

PART V — MONEY: THE MEDIUM OF EXCHANGE AND MEASURE OF VALUE

CHAPTER I — CONFUSIONS AS TO MONEY

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.

The 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 whatever may be locally, 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 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 widely in store by governments and banks.

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, function 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. 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, 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 is usually meant by money we have only to know the essential characteristics of that which we all agree in treating as money in our practical affairs.