BOOK V.

MONEY—THE MEDIUM OF EXCHANGE AND MEASURE OF VALUE

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INTRODUCTION TO BOOK V.

THIS Book is really in the nature of a supplement to Book II., "The Nature of Wealth." In my first draft of arrangement, a matter of much perplexity, the discussion of money was to have followed the discussion of value, with which it is so intimately connected; or at least, to have followed the discussion as to the definition of wealth. But to have given to the subject of money in Book II. the thorough treatment which present confusions seem to require would not only have disproportionately expanded that Book, but would have made needful the anticipation of some of the conclusions more logically and conveniently reached in Book III. and Book IV. I therefore finally determined as the best arrangement for the reader of this work to answer briefly in the last chapter of Book II. the question as to the relation of money to wealth which the conclusion of the discussion of the nature of wealth would be certain to bring, and to defer a fuller discussion of the subject of money until after the production and distribution of wealth had both been treated. This point has now been reached, and continuing as it were Chapter XXI. of Book II., "The Nature of Wealth," I proceed to the discussion of the medium of exchange and measure of value.

CHAPTER I.

CONFUSIONS AS TO MONEY.

SHOWING THE DIVERGENCE IN COMMON THOUGHT AND AMONG ECONOMISTS AS TO MONEY.

Present confusions as to money—Their cause—How to disentangle them.

THERE is no social idea or instrument with which civilized men are more generally and personally familiar than money. From early infancy to latest age we all use it in thought and speech and daily transactions, without practical difficulty in distinguishing what is money from what is not money. Yet as to what it really is and what it really does, there are both in common thought on economic subjects and in the writings of professed economists the widest divergences. This is particularly obvious in the United States at the time I write. For twenty years the money question has been under wide discussion, and before that, has had similar periods of wide discussion from the very foundation of the American colonies, to say nothing of the discussion that has gone on in Europe. Yet the attitude of Congress, of the State legislatures, of the political parties, and the press, shows that nothing like any clear conclusion as to first principles has yet been arrived at. As for the vast literature of the subject which has been put into print within recent years any attempt to extract from it a consensus of opinion as to the office and laws of money is likely to result in the feeling expressed by an intelligent man who recently made this attempt, that "The more one reads the more he feels that any sure knowledge on the question is beyond his comprehension."

The very latest American cyclopedia (Johnson's, 1896) gives this definition: "Money is that kind of currency which has an intrinsic value, and which thus if not used as currency would still be wealth." Thus, there are some who say that money really consists of the precious metals, and that whatever may be locally or temporarily or partially used as money can be so used only as a representative of these metals. They hold that the paper money which now constitutes so large a part of the currency of the civilized world derives its value from the promise, expressed or implied, to redeem it in one or another of these metals, and by way of assuring such redemption vast quantities of these precious metals are kept idly in store by governments and banks.

Of those who take this view, some hold that gold is the only true and natural money, in the present stage of civilization at least; while others hold that silver is as much or even more entitled to that place, and that the gravest evils result from its demonetization.

On the other hand there are those who say that what makes a thing money is the edict or fiat of government that it shall be treated and received as money.

And again, there are others still who contend that whatever can be used in exchange to the avoidance of barter is money, thus including in the meaning of the term, notes, checks, drafts, etc., issued by private parties, as fully as the coins or notes issued by governments or banks.

Much of the contradiction and confusion which exists in popular thought proceeds from the pressure of personal interests brought into the question by the relation of debtor and creditor. But the confusions which prevail among professed economists have a deeper source. They evidently result from the confusions which prevail in economic thought and teaching as to the nature of wealth and the cause of value. Money is the common measure of value, the common representative and exchanger of wealth. Unless we have clear ideas of the meaning of value and the nature of wealth, it is manifest therefore that we cannot form clear ideas as to the nature and functions of money. But since we have cleared up in the preceding chapters the meaning of the terms value and wealth, we are now in a position to proceed with an inquiry into the nature, functions and laws of money. It is unnecessary to waste time with any attempt to disentangle the maze of contradictory statements of fact and confusions of opinion with which the current literature of the subject is embarrassed. The true course of all economic investigation is to observe and trace the relation of those social phenomena that are obvious now and to us. For economic laws must be as invariable as physical laws, and as the chemist or astronomer can safely proceed only from relations which he sees do here and now exist to infer what has existed or will exist in another time and place, so it is with the political economist.

Yet we find, if we consider them, that these divergences in the definition of money spring rather from differences of opinion as to what ought to be considered and treated as money, than from differences as to what, as a matter of fact, money actually is. The men who differ most widely in defining money find no difficulty in agreeing as to what is meant by money in daily transactions. Since we cannot find a consensus of opinion among economists, our best plan is to seek it among ordinary people. To see what usually is meant by money we have only to note the essential characteristics of that which we all agree in treating as money in our practical affairs.

After we have seen what money really is, and what are the functions it performs, we shall then be in a position to determine what are the best forms of money.

CHAPTER II.

THE COMMON UNDERSTANDING OF MONEY.

SHOWING THAT THE COMMON USE OF MONEY IS TO BUY THINGS WITH, AND THAT ITS ESSENTIAL CHARACTER IS NOT IN ITS MATERIAL BUT IN ITS USE.

The use of money to exchange for other things—Buying and selling—Illustration of the travelers—Money not more valuable than other things, but more readily exchangeable—Exchanges without money—Checks, etc., not money—Different money in different countries—But money not made by government fiat—Does not necessarily consist of gold and silver—Or need intrinsic value—Its essential quality and definition.

WHEN we are confused as to the true meaning of an economic term, our best plan is to endeavor to obtain a consensus of opinion as to what the thing really is; what function it really performs.

If I have agreed to pay money to another the common understanding of what money is will not hold my agreement fulfilled if I offer him wood, or bricks, or services, or gold or silver bullion, even though, as closely as can be estimated, these may be of equal value to the money promised. My creditor might take such things in lieu of what I had agreed to pay. But he would be more likely to object, and his objection if fully expressed would amount to this: "What you agreed to pay me was money. With money I can buy anything that any one has to sell, and pay any debt I owe. But what you offer me is not money. It is something I would be willing to take if I happened to have any personal use for it. But I have no personal use for it, and to get any one to give me for it what I may want I must find some one who wants this particular thing and make a trade with him. What you propose would therefore put on me trouble, risk and loss not contemplated in our agreement." And the justice of this objection would be recognized by all fair men.

In this—in the ease with which it may be passed from hand to hand in canceling obligations or transferring ownership—lies the peculiar characteristic of money. It is not the intrinsic nature of the thing, but the use to which it is applied that gives its essential character to money, and constitutes the distinction between it and other things. Even children recognize this. I make friends with a little one of four or five, and, showing it a stick of candy, ask what that is for? it will say, "That is to eat." If I show a hat or a pair of shoes, it will say, "That is to wear." If I show a toy, it will say, "That is to play with." But if I show a piece of money, it will say, even though to it as yet all money may be pennies, "That is to buy things with."

Now, in this, the little child will give a definition of money that, whatever may be our monetary theories, we all practically recognize. The peculiar use of money—what as money "it is for"—is that of buying other things. What by virtue of this use is money, may or may not have capability for any other use. That is not material. For so long as a thing is reserved to the use of buying things any use inconsistent with this use is excluded.

We might, for instance, apply sticks of candy to the use of buying things. But the moment a stick of candy was applied to the use of being eaten its use in buying things would end. So, if a greenback be used to light a cigar, or a gold coin converted to the use of filling teeth, or of being beaten into gold-leaf, its use as money is destroyed. Even where coins are used as ornaments, their use as money is during that time prevented.

In short, the use of money, no matter of what it be composed, is not directly to satisfy desire, but indirectly to satisfy desire through exchange for other things. We do not eat money nor drink money nor wear money. We pass it. That is to say, we buy other things with it. We esteem money and seek it, not for itself, but for what we may obtain by parting with it, and for the purpose of thus parting with it. This is true even where money is hoarded, for the gratification which hoarding gives is the consciousness of holding at command that with which we may readily buy anything we may wish to have.

The little child I have supposed would probably not know the meaning of the word exchange, which is that of the voluntary transfer of desired things for desired things. But it would know the thing, having become familiar with it in the little exchanges that go on between children—in the giving of marbles for tops, of candy for toys, or in transactions based on "I will do this for you, if you will do that for me." But such exchanges it would probably speak of as trades or swaps or promises, reserving the words buying or selling to exchanges in which money is used.

