

CHAPTER 6 — THE TWO KINDS OF MONEY

While value is always one and the same power, that of commanding labor in exchange, there are, as we have seen, 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 today — 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 on denomination, such as those between English pounds, 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 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 which 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. 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 not decreased. Paper money is in truth of the same nature as the check or order on 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 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 other coins have an intrinsic or commodity value that is far less. That they circulate at the same value as the gold coins shows that their exchange value has no reference to their intrinsic value. They are in reality as much credit money as is the greenback, 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.

*Now, as soon as the great laborsaving invention of money supplants barter, it is readily perceived that to leave it to every one who chose to do so to issue money would be to entail general inconvenience and loss, to offer many temptations to roguery, and to put the poorer classes of society at a great disadvantage. These obvious considerations have everywhere, as society became well organized, led to the recognition of the coinage of money as an exclusive function of government. The evils entailed by wildcat banking in the United States are too well remembered to need reference. The loss and inconvenience, the swindling and corruption that flowed from the assumption by each State of the Union of the power to license banks of issue ended with the war, and no one would now go back to them.

I think it may be accepted as a principle proved by experience, that any considerable interest having necessary relations with government is more corruptive of government when acting upon government from without than when assumed by government.

It is evidently the business of government to issue money. Yet instead of doing what every public consideration impels them to, and assuming wholly and fully as the exclusive function of the general government the power to issue paper money, the private interests of bankers have compelled the people of the United States to the use of a hybrid currency, of which a large part, though guaranteed by the government, is issued and made profitable to corporations. The legitimate business of banking — the safekeeping and loaning of money, and the making and exchange of credits,

is properly left to individuals and associations; but by leaving to them, even in part and under restrictions and guaranties, the issuance of money, the people of the United States suffer an increase in the influences which exert a corrupting effect upon their government.

* *These last three paragraphs are taken from George's Social Problems (1883), Chapter 27. — L. D.*