be wasted by the savers themselves, but frequently also by other persons.

A saver may change his mind and determine to waste his savings. He had put the gold entitled to repurchase his saved products into the bank, but now demands it back in order, by its aid, to become possessed of products and waste them. If this happens not long after he has made his savings, he will repurchase for consumption from the saved products of the year, perhaps choosing products saved by himself, or, as is more probable, products saved by others. By his wastefulness the former saver has destroyed a part of the savings of the year. The case will be a little altered if the saver waits some time, perhaps several years, before withdrawing his deposit, so that in the meantime the bank has lent his gold to a borrower who has used it for the repurchase of his saved products or other similar products and transformed them into some permanent object. If, in such a case, the saver requests his bank to let him have back the gold he has deposited in order to waste the corresponding products he can no longer buy his own saved products, for they have already been transformed by the borrower into a permanent thing. The former saver must now either buy from the old stores saved by the traders, or from the still untransformed new stores of products recently saved by others, in which case he destroys by his wastefulness some products saved by others. The traders in whose keeping the products lay have lost the products, and in the place of these have received value in gold. In this connexion, the reader may be reminded that withdrawal of earlier savings deposited in banks for the purpose of acquiring products have also been mentioned earlier in this book, in a passage which referred to products intended for transformation but not for waste. As regards everything else, the two cases are parallel (see close of § 55).

It was indicated above that not only the savers, but also other persons could cause destruction of saved products. By these were meant bad payers. It is not exclusively good payers that present themselves at the traders with notes intended for the repurchase of their shares in the year's national production, each choosing the goods best suited to his wants. By good payers are understood the producers and their assistants, in short the original owners of the annual production. Bad payers also come, namely those who, for some reason or other, have not contributed towards the completion of the production, do not own shares of it, and therefore did not receive gold representing any share in the production. Such persons will also appear at the traders' to purchase products, promising to give gold afterwards, promises which they cannot keep. The traders will also be visited by certain producers and assistants, who live beyond their means. On account of their participation in the national labour, they became part-owners of the production, but have already repurchased their shares of the production with the gold they received. Without possessing more gold or further shares of the production, they still wish, with their wasteful propensities, more products to consume. Without gold they present themselves at the traders' with the same desire and the same empty promises as the persons without means mentioned above.

The traders thus have two kinds of customers. The first and larger class consists of temperate participators in the preparation of the production, who repurchase with their gold the year's production lying in the hands of the traders, each one choosing according to his inclination. To the second class belong the above-mentioned bad payers, to whose importunity less experienced traders often yield. This class cannot get goods from the year's production, for the year's production is required and repurchased by bona-fide customers, who possess the gold intended for its repurchase. We must therefore imagine goods taken from the saved supplies to be delivered to the bad customers, these supplies being thereby to some extent destroyed.

§ 229. What is Understood by Bankruptcy ?

The word bankruptcy signifies that a man has incurred debts, which, when they fall due, he cannot pay. If the debtor possesses no means whatever, so that there is nothing to be obtained from him, he is let go, not, however, without being punished. But if there are found in his estate any possessions worth speaking of, these are sold either privately or through the medium of a public functionary. The money received is divided proportionally among the creditors, who thus receive a part of what is due to them. Thus if a man fails, it is because he has incurred debt by borrowing money, or by buying goods and other things on credit.

The word bankruptcy awakens, moreover, other thoughts than merely that of unpaid debts. It is evident to every one that the bankrupt loses any savings he may have ; but what becomes of his savings ? Are they destroyed, and must they be considered lost both to him and to the community ? Or are they still to be traced, having only changed hands ? What influence has the debtor's bankruptcy upon others ? Or how does the matter present itself, if by savings is meant stored supplies and transformed things, or if it means stored cash, securities, and deposits in banks ? By dividing bankrupts into classes according to their position in life, with a subsequent investigation of each separate bankrupt, an answer to these questions will be obtained.

§ 230. The Failure of the Shopkeeper

A man opens a shop without capital of his own, lives upon credit only, and after three months goes bankrupt. When he set up in business, a producer supplied him with various goods from the year's production, costing in all 10,000 krones, without requiring payment on the spot, but upon his promise to pay 10,000 krones in gold three months later, or, what amounts to the same thing, 10,000 krones in notes exchangeable for gold in the vaults of the bank of issue. The producer pays out of his own notes the 10,000 krones that are to be divided between himself and his assistants for the repurchase of their products, or a similar amount of other products from the year's 700 million krone Production. On the expiration of the three months the shopkeeper finds that he is without gold and unable to keep his promise. He cannot pay his debt of 10,000 krones which he incurred on opening the shop, and is therefore adjudicated bankrupt. How did he get into this position ?

I. Lack of customers may have been the cause of his misfortunes. The people in the neighbourhood have perhaps already given their custom to older shopkeepers, and prefer to repurchase their share of the production from them, each choosing the things best suited to his wants. When the above-mentioned producer has given the shopkeeper goods for 10,000 krones from the year's production on credit, the shopkeeper may not get his goods re-sold, owing to the inclination on the part of the people in the neighbourhood to favour his rivals. Producers and their assistants, who should have come to him for the purpose of repurchasing products to the value of 10,000 krones, go to his rivals. The part of the year's production that had been brought to them was quickly repurchased from them ; and now the 10,000 krones' worth of goods from the year's production belonging to the shopkeeper commencing business would also have been repurchased from his rivals, if they had possessed them. But as these 10,000 krones' worth of goods are in the possession of the shopkeeper commencing business, his longer established fellow-shopkeepers must be imagined as taking 10,000 krones from the country's earlier stores, of which they own a portion, and selling them in order to satisfy demands. In three months, however, comes the day when the new shopkeeper has to fulfil his promise to the producer, and give him 10,000 krones in notes. This he is unable to do, as he still has all his goods unsold, and has thus had no notes come to him. He must now suspend payment, become insolvent. What will be the consequence of the failure ? The former saved supplies were reduced by 10,000 krones' worth of goods, but these were replaced by the above-mentioned unsold 10,000 krones' worth of goods from the year's production. Thus no decrease has been occasioned in the existing earlier supplies of goods by the shopkeeper's want of customers and consequent failure. As regards the persons concerned, the shopkeeper commencing business has become neither richer nor poorer than he was before his failure; and the producer should be able to fetch his 10,000 krones' worth of goods back from the shop, and thus come out of the transaction uninjured. Theoretically, the condition should be the same after the failure as it was before. The shopkeeper's unsuccessful attempt to set up in business does not, however, pass off quite so easily. A part will in any case be wasted. He will, for instance, have lived upon the products as long as the attempt lasted. A small decrease in the size of the old supplies, and a slight loss for the producer, will therefore, at the best, result from the failure of the shopkeeper.

