CHAPTER XVIII

OF MONEY

In a previous chapter, it has been pointed out that a reciprocal exchange of services is the underlying principle of all co-operation and division of labour, the animating principle of all social life; that, on ultimate analysis, all barter, trade, or commerce, is merely an interchange of services: one individual, community, or nation, rendering services to another individual, community, or nation, in return for certain counter-services. It is difficult to imagine any horde of men, however primitive in their habits, living together without some interchange of services, even if only analogous to those other gregarious animals render one another; and the advantages derived from such interchange, and from the co-operation and division of labour it alone renders possible, would ensure its more or less speedy extension and development. Within the limits of the primitive community, or family, such interchange of services would become an established habit, and take place automatically or instinctively. In such communities the preservation and well-being of the tribe, not of the individual, is the supreme law, early impressed on the mind and character of every individual. All would share in the common stock; each would work according to ability, and according to the instructions received from the "head of the family"; a "conspiracy of idleness" would be manifestly impossible; and it would fare ill with those shirking their due share of the common labours. The stronger, or more skilled, might become the leaders in such a community, but there could as yet be no question as to the relative exchange, value of the different services the various individuals were rendering one to another. This question, however, would immediately arise when such a group, or family, commenced to exchange services or commodities with other similar groups or families. Such exchange of commodities would be a great factor in the advance of both material and moral civilisation. It would form the means by which the interchange of services would be extended beyond the limits of the isolated family or community, thus promoting material civilisation. It would form a peaceful link between separated communities, thus promoting moral civilisation. To facilitate such exchanges would, therefore, be a matter of great moment to the progress of civilisation, to the "ascent of man."

Now, one of the first difficulties to be surmounted, before such exchanges could become a general habit of individuals or communities, would be some common measure of value intelligible to all, some arbitrary unit in which the value set upon different commodities to be exchanged could be estimated and expressed. Just as we require some unit — such as a finger's breadth, a hand's length, a foot, a yard, or a mile, to express length; or the weight of a grain of corn, or of a certain quantity of water, an ounce or a pound, to express weight, and so on — so when we come to
exchange commodities do we require some standard unit in which to estimate and express the exchange value of such commodities. Now, manifestly, as a measure of value any given commodity could be used, and satisfactorily answer every purpose, provided only that the standard unit of value consisted of a definite quantity of this commodity (of a definite quality) expressed in terms of some known unit of weight or space.

Another great necessity of frequent exchanges would be some general medium of exchange. Now, in most communities there would be some one thing in pretty general demand, some commodity the majority of people required, or desired to possess: and we must not forget that it is desire, no matter what may inspire the desire that gives exchange value to commodities; and that commodities which nobody desires, or of which everybody has as much as he desires, would have no exchange value. For such generally desired commodities the majority of people would at any time be prepared to exchange any of their superfluous possessions; and for obvious reasons exchanges would at first be mainly, if not entirely, restricted to such possessions. These commodities would be found to be more readily exchangeable than others, and by common consent would gradually come to be adopted as a general medium of exchange, with which anything else could be readily obtained, or "bought," for which anything else would be readily given up, or "sold," to be used, in short, as "Money." For "Money" is simply anything that in a given community is being utilised as a general medium of exchange.

Though it is not absolutely necessary that the commodity in use as a medium of exchange should also serve as a measure of value, yet is it generally found more convenient that it should do so. As people became accustomed to carry out all exchanges by means of this one commodity, they would naturally come to estimate and express the exchange value of their possessions according to the quantity of this commodity for which they would exchange; or, in other words, to estimate and express their exchange value in terms of the current "money." Thus, today we speak of anything, even of things we have no idea of selling, as being worth so much money; and speak of a rich man as a "moneyed" man, even though the amount of actual money in his possession may be of the smallest.