In this use of words the child would conform to a practice that has become common among careful writers. In the wider sense, buying and selling merely distinguish between the giver and receiver in exchange; and it is in this wider sense that Adam Smith uses the words, and as in poetry or poetical expression we continue to use them. But both in ordinary usage and in political economy we now more generally confine the words buying and selling to exchanges in which money is given or promised, speaking of an exchange in which money is not involved, as a barter or trade, or simply an exchange. It is where money is one of the things exchanged that the transaction is called a purchase and sale; the party who gives money for another thing being termed the buyer, and the party who gives the other thing for the money being termed the seller.

In this usage, we habitually treat money as though it were the more notable or more important side of exchanges in which things not money are given for money—that side of exchange from which or towards which the initiative impulse proceeds. And there is another usage which points in the same direction. Among the masses of our people at least, and I presume the same usage obtains in all countries, good manners is held to require that where money passes in a transaction of exchange, the receiver of the money should by some such phrase as "Thank you," indicate a sense of benefit or obligation.

The reason of both these usages is, I think, to be found in the fact that money is the thing in which gain or profit is usually estimated; the thing which can usually be most readily and certainly exchanged for any other thing. Thus whatever difficulty there may be in exchanging particular commodities or services for other commodities or services is generally most felt in exchanging them for money. That exchange once made, any subsequent exchange of the money for the things that are the ultimate objects of desire is comparatively easy. It is this that makes it seem to those who do not look closely, that what is sought in exchange is money, and that he who gets money in return for other things, is in a better position than he who gets other things in return for money.

To see in what money really differs from other things having exchangeable or purchasing power let us imagine a number of men to undertake a journey through a country where they have no personal acquaintance. Let them for instance start from New York, in pleasant weather, to make a leisurely trip by the highroads for one to two hundred miles. Let them for the defrayal of the expenses of the journey provide themselves with exchangeable things of different kinds. Imagine one to have a valuable horse; another some staple commodity, such as tobacco or tea; another gold and silver bullion; another a check or bill of exchange, or a check-book; and a fifth to have current money. These things might have value to the same amount, but at the first stop for rest and refreshment the great difference between them as to readiness of convertibility would be seen.

The only way the man with the horse could pay for the slightest entertainment for man or beast, without selling his horse for money, or bartering for things that might be very inconvenient to carry, would be by trading him for a less valuable horse. It is clear that he could not go far in this way, for, to say nothing of the delays incident to horse trades, he would, if he persisted in them under pressure of his desire to go on, soon find himself reduced to an animal that could hardly carry himself.

Though of all staple commodities, tobacco and tea are probably those most readily divisible and easily carried, the tourist who tried to pay his way with them would find much difficulty. If not driven to sell his stock outright for what money he could get, he would virtually have to convert his pleasure excursion into a peddling trip; and, to say nothing of the danger he would run of being arrested for infringement of Federal or local license laws, would be put to much delay, loss and annoyance in finding those willing to give the particular things he needed for the particular things he had.

And while gold and silver are of all commodities those which have the most uniform and staple value, yet the man who had started with bullion would, after he had left the city, hardly find any one who could tell their real value or was willing to take them in return for commodities or service. To exchange them at all at anything like a reasonable rate he would have to hunt up some village jeweler who could test and weigh them, and who, though he might offer to give him a clock or a trinket, or to repair his watch in exchange, would hardly have the commodities or service our traveler needed at his disposal. To get what he wanted for what he had to give without recourse to money he would be driven to all sorts of intermediate exchanges.

As for the man with the check-book, or check or bill of exchange, he would find himself the worst off of all. He could make no more use of them where he was not known than of so much blank paper, unless he found some one who could testify to his good credit or who would go to the expense of telegraphing to learn it. To repeat this at every stopping-place, as would be necessary if his trip were to be carried through as it had been begun, would be too much for the patience and endurance of an ordinary man.

But the man with the money would find no difficulty from first to last. Every one who had any commodity to exchange or service to render would take his money gladly and probably say "Thank you" on receiving it. He alone could make the journey he set out to make, without delay or annoyance or loss on the score of exchanges.

What we may conclude from this little imaginative experiment is not that of all things money is the most valuable thing. That, though many people have in a vague way accepted it, would involve a fallacy of the same kind that is involved in the assumption that a pound of lead is heavier than a pound of feathers. What we may safely conclude from our experiment is, that of all exchangeable things money is the most readily exchangeable, and indeed that this ready exchangeability is the essential characteristic of money.

Yet we have but to extend our illustration so as to imagine our travelers taking with them beyond this country that same money they had found so easily exchangeable here, to see that money is not one substance, nor in all times and places the same substance.

What is money in the United States is not money in England. What is money in England is not money on the Continent. What is money in one of the Continental states may not be money in another, and so on. Although in places in each country much resorted to by travelers from another country, the money of the two countries may circulate together, as American money with English money in Bermuda; or Canadian money with American money at Niagara Falls; or Indian money, English money, French money and Egyptian money at Port Said; yet the traveler who wishes to pass beyond such monetary borders with what will readily exchange for the things he may need must provide himself with the money of the country. The money that has served him in the country he has left becomes in a country using a different money a mere commodity the moment he leaves the monetary border, which he will find it advantageous to exchange with some dealer in such commodities for money of the country.

Is money therefore a matter of mere governmental regulation? That is to say, can governmental statute or fiat, as is to-day contended by many, prescribe what money shall be used and at what rate it shall pass?

It is unnecessary for those of us who lived in or visited California between the years 1862 and 1879, to look further than our own country and time to see that it cannot. During those years, while the money of the rest of the Union was a more or less depreciated paper, the money of that State, and of the Pacific coast generally, was gold and silver. The paper money of the general government was used for the purchase of postage stamps, the payment of internal revenue dues, the satisfaction of judgments of the Federal courts, and of those of the State courts where there was no specific contract, and for remittances to the East. But between man and man, and in ordinary transactions, it passed only as a commodity.

If it be said that governmental power was not fully exerted in this case; that the United States government dishonored its own currency in making bonds payable and Custom-House dues receivable only in gold, and that the California specific contract law virtually gave the recognition of the State courts only to gold and silver, we may turn to such examples as that of the Confederate currency; as that of the Continental currency; as that afforded by Colonial currencies prior to the Revolution; as that of the French assignats; or to that comical episode in which the caustic pen of Dean Swift, writing under an assumed name, balked the whole power of the British government in its effort to induce the Irish people to accept what was really a better copper money than that they were using.

Government may largely affect the use of money, as it may largely affect the use of language. It may enact what money shall be paid out and received by government officials, or recognized in the courts, as it may prescribe in what language government documents shall be printed or legislative or legal proceedings held, or scholars in the public schools be taught. But it can no more prescribe what shall be used as the common medium of exchange between man and man in transactions that depend on mutual consent than it can prescribe in what tongue mothers shall teach their babes to lisp. In all the many efforts that governments, limited or absolute, have made to do this, the power of government has signally failed.

Shall we say then, as do many who point out this impotency of mere government fiat, that the exchange value of any money depends ultimately upon its intrinsic value; that the real money in the world, the only true and natural money, is gold and silver, one or both—for the metal-moneyists differ as to this, being divided into two opposing camps—the monometallists and the bimetallists?

This notion is even more widely opposed to facts than is that of the fiatists. Gold and silver have for the longest time and over the widest area served, and yet do serve, as material for money, and sometimes have served, and in some places yet do serve, as money. This was the case, to some extent, in the early days of the California diggings, when every merchant or hotel-keeper or gambler or bartender was provided with a bottle of acid and a pair of scales, and men paid for goods or food or lodging or drinks or losses out of buckskin bags in which they carried gold dust or nuggets. This is to some extent still the case in some parts of Asia, where, as was once the case in parts of Europe, even gold and silver coin passes by weight. But gold and silver are not the money of the world. The traveler who should attempt to go round the world paying his expenses with gold and silver bullion would meet the same difficulty or something like the same difficulty that he would meet in the country around New York. Nor would he obviate that difficulty by taking instead of bullion, gold and silver coin. Except in a few places, such as Bermuda or the Hawaiian Islands, they too would become commodities not easily exchangeable when he left the United States.

The truth is that there is no universal money and never yet has been, any more than there is or has been in times of which we have knowledge a universal language.

As for intrinsic value, it is clear that our paper money, which has no intrinsic value, performs every office of money—is in every sense as truly money as our coins, which have intrinsic value; and that even of our coins, their circulating or money value has for the most part no more relation to intrinsic value than it has in the case of our paper money. And this is the case to-day all over the civilized world.