II. Carelessness and want of judgment are also things that may lead to the failure of the shopkeeper beginning business. He is guilty of these faults if he calculates his goods incorrectly, neglects to acquire the necessary knowledge of goods, does not keep his accounts carefully, etc. In such a case it may happen that he pays too dearly for his goods, and sells them too cheaply. Let us suppose that while there is nothing to criticize in his purchase-prices, yet through want of judgment he sells his 10,000 krones' worth of goods for 8,000 krones. When the three months are over, and he has to pay his debt of 10,000 krones to the producer, he possesses only 8,000 krones in notes; he cannot pay the last 2,000 krones of his debt, and declares himself insolvent. The situation is as follows. Of the saved old supplies, nothing has been consumed; they have not been reduced by the shopkeeper's want of judgment and consequent failure. The shopkeeper himself, never having owned anything, can lose nothing by the failure; but his provider, the producer, does not escape so easily; he loses 2,000 krones of his notes. On the other hand, those who bought too cheaply from the now bankrupt shopkeeper are together richer by 2,000 krones in notes; they repurchased products worth 10,000 krones, but used only 8,000 krones of their notes for the purchase, and retained 2,000 krones in notes. The latter amount has not disappeared, but has in a manner changed owners in consequence of the shopkeeper's bankruptcy occasioned by his selling at a loss. The 2,000 krones belonged originally to the producer, but now belong to those who repurchased from the shopkeeper, and who had 2,000 krones over from their 10,000 krones in notes.

III. Giving security is sometimes the reason of a shopkeeper's failure. In the way that was assumed above, he may have obtained from a producer products worth 10,000 krones, for which a three months' credit was allowed him. During that time the people repurchase his goods with 10,000 krones in notes. Just as the shopkeeper is on the point of paying his debt of 10,000 krones to the producer, a new claim upon him suddenly makes its appearance. An acquaintance of his has borrowed 10,000 krones from a bank, and for this sum the shopkeeper has gone security. The borrower finds himself unable to repay the bank; and in consequence of the security, which the bank now enforces against the shopkeeper, the latter is obliged to hand over his estate to his creditors and become a bankrupt. As he owes both the producer and the bank, 10,000 krones, his debts, or liabilities as they are also called, amount to 20,000 krones. All his posessions, or assets, consist of the 10,000 krones in notes, which are divided between the producer and the bank, each receiving 5,000 krones. In legal phraseology, the shopkeeper has paid a dividend of 50 per cent. to his creditors. What are the further consequences of his failure, which has come about through his heedlessly having given security? There is no destruction of earlier supplies. Products to the value of 10,000 krones are produced and given to him, and these products are thereupon repurchased from him for the subsistence of the producers and partly for transformation. The bankrupt shopkeeper has not occasioned any further consumption of products. But 10,000 krones in notes, in consequence of the failure, have to some extent changed hands. They originally belonged to the producer, who now, however, only gets back 5,000 krones, and loses the other 5,000 krones in notes. These latter pass into the possession of the bank, which uses them partly to cover its loss through the borrower guaranteed by the subsequently bankrupt shopkeeper.

IV. Bad customers are frequently the cause of the failure of shopkeepers. Mention was made of them in a former paragraph. They possess no share of the production, and therefore no gold entitled to the repurchase from the year's production.

They nevertheless, however, come to the shopkeepers with requests for goods, assuring them that they will soon get gold and will then pay them. In view of the great competition and the difficulty of getting customers, the shopkeeper beginning business allows himself to be enticed by their words, and hands over to them his 10,000 krones' worth of products given him on credit by the producer. It is impossible for the purchasers to keep their promise of payment. When the shopkeeper's debt of 10,000 krones to the producer falls due in three months, he has no money and becomes a bankrupt. In this kind of bankruptcy, products from the earlier supplies are always wasted. The manner in which this occurred is apparent from the latter half of § 228 in conjunction with case I in this paragraph. It must be observed, however, that the destruction of products is not really a consequence of the failure; it is rather the destruction of the products that brings about the failure. The products are first consumed, and then comes the failure. Of the persons concerned, the bankrupt shopkeeper will suffer no loss, as he had nothing to lose; but his provider, the producer, loses his 10,000 krones in notes. At the same time, the owner of the older goods costing 10,000 krones, parts with them, but receives in return the 10,000 krones that the other lost.

By casting a glance at the four cases now passed in review, it will be found that the failure of a shopkeeper, provided he has occupied himself exclusively with his shop, never causes the destruction of old, permanent things resulting from the transformation of old saved products. The destruction of old saved products will only take place if the failure is due to sale to bad customers; whereas failures brought about by any of the three other causes are not accompanied by the destruction of old saved supplies. As regards the persons concerned, the bankrupt was assumed to possess nothing, and could not therefore lose anything. If, in addition to the goods obtained on credit, he possesses savings of his own, his situation with regard to loss will be very much the same as that of the producer in the example employed. In the first case, personal loss may, under favourable circumstances, almost be avoided. In the other three cases, the savings, represented by notes, left their former owner, the producer, and passed into the possession of a new owner, either as compensation for contributions given by the new owners of the notes (see cases III and IV), or, as in case II, without payment of compensation by the new owners of the notes. The passing of the notes decreased the savings of their former owner, the producer, but, in case II only, made their new owners richer.