Tea, tobacco, salt, skins, shells, beads, etc., have in different times and in different countries served as "money," both as media of exchange and measures of value. Metals, however, for obvious reasons, possess special advantages to fulfil the functions of money, and from the earliest dawn of history they, more especially the precious metals, have been so utilised. At first they probably passed current by weight, as bullion, a given weight of a certain fineness forming the unit measure of value. Thus a shekel of silver, of which we read in Genesis, was a certain weight of
silver. The increased use of metals as a medium of exchange would, however, soon lead to their being cast into forms convenient for that purpose, and to such pieces passing current by tale; and later on to what is known as coining. To coin metal is simply to divide it into conveniently-sized pieces, and to mark these in such a manner as will enable each one to whom they are offered to know that they contain a certain quantity of a given metal of a certain fineness. As John Locke well expresses it: "If this security goes not along with the stamp, coining is labour to no purpose, and puts no difference between coined money and uncoined bullion." We must, however, never allow ourselves to forget that it is the amount of metal the coins contain, or represent, and not the names by which they are known, that will determine their exchange value; for, as the same clear thinker tersely expresses it — "It is Silver, and not Names, that pays debts and purchases commodities." ¹

¹ "Concerning the Raising of Money" (1696).

Here, however, we must draw attention to the distinction between what is known as "standard" money and "token" money. Some countries have adopted gold as the standard measure of value, other countries silver. Hence, in some countries a certain quantity of gold of a certain fineness, in others a certain quantity of silver of a certain fineness, forms the standard unit of value; and coins containing these units, and multiples thereof, are coined and circulated. These form the standard money of the community, and their exchange value will be determined by the amount of metal they contain. But, besides these, other coins circulate and pass current at a value which bears no proportion to the value of the metal they contain. They are, in fact, merely representative, or token money. As a medium of exchange they fulfil the same function as standard money, and equally well; but they will retain their nominal value only so long as there is no difficulty in exchanging them for standard money. Like paper money of all kinds, they are really nothing but "credit" money; and all "credit" money, whether made of gold, silver, or paper, will be accepted readily and freely at their nominal values only so long as the credit of those issuing them remains unimpaired and unsuspected, and provided also they are no more readily or easily obtainable than the standard money they represent. If any form of credit money is more easily obtainable than standard money, its exchange value will depreciate; as it will also if the credit of the responsible issuing parties, whether an individual, a corporation, or a State, is suspected. Outside the boundaries of the States which issue them, or rather in countries not in direct commercial relations with such States, the value of all coins, standard and token, will be determined solely by their weight of metal.

It is quite true, as Henry George expresses it, that "the essential quality of money is not in its form or substance, but in its use;" and that its use, as money, is not "that of being consumed, but of being continually exchanged." It is also true, as the same
authority points out, that, with the exception of jewellers and dealers in bullion, not one man in ten thousand has any clear idea of the quantity and fineness of the metal contained in standard coins. And also that the habitual use of coins, of making and accepting payments by tale and not by weight, tends to make these more readily exchangeable than any equal amount of uncoined bullion; or, as George expresses it, "to transfer the quality of ready exchangeability" — the peculiar and distinguishing characteristic of money — "from the commodity to the coin." Yet we should not allow ourselves to lose sight of the important fact that standard coins serve not only as tokens or counters, not only as a measure and expression of exchange value and a medium of exchange, but also as a pledge or security that he who holds them shall be able to command services or commodities to the full amount of the value they represent. And this necessary and important function can only be fulfilled by what Mr. George well terms "commodity" money; that is by money containing an amount of metal equivalent to its nominal value; or by token or credit money issued by individuals, corporations, or States, concerning whose solvency, or power to redeem their pledges, there is no shadow of doubt.

It is owing to this tendency to accept coined moneys as representatives of value, rather than as in themselves valuable, that old, worn, defaced, and even clipped or debased coins pass current with new, fullweight ones, and command the same exchange value. There are, however, in every community some few, jewellers and others, who, for different purposes, melt down the coins in order to avail themselves of the metal; and these will naturally select only full-weight coins, rejecting and passing on to others the older and more worn currency. Moreover, as already pointed out, beyond the limits of the State issuing them, all coins will be valued only according to their metal value. Hence, if payments in coin are made to such countries, the heavier and better coins, which within the issuing country are as readily obtainable as the lighter ones, will be sure to be selected and exported. To the workings of these two causes we owe the wellnscertained fact that, while of other commodities it may be confidently assumed that the good, when sold at the same price, will drive out the bad, in the case of money the bad will drive out the good. Hence it is that, when it is found desirable to renew the currency of a country, it is not only necessary to issue new full-weight coins, but also to call in and recoin the old and worn ones. This fact, that bad or over-valued will tend to drive out the better money, has also an important bearing on another muchdiscussed currency question which we will now briefly consider.

