

CHAPTER 2 — THE COMMON UNDERSTANDING OF MONEY

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

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, fully expressed, would amount to this: "What you agreed to pay me was money. With money I can buy anything that anyone 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 anyone to give me for it what I may want, I must find someone 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. If I make friends with a little one of four or five, and, showing a stick of candy, ask "What is

this 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." But if I show a piece of money, it will say, "That is to buy things with."

Now, in this, the little child will give the definition of money that, whatever may be our monetary theories, we all practically recognize. The peculiar use of money — what money "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 as long as a thing is reserved to the use of buying things, any use inconsistent with this use is excluded.

We might, for instance, put 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, 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 buy other things with it. We esteem money and seek it, not for itself, but for what we may obtain by 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 candy or 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, 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. Both in ordinary usage and in political economy we 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 a sale.

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, 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. 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 high road for 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 bouillon; another a check or bill of exchange, or a checkbook; and the fifth to have current money. These things might have value to the same amount, but at the first stop for rest and refreshment a 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 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 itself.

Though of 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 anyone who could tell their real value or was willing to take them in return for commodities or service. To exchange them 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 clockwork 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 checkbook, or check or bill of exchange, he would find himself the worst of all. He could make no more use of them where he was not known than of so much blank paper, unless he found someone 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. Everyone 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, although 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 that they 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.

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; 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 the 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 today 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 of 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 central 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, it may turn to such examples as that of the Confederate currency; as that of the Continental currency; it as that afforded by Colonial currencies prior to the Revolution, or as that of the French *assignats*.

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 time mothers shall teach their babies 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?

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. 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 great difficulty. Nor would he obviate that

difficulty by taking instead of bullion, gold and silver coin. 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 correlation to intrinsic value than it has in the case of our paper money. And this is the case today 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. 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 today, 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.

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; I merely give an order on someone else to pay in my place. If he does not, I am still responsible in morals and in law. And 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 someone 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 endorsement. Even then I do not make a payment; I merely turn over with my own guarantee an order for the 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. 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

The only question anyone 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 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 a 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 in one of its functions a kind of language — the language of value.