The failure of the shopkeeper, only when caused by sales to bad payers, is accompanied by the destruction of savings; but the failure is almost always followed by some displacement of still existing things, namely, goods and money, especially the latter. Thus, in case I, the producer began as owner of 10,000 krones in notes, and ended as sole owner of 10,000 krones' worth of products, which had once been brought by himself and his assistants to the shopkeeper, who had not succeeded in selling them. On the other hand, the owner of the older products sold them for consumption, and received instead the producer's 10,000 krones in notes.

§ 231. The Failure of the Merchant

In the preceding paragraph, the producer was supposed to take his production, on his own behalf and that of his assistants, direct to the shopkeeper, without employing a middleman. The goods, however, are just as frequently, or perhaps even more frequently, taken first to a merchant in exchange for notes to be divided between the producer and his assistants. From the merchant the goods go to the shopkeeper, from whom they are repurchased with the merchant's above-mentioned notes, which the shopkeeper then gives back to the merchant. There may be departures from this, but these are left out of consideration.

For the carrying on of his business, the merchant will use his own savings and loans from banks—which here, however, are ignored—and purchase goods on three months' credit. He obtains products for 50,000 krones from the year's production, for which he should give 50,000 krones on the spot, but gains the consent of the producer to postpone the payment for three months. At the expiration of this time, the merchant finds himself, if the worst case is imagined, without notes to pay his debt, and must declare himself insolvent.

The merchant is beholden to the shopkeepers for the sale of his goods; he must seek his customers among them. If they prefer other merchants to him, he will have no customers and will be obliged to declare his insolvency, in which case the 50,000 krones' worth of goods remain with him unsold, and can be taken away with the producer, at any rate after subtracting the goods that the merchant must have consumed in the three months between their reception and the declaration of insolvency. Theoretically speaking, nothing more should have been wasted. Concerning this kind of bankruptcy, the reader is further referred to the foregoing paragraph, case I, on the shopkeeper, which in the main also applies to the merchant.

If the merchant, through want of judgment, or carelessness, sells too cheaply to the shopkeepers, and in three months' time, instead of 50,000 krones, only gets 40,000 krones in notes, he will not be able to satisfy the producer, and must declare himself insolvent, as was explained regarding the shopkeeper in case II of the preceding paragraph. Products to the value of 50,000 krones belonging to the year's production have, with the assistance of the shopkeepers, been sold back to the people by the merchant The earlier supplies have not been touched, and so have not diminished in consequence of the events leading up to the merchant's failure ; but a movement of notes or gold has taken place. On account of the sale on credit, the producers had to take 50,000 krones of their own notes for distribution among themselves and their assistants. Together they then repurchased the goods that had passed from the merchant to the shopkeepers, giving to the latter all the 50,000 krones in notes. Of this amount, the shopkeepers kept back the 10,000 krones in notes, and gave the remaining 40,000 krones to the merchant, as full payment of his debt. From the merchant, the 40,000 krones passed to the producer, in part payment of his debt of 50,000 krones. The end of the whole thing is that, on the declaration of insolvency, 10,000 krones in notes belonging to the producer has passed from his possession into that of the shopkeepers. The producer has lost his 10,000 krones in notes originally acquired by the sale of saved products ; and the shopkeepers succeed him as the owners of these savings.

Concerning the merchant's failure from having given security, the reader is referred to the shopkeeper's failure from the same cause, in the preceding paragraph, case III.

It now only remains to mention bad customers as the cause of a merchant's failure. His sale to bad customers is synonymous with sale to bankrupt shopkeepers, of which the consequences were explained in the preceding paragraph. In addition to the failures there mentioned, there is now a new one, namely, that of the merchant. This last failure will have no influence upon the amount of either the recent or earlier supplies. In a single case (IV), the shopkeeper's failure was accompanied by a diminution of the earlier supplies. No further diminution will be occasioned by the merchant's failure. As the merchant was supposed to possess no notes, the notes used in the transactions will also change hands in the manner explained in the above-mentioned paragraph, on the merchant's failure brought about by the failure of the shopkeepers. If the merchant owned notes, as in reality he does, the loss of the notes affects him alone, or himself and the producers together.

§ 232. The Failure of the Manufacturer

In order to avoid the bringing of too many details into the account, the two previous paragraphs have taken for granted that the bankrupt in each case had obtained his trading capital exclusively by the purchase of goods on credit. The possibility that he might have begun business, as is usually done, by the aid of his own savings, and, in addition to buying on credit, had perhaps also increased his trading capital by borrowing notes at his bank, is left altogether out of consideration. It was further always assumed, for the sake of clearness, that his failure was always due to a single cause, whereas in real life failures as a rule are due to several causes acting in conjunction. This method will not be so strictly adhered to in the remaining pages.

In order to carry on his business, a manufacturer must possess a factory, raw materials, and notes to pay his work-people's wages and for other purposes. Some of this he owns himself; the rest he has procured by borrowing from private persons on mortgages on the factory, or from his bank, or by purchasing raw materials on credit. The first debt is more or less permanent so long as the interest is paid, while the second must be paid in full at the end of three months. If the manufacturer is not able to do this, he is compelled to declare himself insolvent. How does the manufacturer get into this difficulty in paying, of which bankruptcy is the consequence ?

As the manufacturer possessed products saved partly by himself and partly by others—in the latter case repurchased by him with borrowed notes entitled to the repurchase of products—he had them transformed into a factory. This factory now occupies the place of the saved products. The factory, as a permanent thing, represents a part of the world's savings.