BIMETALLISM.

As already mentioned, some countries have adopted what is known as a gold, others a silver, standard of value. That is to say, in some countries a certain quantity of gold of a certain fineness, in other countries a certain quantity of silver of a certain fineness,
forms the unit measure of value. Now, although such differences do not in any way prevent these countries from trading freely one with the other, yet there are certain disadvantages arising from this dual, or bimetallic system. And today in many countries there is a strong demand, not, as might have been expected, that all countries should be induced to adopt the same standard of value, but rather that all countries should be induced, or coerced, to establish a dual, or bimetallic system. That is to say, that the legalised standard unit of value shall be either a certain fixed quantity of gold of a certain fineness, or a certain quantity of silver of a certain fineness, according to the option of the purchaser or of the debtor. In plain English, that, say, a sovereign, the accepted standard unit of value in Great Britain and the Colonies, shall not only mean, as it does today, a certain quantity of gold, but also a certain fixed quantity of silver.

Although supported by many eminent financial authorities, the absurdity of this proposal will become manifest to all who impartially consider it. In the first place, if there be one thing connected with "money" more certain than another, it is that the accepted unit of value should be definite and intelligible, and known to all. But with such a "dual" unit of value, this first necessity of all exchanges would be greatly impaired. For though we may know what is today the relative value of gold and silver, or what amount of silver is required to purchase a given amount of gold, say a sovereign's worth, yet can we not know what it will be to-morrow. As everybody is aware, the exchange value of different commodities is continually varying in accordance with variations in their cost of production, and in demand and supply. No government, and no combination of governments, can determine what shall be the relative value of any two commodities, be they gold and silver, gold and wool, wool and cotton, or cotton and silk. They can easily ascertain what it is today; but they cannot know what it will be, still less determine what it shall be, today week.¹

¹"The value or price of anything, being only the respective estimate it bears to some other which it comes in competition with, can only be known by the quantity of the one which will exchange for a certain quantity of the other. There being no two things in nature whose proportion and use does not vary, 'tis impossible to set a standing regular price between them. . . . You will as fruitlessly endeavour to keep two different things steadily at the same price one with another, as to keep two things in equilibrium where their varying weights depend on different causes. Put a piece of sponge in one scale and an exact counterpoise of silver in the other, and you will be mightily mistaken if you imagine that because they are today equal, they shall always remain so (John Locke).

Moreover, as already shown, bad or over-valued money will always tend to drive out good money; and if such a "dual" unit of value were established by law and enforced upon the people, or even adopted by common consent, debtors would always pay in
that commodity, or money, which is more readily obtainable. The relative value of gold and silver would not remain at the level fixed by law, but would vary despite all the ukases of all the combined governments of the world. Hence, the over-valued metal would displace the under-valued metal as money; and we should again have, despite all laws to the contrary, one metal only in use as money, one unit standard of value, consisting of a definite quantity of the overvalued metal of a certain fineness; and those requiring the other metal would have to purchase it with the current money, as they would any other commodity.

Thus things would again right themselves, but only after great individual loss, and to the temporarily great injury of all commerce, of all exchanges between individuals and communities. What John Locke contended, when writing on this question over two hundred years ago, when silver was the current money, is true today, even though we have adopted gold as our money: "Only this I will confidently affirm, that it is the interest of every country that all the current money\(^1\) of it should be of one and the same metal, that the several species should be all of the same alloy, and none of a baser mixture, and that the standard once settled should be inviolably and immutably kept to perpetuity; for whenever that is altered, upon what pretence soever, the Public will lose by it."

\(^1\) Of course Locke is here referring to what we hare termed "standard" money.

