

CHAPTER 5 — THE GENESIS OF MONEY

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.

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.

In primitive societies, or any outposts of civilization where better means were not readily obtainable, skins, shells, salt, beads, tobacco, tea, blankets, and many other commodities have been used as common media of exchange and common measures of value, thus becoming the money of the time and place. But the metals, and particularly the precious metals, so will 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 desire to economize labor must soon have led to the running of the metals into pieces of definite weight and purity, so that they may be passed from hand to hand without trouble of weighing and testing them. To make these pieces of circular form, and to afford evidence that they yet retained their original substance by stamping their sides and edges, are obvious devices that seem to have 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.

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 on the coins become the things that give its 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. 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 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 better finished and handsomer 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 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 and 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 value soon becomes more important, and the extension of credit in our modern civilization is far more striking and important than the extension 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 credit has been such that the exchange of commodities to the ends of the earth and among peoples using different moneys, 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 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 seignorage, from the idea that the coining of money has from the earliest times been deemed a function of the sovereign — the seignor or lord — as representative of organized society or the state.

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 seignorage 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 seignorage 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 mint, as is today 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 seignorage.

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 coin money comes into use as a common medium of exchange is associated with coinage, which becomes the badge or stamp of circulation.

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 before the widespread development of credit as a medium of international exchanges, the use of coin in them as a conveniently portable commodity was probably 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 the 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.

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 the 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 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 gold 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, 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 other, and 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.

What 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 a monopoly of coinage in its respective country, will not issue one of them on any less terms that it does the other, thus making them all to the individual equally hard to get.