Accidents to the factory after its erection may now occur and cause the failure of the manufacturer. In consequence of an earthquake, the factory sinks into the earth. Or the justification for building the factory at a given place proves to have been based upon a wrong supposition, as in the case of the previously mentioned sugar factory, which could not procure beetroot. In such a case the factory must be closed, as it is not possible to use it for any other purpose. Whether the factory disappears into the earth, or is closed under the above-mentioned circumstances, makes no difference as regards the effect upon the country's savings. In these two cases a saved factory will have gone to waste. The closing of a factory—and here we come to a third case—may also take place under less serious circumstances. There may be justification for its position, but it may produce more expensive or worse goods than other similar factories, because the manufacturer does not understand how to keep it up to date, to utilize fresh discoveries, and thus lets his machinery become antiquated. If his factory is then closed, it may be re-opened by another, more capable owner. New machinery is put in, and the old, worn-out appliances are discarded, as they should have been long before the temporary closing of the factory. In this case, the failure of the factory has occasioned no diminution of the permanent earlier things. But in all three cases, the misfortune may have made the manufacturer unable to pay the interest on his mortgage, or pay his debt for raw materials bought upon credit, and may thus cause his failure. The savings that he had employed in the erection of the factory, he loses. He loses everything on account of the failure; but only in the first two cases is the failure accompanied by a decrease in the aggregate savings of the country; while in the third case, the saved object, i.e. the factory, continues its existence, after having passed into the possession of another person. Giving too high wages may sometimes co-operate in causing the failure of a manufacturer. A manufacturer of woollen goods pays his work-people 8,000 krones for a certain amount of work, a wage that corresponds with the wages in other factories, and must be considered as suitable wages. The money is given by the manufacturer to the hands while the work of producing the goods is still in progress. For this purpose he uses 8,000 krones of his own notes, for he has not yet been able to deliver the products to the traders in return for notes to be divided between himself and his assistants for the repurchase of the products, as the latter are only half completed. When at last the delivery of the goods from the manufacturer takes place in exchange for notes from the traders, the manufacturer keeps 8,000 krones out of the notes without distributing them among the hands; for he has already given them 8,000 krones of his own notes in advance, which is now paid back to him by the work-people with 8,000 krones due to them out of the notes from the traders. Further, with regard to this advance of 8,000 krones in notes, the work-people could not repurchase with it from the traders their own share of the production, as they are not exclusively in need of woollen goods, and moreover, at the time for the repurchase, the woollen goods were not yet completed and in the hands of the traders, but lay in the factory in the form of raw materials and unfinished wares. For this reason, the work-people repurchase products for 8,000 krones from the traders' earlier stores, as represented in a previous chapter. Subsequently, when their woollen goods are finished and delivered to the traders, they will not be repurchased, because the 8,000 krones entitled to repurchase has already bought products from the earlier stores. The empty space thus originating in these earlier stores may be imagined to be occupied by the temporarily unsold 8,000 krones' worth of woollen goods from the year's production. A decrease of 8,000 krones took place in the earlier stores, but has now been made good.

Let us suppose, however, that the manufacturer gave his work-people 2,000 krones too much wages in addition to the 8,000 krones which was their due, or in all 10,000. As for himself, when he takes the woollen goods to the traders, they will without doubt refuse to make good to him the 2,000 krones. If such goods cost 18,000 krones in other factories, but 20,000 krones here on account of the high wages, the traders will give him 18,000 krones in notes, 8,000 krones of which represent wages. The manufacturer gave his work-people 10,000 krones, and gets only 8,000 back from the traders. The 2,000 krones in notes are lost by the manufacturers, and gained by the work-people. The work-people may be supposed to put these 2,000 krones into a bank, and thus acquire claims upon the bank for 2,000 krones with a secondary right to the things which subsequent borrowers from the bank obtained with the money. In this case there will be no diminution of the country's supplies of saved goods in consequence of the fact that the workmen's wages have been 2,000 krones too high. The effect will be otherwise, if the workmen are tempted to use the whole of their high wage, and buy for 10,000 krones from the earlier stores while they are working. When later on their 8,000 krones' worth of woollen goods are handed over to the traders to take the place of the goods gone from the earlier stores, they will only be able to make up 8,000 krones of this deficiency; the remainder of the earlier stores consumed by the workmen, to the value of 2,000 krones, is not replaced. Upon this supposition, the earlier stores of the traders are reduced by 2,000 krones; but in return the traders have become the possessors of the manufacturer's 2,000 krones in notes. For the manufacturer himself, yielding to his workmen's demands for higher wages may be serious enough, if they are often repeated. On this occasion he lost 2,000 krones of his notes; if the same thing happens frequently, and at the same time he is suffering other losses, bankruptcy may perhaps be the consequence.

Paying too high a price for raw materials has the same effect as giving too high wages. The farmers in the district have produced wool to the value of 8,000 krones, which they should by rights have taken to the traders in exchange for 8,000 krones in notes to be divided among themselves and their assistants to be employed in the repurchase of the year's production, without, however, choosing wool. Instead of taking the wool to the traders, the farmers gave it to the manufacturer in return for 8,000 krones of his notes. With these 8,000 krones in notes, the farmers could not repurchase their share of the year's production, for that disappeared from the year's production when the farmers sold the wool to the manufacturer The farmers must therefore buy from the traders 8,000 krones' worth of things from the accumulated stores, which are now correspondingly diminished. When the manufacturer has converted the wool into woollen goods, he delivers them to the traders in exchange for 18,000 krones in notes to be divided between himself and his assistants to be employed in the repurchase of the products. Eight thousand krones of the 18,000 represent the cost of the wool, and are due to his assistants, the farmers. But as they have already received that amount out of the manufacturer's own notes, the latter keeps the 8,000 krones himself, considering them as the repayment of the notes paid in advance to the farmers. They are added by him to his trading capital, to which they belong. The farmers' 8,000 krones' worth of woollen goods will then not be repurchased, because the 8,000 krones in notes entitled to their repurchase, or that of similar goods, now belongs to the manufacturer, and is employed by him, as already mentioned, for another purpose, namely, as trading capital, perhaps for the purchase of new wool. The unsold 8,000 krones' worth of woollen goods will then have to be incorporated in the traders' earlier supplies, to make up for the decrease brought about by the farmers' earlier purchase.

