WEALTH, CAPITAL AND CREDIT.

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Macleod in his "Theory and Practice of Banking" asks why political economy has not yet attained the same rank as an exact science as mechanics, and answers, "because the same care has never yet been given to settle its definitions and axioms." In this answer we are furnished with but a fraction of the truth. A deeper reason is, its definitions and its axioms are far more difficult of settlement than those pertaining to mechanics or to any of the more exact sciences.

Political economy labors under special disadvantages. Its close relation to the moral sciences, whose circles certainly touch if they do not overlap, brings it continually into contact with feelings and prepossessions which are nearly sure to leave their impress upon the discussion of its principles. Its conclusions, too, from the very nature of the subject matter of which it treats, have a direct and visible bearing upon human conduct in some of the most exciting pursuits of life, while its technical terms by a sort of compulsion are taken from the language of the people, and must partake in a greater or less degree of the looseness of colloquial usage. Its growth seems slower than it really is, for it belongs to a class of sciences whose work can never end. The chief data from which it reasons are human character and human institutions, and whatever affects these must continually create new problems for its solution.

Of disputes about definitions there is no end. They are rife in every science. In political economy they are especially so, and chiefly for the reasons above stated. Disputes of this character are usually harmless, and not uncommonly stale and unprofitable. But there *are* economic questions of vital import, such as reach to the very essence of things, about which we do not find that harmony which would seem to be essential to healthy and rapid progress.

The subject to which I desire to call attention chiefly at this time is credit, but before doing so, it is important to pass in brief review two or three other terms which lead up to and are necessarily involved in any discussion of credit.

The first of these is value, an important term in Political Economy, and one almost necessarily concerned in every economical discussion. A misapprehension of the nature of value will vitiate all reasoning upon questions of economy and finance. The term is a relative one, and herein lies the chief difficulty. That which is absolute the mind can seize and hold, but mere relations are apt to slip the grasp at every turn. Value always implies a comparison. It is the relation which one thing bears to another as made known by an act of free exchange. In other words, exchange, which is a sort of equalizing of estimates, alone gives expression to value. It would be just as reasonable to attempt to determine a ratio by considering one of its terms only, as to attempt to ascertain the value of a thing without comparing it with something else.

Another term closely allied to value, and which is made the central word in most of the definitions of political economy, is wealth. This, also, like other terms which this science is compelled to use, is taken from every day language, and is sometimes employed in a vague, and often in a metaphorical sense. "Every one," says J. S. Mill, "has a notion, sufficiently correct for common purposes, of what is meant by wealth. The inquiries which relate to it are in no danger of being confounded with those relating to any other of the great human interests" While this is true, yet, as Mill himself shows, the most mischievous confusion of ideas has existed upon the subject, which for generations gave a thoroughly false direction to the whole policy of Europe. Under the so-called "Mercantile System," nations in their intercourse with each other assumed, either expressly or tacitly, that money and the precious metals capable of being converted directly into money were alone wealth — that whatever sent these out of a country impoverished it, whatever tended to heap them up in a country added to its wealth, no matter what or how much of other commodities was given in exchange for them. These crude notions have in the

main been dissipated, yet some traces of them still linger and often crop out in discussions upon what is called the balance of trade. Disputes about wealth still go on, but they are mainly over distinctions of metaphysical nicety. Political economists are substantially agreed as to the nature of the thing itself, and only quarrel about whether this or that shall be admitted to the category. In the language of the logicians, they differ about the term in extension, not in intension.

Prof. Perry, however, holds that it is impossible to frame any definition of wealth which will render the word fit for scientific use. He has written a book about wealth without stopping to define it. It is a work of much merit, but is marred, it seems to me, by the author's persistent attempt to ignore this term. Nothing is gained by calling political economy the "science of exchanges," or the "science of value." The question What is wealth? must still be met, for to wealth only do exchanges apply or does value attach. Wealth is usually defined, and I have no new definition to offer, as "anything which can be appropriated and exchanged." The essential requirements are that it shall possess utility, or the capacity to satisfy desire, and be the result or embodiment of labor. Hence, as a generic term, it includes all objects of value and no others. It is usual to include in wealth material things only — such as may be accumulated, stored. Such limitation is more in accordance with the popular notion of wealth, although strictly and logically the term includes more. The question of wealth or not wealth does not absolutely turn upon the length of time a thing may be enjoyed, nor upon whether it may be seen or tasted or handled. The primary source of wealth is the free bounty of nature. The secondary source is labor which also gives the right of possession. Nature is liberal in her gifts, but she rarely offers them in a condition just ready for man's consumption. Man begins where other animals end. They use nature's gifts as they find them. He, like them, partakes of her fruits, but is expected to fit them for his use by rational effort. The accumulated wealth of the world is but the result of the application of labor to the materials furnished at free hand. Wealth and capital must not be confounded. The former includes all objects which may be

