

# Who Knows about Money?

By PAUL PEACH

(Concluded from last month.)

The reason we need coins and bills is that they are more convenient, and this from two points of view—the buyer's and the seller's. The transfer of currency has the merit that it terminates the transaction—it requires no bookkeeping, no memoranda. It enables the buyer to demand immediate possession of the thing purchased, and protects the seller in making immediate delivery. For the myriad small purchases, such as daily newspapers, cigarettes, and so on, it is more convenient to hand over a coin than to write a check. (And more efficient, too; for the labor involved in clearing a check is considerable.) But if you want to, it is easy to establish credit at the corner drug store or newsstand. You can even buy a pass to use in street cars and buses. It is possible, today, to dispense entirely with the use of currency save in situations constituting a departure from your normal routine—say, when you travel. Even then, traveler's checks are more useful than cash.

Think of this notion of a traveler's check. We do not usually call it money, yet obviously it performs the functions of money, at least in large part. What ought we to demand of a traveler's check? If we can answer that question, we should be able to lay down rules for the guidance of the Government in issuing currency.

A traveler's check must be easily identifiable. It must be difficult to counterfeit. It must be issued by a responsible authority known to the people you expect to deal with.

It doesn't matter whether the bank or express company has gold or other stuff in its vaults equal in value to your checks. All the bank does is say, "The holder of this piece of paper has so and so much economic authority; we guarantee it. Here is his authority ticket; as he uses it up, punch it like a meal ticket. If he wants you to gratify a desire for

him, make him sign over part of his authority to you."

With this thought in mind, we might define money as any means by which there could take place a transfer of economic authority without (necessarily) a transfer of wealth.

Now, suppose I am a merchant and order goods from a manufacturer. I can take the order to the bank and establish credit for a loan. This credit will eventually take the form of bank checks, but the instrument which made the basic transfer of authority was my letter to you ordering goods. At the same time that I increased your authority I diminished my own—assuming that I was a good enough business man not to jeopardize my credit standing. Here is a new way to transfer authority. Except for the existence of the written memo or order blank, it amounts to transfer merely by word of mouth. If we could depend upon people's memory, we would dispense with the memorandums; it would be less trouble to have an occasional loss through dishonesty than to keep books. (See in this connection "The Promises Men Live By," by Harry Scherman.)

If we recognize that the practice of keeping books in the case of credit transactions is the result, not of fear of being cheated by a dishonest debtor, but of a recognition of the inability of the memory to dispense with a written record, we realize that economic authority can perfectly well be transferred by the mere will and agreement of the contracting parties—without the exchanging of any cash, check, note or other token.

This means that, with respect to its exchange function, money is just a state of mind—as Kass puts it, numbers in a book. The purpose it serves is that of chips in a poker game. The obligation of the government, then, is the same as that

of the bank or express company—with particular stress upon the responsibility of the money-issuing body not to use their position for personal advantage. (It would not be proper, for example, for employees of the Treasury Department to print money for their own use.) When the government prints money for its own use we have printing press money, which soon becomes valueless.

Aside from the mechanical requirements (easy identification, difficulty of counterfeiting, etc.) the only important requirement is that the agency which prints or stamps the currency should not violate its public trust. It is not necessary that the government should do it; a great deal of currency was once printed and engraved by the International Bank Note Company, a private firm. It is only necessary that each piece of currency printed be accounted for, and put in circulation only upon the surrender of some other legitimate evidence of economic authority. The government, for instance, should not spend the money it prints unless it has first secured, by taxes or otherwise, the necessary transfer of authority from its citizens. To do otherwise would be the same as allowing the Treasury clerk to take home samples.

As for money in the general sense, the government has nothing to do with it. Money is made by the members of the community who produce and exchange; it arises naturally from their exchanges. All the government can do is supply convenient tokens, useful because they are handy. The idea that there must be a hoard of gold or silver or wheat or diamonds "back of the money" is sheer poppycock. The only purpose of requiring such a hoard is to restrain the legislature from printing money at random and helping themselves.