

CHAPTER 3 — MEDIUM OF EXCHANGE AND MEASURE OF VALUE

The primary quality of money is in its use as the common medium of exchange. 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 society is most 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 the consumer. 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 could 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 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 would 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 seek for its substance materials least subject to wear and decay, while it is usually carefully guarded by whoever for the moment may possess it. 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 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 — 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 previously, 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. 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 a mother can know the feelings of her baby 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 is always based upon an estimate of the toil and trouble attendant upon the exertion which the possession of the thing will save.

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. 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 five dollars 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 a 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.

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, 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 exchange 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 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 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 a 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.