The fact is that neither the fiat of government nor the action of individuals nor the character or intrinsic value of the material used, nor anything else, can make money or mar money, raise or lessen its circulating value, except as it affects the disposition to receive it as a medium of exchange.

In different times and places all sorts of things capable of more or less easy transfer have been used as money. Thus in San Francisco in the early days, when the sudden outflow of gold from the mines brought a sudden demand for money which there was no ready means of supplying, bogus coins, known to be bogus, passed from hand to hand as money; and in New York at the beginning of the Civil War, when there was a great scarcity of circulating medium, owing to the withdrawal of gold and silver from circulation, postage stamps, car tickets, bread tickets, and even counterfeit notes, known to be counterfeit, passed from hand to hand as money.

Shall we say then that they are right who contend that a true definition of money must include everything that can be used in exchange to the avoidance of barter?

Clearly, we cannot say this, without ignoring a real and very important distinction—the distinction between money and credit. For a little consideration will show that the checks, drafts, negotiable notes and other transferable orders and obligations which so largely economize the use of money in the commercial world to-day, do so only when accompanied by something else, which money itself does not require. That something else is trust or credit. This is the essential element of all devices and instruments for dispensing with the mediumship of money without resort to barter. It is only by virtue of it that they can take the place of the money which in form they are promises to pay.

When I give money for what I have bought, I pay my debt. The transaction is complete. But I do not pay my debt when I give a check for the amount. The transaction is not complete. I merely give an order on some one else to pay in my place. If he does not, I am still responsible in morals and in law. As a matter of fact no one will take a check of mine unless he trusts or credits me. And though an honest face, good clothes and a manifest exigency might enable me to pass a small check upon one who did not know me, without the guarantee of some one he did know, I could as readily, and perhaps more readily, get him to trust me outright. So, I cannot, except to one who knows me or to whom I am identified as a man of good credit, pass the check of another or his note or draft or bill of exchange in my favor, and without guaranteeing it by indorsement. Even then I do not make a payment; I merely turn over with my own guarantee an order for payment.

Thus there is a quality attaching to money, in common apprehension, which clearly distinguishes it from all forms of credit. It is, so far as the giver of the money is concerned, a final closing of the transaction. The man who gives a check or bill of exchange must guarantee its payment, and is liable if it be not paid; while the drawer on the other hand retains the power at any time of stopping payment before that has been actually made. Even the man who gives a horse or other commodity in exchange must, save as to certain things and with the observance of certain requirements, guarantee title, and that it shall possess certain qualities expressed or implied. But in the passing of money the transaction is closed and finished, and there can be no further question or recourse. For money is properly recognized by municipal law as the common medium of exchange.

All such things as checks, drafts, notes, etc., though they largely dispense with and greatly economize the use of money, do so by utilizing credit. Credit as a facilitator of exchange is older than money and perhaps is even now more important than money, though it may be made into money, as gold may be made into money. But though it may be made into money, it is not in itself money, any more than gold of itself is money, and cannot, without confusion as to the nature and functions of money, be included as money.

What then shall we say that money is?

Evidently the essential quality of money is not in its form or substance, but in its use.

Its use being not that of being consumed, but of being continually exchanged, it participates in and facilitates other exchanges as a medium or flux, serving upon a larger scale the same purpose of keeping tally and facilitating transfers as is served by the chips or counters often used in games of chance.*

This use comes from a common or usual consent or disposition to take it in exchange, not as representing or promising anything else, but as completing the exchange.

* It is most important that this purely representative character of money should be thoroughly understood and constantly kept in mind, for from the confusion resulting from the confounding of money with wealth have flown the largest and most pernicious results. It was the basis of that anti-social theory of international exchanges which has cost European civilization such waste of labor and drain of blood, formerly known as the mercantile system and which survives in the protectionism of to-day. And it is at the bottom of those theories prevalent in the United States to-day which seek to increase wealth by increasing money.

The only question any one asks himself in taking money in exchange is whether he can, in the same way, pass it on in exchange. If there is no doubt of that, he will take it; for the only use he has for money is to pass it on in exchange. If he has doubt of that, he will take it only at a discount proportioned to the doubt, or not take it at all.

What then makes anything money is the common consent or disposition to accept it as the common medium of exchange. If a thing has this essential quality in any place and time, it is money in that place and time, no matter what other quality it may lack. If a thing lacks this essential quality in any place and time, it is not money in that place and time, no matter what other quality it may have.

To define money:

Whatever in any time and place is used as the common medium of exchange is money in that time and place.

There is no universal money. While the use of money is almost as universal as the use of languages, and it everywhere follows general laws as does the use of languages, yet as we find language differing in time and place, so do we find money differing. In fact, as we shall see, money is in one of its functions a kind of language —the language of value.

CHAPTER III.

MEDIUM OF EXCHANGE AND MEASURE OF VALUE.

SHOWING HOW THE COMMON MEDIUM OF EXCHANGE BECOMES THE COMMON MEASURE OF VALUE, AND WHY WE CANNOT FIND A COMMON MEASURE IN LABOR.

Money is most exchanged—Why not measure value by labor?—Smith's unsatisfactory answer—The true answer—Labor can afford no common measure, and commodities are preferably taken—Survivals of common measures—Difference in common measures does not prevent exchange.

I HAVE in the last chapter defined money as whatever is at any time and place used as the common medium of exchange. This is indeed the primary quality of money. But proceeding from this use as a common medium of exchange, money has another and closely conjoined use—that of serving as a common measure of value.

The reason of this is that the use of money as a common medium of exchange, which causes it to be esteemed for exchange and not for consumption, makes it of all exchangeable things that which in civilized societies is often and most commonly exchanged. A given portion of wood or coal, for instance, may be used by the producer and thus not be exchanged at all; or it may be exchanged once or perhaps even half a dozen times between cutting or mining and its reaching in the hands of the consumer the ultimate end for which it was produced, the combustion that supplies heat. So it is with potatoes or wheat or corn. The majority of horses are probably not exchanged at all during their working days, and it would be a much exchanged horse who should have six owners during his life. Cotton and wool and hemp and silk may pass from one to half a dozen exchanges before they assume the form of cloth or rope, and in that form may pass through from two to half a dozen more exchanges before reaching the consumer. And so with lumber or iron or most of the forms of paper, meat or leather. Not only is the ultimate purpose of the exchanges of such things destructive consumption, but they are mainly composed of things which if not soon consumed will wear out or decay.

Money, on the other hand, is not produced for the purpose of being consumed, but for the purpose of being exchanged. This, not consumption, is its use. And we always seek for its substance materials least subject to wear and decay, while it is usually carefully guarded by whoever for the moment may be in its possession. And further while an article of money may frequently pass through more hands in a single day than ordinary articles of wealth are likely to pass through during the whole period of their existence, the use of money in thought and speech as a symbol of value brings it to the constant notice of those who do not often tangibly use it. Thus it is that the value of the money which is the common medium of exchange in any community becomes to the people of that community better known than the value of anything else, and hence is most readily and constantly chosen to compare the value of other things.

But here may arise a question, which I wish thoroughly to answer: If, as explained in Book II., value is in itself a relation to labor, why can we not find not merely a common measure of value, but an exact and final measure of value in labor itself?

This is a question that perplexes a great many of the monetary theories that have been broached in the United States without finding scholastic recognition, and it is raised but not satisfactorily answered by Adam Smith.

In a passage previously quoted in full* Adam Smith says: "But though labor be the real measure of the exchangeable value of all commodities, it is not that by which their value is commonly estimated." And then goes on to explain the reason of this.

But in the attempt to explain this fact Adam Smith falls into confusion through the slipperiness of his terms and misses the true reason. While he says in effect that the time of exertion will not measure the quality of exertion, he yet, almost in the same breath, uses time as the measure of exertion, saying that "every commodity is . . . more frequently exchanged for and thereby compared with other commodities than with labor," that "it is more natural therefore to estimate its exchangeable value by the quantity of some other commodity than by that of the labor which it can purchase," and that "the greater part of the people too understand better what is meant by the quantity of a particular commodity than by a quantity of labor," thus ignoring what he had just shown, that it is the labor (in the sense of exertion) that their possession will save which determines the value of all commodities. His attempted explanation of the fact that the real measure of value is not the common measure of value, amounts to nothing more than that it is more usual to measure value by commodities than by labor. This is no explanation of the fact; it is merely a statement of the fact. We cannot explain a custom or habit by saying that it is natural or showing that it is usual. The very thing to be explained is why it seems natural and has become usual.

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* Page 231.