But it is possible that the manufacturer has paid 10,000 krones for the wool instead of 8,000. The wool will be 2,000 krones too dear. On giving the woollen goods to the traders, he will receive from them 18,000 krones in exchange, and not 20,000 which was what the woollen goods cost him, owing to the too high price of the raw material. Eight thousand krones out of the 18,000 represent the value of the wool. The manufacturer gave 10,000 krones of his notes to the farmers for the wool, and now gets back only 8,000 krones. The difference of 2,000 krones belonged originally to him, and subsequently to the farmers. He has become 2,000 krones in notes poorer, and the farmers 2,000 krones in notes richer. Concerning the farmers' employment of the 2,000 krones in notes, the reader is referred to what has just been said regarding the workmen. The notes can either be saved or wasted by the farmers. The effect in both cases will be the same as explained in speaking of the workmen. The earlier supplies, in particular, will decrease to the amount of 2,000 krones' worth of products, if the farmers waste the sum received in addition to the true price. Like the high wages, the high price of the raw material may at last cause the failure of the manufacturer.

The bad quality of the goods produced may contribute towards the subsequent failure of the manufacturer. If he comes to the traders with inferior woollen goods, he must sell them for less than the cost of manufacture, or perhaps even be met by the traders with the answer that they will have nothing to do with his goods. The work-people and farmers have already purchased from the earlier stores of the traders, each class for 8,000 krones, for 16,000 krones in all. According to what has previously been said, this decrease should now be made up by 16,000 krones' worth of new woollen goods; but since these—to take the worst case—were thrown away as useless, the decrease is not made up. The old stores are reduced by 16,000 krones' worth of goods. The manufacturer has lost 16,000 krones of his notes, and they are now in the possession of the traders as compensation for the decrease in their earlier stores.

The manufacturer, like the traders, can be obliged to declare himself insolvent on account of incapability—of which examples have been given—or want of customers, through giving security, through selling to bad customers, etc. To demonstrate this further would in the main be a repetition of what has been said under the head of failures of shopkeepers and merchants, especially the latter. A reference to what was there said must suffice.

The consequences of the manufacturer's failure have been to some extent already mentioned. The destruction of earlier permanent things and of earlier supplies may precede the failure, but do not occur after, and in consequence of, the failure. The earlier supplies in particular will undergo diminution before the failure, when it is wholly or partially occasioned by the inferior quality of the manufactured goods, or by selling to traders who are unable to pay, because they allowed idlers to have the goods on credit, and sometimes also if the failure is caused by high wages or expensive raw materials. If the things are not thus destroyed, but remain in existence after the commencement of the failure, the latter will cause a change in the ownership of these things. One loses permanent things, earlier supplies or notes, of which others become possessed, generally, however, without noticing any corresponding increase in their wealth. If the manufacturer, who afterwards fails, pays 2,000 krones too much in wages, and the work-people with it purchase from the earlier stores at the traders, for their consumption, the traders obtain, it is true, the 2,000 krones in notes previously owned by the manufacturer, but at the same time lose earlier supplies to the value of 2,000 krones, and have thus become no richer by the transference of the right of ownership to the notes from the manufacturer to themselves.

§ 233. Failures of House-Owners in Towns, Builders in Towns, Farmers, Owners of Ships and Mines

It is hardly necessary to enter in detail into the failures named in the heading of this paragraph. By treating them after the same method as that employed in the three preceding paragraphs, they will be found to be accompanied in the same way, sometimes by the destruction of older objects and supplies, and always by changes in the existing conditions of ownership.

§ 234. The Failure of the Speculator

In places where speculation has not yet passed out of its infancy, it is generally rising prices that are speculated in ; but under better developed circumstances, much speculation is also carried on in falling prices. One speculator buys shares in the hope that their price will rise and enable him subsequently to sell them at a profit. Another speculator sells shares with the idea that they will fall, in which case he can buy back the same kind of shares at a lower price, if he chooses. Persons who speculate generally borrow largely from the banks. The speculators, if they expect prices to rise, will buy with their own and the borrowed notes, shares, bonds, goods houses, building sites, or whatever else may be the object of their speculation.

If the speculator's belief in the change of prices prove to be a mistaken one, it may entail such loss upon him that the value of his possessions is less than his debts to the bank and to what other creditors he has. If so, he cannot pay his debts, and must declare himself insolvent. His possessions are sold for notes, which are given to the bank and the other creditors towards paying off what is due to them.

After the speculator's failure, the objects of his speculation remain the same as they were before the failure. Securities, goods, houses, and sites, in which he speculated, do not go to destruction in consequence of his failure, but are transferred to new owners in exchange for notes.

With regard to the persons concerned in the unsuccessful speculation ; the speculator will lose his earlier savings. When purchasing things for speculation, he gave his notes to the sellers, and after the failure also loses his other possessions, which, as already said, are sold for the benefit of his creditors. These, among whom the bank must especially be mentioned, lent him their notes to be employed, together with his own, in the purchase of objects for speculation. The borrowed notes still exist, but are in the possession of those who sold the shares, etc., to the speculator. The bank and the other creditors receive partial compensation in notes that have come in by the sale of the bankrupt speculator's possessions, but must write off the rest of the notes as a loss of their savings, or, as regards the bank, perhaps of its capital.

The above is chiefly applicable to bankrupts who speculated in rising prices. Similar results might be demonstrated in the case of a bankrupt who had based his speculation upon falls in prices.

It was further assumed above, that the speculator in question, immediately after agreeing to the purchase-contract, took over the things sold and bought on speculation in exchange for notes, to keep them for the present. This often happens. In numerous cases, however, there is no question of taking over the things, but only of paying the difference in price on the part of the losing speculator, when a certain time has expired. If a speculator such as this fails, the consequences here too will be loss and displacement of possessions, but without the destruction of objects.

§ 235. The Failure of a Bank

In establishing a bank, the shareholders pay a certain amount of money, which forms the funds of the bank, the so-called paid-up capital. After it is opened, the bank also receives money as deposits, which, looked at more closely, means that the bank borrows money from the depositors. If cheques are generally used, money will not often appear in making these payments, as explained in the chapter on the cheque.

The greater part of the paid-up capital and deposits is lent by the bank to borrowers such as traders, manufacturers, house owners, builders, shipowners, farmers, and speculators. If the paid-up capital amounts to two millions, and the deposits to twenty millions, twenty-two millions in all, and the bank lends twenty millions of these, then on the one hand it owes twenty millions of notes to the depositors, and, on the other, possesses twenty millions of claims upon borrowers. To strengthen these twenty millions of claims, the bank possesses a kind of secondary security in what is due to the borrowers from their customers, and in the things the borrowers have procured with the loans.