To return to our subject. Whatever may have been the original or primary function of money, today, thanks to the continuous extension of banking and credit, its most important office is as a measure of value; and satisfactorily to fulfil this function the unit measure of value must consist of something easily ascertainable and readily understood. In the preceding chapters we have seen that labour is the price that has to be paid by man for all commodities, or, in other words, is the toll demanded of man for all his material enjoyments. We have also seen that in the open market — thanks to the beneficent effects of competition, of the flow of labour from the less to the more remunerative branches of industry — all commodities tend to exchange one for the other proportionately to their cost of production, i.e., proportionately to the amount of labour necessary to their production from the worst sources and by the worst means to which the demands and necessities of the community compel them to have recourse. Hence it would almost seem as if, whatever may be used as a medium of exchange, labour or rather labour-time would best serve as a measure of exchange value. For some years we were inclined to take this view, but were at a loss to see how it could be put into practice. Henry George, however, in his latest work, has shown the impracticability of any such proposal. He says: "Now, 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 these 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. . . . In fact, the form of measuring exertion by time, at bottom, involves its measurement by results."

Nor is there in reality any necessity for any such attempt; for both as a measure of value and a medium of exchange, as well as for a store of value, for which purposes both bullion and coined money have been, and still are, extensively used, the "money" at present in general use well serves every purpose.

It is its ready exchangeability, the immediate command it gives of any purchaseable commodity, that gives to money its special value. It is to this fact, too, that those in want of commodities (or services) they cannot immediately pay for, i.e., give anything in exchange for, seldom make any attempt to borrow such commodities from those who make or who own a store of them, even though perfectly willing to pay a premium for their use, but rather seek to borrow money wherewith to purchase them, and pay "interest" for the accommodation. But we should not allow ourselves to lose sight of the fact that, on ultimate analysis, what the needy man wants is, not money, but commodities or services. And we should also do well to bear in mind that the causes condemning the majority in every civilised community to poverty, depriving them of the command of the commodities and services they require, will in no wise be removed by any increase in the supply of gold and silver, or of money. Any such increased supply would only tend to increase "prices," i.e., the money value of all other commodities. And it is for the use or temporary control of these commodities that people borrow money and pay interest. It is the want of commodities, not of money, that drives people to the trouble and charge of borrowing. Today, owing to causes already indicated, the command of the commodities already in existence, as well as of those yet to be produced, constantly tends to gravitate into the hands of the few, of the privileged classes; and others who may require them for any purpose have to apply to these for the accommodation. And if we would alter this state of things, it is not to the "Money Question" that we shall have to turn our attention, but rather to these artificial causes today producing an unequal and inequitable distribution of the command of all commodities, including that in use as money.

Whilst on the question of borrowing, there is one other point we deem it necessary to refer to before leaving this part of our subject. As already pointed out, the relative
exchange values of all commodities are continually fluctuating, and neither gold nor silver form any exception to this universal rule. Their value may be somewhat more stable than other more perishable, or what may be termed more "seasonable" commodities, but still their exchange value does vary; and hence, the unit measure of value, when denominated by reference to either or to both of these metals, must also fluctuate in value. This, however, does not materially affect the efficacy of these metals to serve either as a measure of value or as a medium of exchange, as a means of facilitating and promoting the reciprocal exchange of services and commodities between individuals and communities. When, however, the unit measure of current values is utilised as a measure in which to reckon and fix future payments, the question assumes a somewhat different aspect. And when it comes to the consideration of what are known as National Debts, the repayment of which is deferred for an indefinite period, and the current unit of value is used as a measure of such repayment, then we have to admit that it is quite true that although the Nation may know what it is borrowing, it cannot know what it will be called upon to pay back.