appropriated and exchanged, the latter, such only as may be employed in production, or at most, such as are set aside for productive purposes. Hence, all capital is wealth but all wealth is not capital. Wealth is generic, capital is specific. Capital is sometimes called labor of the past. It is the result rather of the combination of past labor and natural agents. The knowledge and skill of workmen also are by some included under the head of capital. There are grave objections to such a classification. It tends to break down all distinction between capital and labor, or rather, between capital and laborers. All labor implies a union of physical and intellectual effort, and the same reasoning which is urged in favor of reckoning the acquired knowledge and skill of the laborer as a part of capital would, if followed to its logical results, include his physical strength also in the same category. It is claimed that men sell their skill — their intellectual and physical dexterity. If this be true, then they also sell their mere physical powers. The truth is they sell neither. The *results* of each are bought and sold in the market — not these powers and capacities themselves. It is a characteristic of the latter that they are retained and used — not parted with at all. Nor is the skill of a mechanic, strictly speaking, something owned. Possession implies something outside of the possessor. Knowledge and skill and physical power go to make up the man, — they are a part of what he *is*, not what he *has*. Labor helps to create capital, and the powers of the laborer, whether natural or acquired, are potential labor.

We are now in a better condition to understand the nature and chief functions of credit As the etymology of the word signifies, credit is trust — confidence. Prof. Fawcett defines it as "power to borrow." From the standpoint of the borrower this is correct, but back of this power and essential to its exercise is the trust imposed by the creditor. In its generic sense, credit is implied in all mutual dependence and mutual helpfulness. Without it, society would be impossible and human intercourse practically at an end. As applied in the affairs of life, credit is reliance on the integrity, energy and skill of one's fellow men, and the extent to which it may be safely carried is one of the highest

tests of civilization. It is neither wealth nor capital — does not of itself create either. It brings wealth into the form of capital and thus gives experience to the industrial talent of a country. All written instruments of credit, when in use, whether in the form of book accounts, bank bills, checks, bills of exchange, or what not, are tangible evidences that trust has been imposed and that the power to borrow has been exercised. But credit may be signified by spoken words, as well as by written, or even without the use of either. Prof. Perry says "credits are debts not yet realized," meaning probably that instruments of credit are evidences of rights not yet realized, and obligations yet unfulfilled. Credit creates rights and rights imply obligations. The terms are reciprocal.

All this seems plain enough, but it is only by holding fast to elementary truths that we can hope to reason clearly upon any subject. More fallacies cluster about and take root in the subject of credit than in any other within the whole range of political economy. They find expression everywhere, but especially in language and legislation connected with taxation and the currency. Chief among these is the notion that evidences of debt are wealth. It seems to me that some political economists of high standing are not wholly free from responsibility in this matter. Even John Stuart Mill, who usually weighed his words with great care, has used language in the preliminary chapter of his "Principles of Political Economy," which even taken as a whole, if not absolutely inaccurate, is difficult to reconcile with his own teachings elsewhere, and is certainly misleading. He attempts to draw a distinction between wealth as applied to the possessions of an individual and to those of a nation or of mankind. "In the wealth of mankind," he says, "nothing is included which does not of itself answer some purpose of utility or pleasure. To an individual anything is wealth which, though useless in itself, enables him to claim from others a part of their stock of things useful and pleasant. Take for instance a mortgage for a thousand pounds on a landed estate. This is wealth to the person to whom it brings in a revenue, and who could perhaps sell it in the market for the full amount of the debt. But it is not wealth to the

country; if the engagement were annulled the country would be neither poorer nor richer. The mortgagee would have lost a thousand pounds, and the owner of the land would have gained it. Speaking nationally, the mortgage was not itself wealth, but merely gave A a claim to a portion of the wealth of B. It was wealth to A, and wealth which he could transfer to a third person, but"—and here comes in a saving clause which contains the essence of the whole matter—"that which he so transferred was a joint ownership, to the extent of a thousand pounds, in the land of which B was nominally sole proprietor." The public funds of a country are in precisely the same category. Mr. Mill says they cannot be counted as part of the national wealth, but intimates in one breath that they are a part of individual wealth, and in the next wipes out the distinction. They are not real wealth at all, neither national nor individual. The fundholders are "mortgagees on the general wealth of the country;" the funds indicate liens upon that which is real and tangible, to be drawn ultimately from the tax payers of the nation. Mr. Mill also gives countenance to a distincton between the wealth of a nation and that of mankind. "A country," he says, "may include in its wealth all stock held by its citizens in the funds of foreign countries, and other debts due to them from abroad." But, as if not quite satisfied with this statement, he adds, "even this is only wealth to them by being a part ownership in wealth held by others. It forms no part of the wealth of the human race."