All such imaginary securities, and the bank's twenty millions of claims upon borrowers, may be regarded as further mortgaged by the bank to the depositors, as the latter, in the event of the bank's failure, will look to the bank's outstanding claims on the borrowers, and in case of need to the borrowers' possessions.

As long as no serious misfortune occurs, the business of the bank follows its accustomed course. Deposits are received and withdrawn. In the loans there is the same mobility. The depositors will always have money to their credit in the bank, and the borrowers always owe money to the bank. The amount of the deposits still exists, but the persons, the depositors and the borrowers, change.

The even development of the bank's activity comes to an abrupt termination if the depositors, rightly or wrongly, conceive a mistrust of the bank, in which case a run is made upon the bank by frightened depositors, wishing to have their deposits back. If the bank cannot pay its debt to the depositors failure will be the consequence. If the conditions of the bank has become bad without the knowledge of the depositors, it may be that it will voluntarily declare itself insolvent, without any previous run upon it.

The failure is occasioned by the bank's want of money with which to pay the depositors their former deposits. The bank finds itself in this situation principally through having lent money to bad borrowers, and thus losing the depositors' money. But the situation may also be the result of lending to good borrowers, if the time stipulated for the repayment of the loans is very long ; for if depositors, under this assumption, wish to have their deposits back, the bank must declare itself unable to comply with the depositor's wish, because its loans are not due for payment until some distant date. As, however, the long outstanding claims of such a bank may be sound, the depositors, after the affairs of the bank have been wound up and they have waited a long time, may perhaps at last get back their own.

§ 236. After the Failure of a Bank, can a Decrease in earlier Permanent Things and earlier Stores of Products be shown?

In some previous paragraphs, the question as to how far there is any decrease in earlier permanent things and in earlier stores of products when traders, manufacturers, or other persons fail, was touched upon. If such decrease has taken place with their failure as a consequence, and they then drag the bank after them into bankruptcy, the decrease may be said to accompany both the private failures and that of the bank. But no other decrease in things and supplies, associated exclusively with the bank's failure, occurs. The question as to the possible decrease in things and supplies at the time of a bank's failure is therefore the same thing as asking in what cases such decrease takes place in private bankruptcies. If a decrease takes place here, it will also be possible to show it when the bank of the private bankrupts fails.

After the failure of a bank, a decrease can accordingly be shown in—

(*a*) Earlier permanent things, if the bankrupt borrowers from the bank have—

- (1) As manufacturers lost their factories through natural events, or been compelled to give up the factories, owing to unsuitable locality, etc.;
- (2) As house-owners or builders, come into the same position as the manufacturers above, or
- (3) As ship-owners lost vessels through the natural events.

(*b*) Earlier saved supplies, if the bankrupt borrowers from the bank have—

- (4) As traders sold on credit to people without money who promise to pay later, but are unable to do so, because they have not shared in the labour of creating the year's production, and thus possess no share of that production;
- (5) As manufacturers paid too high wages or too high a price for raw material (if the recipients neglect to save the surplus paid) or lastly produced inferior goods, or
- (6) As farmers fallen into a position similar to that of the manufacturers above.

The above may be regarded in the main as an exhaustive enumeration of the losses of permanent things and saved supplies, arising from the bank's failure. In all other cases of private failures followed by the failure of banks, the permanent things and the earlier supplies will practically suffer no reduction, but remain the same after as they were before the failures of the borrowers and the banks. They will, however, after the failure, pass into the possession of new owners. The still existing objects and supplies pass out of the possession of their present owners, the bankrupts, by sale.

§ 237. How do the Depositors and Shareholders in an Insolvent Bank fare?

When a bank has failed, the lengthy process—often lasting for years—of liquidating its affairs, is immediately commenced. All loans given by the bank are called in, and the money thus brought in, as also what the bank may have in hand at the time that the bankruptcy is declared, is employed in the first place for the payment of the bank's own debts, the so-called deposits. If there is any money left after the depositors have been paid in full, it is given to the shareholders in place of their paid-up capital. As a rule, however, an insolvent bank will have nothing left for the shareholders, indeed will scarcely be able to pay its debt in full to the depositors. For the sake of convenience, we will leave the bank's paid-up capital and cash at the time of the failure out of consideration.

Let us assume that ten millions out of the bank's twenty millions of loans are afterwards paid back by safe borrowers as they become due. These ten millions are employed to pay off the deposits, which now sink to ten millions.

The depositors had formerly lent the ten millions, now paid back, to the bank which further lent them to its borrowers with a kind of secondary security in the borrowers' things. The bank's claims upon its borrowers, and its secondary securities, then served the depositors in a manner as secondary security for their deposits, for that which stood to their credit in the bank. When, after the failure of the bank, borrowers paid their borrowed ten millions back to the bank in ten millions in money, both the bank's claims upon them, and the secondary security in their possessions were cancelled. When the liquidators of the bank then handed the ten millions to the depositors, their claims upon the bank, amounting to ten millions, were also cancelled. Instead of their ten millions of deposits or credit in the bank, secured by secondary securities, the depositors found themselves again in possession of ten millions of money. If the insolvent bank was the only one in the town, another is sure to be instantly established, to which the ten millions of money are brought as deposits, to be once more lent on behalf of the class of depositors to the safe borrowers from the insolvent bank or to other business men. The former depositors and their ten millions of deposits and the borrowers exist as before in spite of the failure, the only difference is that their transactions take place in a new bank raised upon the ruins of the insolvent bank. The repayment of the ten millions of money to the liquidators, and the ensuing payments, take place of course in succession, but not on a single day, because in a small town with only one bank there will not be nearly ten millions of money in circulation. In order to pay such an amount, the existing money must be used over and over again, or in other words the payment must be divided over a certain period of time. If cheques are in general use in the place, so that the actual money, by arrangement of accounts, is seen as little as possible, certain alterations will have to be observed in effecting the transfer of the ten millions from owner to owner. The earlier chapter on the cheque will contain the necessary information under this head.

