THE CAUSE OF A CRISIS.

(Flürschëim's Theory.)

MONEY.

No one, I suppose, will dispute that the ruling power in the industrial world is money.

It is money that hires labour, that buys goods, that starts enterprises, that is lent as capital, paid as interest, collected as taxes. The farmer may want his land tilled, and the labourer may be ready to till it; but unless the farmer has money to pay wages, the soil remains untilled and the labourer unemployed. The shopkeeper may have clothes (and other goods) offered for sale, and the man outside may be sorely in want of them, but unless he has money to buy them with, the clothes remain unsold and the man unclothed.

Affairs are so constituted that nothing can be done without money. Money failing, exchange ceases; and exchange ceasing, production stops, for production cannot be carried on without exchange. No one produces everything for himself. He must get food from one, clothes from another, tools from this man, materials from that, transport from a third, and none of these things can be got for nothing; something must be given in exchange, and the only thing that will be accepted is money.

Money, in short, is to the industrial body what blood is to the physiological body. Not only must it be present but it must circulate. What is this money, the circulation of which is so vital a necessity? "Coin," says someone. "We see and handle it daily."

Well, coin is one form of money certainly, and in its way a most important form; still, it is only one form, and a very subsidiary form. The man who is recognised by all as a "moneyed man" has very little coin, often not more than a few shillings in his possession, and the greater his wealth the smaller always is the proportion that he holds in coin.

The largest transactions are effected without any coin passing at all. It is only in petty transactions, or for small balances, that coin passes. The great mass of business transactions is effected either by paper in some form, or by the balancing of contra accounts.

This *money* that rules the market, that employs labour, that starts enterprise, that the rich lend and the needy borrow, is not a material substance at all, though material substances—such as coin and paper—are largely used to represent and to transfer it.

It is *general purchasing power*—command of the goods and services of others, based on a recognised claim for past services rendered, real or imaginary; a claim for something transferred, something done or something permitted. For something transferred, as for goods sold, or cash deposited in a bank, or lent on a mortgage or a debenture. For something done, as for work performed or enterprise started. For something permitted, as for permission granted to use a given piece of land.

The service rendered is a thing of the past. The goods sold have probably been long ago consumed; the cash lent has passed into the general circulation, and can no longer be identified; the enterprise has either failed and disappeared, or has succeeded and now maintains itself; the land is being put to use by the tenant, not by the landlord who gave him permission to use it, and who has no concern with the land (while the lease runs) but to receive the rent.

In every case all that remains to the claimant is his claim—a claim, not for some particular goods, as grain or boots, but for *value*, for general purchasing power, or command of the goods and services of others to a specified amount; which purchasing power, transferable from hand to hand, is recognised as money, no matter in what form it be embodied, whether as coin, as paper, or as simple entry to credit at a bank; and circulation of money consists in the passing of this general purchasing power from person to person. The balance that a man has at his bank is recognised as money, and gives him the purchasing power of money, and the cheques with which he transfers it, or the coin for which he cancels it, are also money. The motionless balance and the moving cheque confer the same power, and go by the same name. In other words, the thing itself and the material instrument that transfers or embodies it are spoken of as if they were the same. And no great harm results, for the difference is only the difference between Statics and Dynamics. The one represents money at rest, the other money in motion.

But the point to be attended to is that money itself, in the sense in which the business world understands the term,—this thing which buys goods, hires services, fetches interest, and so on—is not a material substance at all, though material substances are often used to embody or to transfer it, but general *purchasing power* or command of goods and services of others. When it is to a large amount it is as often called capital as money. The man of business means the same thing by the two terms, and uses them indifferently. What the closet philosopher means by them is of small consequence.

A sovereign and a bank note, or cheque for £1, are alike in this, that they are both useless in themselves, useful only to exchange away for other things, and that they both represent purchasing power to the amount of twenty shillings. But they differ in this, that the purchasing power of the cheque or note depends on the solvency of the person or bank on whom it is drawn, while the purchasing power of the sovereign is independent of any particular person's solvency, and is good everywhere. (There are, of course, other highly important differences between coin and paper, but they do not concern the present question.) But since, as we have seen, money consists of purchasing power, and purchasing power consists for the most part of registered claims on persons liable to fail at any moment, this larger part may disappear at any moment; and when a crisis occurs much of it does so disappear, and "money becomes scarce." Thus, suppose a tradesman is paying £100 rent to a landlord, £100 interest to a money-lender, spending £100 in wages, and making £100 profit for himself, then here is £400 circulating. Suppose now that through a bad speculation, a defaulting cashier, or any other cause, he fails in one of his liabilities, say the interest, and the money-lender sells him up, the source of all four incomes being dried up, all four incomes disappear together. The quantity of real wealth—of goods—is exactly what it was. It is dispersed, but not annihilated; but the £400 which that business put into circulation has disappeared. It never had any substantial existence. It may revive, no doubt. The landlord will re-let the premises, the money-lender (if he has got his money back) will find a fresh investment, the employés will find another employer, and the ruined man another occupation. But for the present all four incomes have gone, and none of them revive immediately. Indeed, when such failures are numerous and on a large scale, as in a commercial crisis, it often takes a long time, generally years, before complete recovery.

It is in view of this danger that a party in America insist on the State coining annually large quantities of silver, so that money (as they think) can never become scarce nor crises occur.

Such a device, however, would be quite ineffective for the purpose, because the superiority (in some respects) of paper over coin as a circulating medium is so enormous that the great bulk of transactions would continue to be effected by paper, no matter how plentiful coin was.

£1,000 is much safer kept in the form of a simple entry to credit in a ledger than as a bag of sovereigns. It is much easier transferred from person to person, and saves an infinity of trouble and risk in transport from place to place. Moreover, a cheque need not be written till it is wanted, and if destroyed, another can be written, while sovereigns would have to be carried about always, and once lost or destroyed could not be replaced.

Paper does not supersede coin from any scarcity of coin, but because of its greater convenience, though for reasons which we need not go into, it cannot altogether supersede coin.

The only result then of forcibly increasing coin beyond the immediate requirement of trade would be to lessen its purchasing power. If a given number of sovereigns are sufficient for present transactions, doubling their number would only halve their value. Whatever now costs £1 would then cost £2; and the paper, which expresses itself in pounds, would have to express double values.

TRIBUTE *V.* EARNINGS.

Whoever wishes to get a clear idea of the industrial problem must begin by realising thoroughly the fundamental difference between Tribute and Earnings. This is the key to the whole question.