There is in reality no distinction between the wealth of an individual, of a nation and of mankind. Individual wealth is and must be a part of national wealth, and national wealth is and must be a part of the wealth of the human race. If the context were always carefully read in explanation of the text, Mill might perhaps be safely allowed to answer Mill. As it is, his insufficiently guarded words at this point have helped to perpetuate the thousand and one fallacies which find expression in discussions about currency, banking and taxation.

Professor Perry has taken his stand without qualification on the economic theory that credits, rights, claims are property, meaning by property wealth or capital. The term property is an

exceedingly ambiguous one. Not to speak of its various secondary and metaphorical uses, it is employed in two important and totally distinct senses. In a purely legal point of view, it is the right or title to a thing — ownership. But in the more common and popular sense, and the one in which alone political economy is concerned about it, it is a tangible entity — the thing owned — that upon which the claim is based — that in which the right or title inheres. In this sense there is no difference between property and wealth. "The test of property," say Professor Perry, "is a sale; that which will bring something when exposed for exchange is property; that which will bring nothing, either never was, or has now ceased to be, distinctively property." But Professor Perry holds that credits, rights, claims, are property; that property is or may be capital, and that all capital is wealth. It seems to me there is a fallacy here, and that it lies in considering that what are bought and sold are mere rights and claims, separate and distinct from the entities in which the rights inhere, and to which the claims attach. Strike the property out of existence upon which a claim rests, and the claim disappears with it. Destroy a man's claim, on the other hand, or all evidences of it, and the property remains — the ownership simply changes hands.

If titles are property in the sense of wealth, it would seem that a community has an easy road to fortune. Its farms and other real estate are wealth; they need only be mortgaged to create as much new wealth in the form of personal property. If mere titles are property, then the wealth of the nation or, is you please, of the individuals of the nation, may at least be doubled without any appreciable expenditure of time or labor. The truth is, wealth is something valuable and which has become so through the application of labor, and a title to it, or a claim upon it, or a representation of it, can no more be wealth than a shadow can be substance.

The notion that titles and claims are property finds ample expression in tax-laws. Few countries afford better opportunities for testing methods of taxation than our own, but none certainly can exhibit such an array of incongruities. The ease with which property is accumulated makes us less considerate of expenditures

and leakages. Under the plea of equalizing the burden, our general theory seems to be to tax everything without inquiring whether it be a symbol or a reality, a lien upon a thing or the thing itself. The result is, the very inequalities we would obviate are aggravated. If political economists of high standing insist not only that real estate is property, but that mortgages upon it are also property, is it strange that legislatures enact that each shall be taxed? Touching this question, the conclusion of Judge Foster, set forth in his dissenting opinion given in the somewhat celebrated case of Kirtland vs. Hotchkiss, heard before the Supreme Court of Errors of the State of Connecticut, seems almost axiomatic. He said:—"Property and a debt, considered as a representative of the property pledged for its payment, constitute but one subject for the purpose of taxation. The tax being paid on the property without diminution on account of the debt, nothing remains to be taxed. The debt, indeed, aside from the property behind it, and of which it is the representative, is simply worthless." We may call what we like, property or wealth, and governments may determine that all property, including imaginary things and legal fictions, shall be taxed, but nothing short of omnipotence can make something out of nothing, or collect taxes from symbols. "It is property in possession, or enjoyment, and not merely in right, which must ultimately pay every tax."

Rights and titles and claims are elements in the distribution of wealth, not in its composition. They attach to pre-existing property and may be multiplied indefinitely. Any tax upon them is only another means of burdening the property that lies behind them.