According to the above, ten millions was paid off on the insolvent bank's twenty millions of deposits, or debt to the depositors, that sum having come in from the bank's safe borrowers, who thus completely settled their debt to the bank. But the depositors still have ten millions to their credit in the bank. For the settlement of this, the bank possesses claims to the amount of ten millions upon their unsound borrowers ; but only a partial payment of the ten millions is to be expected from them. They have failed just because they could not pay their debts, among them being the ten millions borrowed from the bank. An attempt is now made to realize all that they possess. If the realization takes place with the greatest possible speed, the losses in many cases will be unnecessarily large. The winding up therefore requires time. When at last after the expiration of years the estates of the insolvent borrowers are realized, it appears that on an average they have not paid more than to name a particular figure—of their debt. Of the ten millions lent by the bank to these subsequent bankrupts the bank finally gets back four millions. The four millions are given by the bank's liquidators to the depositors in addition to the previously distributed ten millions, and the depositors probably take these four millions to the already-mentioned new bank as deposits. The result as far as the depositors are concerned is, that of the twenty millions due to them from the bank they have received fourteen millions in all, and lost the remaining six millions.

Six millions of their twenty millions deposited must be written off, wiped out. What does this writing off mean ? They had in former days deposited the six millions of money in the bank, and acquired a claim for the same amount upon the bank. The bank lent six millions to traders, manufacturers, shipowners, speculators, and others, upon an implied secondary security in the borrowers' goods, and permanent things to the amount of six millions. If merchants borrowed from the six millions of deposits, they employed the money in buying goods from the producers, some of which are afterwards in the hands of the merchants themselves, and some transferred to the shop-keepers, who obtain them on credit. A manufacturer, with his loan from the six millions, will perhaps enlarge his factory, acquire raw material, or pay wages, in order, with the assistance of the work-people, to work up the raw material and enhance its value. Another will build a steamship with his loan from the six millions, and furnish it with coal, provisions for the crew, etc. The speculator who might get some of the six millions from the bank, buys securities, building land, or goods with the money. In all this, and in the borrowers' claims upon their customers, and the latter's claims upon their customers, the bank may be imagined to possess a secondary security for the sum of six millions. The articles and the claims are acquired with six millions of deposits lent by the bank. If the repayment of the borrowed six millions does not take place when due, the bank may reimburse itself, with the aid of the law, *inter alia* with the things enumerated and the claims. This imaginary security given to the bank also benefited the depositors, acting as security to them for their six millions of deposits in the bank. On the subsequent failure of the borrowers, however, the secondary security for the six millions proved to be valueless, as the borrowers might in the meantime either have lost some of the six millions of things through natural events, or sold some of them to bad payers, or given to others lawful—not imaginary or secondary—mortgage on the factories and ships belonging to the six millions of things. The bank, thinking it would be repaid the six millions by the borrowers, or if this were not done, that it could depend upon the six millions of secondary securities, is disappointed in both expectations. There is no question of payment, and the secondary securities have either ceased to exist, or have passed into the possession of new owners, or are valueless. There is nothing left for the bank to do but to declare itself insolvent, and write off the six millions of claims upon the borrowers. Another result is as follows:—As long as all went well, the borrowers used to pay the bank annual interest in return for the six millions borrowed. This meant that the borrowers gave a little of their share of the year's production to the bank, which in its turn divided the amount received between its depositors and itself. Paragraph 72 gives further information on this head. After the failure of the borrowers, the interest on the six millions ceased.

Just as the six millions of claims upon the borrowers are struck off the books of the bank, so six millions of the deposits of the bank, its debt to the depositors, are struck off. The depositors lose their six millions of claims upon the bank, their secondary right to the six millions of things acquired by the borrowers from the bank with the six millions of deposits, and finally their participation in the borrowers' share of the year's production, hitherto due to the borrowers on account of what they had to do with the six millions' worth of things.

Some of the six millions' worth of products may have disappeared through natural events, but others may still exist. They have only passed out of the hands of the insolvent borrowers from the bank into the possession of others. Hitherto these borrowers used the things bought with the money borrowed from the depositors' six millions of deposits, and gave a little of their share of the year's production under the name of interest to the depositors in return for the use of the things. Now, on the other hand, these things are in the possession of new owners who use them for their own benefit, without, however, sharing their profits with the former depositors.

§ 238. The Influence of Failures upon the Money Market

It will be understood that the destruction of money is not practically one of the occurrences that accompany failures. In a shipwreck or a fire, both coin and notes may be lost, although extremely seldom in such quantities that the owner is rendered powerless to pay his debts, and is compelled to declare himself insolvent.

As failures therefore do not bring about any decrease in the supplies of money, they ought not to have any effect upon the money markets. This, however, is stating the case too high. Although money continues to exist after the failures, the owners of the money or the depositors in the banks, may sometimes, in case of numerous simultaneous failures, or of a single failure of unusual proportions, become so alarmed that they withdraw their money from circulation and keep it themselves, and thus occasion a scarcity of money. Even if this fear does not assert itself, it may be that the creditors in another town draw the dividend paid by the insolvent estate away from the place, because they possess no other connexions there. If the insolvent is a bank that has received large deposits from other towns, it is possible that the liquidators will have to send away so much money that the money market at the place from which it is sent will be affected by it.

Large failures may, moreover, after some time has elapsed, be followed by an easing of the money market. This will happen every time the failures cause a noticeable decrease in productive labour and the desire to acquire permanent things.