Yet in the light of our previous investigation the reason why the real measure of value cannot serve as a common measure of value is clear. It lies in the human constitution. We become conscious of exertion through the "toil and trouble" it involves—the feeling of effort and at length of irksomeness and repugnance that attends its continuance. Now feeling is an affection or condition of the individual perception or Ego, which can find objective manifestation only through action. Even the mother can know the feelings of the babe only through its actions. If she can tell that it is hungry or sleepy or in pain, or is satisfied and happy, it is only in this way.

As we have seen, labor in the sense of exertion, is the true, ultimate and universal measure of value; what anything will bring in exchange being always based upon an estimate of the toil and trouble attendant upon the exertion which the possession of that thing will save.

But this is an estimate which, though each may make it for himself, he cannot convey to another directly, since the feeling of weariness or repugnance, the dislike of "toil and trouble," which constituting the resistance to, is the measure of, exertion, can, in our normal condition at least, be conveyed to, or expressed by one to another only through the senses.

We make such estimates continually in our own minds, for memory which registers the experience of the individual permits us to compare the exertion it has required to do or procure one thing with what it has required to do or procure another thing. But to express to another person my idea of the amount of exertion required to do or procure a particular thing there must be something that will serve us as a mutual measure of the resistance to exertion, that is to say the "toil and trouble" that exertion involves.

Thus, to convey to one ignorant of swimming some idea of the exertion it requires, I must compare it with some exertion with which we are both familiar, such as walking. Or, if a stranger wishes to know of me what exertion he will have to make to walk to a certain point, I will tell him, if I know it, the distance, and give some idea of the character of the road, for he will have some idea of the exertion required to walk a given distance on an ordinary road. If he be a Frenchman accustomed to meters and kilometers, which neither of us can translate into feet and miles, I will still be able to convey to him my idea by saying, so many minutes' or hours' walk, for all men have some idea of the exertion required to walk for a certain time. If we could find no common nomenclature of time, I could still give him some idea by pointing to the dial of my watch or to the sun, or by finding from whence he had come, and making him understand that the distance he had yet to go was longer or shorter, and the road harder or easier. But there must be some point of mutual knowledge which will furnish us with a common measure, for me to make myself intelligible to him at all.

So reversely, a common experience of required exertion will, in the absence of a more exact measure, give some idea of distance or area, as

> A bowshot from her bower eaves,
> He rode between the barley sheaves,

or,

> They gave him of the corn-land
> That was of public right,
> As much as two strong oxen
> Could plow from morn to night.

Now while exertion is always the real measure of value, to which all common measures of value must refer, yet to get a common measure of value, which will enable us to express from one to another both quantity and quality (duration and intensity) of exertion, we must take some result of exertion, just as to find a common measure of heat, light, expansive force or gravitation we must take some tangible manifestation of those forms of energy. It is because commodities, being the results of exertion, are tangible manifestations of exertion that they are generally and naturally used as common measures of value.

Even where exertion is expressed in time, there is always at least an implied reference to accomplishment or results. Where I hire a man to work for me by the day or week or month in occupations which show tangible result, as in digging or draining, in plowing or harvesting, in felling trees or chopping wood, it is always with a certain idea of the tangible result to be achieved, or in other words, of the intensity as well as of the duration of the exertion. If I find no result, I say that no work has been done; and if I find that the results are not such as should have come from a reasonable or customary intensity of exertion with a reasonable or customary knowledge or skill, I say that what I really agreed to pay for has not been accorded me. And disinterested men would support me.

On going ashore in San Francisco, a shipmate of mine, who could not tell a scythe from a marlinspike, hired out to a farmer in haying-time for $5 a day. At his first stroke with the scythe he ran it so deep in the ground that he nearly broke it in getting it out. Though he indignantly denounced such antiquated tools as out of fashion, declaring that he was used to "the patent scythes that turn up at the end," he did not really feel wronged that the farmer would not pay him a cent, as he knew that the agreement for day's labor was really an agreement for so much mowing.

In fact, the form of measuring exertion by time, at bottom, involves its measurement by result.

This we find to be true even where there is no definite result. If I hire a boatman or cabman to take me to a certain point, the distance, being known, affords a close idea of the exertion required, and it is the fairest, and to both parties usually the most agreeable way, that the stipulation shall be for that result, or as the cabmen in Europe say "by course?" which is a definite payment for a definite result. But even were I to take a boat or a cab without fixed idea of where I want to go, and agree to pay by the hour, there is an implied understanding as to the intensity of the exertion for which I am to pay. Either boatman or cabman would feel that he was not keeping his agreement fairly, and I would certainly feel so, were he, for the purpose of "putting in time," to row or drive at a snail's pace.

So strong is the disposition to take tangible results as the measure of exertion that even where quality is of more importance than quantity, as in literary work, the formal measurement is even in our best magazines and newspapers by the page or column, differences in quality, real or expected, being recognized partly in the readiness with which an article is accepted, and partly in a greater price per page or per column.

In short, while exertion, including both quantity and intensity, is always the true and final measure of value, it is only through the manifestations of exertion that any common measure of value can be had. Thus commodities being tangible expressions of exertion become the readiest common measures of value, and have since the beginning of human society been so used.

While any commodity, or for that matter any definite service, may be used as a common measure of value to the extent to which it is recognized as embodying or expressing a certain amount of exertion and thus having a definite, though not necessarily a fixed value, the tendency is always to use for this purpose the commodity whose value is most generally and easily recognized. And since the commodity which is used as *the* common medium of exchanges becomes in that use the commodity which is oftenest exchanged and whose value is most generally and easily recognized, whatever serves as *the* common medium of exchange tends in that to become *the* common measure of value, in terms of which the values of other things are expressed and compared. In societies which have reached a certain stage of civilization this is always money. Hence we may define money with regard to its functions as that which in any time and place serves as *the* common medium of exchange and *the* common measure of value.

It must be remembered, however, that of these two functions, use as the common medium of exchange is primary. That is to say, use as the common medium of exchange brings about use as the common measure of value, and not the reverse. But these two uses do not always exactly correspond.

Thus, in New York and its neighborhood one may still hear of shillings or York shillings (12½ cents) as a measure of small values. There is no such coin, this use of an ideal shilling being a survival from Colonial times. So, in Philadelphia one may hear of fips and levies; in New Orleans of picayunes and in San Francisco of bits, survivals of the Spanish coinage; and in the far Northwest of "skins," a purely ideal measure of value surviving from the time when the Hudson Bay Company bartered with the Indians for furs. During, and for some time after, the civil war two different common measures of value were in co-temporaneous use in the United States—paper money and gold. But since the resumption of specie payments, though paper money still constitutes the more largely used medium of exchange, gold alone has in this country become the common measure of value. And though gold, silver and paper are all largely, and generally co-temporaneously, used throughout the civilized world to-day as supplying the common medium of exchange, the great monetary division is between the countries which use gold as the common measure of value and the countries which use silver.

But it is still evident, as Adam Smith said, that labor (in the sense of exertion) is "the real measure of the exchangeable value of all commodities,"—"the only universal as well as the only accurate measure of value, or the only standard by which we can compare the values of all commodities in all times and in all places." For it is still true, as he said, that "the real price of everything, what everything really costs to the man who wants to acquire it, is the toil and trouble of acquiring it. What everything is really worth to the man who has acquired it, and who wants to dispose of it or exchange it for something else, is the toil and trouble which it can save to himself, and which it can impose upon other people."

Since labor is thus the real and universal measure of value, whatever any country may use as the common measure of value can impose little difficulty upon the exchanges of its people with the people of other countries using other common measures of value. Nor yet would any change within a country from one common measure of value to another common measure of value bring more than slight disturbance were it not for the effect upon credits or obligations. In this lies the main source of the controversies and confusions with which the "money question" is now beset.

Before going further it would therefore be well, at least so far as pertains to the idea of money, to examine the relations of credit to exchange.

CHAPTER IV.

THE OFFICE OF CREDIT IN EXCHANGES.

[SHOWING THAT THE ADVANCE OF CIVILIZATION ECONOMIZES THE USE OF MONEY.

Tendency to over-estimate the importance of money—Credit existed before the use of money began, and it is now and always has been the most important instrument of exchange—Illustration of ship-wrecked men—Adam Smith's error as to barter—Money's most important use to-day is as a measure of value.][1]

I HAVE sought to explain the common understanding of money and the part that it plays in exchanges by supposing a number of travelers. I did so because it is in such small and immediate exchanges as a traveler must make among strangers that the peculiar usefulness of money is most clearly felt. I did not mean to assume that the difficulties of barter in all places and times are so great as those that in the vicinity of New York at the close of the Nineteenth Century would attend the effort of a traveler to supply his personal needs by that means of exchange.

