

Who Knows about Money

By PAUL PEACH

A correspondence student writes:

An income tax is paid with money. A tax on production must be paid with goods. But our bondholders demand money, not goods. How can a tax on goods, then, liquidate the National Debt?

Another:

Just what is the function of government in respect to money? Is it true that there is no need to bury gold and silver in the ground, and that all the government need do is just issue the money as it is required?

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The difficulties in the theory of money arise from three sources:

- (1) Nobody knows what it is.
- (2) Nobody knows what it ought to be.
- (3) Nobody knows what to do with it.

Paradoxical as these statements may seem, they are still true. Take the first: Nobody knows what money is. Henry George says (S. P. E., Book V, Chap. 2) "Whatever in any time and place is used as the common medium of exchange is money in that time and place." On the next page George adds that money is also a measure of value. It is common practice in text books on economics to define money as "the medium of exchange, the measure of value, and the storehouse of value."

Now, if we accept the definition that money is the common medium of exchange, we mean in the United States that money consists of pennies, nickels, dimes, quarters and other coins, and of dollar bills, two dollar bills, five dollar bills, and bills of higher denomination. The definition is clear and unambiguous, and of course it is in this sense that we customarily speak of money.

But when we begin to study political economy, we soon find that this primitive notion is no longer adequate. Either we must introduce a new term (such as *credit*) to describe what we observe, or we must extend the notion of money to embrace these new concepts.

Consider George's idea of money: "The medium of exchange and the

measure of value." This is two definitions, not one. It is by no means obvious that the two can be combined. The standard of length is the meter; but a distance equal to one meter is one thing, and a meter stick is another—even though we measure the former by means of the latter. An hour is not the same thing as a clock, nor a year as a calendar.

If we are to define money as one and only one thing, I think we must stick to the medium-of-exchange idea. But for modern economy we cannot restrict our ideas of the medium of exchange to coins and bills—that is, to *currency*. Currency is one thing; money includes currency, but is something bigger, broader.

Irving Kass, a graduate of the Henry George School, has given us the term *authority*, and I find this term very useful. If I have economic authority, it means I can go into the market place and say, "I have a desire; satisfy it." We commonly do this with coins and bills. I desire to eat a hot dog; I go to the hot dog stand, announce my desire, and produce a coin as a token of my authority. In return for the hot dog, I transfer my authority to the vendor, giving him the coin by way of token.



One thing to notice is that, though in this example I have surrendered the coin, such an act is not necessary to constitute money. The stone money of the Island of Yap served all the purposes of currency, but because of its immense bulk and weight (up to twelve feet in diameter) was not portable. If you wanted to pay a bill, you told your creditor, "You may have the stone now lying in Smith's back yard. Smith traded it to me for a missionary." Your creditor would accept this payment, and would pass on the ownership of the particular stone in the same way. In one case a stone fell into the sea and was lost; but it continued to circulate by word of mouth just the same. Nobody was interested in the stone itself; the only desire was for the economic authority which the stone symbolized.

I may, then, transfer my economic authority without actually handing over any token of that authority. If, however, I take part in a great many such transfers, I have a choice between keeping books (for my memory will not retain the details of all the trades) or of handing over to my creditor some physical object which will be accepted by the market as evidence of his authority. This is what I did when I gave the coin to the hot dog man.

The market will, however, accept other things than coin as evidence of authority. The most common of these is a bank check. In actual practice, the huge bulk of transfers of authority, in point of the amount of authority transferred, are made by this means; business bills are seldom paid in any other way. The use of checks instead of cash requires a certain assumption of honesty which impedes the negotiability of the checks; but in actual fact there are mighty few bills which cannot be paid by check if you insist upon paying in that way.

(Concluded next month.)