§ 239. The Bankruptcy of a Country

The phrase " bankruptcy of a country " does not mean that every person in the country has become bankrupt. On the contrary, the individual inhabitants will for the most part be as solvent, and their affairs in as good order, after the country's bankruptcy as they were before it. When a country becomes insolvent, that condition is connected with the general expenditure of the inhabitants for the furtherance of public objects. The inhabitants keep a large public fund under the supervision of the Government, and formed partly by taxes, customs, etc., and partly by loans. Out of this fund, the sums required for public expenses are taken. Under a bad Government, new loans are constantly being negotiated by the Government and the national assembly. As the national debt increases, the amounts that are required each year for the interest and redemption of the debt, also increase. In order to meet these payments on behalf of the national debt, the taxes must be raised again and again. There is, however, a limit to the amount of additional taxes that a nation can bear ; and when this limit is reached, no higher taxes can be extorted. If, in such a case, the Government still continues to borrow on the public account, and the taxes remain stationary, the Government will no longer be able to pay the interest on the national debt and its redemption. It is then that the condition designated above as the country's bankruptcy supervenes.

Persons and companies, when they have failed, are put under private administration, or surrender the disposal of their estate to a court of law, to be realized under public surveillance, and distributed proportionately among the creditors. But there can be no question of this latter alternative in the case of the bankruptcy of a State. The laws, which in every country command bankrupt private persons to go to the courts of law with their their property, contain no such provision for the State. That which is suitable for private persons is not suitable for the State. The property of private persons can always be sold, but that of the State only in exceptional cases. It would be difficult to find purchasers for royal palaces, government buildings, parliament buildings, churches, fortresses, army uniforms and rifles. If the bankrupt State were to be able to offer its creditors payment, it would have to be done either by the raising of the taxes, which, as already stated, is impossible under the circumstances, or by bringing a better Government into the country. The surrender of a bankrupt country to a court of law, in the same manner as a bankrupt person surrenders himself, is not therefore capable of accomplishment. As a rule, nothing is done with the country. The disappointed creditors complain loudly, but there the matter ends. Exceptions may, however, occur. When the creditors belong to a great nation, and the bankrupt country is small and, from its position, can be reached by the forces of the great nation, it may happen that foreign governments usurp the control of small countries' finances in order to obtain means with which to procure payment for their subjects.

To the inhabitants of the bankrupt country, the bankruptcy, apart from the above-mentioned case of force, will present itself as a pleasant change; for even if the taxes are not reduced immediately after the bankruptcy, the consequence of the bankruptcy will at any rate be that no further portions of their share of the year's production will be taken from them under the name of taxes, that the taxes will not be raised still more, but rather be reduced.

It will appear from the above that the loss of savings peculiar to private failures does not attend the bankruptcy of a country. The present paragraph does not, therefore, properly speaking, belong to the chapter on the destruction of savings, but is included here for the sake of convenience.

Towns are also sometimes seen to fail. What has been said concerning a bankrupt country is also applicable in the main to a bankrupt town.

§ 240. WHAT WILL BE THE EFFECT OF THE SALE OF OLD OBJECTS UPON OLD SAVINGS?

When an old object of wealth is sold to a new owner, the effect that the sale will have upon the country's savings depends upon the former owner of the object, the seller. Whether some of these savings after his sale will still continue to exist, or will be destroyed, depends upon what he does with the money. It would take too long to explain the matter in all its details, owing to the numerous cases that might occur. We will attempt to give some idea of the state of the case by a few suggestions. If the seller of the old object of wealth employs the gold he receives in buying saved products from the traders for the purpose of having them transformed, the country's savings will be undiminished. If he acquires with the gold another old object of wealth in the place of the one he has sold, for instance, parts with a ship and procures himself a house, he himself does not, it is true, reduce the savings of the country, but by that act he shifts the responsibility from himself on to the former owner of the house, who will have to determine, instead of him, the fate of the savings in question. A third mode of procedure is often followed and consists in the employment of the gold received by the seller of the old object, in purchasing saved products from the traders, and consuming them. This implies that the country's savings will be diminished in consequence of the sale of the old object of wealth.

§ 241. The Consumption of inherited Fortunes by the Heirs

It was said at the conclusion of the last paragraph that the seller of an old object might *inter alia* employ the money he received in purchasing saved products and consuming them, whereby the old savings suffer diminution. Old fortunes are frequently wasted in this manner. The owner of such a fortune dies and leaves his objects of wealth to his children. Each of them receives as his inheritance a moderate fortune, which he perhaps preserves undiminished during his lifetime. But when the possessors of these fractions of the original fortune die, and the objects of wealth are left to their heirs, so small a portion falls to the share of each these last, owing to their large number, that the recipient often gradually realizes his inheritance, and buys with the gold the saved products of others, in order to consume them. On account of the smallness of his share of the year's production, he has recourse to his capital and consumes that. The other heirs perhaps do the same, and one day the original fortune will be entirely consumed; or rather, the heirs will have given the objects of wealth of which the original fortune consisted to others in exchange for gold, and with the gold have purchased from the saved supplies of the country, consumed what they purchased, and reduced the supplies by an amount corresponding in value to the fortune of the original testator.

§ 242. Death Duties

In many countries, duties must be paid to the State out of the estate of a deceased person.

In order to be in a position to pay this extra tax, death duties as it is generally called, the heirs must sell estates, securities, and other similar things out of the entire estate. If an inheritance possesses a value of one million, and 10 per cent of this must be paid away in death duties, property to the amount of 100,000 krones in money is sold out of the estate, that amount being then paid into the exchequer as death duties on the estate.

Earlier in this book, a distinction has been made between repurchasing and ordinary money. The former is imagined as being given by the traders to the producers and both their immediate and more remote assistants, in exchange for the year's production, and subsequently employed for the repurchase of the production from the traders, each purchaser choosing that which was best adapted to his use. As opposed to this, money was called ordinary when it was employed for all other kinds of purchase. The money paid in death duties does not originate from the traders in exchange for goods for the year's production, but from the sale of old objects. There is therefore no right to repurchase from the year's production associated with the money of death duties ; that money is under the necessity of purchasing from the saved supplies belonging to the traders and others.

Death duties are not employed by the State in purchasing from the earlier supplies in the country, for the purpose of transforming the products, but in purchasing provisions for the army, or as salaries of Civil Servants, who immediately obtain necessaries of life with the money, or for other similiar purposes.

The imposing of death duties leads therefore to a diminution in the country's earlier supplies of saved products. It differs in this respect from the ordinary taxes and duty, which are both taken from the year's production.

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