On the contrary there are even now parts of the world where a traveler might find a properly selected stock of commodities more readily and advantageously exchangeable than money itself, and the difficulties of barter have certainly increased not merely with the greater use of money, but with such modern appliances as post-offices,

[1] Heading not complete in MS. See Prefatory Note.—H. G., JR.

steamboats, railways, telegraphs and telephones, and with the greater concentration of population and exchanges that result from them. Even in our own civilization barter must have been a more efficient means of exchange in the times that preceded the great industrial development of the Nineteenth Century than it is now because people were more generally accustomed to it. The old traveling merchants and even the old foreign merchants, who sent their ships over the maritime world, were largely barterers, and the stated fairs of which we have now only faint survivals, but which formed so important a part in the industrial life of our ancestors, gave place and occasion for the meeting of those who wished to make a direct exchange of commodities for commodities or services for services that are wanting now.

The effect of the general adoption of the more elaborate and on a large scale more efficient methods of an advanced civilization is always to relegate to forgetfulness the simpler methods previously in use. We have become within a few years so accustomed to the electric telegraph that we are apt to think that without it men would be reduced in carrying messages to the means of transportation by land or water, and to forget that telegraphs were in use before electric telegraphing was dreamed of. The convenience of the lucifer match has made its use so universal, that most of us if thrown on our own resources without matches, would find it a most serious difficulty to light a pipe or make a fire. A hunting party of civilized men, if deprived by accident of their ammunition, might starve to death before they could kill game even where it was abundant. Yet at the beginning of this century lucifer matches were unknown, and men killed game before fire-arms were invented.

And so it is with money. Its use is so general in our high civilization and its importance so great that we are apt to over-estimate that importance and to forget that men lived and advanced before money was developed, and both to underrate the efficiency of the means of exchange other than that of money, and the amount of exchanging that even now goes on without any more use of money than that of a counter or denominator of values.

It is not only that the simplest form of exchange, the transfer of things desired in themselves for things desired in themselves, still to some extent continues; but the advance of civilization which in an early stage develops the use of money as a medium of exchange begins in later stages to develop means for dispensing with or much economizing this use of money. The exchanges between different countries are still carried on without the use of money, and so in great measure are domestic exchanges, even in the same locality. Not merely in the rural districts and in small transactions is there much exchanging without actual transfer of money, but in the greatest cities, the largest transactions, habitually spoken of and thought of as though they involved the transfer of money, really take place without it. The richer people in fact use comparatively little money, even in personal transactions, and I fancy that a man of good credit who kept a bank-account might, if he tried to, live from year's end to year's end, even in a great city like New York (and with less effort in a smaller place), without a penny of actual money passing through his hands. His income, if not received in small amounts, he would get in checks or similar transfers. His larger expenses he could of course pay for in checks, and even such things as newspapers, tickets for street-car lines or railways, or admission to theaters, postage-stamps, etc., he could with a little effort get in the same way.

Now all this economizing in the use of money, which we are accustomed to think of as, and indeed in some of its forms really is, the latest development of a civilization that for immemorial ages has been accustomed to the use of money, is really in essence a return to something that must have been in use for the facilitating of exchanges before money was developed among men. That something is what we call trust or credit. Credit is to-day and in our highest civilization the most important instrument of exchange; and that it must have been from the very first appearance of man on this globe the most important instrument of exchange, any one can see, if he will only discard the assumption that invalidates so much of our recent philosophy and philosophic history—the assumption that the progress of civilization is a change in man himself—and allow even prehistoric man the same reasoning faculties that all we know of man in historic times shows to belong to him as man.

Imagine a number of totally shipwrecked men swimming ashore in their buffs to an uninhabited island in a climate genial enough to enable them to support life. What would be their first exchanges? Would they not be based upon the various forms of the proposition, "I will do or get this for you, if you will do or get that for me?" Now, no matter where or how they got into this world, this must have been the position of the first men when they got here, and all that we can reason from with any certainty goes to show that these first men must have been essentially the same kind of men as we ourselves.

If there is any difference in priority between them, credit must, in the nature of things, have preceded barter as an instrument of exchange, and must at least from the very first have assisted barter. What more natural than that the man who had killed a deer, or made a large catch of fish, should be willing to give now while he had abundance in return for a promise expressed or implied that his neighbor when similarly fortunate would in the same way remember him? The organization of credit into more elaborate and finer forms goes on with the development of civilization, but credit must have begun to aid exchanges with the very beginnings of human society, and it is in the backwoods and new settlements rather than in the great cities that we will to-day find its direct forms playing relatively the most important part in exchanges.

In explaining the origin and use of money, Adam Smith much overrated the difficulties of barter, and in this he has been followed by nearly all the writers who have succeeded him. Of the condition before the use of the metals as money he says (Book I., Chapter IV. of the "Wealth of Nations"):

> One man, we shall suppose, has more of a certain commodity than he himself has occasion for, while another has less. The former consequently would be glad to dispose of, and the latter to purchase, a part of this superfluity. But, if this latter should chance to have nothing that the former stands in need of, *no exchange can be made between them.* The butcher has more meat in his shop than he himself can consume, and the brewer and the baker would each of them be willing to purchase a part of it. But they have nothing to offer in exchange, except the different productions of their respective trades, and the butcher is already provided with all the bread and beer which he has immediate occasion for. *No exchange can, in this case, be made between them.* He cannot be their merchant, nor they his customers; and they are all of them thus mutually less serviceable to one another. . . .
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> . . . The man who wanted to buy salt, for example, and had nothing but cattle to give in exchange for it, must have been obliged to buy salt to the value of a whole ox, or a whole sheep, at a time. He could seldom buy less than this, because what he was to give for it could seldom be divided without loss; and if he had a mind to buy more, he must, for the same reasons, have been obliged to buy double or triple the quantity, the value, to wit, of two or three oxen, or of two or three sheep. If, on the contrary, instead of sheep or oxen, he had metals to give in exchange for it, he could easily proportion the quantity of the metal to the precise quantity of the commodity which he had immediate occasion for.

Though this explanation of the difficulties attending barter has been paraphrased by writer after writer since

Adam Smith, it is an exaggeration so gross as to be ridiculous. The differentiation of such trades as that of the butcher, brewer and baker, the fact that men habitually devote their labor to the production of more of certain commodities than they themselves can consume, implies a division of labor that could not possibly take place were exchange impossible under the circumstances that Adam Smith assumes. And it is evident that such circumstances would impose no insuperable difficulty to exchange even though a true money had not yet come into use. The butcher, with meat that he wanted to dispose of, would not have refused the exchange offered by the brewer and baker because he himself was already provided with all the bread and beer that he had immediate occasion for. On the contrary, he would say, "I have no immediate use for bread and beer because I am already supplied, but I will give you the meat you want on your promise to give me its equivalent in bread and beer when I call for them." Nor need he necessarily wait for his own supply of bread and beer to be exhausted before calling on the baker and brewer for the fulfilment of their promises, for since man's wants are not satisfied with meat, bread and beer alone, he might want from the tailor a coat, from the grazier a bullock, from the carpenter a house; and since they could not take from him at once full payment in such a perishable commodity as meat, he could help out his part of the exchange by telling the baker and brewer to give to them the bread and beer they had promised him.

That is to say, it is not necessary to an exchange that both sides of it shall be effected at once or with the same person. One part or side of the full exchange may be effected at once, and the effecting of the other part or side may be deferred to a future time and transferred to another person or persons by means of trust or credit. And by this simple and natural device, and without the intervention of money, salt could be exchanged for less quantities of beef or mutton than are likely to spoil before a single family could consume them. The truth is that the difficulties of incidence which Adam Smith speaks of here as if they were inseparable from barter are always avoided by the use of trust where trust is possible. It is only where there are no other exchanges going on and it is not probable that the parties concerned will come into contact directly or indirectly again, as in a desert or at sea, that owing to want of incidence no exchange can be made between them.*

It is really in exchange between those who are unknown to each other and do not expect to meet each other again that money performs its most indispensable office (as illustrated in Book V., Chapter II.). The use of money, by which the traveler can easily carry with him the means of supplying his needs, has greatly facilitated traveling; yet in the bill of exchange, the letter of credit, Cook's coupons, and the book of certified checks, which are so largely displacing money for the use of travelers, we come back again to the use of trust.

