Chapter 12

On the Nature of Metal Money

Only 2.2% of the total money supply of the nation consists of metal money—of coinage. Yet the total amount of this in 1970 was four billion six-hundred twenty million dollars. The fact that this is so small a percentage of the total does not, however, justify treating it as unimportant. For one thing it is what is meant, strictly speaking, by "cash". For another, unlike both bank-money and paper-money, it does not have to be "cashed"; it is itself "cash"; it is itself intrinsically valuable. Most of it consists of precious metals; sometimes even small coins minted out of ordinary metals like copper become valuable in themselves. As I write this, the American copper penny has become worth more as copper than as money; the government is making plans to substitute less expensive metals for the copper and to call in all copper pennies.

There are basically two different kinds of metal money: (1) precious metal coins, which have from time immemorial been valued more for their bullion than as monetary tokens, and (2) base metal coins, valued for use as change in making small purchases and not for their metallic content.

Precious metal coins, such as the original American silver dollar and the original American gold eagle, have five kinds of value each of which varies independently but all of which in combination determine the value the public attached to them: (a) their value intrinsically as bullion—as a quantity of gold or silver; (b) their denominational value—the "value" stamped on them by the mint as in the case of silver dollars; (c) investment or hoarding value; (d) speculative value, and (e) numismatic value.

Except for the denominational value, these values need no discussion; they are self-explanatory. It is the part which stamping them with a denomination plays which needs clear understanding. It is the abuse of this which has made it possible for governments for over two thousand years to debase the coinage and to use it to cheat those who use it. It is an abuse to which the United States has repeatedly resorted, and to which it resorts, like all other countries to this day. It will continue as long as the significance of the distinction between denominating a coin by the weight of the bullion it contains and denominating it as a monetary unit is not understood.

Terms like pounds, lira, ruble, and drachma were originally weights. The ancient Attic drachma was a weight; in metric terms the drachma weighed 4.30 grams. But when terms like these are stamped on a coin today, they turn into a token—a token which means only whatever the government which mints it wants it to mean. The debasement of the coinage which this makes possible will continue until the practice of denominating them as monetary units is abandoned.

The principle which should govern the minting of precious metal coins is that they should be designated only by the weight and the grade of the gold or silver they contain; they should not be stamped One Dollar or One Pound or One Franc or One Mark; they should be stamped One Ounce or a Half Ounce of Gold or of Silver as the case may be. This is the way the silver coins minted in the course of the Exeter experiments were designated. The purchasing power of precious metal coins would then be determined by the market value of their bullion content.

In effect precious metal coins should be "sold" by the bank issuing them at prices which cover the cost of the bullion content and the cost of minting them. Once honest paper-money was available, the purchasing power of which was constant, the demand for precious metal coins would tend to decrease.

The problem with regard to base metal coins—coins minted only to provide change—is different. Here the coin is a token in the same sense that paper-money is a token. Ideally the base metals used should have no bullion value at all—as is the case with paper.

Base metal coins, like precious metal coins, should be sold for the full cost of minting them. But unlike the precious metal coins they would continue to have utility—they would be handier than paper-money of small denominations for making change.

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Note: Seigniorage is defined by the dictionary, so far as coinage is concerned, as the difference between the circulating value of coins and the cost of bullion and of minting them. In its oldest signification, however, the word referred to something claimed or taken by virtue of sovereign privilege. But the revenue obtained from the issuance of coins does have a legitimacy which these definitions ignore. Coins provide two utilities—their utility in facilitating trade and their utility as cash. They are more than metal tokens. Their bullion content justifies the designation of coins as cash. The lack of any intrinsic commodity value makes paper-money a mere token.

The seigniorage on its coinage would provide such a bank-of-issue as I propose with a revenue which would help to make it self-supporting and to keep it independent. Even though it would not provide it with an important source of income, it would transform the minting of its coins from a loss into a profit.