But it is in connection with the currency that credit wields its chief influence, and may work its greatest mischief. Leading writers upon political economy and finance have done much to instill correct notions of money and its various credit substitutes, and their responsibility in this direction can scarcely be over-estimated. In this light, it is at least an open question, whether the views of Professor Francis A. Walker, as set forth in his late work on "Money," and also in his later one on "Money, Trade and Industry," do not give some encouragement to the numberless

fallacies that are afloat upon this subject. Professor Walker has done excellent service in the economic field. He always writes with clearness and vigor, and whatever he says upon any topic is sure to command attention. "Money," he says, is that which passes freely from hand to hand throughout the community, in final discharge of debts and full payment for commodities, being accepted equally without reference to the character or credit of the person who offers it, and without the intention of the person who receives it to consume it, or enjoy it, or apply it to any other use than in turn to tender it to others in discharge of debts or payment for commodities." This is an almost faultless description of money as a fact, and if we were dealing with facts only and not with their interpretation, it might be allowed to pass without comment. The core of this description lies in the words "final discharge of debts and full payment for commodities." In their correct interpretation rests the whole matter in dispute. In the view of Professor Walker the question, money or not money, is, in respect to anything that could be taken, wholly a question of degree — the degree of the extent and facility of its use in exchange. If the thing be a paper promise, another distinction is called in, which is that the promise must be that of somebody else, and not of the one who offers it. "If I purchase a farm from any one," he says, "and give him my promise to pay him at some future date, that promise, whatever form it takes, whether written on paper or stamped upon brass, whatever my character or competence, whether I be rich or poor, honest or dishonest, is not money. The goods are not yet paid for, but are yet to be paid for. I have taken credit; I have not given money. The seller still looks to me for the equivalent of the goods he has parted with. * * * I buy a horse, and give the owner thirty $5 notes. Have I taken credit? Not at all; I have paid for the horse. * * * He takes the notes from me because they are money — that is, because they have such general acceptance throughout the country that he knows men will freely and gladly take them from him whenever he wishes to buy anything."

As a matter of fact, the credit element enters into both of these transactions. In each case it is between the maker of the prom-

ise and the receiver of it. In the one case the promise is made directly to a particular person, in the other it is made to bearer. In the one case the maker is an individual, in the other, a collection of individuals or corporation. In each case the maker of the promise is held under the law, more or less perfectly, to its fulfillment. According to one distinction made by Professor Walker, neither the bank bill nor the promissory note is money, as between the bank or the individual maker and the holder of the bill or note. But between other parties and according to the other distinction, which turns upon the degree of currency, he holds that the bank bill is money, and the individual note not money. But a man may be so widely known, his integrity be of so high a character, and his means so ample, that his promise may be just as good and just as current as an ordinary bank note. The one may be called money and the other not. The law may determine that an acceptance of the one shall be a bar to any further recourse upon the party from whom it is received, and that an acceptance of the other shall not be such a bar. All this lies close to the surface. It does not reach to the root of the matter. The question, money or not money, can never turn solely upon the "degree of currency" of the thing in use. This depends upon time and place and other circumstances, and attaches even to gold and silver as well as to the different substitutes. The distinction lies deeper. Money pays, but every paper substitute bears upon its face the evidence that it does not pay in the full and complete sense of the term.

But, says Professor Walker, "to say that a bank note is a promise to pay money is to beg the question. A bank note is a promise to pay gold or silver, and therefore, if you please, is neither gold nor silver; but wherefore not money? Money is that money does; and the bank note performs the money function in every particular." In this last sentence he himself begs the question, and, although unintentionally, gives aid and comfort to the advocates of "fiat" money. The bank note promises to pay francs or pounds or dollars, and these have a definite and well understood meaning. They are a "material recompense or equivalent" — are wealth and really pay for wealth. Money

proper conforms strictly to Prof. Walker's own description; promises to pay, or orders to pay, of whatever name or nature, do not so conform. Money passes from hand to hand throughout the community in final discharge of debts and full payment for commodities by no magical process, nor because it is called money, or declared to be money by an edict of the government, but for the reason that it is a complete equivalent. Bank bills, promissory notes, checks, and various other credit instruments, take the place of money in part by serving some of its purposes, and it is because they do so that they become so dangerous in actual use, if not properly guarded. But they serve these purposes not through any force of their own, but as representatives. Their energy is not primitive, but derivative. They are not actual equivalents, but claims, only, or evidences of claim, upon that which is an equivalent; and when the principal in whose name they act disappears, their force and authority is gone. Professor Walker, in his whole characterization of money, largely ignores its most delicate if not most important function — that of serving as a measure of wealth or standard of value. Almost anything which the parties concerned may agree upon will serve as a medium of exchange — a bank bill, a check, a note of hand, "a chalk mark behind the door, a notch in a stick, a wink at an auctioneer" — but very few things will serve well as a standard of value. To do so, they must themselves be valuable, that is, be objects of general desire and the results of labor. They must be something that pays as it goes — that walks by sight and not by faith — that, when accepted, leaves no recourse upon anybody, either in law or equity. No credit instruments can fully meet these requirements. The distinction is vital. Ignore it, and the floodgates are open for all sorts of money and all sorts of notions about money.