Trust or credit is indeed the first of all the instrumentalities that facilitate exchange. Its use antedates not merely the use of any true money, but must have been

* But even here there is often something of the nature of exchange, although it may lack the element of certainty. When a boy, passing through a street in Philadelphia during a sudden rain, I met a gentleman standing in a doorway and proffered him the shelter of my umbrella, going a little out of my way to take him to his destination. As we parted he said, "You and I are not likely to meet again, as I am a stranger here; but one good turn deserves another, and I will try to return your service to me by doing such a service for some one else, telling him to pass it along." Possibly that little kindly service, which I would have forgotten but for the impression his words made, may be "passing along" still. Both good and evil pass on as waves pass on. Yet I cannot but think that in the long run, good outlives evil. For as to the normal constitution of the human mind, evil must bring the wider and more permanent pain, the impulse to its perpetuation must meet the greater friction.

coeval with the first appearance of man. Truth, love, sympathy are of human nature. It is not only that without them man could never have emerged from the savage state, but that without them he could not have maintained himself even in a savage state. If brought on earth without them, he would inevitably have been exterminated by his animal neighbors or have exterminated himself.

Men do not have to be taught to trust each other, except where they have been deceived, and it is more often in our one-sided civilization, where laws for the collection of debts have weakened the moral sanction which public opinion naturally gives to honesty, and a deep social injustice brings about a monstrous inequality in the distribution of wealth, and not among primitive peoples, that the bond is oftenest required to back the simple word. So natural is it for men to trust each other that even the most distrustful must constantly trust others.

And trust or credit is not merely the first of the agencies of exchange in the sense of priority; it yet is, as it always has been, the first in importance. In spite of our extensive use of money in effecting exchanges, what is accomplished by it is small as compared with what is accomplished by credit. In international exchanges money is not used at all, while the great volume of domestic exchange is in every civilized country carried on by the giving and cancelation of credits. As a matter of fact the most important use of money to-day is not as a medium of exchange, though that is its primary use. It is that of a common measure of value, its secondary use. Not only this, but with the advance in civilization the tendency is to make use of credit as money; to coin, as it were, trust into currency, and thus to bring into use a medium of exchange better adapted in many circumstances to easy transfer than metallic money. The paper money so largely in use in all civilized countries as a common medium of exchange is in reality a coinage of credit or trust.

CHAPTER V.

THE GENESIS OF MONEY.

[SHOWING THAT THE LAW OF GRATIFYING DESIRES WITH THE LEAST EXERTION PROMPTS THE USE FROM TIME TO TIME OF THE MOST LABOR-SAVING MEDIUM AVAILABLE.

Money not an invention, but developed by civilization—It grows with the growth of exchanges—Exchange first of general commodities—Then of the more convenient commodities—Then of coin, whose commodity value comes to be forgotten—Illustration of the American trade dollar—The lessening uses of commodity money and extensions of credit money—Two elements in exchange value of metal coin: intrinsic, or value of the metal itself, and seigniorage—Meaning of seigniorage—Exchange value of paper money is seigniorage—Use of money not for consumption, but exchange—Proprietary articles as mediums of exchange—Mutilated coins—Debased coinage—When lessening metal value in coins does not lessen circulating value—This the reason why paper money exchanges equally with metal money of like denomination.] [1]

MONEY is not an invention, but rather a natural growth or development, arising in the progress of civilization from common perceptions and common needs. The same fundamental law of human nature which prompts to exchange, the law by which we seek to satisfy our desires with the least exertion, prompts us with the growth of exchanges to adopt as a medium for them the most labor-saving instruments available.

[1] The part of chapter heading within brackets not in MS.—H.G., Jr.

All exchange is of services or commodities. But as commodities are in reality concrete services they afford from the first the readiest media of exchange, performing that office and serving as measures of value not only for other commodities but for direct services.

But commodities (under which name we include all movable products of labor, which, as such, have value so long as they retain the capacity of ministering to desire) greatly differ in their availability as media of exchange. Those best fitted for that use are those which are least perishable, which can be most easily passed from hand to hand and moved from place to place; which are most uniform in their articles and most homogeneous in their structure, so that they may be estimated with most certainty and divided and reunited with the least waste, and whose value is from their general use best known and most quickly recognized.

In proportion as these qualities are united in one commodity there is a natural tendency to its use as a medium for the exchange of other things, and this use tends again to the wider knowledge and quicker recognition of its value.

In primitive societies, or in the outposts of civilization where better means were not readily obtainable, skins, shells, salt, beads, tobacco, tea, blankets, and many other of the less perishable and more portable commodities, have in an imperfect way and to a limited extent been used as common media of exchange and common measures of value, thus becoming the money of the time and place.* But

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* Adam Smith and most of the subsequent writers have included cattle in the list of things that have in rude times served this function. Smith says, Book I., Chapter IV., "Wealth of Nations":

"In the rude ages of society, cattle are said to have been the common instrument of commerce; and, although they must have been a most inconvenient one, yet in old times we find things were frequently valued according to the number of cattle which had been given in the metals, and particularly the precious metals, so well fill all the requirements of a medium of exchange, that wherever they have become well known mankind have applied them to this use. At first they were doubtless weighed, and perhaps tested, with every passage from hand to hand; but as their use for purposes of exchange became more common, the same desire to economize labor which leads the baker to give his bread the form and shape of loaves or rolls, and the tobacconist or tea-dealer to put up his commodities into uniform packages, must soon have led to the running of the metals used as media of exchange into pieces of definite weight and purity, so that they may be passed from hand to hand without the trouble of weighing and testing them. To make these pieces of circular form, since that is the most convenient and the least subject to abrasion in handling, and to afford evidence that they yet retained their original substance by stamping their sides and edges, are obvious devices that seem to have

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exchange for them. The armor of Diomede, says Homer, cost only nine oxen; but that of Glaucus cost an hundred oxen."

Although I have hitherto accepted this statement, closer consideration now convinces me that the inconvenience attaching to such a use of cattle never could have permitted them to take the place of money. As for the authority of Homer, the state of the arts assumed in the Iliad would imply the use of metal money, and the Marquis Gainier has contended that the oxen spoken of were really coins. But this supposition is not the only alternative to supposing that the allusions in Homer's poems are to be taken as indicating that cattle were in use as the common medium of exchange and common measure of value. In ordinary speech, and especially in poetry, which eschews the exactness of monetary terms, such things as cattle, lands, slaves, have always been used to convey a vague but striking idea of wealth or value; and it seems far more reasonable so to understand the references of ancient writers than to take them as proof that commodities so inconvenient to divide, preserve and transfer as cattle ever passed from the position of an article of exchange to that of its common medium and measure.

been adopted wherever sufficient skill in the arts had been attained and the metals were in this way used. And thus by a natural development in use, a commodity peculiarly adapted to the purpose becomes, in the shape of coined money, the commodity which serves as a medium of exchange and measure of value for all commodities and services, and which has been in use among peoples of the most advanced civilization for long ages and still remains in use, though not in exclusive use, to our day.

But while the first purpose of coinage is, we may safely assume, to save the trouble of weighing and testing the commodity which has become a common medium of exchange, the general use of these coins as giving evidence of weight and purity must gradually have the effect of transferring the quality of ready exchangeability from the commodity to the coin. The habit of weighing and testing passes away; even the amount of the commodity embodied in the coin is, by the great majority of those who use it, forgotten or not heeded; and the shape, size, color and devices of the coin become the things that give it circulation. An American Eagle, or ten-dollar piece, contains so many grains of gold of a certain fineness, and exchanges at the value of the gold. But not one in ten thousand of those who use this coin, and who know its value in relation to other things that they are in the habit of buying and selling, know how many grains of gold it contains. A man with a ten-dollar gold piece will find no difficulty in the United States in fairly exchanging it for anything he may happen to want, but he would find much difficulty in fairly exchanging the same quantity of gold in the shape of dust or of an ingot, anywhere except at a mint or with a bullion dealer.

A curious evidence of this tendency to accept the sign rather than the substance is given in the history of the American trade dollar. For many years much of the export of silver to China has been in the shape of Mexican dollars, the stamp of which has become known there as evidencing a certain weight of silver. Thinking that it might take the place in China of the Mexican coin the American government in 1874 coined what was called a trade dollar. It was a better finished and handsomer coin than the Mexican dollar, and contained a greater weight of silver. But the Chinese preferred a coin whose look they had become familiar with, to one that was new to them, even though the latter was of greater intrinsic value. The attempt was a failure, and after an instructive domestic experience, which it is not worth while to speak of here, the coinage of the trade dollar was stopped.