To appreciate the truth of this conclusion we must remember two things. First, that what a borrowing Nation really requires is, not money, but the command of labour or of commodities. Secondly, that countries other than those producing gold, or whose standard export is gold, have to pay their debts in other commodities. For instance, let us suppose that a country whose standard export is corn, worth today, say, four shillings a bushel, desires to build a railway, and to this end requires one thousand tons of iron rails, worth let us say £10 per ton. To acquire these they would have to export 50,000 bushels of corn, or, to express it in labour-time, the products of, say, 25,000 days' labour. But, instead of thus paying for the rails, let us suppose that they borrow them, or rather the money wherewith to purchase them, undertaking, besides "interest" for the use of the rails or for the accepted accommodation, to repay the amount in, say, fifty years' time. What the value of their staple product will then be, nobody can possibly tell; as compared with gold it may have fallen or risen in value. Let us suppose, however, that, though it may still cost them as much labour to produce, the price of corn, i.e. its selling or exchange value expressed in terms of money, has fallen to two shillings per bushel, owing, let, us say, to other sources of corn having been opened up, or to gold having become more scarce. Hence, to pay the amount due they would have to find, not 50,000 bushels or the product of 25,000 days' labour, for which they could have obtained the rails at the time of their purchase, but 100,000 bushels, or the product of 50,000 days' labour. Of course, the value of corn as compared with gold may have risen, in which case, apart from the interest they have been called upon to pay, the borrowing corn-producing country would be the gainer. In either case, however, it must be admitted that though a country may know what it is borrowing, it cannot know what it will be called upon to pay back.
Credit has its uses. As an instrument and facility of commerce its utility and importance cannot easily be over-estimated. Like all other good things, however, it is liable to be abused. And it is abused when, to defray temporary necessities, real or imaginary, we attempt to mortgage the fruits to the labour of generations yet unborn. Of course, this pledging of the credit of the whole community, this mortgaging of the fruits of the industry of future generations, is greatly appreciated by those fortunate few who today command larger amounts of "wealth" than they can consume or themselves put to use. But, however much they may benefit and enrich a few, aristocrats, plutocrats, financiers, and stock-jobbers, unless National Debts are represented by tangible assets — by things aiding the industry or promoting the welfare of the community as a whole — which without their aid would not have been obtainable — as they are, for the most part, in the Australian Colonies, though not in the older countries — they must necessarily be a terrible burthen on the industry of the Nation, a burthen whose crushing weight falls entirely on those whose industry, energy, and enterprise produce all the material comforts and enjoyments at the disposal of mankind. Moreover, it must not be forgotten that such debts constitute an additional factor unequally distributing the fruits of the industry of the Nation, depriving those who work of the full reward of their labours, to bestow the lion's share on those who in no way share in their toil. Well may we exclaim with Napoleon I., whose despicable personal ambitions cannot hide from us his great and rare political insight: "Never was a web more artfully woven over a Nation than that horrible debt which envelops the people of England." A web now enveloping the masses of every civilised country in the world.

1 "Suppressed Memoirs."

1 It is practically impossible to estimate accurately the amount of the national indebtedness of the several countries of the world. According to the Bankers' Monthly it amounts to over £6,120,000,000. The greatest debtor in the world is France, with a national liability of over £1,224,000,000. Next comes Great Britain, with a debt of over £640,000,000, exclusive of the indebtedness of the British Colonies, amounting to over £474,000,000. Austria-Hungary follows close behind, with a debt of over £606,000,000. Italy ranks fourth, with a debt of over £518,000,000. Russia takes the fifth position, with a debt of only £395,000,000. If the reader will take the trouble to ascertain what quantity of any tangible product, or of labour-time, is represented by but £1,000,000 sterling, he may be able to form some slight idea of what is involved in the above figures.

The necessary limits of these elementary studies prevent us from probing more deeply into this most vital question. Today, the Nations are staggering under the burthens of Monopoly and Privilege. Land Monopoly, National Debts, Unjust Taxation; these are the typical products of unjust, class legislation; these are the means by which today
the drones abstract the honey without alarming the bees; these are the causes hindering mankind from reaping the full harvest of their industrial activities, and which are stealthily undermining the existing industrial civilisation. Today, however, the more enlightened are commencing to revolt against the social order as it exists, and every day adds to their numbers, their power, and their influence. Reform or reconstruction is their demand; and it will be well for mankind if the former can obviate the necessity for the latter. But, before either reform or reconstruction can yield the advantages expected from it, the people must learn to understand, and legislators must be taught to respect, all that is involved in the fundamental principle of all rational Economics, of all life-directing individual and social Ethics, the Law of Equal Freedom.