Now this transfer of ready exchangeability from the commodity to the coin, with the accompanying relegation of the commodity itself to the same position in exchange held by other commodities, which takes place as a result of the use of coin money, is a matter of great importance, leading ultimately to a complete change in the nature of the money used.

In the coinage of the precious metals the use of commodities as a medium of exchange seems to have reached its highest form. But the very same qualities which of all commodities best fit the precious metals for this use, attach or may attach in still higher degree to something which, having no material form, may be passed from person to person or place to place without inconvenience from bulk or weight, or danger of injury from accident, abrasion or decay. This something is credit or obligation. And as the advance of civilization goes on, the same tendency to seek the gratification of desire with the least exertion, which with a certain advance of civilization leads to the development of commodity money, leads with its further advance to the utilization of credit as money.

Movement in this direction may be distinguished along three lines: 1—The admixture in coinage of obligation value with production value. 2—The use of obligation or credit as representing an economizing commodity money. 3—The use of pure credit money.

We are here considering only money. Not only is credit a facilitator of exchange before money of any kind is developed, but the same social progress which shows itself in the development of money also shows itself in the extension of credit. If the use of money supersedes the use of credit in some exchanges, it is only where the use of credit is difficult and inconvenient; and in facilitating exchanges over wider areas than the use of the primitive forms of credit would have been equal to, it also increases that mutual knowledge and mutual desire to exchange that are necessary to the extension of credit. Although the primary and local function of money is that of affording a common medium of exchange, its secondary function of affording a common measure of values soon becomes of greater importance, and the extension of credits in our modern civilization is far more striking and important than the extensions in the use of money as a medium of exchange. Though the use of any particular money as a medium of exchange is still local, the money of any one country circulating only to a very limited extent in other countries, yet the development of credits has been such that the exchange of commodities to the ends of the earth and among peoples using different moneys as mediums of exchange, is conducted by means of it. But what we are considering now is not this development of commercial credits, but the way in which the use of commodity money passes into the use of credit money; or in other words, the way in which the coinage of production value into a convenient medium of exchange passes into the coinage of obligation values.

The demand for any metal in exchange is at first, like the demand for other things in exchange, a demand for consumption; and its value or rate of exchange, is determined by the cost of producing it in merchantable form. As one or another of the metals began to come into use as a medium of exchange, the largest demand for it would doubtless for some time still be for consumption, and any change in the form of the metal made to fit it for this new use would at first entail little or no greater cost than that of the ordinarily merchantable form. Thus the value of the metal used as money would at first be no greater than that of the same metal intended for consumption. But when coinage fairly began, something more of labor would be required to produce the stamped and finished coin than to produce the mere ingot of merchantable shape.

Hence there are, or may be, two elements in the exchange value of metal coin—(1) the intrinsic value, or value of the metal itself, which is governed by the cost of producing it in merchantable form; and (2) the cost of changing it from that form into the form of finished coin. This second element, the charge for coinage, is called seigniorage, from the idea that the coining of money has from the earliest times been deemed a function of the sovereign—the seignior or lord—as representative of organized society or the state.

There are two different ways in which it has been customary to pay for turning a merchantable material into a finished product. Thus: From time immemorial until the present when machinery has begun to revolutionize industrial methods, it was the custom for the man who wanted a suit of clothes to buy the material, take it to a tailor, and pay him for the work of making it into a suit. The tailor was not presumed to keep any of the cloth, and if he did so it was called "cabbage." During the same time it was, on the contrary, the universal custom for the miller to get his pay by keeping a part of the material brought him for conversion. The farmer or purchaser brought his grain to the mill, receiving back less than its equivalent in meal, the difference being the toll that the miller retained for the service of grinding. The manufacturer who is now succeeding both the old tailor and the old miller buys the material and sells the finished product.

Now the conversion of metal into coin seems always to have been paid for in the same way as the conversion of grain into meal or flour, by a toll or deduction in the return. This toll or seigniorage may be less or more than the actual cost of coinage. It is what the lord or state, who has the sole privilege of coinage, chooses to take for it; the difference between the rate at which metal is received or bought at the mint and the rate at which it is returned or issued in coin.

Had the coinage of metal into money been left to the free competition of individual enterprise, the charge for this conversion would have tended to the lowest point at which coin could be produced in sufficient quantities to supply the demand. But so far as we can see this has never been the case. The primary object of coinage being the certification of weight and fineness, that is obviously best assured by the stamp of the highest and most widely known authority, that of the sovereign or state. Where coinage is thus monopolized in the hands of the sovereign, the element of seigniorage in the value of coin may be eliminated altogether by the agreement or practice of the sovereign to return in coin the full amount of metal brought to his mints, as is to-day the case in some countries with some metals; or it may be extended so as to become the most important of the two elements in the value of coin by the refusal of the sovereign to coin on other terms and the exclusion or refusal of other coinage. Indeed, by the selection of some very cheap commodity for the material of coinage, it may become practically the only element of value. For, as Ricardo pointed out, the whole exchange value of paper money may be considered as a charge for seigniorage.

The reason of this fact that, the issuance of money being a monopoly, the element of intrinsic value may be partially or entirely eliminated without loss of usefulness, is to be found in the peculiar use of money. The use of other commodities is in consumption. The use of money is in exchange. Thus the intrinsic character of money is of no moment to him who receives it to circulate again. The only question that he is concerned with is as to the readiness of others to receive it from him when he wants in his turn to pass it on. And this readiness where coined money comes into use as the common medium of exchange is associated with coinage, which becomes the badge or stamp of circulation.

There are to-day certain commodities having a large and wide-spread sale in neatly put up packages under proprietary names, such as Pears' Soap, Colman's Mustard, Royal Baking Powder, and so on. The reputation as to quantity and quality of contents which has been secured for the packages bearing such a trade-mark gives their manufacturers proprietary profits often very considerable that are analogous to seigniorage. For a short time and to a small extent these profits might be increased by decreasing the quality of the goods. Those who bought them to sell again would at first be unconscious of the difference and would buy as before. But as soon as they reached the hands of purchasers for consumption, the difference would be detected and the demand would decline, for the demand of those who buy such things to sell again springs from the demand of those who buy for consumption.

But (and the expedients resorted to in times of sudden and acute monetary scarcity may suggest this) let us imagine some such proprietary packed article to pass into use as the medium of exchange. The increased demand caused by the new and wider use would enable the owners of the trade-mark, by restricting supply of which they would have exclusive control, to carry up the value of the article so far above that of the contained commodity that it would pass out of use for consumption. Yet so long as the demand for it as a medium of exchange continued, it would have use for that purpose, and the owners of the trade-mark could not merely keep up the price, but could with impunity reduce the quantity and quality of the contents of their packages to almost any extent. For since every acceptance of a thing in exchange is in reality a purchase of it, and every transfer of it in payment of an obligation or in return for any other thing is in reality a sale, the entire demand for an article used only as a medium of exchange would be with a view to subsequent sale—would be a demand of merchants or traders, who are not concerned with the intrinsic qualities of what they buy to sell again, but only with its salability.

In the illustration I have used, the possibility of lessening the quality or quantity of the packages without lessening their value as a medium of exchange, is dependent on their having passed out of use for consumption and the demand for them being entirely the demand for use in exchange. For, so long as any part of the demand was a demand for consumption, the lessening of commodity value would, by checking the total demand, operate at once to reduce value not merely of that part used for consumption, but that part used for exchange.

Now the first coined money being commodity money, the demand for it would be for a long time, in part at least, a demand for consumption. In the simpler stage of the arts, coin would be much more frequently than now beaten or melted into plate, adornments, ornaments, etc. And more important still perhaps, it would continue to be used as a commodity in the exchange with other countries. It is probable that the coinage of the more important sovereigns had a far wider area of diffusion when international commerce was much less than it is now. For, although the area of commerce was more limited than now, there was proportionately more of the area without any coinage of its own, and the development of credit as a medium of international exchanges, the use of coin in them as a conveniently portable commodity, was probably relatively greater than now.

Now, the demand for coin sent abroad, as American gold sent to England, like the demand for coin for use in the arts, is a demand for use in consumption and would quickly show itself in a lessening of aggregate demand and consequently of value, upon a reduction of the commodity value of coin, no matter how strictly the workmen of the mints were sworn to secrecy, as was the device of sovereigns who contemplated deteriorating their coinage.

But still more important is the fact that in order to keep up the value of coin while diminishing its intrinsic value it is necessary that the supply be strictly limited. But the sovereigns, whether princes or republics, who have resorted to the expedient of debasing their coinage have generally done so for the purpose of turning the same amount of metal into more coin, rather than that of keeping the same amount of coin in circulation with the use of less metal, or have been unable to resist the temptation to do this when they found opportunity.

That the circulating value of money need not necessarily depend on its intrinsic value, must have been clear to discerning men as soon as the habitual use of coined money had made its signs and emblems the accepted tokens of value, so that it passed from hand to hand without testing and usually without weighing. The fact that coins that had lost something of their intrinsic value by abrasion continued to pass current, must have made clipping and filling and sweating, early devices of the cunning, which raised figures and milled edges would not prevent, unless supplemented by such mercantile stipulation or legislative enactment as secured common agreement not to accept such coins. This of itself would show that the circulating value of a coin did not as a matter of fact depend upon the value of the material it contained.

Thus to the ministers and advisers of the sovereigns, who seem everywhere to have assumed from the first exclusive privilege of coining, it must have seemed an easy and safe economy to reduce the cost of the coin by substituting for its material some part of cheaper metal. Hence came those numerous and repeated reductions in the value of coins which are a marked feature in all monetary history; which have reduced the English pound sterling to but a fraction of its original equivalence to a pound troy, and in other countries have brought about a still greater difference.

So far as the principal and most important coinage is concerned, these attempts have from time to time ended in disaster, and in the final reunion of circulating value with commodity value, either by the rejection and withdrawal of the debased coin and a recoinage, or more frequently by the lowering of the circulating value to the level of the commodity value.

This, however, is not a necessary result of a debasement of coinage, as is so often assumed. A less valuable metal may be substituted in a coin for a more valuable metal without lessening the circulating value, *provided*—and this is the essential condition—it continues to be as hard for those who use the coin in exchanges to get the one as it was to get the other; or in other words that it continues to represent the same exertion.

For all exchange is really the exchange of labor, and the rate at which all things tend to exchange for all other things is determined by the relative difficulty of obtaining them. That a ten pound note of the Bank of England, having practically no intrinsic value, will exchange for ten gold sovereigns, having an intrinsic value of that amount of gold—that a five dollar note of the government of the United States, having no intrinsic value; five silver dollars, having an intrinsic value of something like two dollars and a half; and a five dollar piece, having an intrinsic value of five dollars, will exchange in this country for each other or for the same amount of commodities or services of any kind, is because the difficulty of getting these things, the quantity and quality of exertion ordinarily required to obtain them, is precisely the same. Should it become in the slightest degree harder to get one of these things than the others, this will show itself in a change of the rate at which they exchange. In this case we say that the one commands a premium or that the others bear a discount.

The difficulty of procurement which brings to the same value the gold coin, silver coin and notes spoken of, so that they will exchange for each other or for equal quantities of other things, is, though of the same intensity, of different kinds. In the gold coin, it is the difficulty of mining, refining and transporting the metal (for neither in Great Britain nor in the United States does the government make any charge or exact any seigniorage for the coinage of gold). In the silver coin, it is partly the difficulty of obtaining the metal and partly the difficulty imposed by the only terms on which the government will coin silver dollars—or in other words, by the seigniorage it demands. In the notes, it is the difficulty imposed by the restrictions on the issuance of such notes—or, as it may be considered, all seigniorage. What in short, gives to the paper notes or coins of small intrinsic value the same exchange value as the gold coin, is that the government concerned, which has the monopoly of coinage in its respective country, will not issue one of them on any less terms than it does the other, thus making them all to the individual equally hard to get.

What has everywhere caused the failure of the innumerable attempts to reduce the intrinsic value of the principal and important coin, without reducing its circulating value, is not the impossibility of the task, but the fact that the sovereigns who have attempted it did not, and perhaps could not, observe the necessary condition of success, the strict limitation of supply. But the purpose of the sovereigns, whether princes or republics, in debasing coinage has been, or under pressure of the temptation has become, not an attempt to make a less value in metal serve for the same quantity of coin, but to issue a greater quantity of coin on the same value in metal. Thus instead of restricting the supply of coin to the point where the demand for its use as a medium of exchange would keep up its exchange value irrespective of the lessening in its intrinsic value, they proceeded at once to increase supply on a falling demand, and met the inevitable depreciation of circulating value by fresh increase of supply, so that no matter how much the intrinsic value of the coin was reduced, its circulating value followed.

[Principle same as that which caused depreciation in French assignat, Continental money, etc.] [1]

It is this fall of circulating value with the fall of intrinsic value where it is not kept up by restriction of supply that has through succeeding depreciations reduced the English pound sterling to but a fraction of its original equivalence to a pound troy, and in other countries has brought about a still greater difference.

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[1] Note in MS. indicating illustration to be developed by author. — H. G., Jr.

CHAPTER VI.

THE TWO KINDS OF MONEY.

[SHOWING THAT ONE ORIGINATES IN VALUE FROM PRODUCTION, THE OTHER IN VALUE FROM OBLIGATION.

Money peculiarly the representative of value—Two kinds of money in the more highly civilized world—Commodity money and value from production—Credit money and value from obligation—Of credit money—Of commodity money—Of intrinsic value—Gold coin the only intrinsic value money now in circulation in the United States, England, France or Germany.] [1]

WHILE value is always one and the same power, that of commanding labor in exchange, there are as we have seen, with reference to its sources, two different kinds of value—that which proceeds from production and that which proceeds from obligation. Now money is peculiarly the representative of value—the common medium or flux through which things are exchanged with reference to their value, and the common measure of value. And corresponding to and proceeding from this distinction between the two kinds of value, there are, we find, two kinds of money in use in the more highly civilized world to-day—the one, which we may call commodity money, originating in the value proceeding from production; and the other, which we may call credit money, originating in the value proceeding from obligation.

This distinction has of course no relation to differences of denomination, such as those between English pounds,

[1] Merely the title in this heading appears in MS. — H. G., JR.

French francs and American dollars. These are but differences of nomenclature. Nor yet does it coincide with differences in the material used as money, as for instance that between metal money and paper money. For while all paper money is credit money, all metal money is not commodity money. What I understand by commodity money is money which exchanges at its value as a commodity, that is to say, which passes current at no more than its "intrinsic value," or value of the material of which it is composed. Credit money is money which exchanges at a greater value than that of the material of which it is composed. In the one case the whole value for which the money exchanges is the value it would have as a commodity. In the other case the value for which the money exchanges is greater than its commodity value, and hence some part at least of its exchange value as money is given to it by credit or trust.

For instance, a man who exchanges ten dollars' worth of wheat for a coin containing ten dollars' worth of gold makes in reality a barter. He exchanges one commodity for an equal value of another commodity, crediting or trusting nobody, but having in the coin he has received a commodity which, irrespective of its use as money, has an equal value to that he gave. But the man who exchanges ten dollars' worth of wheat for a ten-dollar note receives for a commodity worth ten dollars what, as a commodity, has only the value of a bit of paper, a value practically infinitesimal. What renders him willing to take it as an equivalent of the wheat is the faith or credit or trust that he can in turn exchange it as money at the same valuation. If he drops the coin into the sea, he loses value to the extent of ten dollars, and the sum of wealth is lessened by that amount. If he burns the paper note, he suffers loss, to the value of ten dollars, but he alone; the sum of wealth is only infinitesimally lessened. Paper money is in truth of the same nature as the check or order of an individual or corporation except (and in this lies the difference that makes it money) that it has a wider and readier credit. The value of the coin of full intrinsic value, like the value of the wheat, is a value that comes from production. But the value of the paper money is, like the value of the check or order, a value from obligation.

The first money in use was doubtless a commodity money, and there are some countries where it is still the principal money, and places perhaps where it is the only money. But in the more highly civilized countries it has been very largely superseded by credit money. In the United States, for instance, the only commodity or intrinsic value money now in circulation is the gold coinage of the United States. Our silver dollars have an intrinsic or commodity value of only some fifty cents, and the value of our subsidiary coinage is still less. That they circulate in the United States at the same value as gold shows that their exchange value has no reference to their intrinsic value. They are in reality as much credit money as is the greenback or treasury note, the difference being that the stamp, which evidences their credit and thus secures their circulation, is impressed not on paper, but on a metallic material. The substitution of what is now the cheapest of metals, steel, or the utter elimination of intrinsic value, would not in the slightest lessen their circulating value. What is true of the United States in this respect is also true of England, of France, of Germany, and of all the nations that have adopted gold as the common measure of value. Their only commodity money is certain gold coins; their other coins being token or credit money. In the countries that have retained silver as the common measure of value the standard coin is generally commodity money, but the subsidiary coins, having less intrinsic value, are in reality credit money.