A STUDY

OF THE

MONEY QUESTION

BY

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"INVOLUNTARY IDLENESS," "THE IRON LAW
OF WAGES."

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PREFACE.

THE following is an addition to a branch of literature which during the past few years has assumed proportions beyond the possibility of survey. From time immemorial the money question has been the subject of profound discussion and speculation. But although economic literature abounds with theories and propositions, the money problem still engages the attention of the nations. Whether or not the present discourse will throw any new light on the subject, is left to the reader to decide.

INTRODUCTION.

THE late financial panic, followed so closely by a general depression in trade, revives the question as to whether those paroxysms are the inevitable concomitants of the unprecedented industrial progress of which this century can rightfully boast, or whether it is within human power to avoid them. The paramount importance of this question must be admitted, not only by those who are suffering under the stress of these conditions, but also by those who, though relieved of the care for the necessaries of life, are cognizant of the suffering of the unemployed.

The symptoms of financial crisis and business depressions are too well known to require graphic description. As though an unseen force were calling a halt to the rapid progress, the industrial activity of nations is periodically prostrated by causes that seem to elude detection. But the fact that financial difficulties are invariably the forerunners of these periods of depression gives colour to the theory that points to our present monetary system as being at least partially at fault. A careful analysis of the theory of money should reveal to what extent this assumption is justified, and suggest the means to be taken to revive, if possible, industrial activity and to avoid a repetition of the calamity.

Such an investigation must necessarily embrace a study of the law of value, of the principle of credit, of the theory of money and of the influence of the present financial system on industrial activity. The subject being to obroad to be exhaustively treated without writing a large volume on Political Economy, the following discussion is confined to the cardinal prepositions and to those points on which opinions differ.

CHAPTER I.

VALUE AND ITS DENOMINATOR.

UNFORTUNATELY, the necessity of hewing a path through the wilderness of conflicting opinions shows itself at the outset. The real meaning of the word "Value" is almost universally misunderstood. Value is usually described as a peculiar, intangible attribute possessed by wealth, although the daily use of this word reveals the error of this conception. "Value" is confounded with "Valuation", the latter being the subjective estimate of utility, while the former is invariably the result of an exchange. Homer mentions instances of values expressed in terms of oxen. At a later period values were measured in pounds of silver and in terms of various other commodities. At present a number of dollars and cents designates the value of things. In elaborating the law of value, economic writers frequently express values in kind, for instance in terms of so many bushels of wheat. In all these instances, actual things, such as oxen, silver, dollars, wheat, etc., are quoted as values. When a book is sold for a dollar, the dollar is the value of the book and the book is the value of the dollar. Value is accordingly not an attribute of wealth, but an actual thing, namely, the thing obtainable in exchange. Strictly speaking, a thing can have a definite value only at the moment at which it is exchanged for another thing. At any other time values may be estimated, but they can be realized only by the process of exchange.

Since each thing may be exchanged for all kinds of other things, it is possible to express its value in a thousand different ways. This would lead to serious confusion but for the adoption of an expedient which consists in selecting from among the thousand different commodities a particular one, in terms of which values are usually expressed. The commodity so selected is properly termed the "Value-denominator", but the term "Standard of Value" is more frequently used to the confusion of those who imagine that this term implies stability of value.

Some commodities are better adopted than others to serve as a universal value-denominator, and experience has singled out the two precious metals, gold and silver. The reason is obvious. Outside of the precious metals there is no commodity of a quality so uniform that equal quantities obtained from different sources invariably have equal values. This is decidedly the most important reason for the adoption of gold and silver. Other reasons, such as divisibility, durability, portability, etc., are less important, although the last mentioned has in most countries given to gold the victory over silver.

CHAPTER II.

THE LAW OF SUPPLY AND DEMAND.

IT is observed that the market value of each thing tends to a definite rate by a law over which the individual has apparently no control. This law is known as the law of supply and demand and can be stated as follows. The quantity of a given commodity that can be sold in a given market will depend, other things equal, on the prevailing price. A falling price will induce more persons to buy and will prompt each to buy a greater quantity. A rising price will have the opposite effect on the demand. The supply is likewise affected by the price. A high price furnishes remunerative employment, and by inviting increased production, will cause an increased supply. A low price, yielding a correspondingly small remuneration to the producers, will cause them to seek employment in profitable fields, and the supply will be diminished. In short, a falling price increases the demand and diminishes the supply, while a rising price diminishes the demand and increases the supply. Now, the law of supply and demand is simply a proposition, capable of demonstration, that the market price has a tendency to the point where the amount supplied will equal the amount demanded, and that every discrepancy as regards demand and supply will be followed by a re-adjustment of the price, through the effect of competition, until the equality of demand and supply is established.

From this it follows that if the state of the market, as regards a given class of goods, is normal, the price is such that there is no special inducement to either increase or decrease its manufacture. The recompense accruing to the producer in that branch will then equal the average recompense in other branches, and the assertion that values will adjust themselves to cost should really be interpreted as meaning that the values of those things tend to be equal which can be produced with equal efforts.

The neglect of studying the causes that lead to an increase or diminution of the demand for a given class of commodities, as the price falls or rises, has in the past led to a very serious misapplication of the law of supply and demand, as we shall see later. The utility of a commodity is not a fixed quantity, nor has it an objective existence, being dependent on the judgment of the individual. And it not only varies as the judgment of different persons varies; it is really a variable quantity in the judgment of each individual, according as a greater or less quantity of the commodity in question is at his disposal. Figuratively speaking, each class of commodities may be considered as having for each person a series of utilities of varying importance, related to a similar series of desires of different intensity, each capable of being satisfied by the consumption of a definite quantity.* Of these utilities some are esteemed

*Prof Boehm Bawerk illustrates this principle by introducing to his readers a colonist who is provided with five sacks of grain

higher, others lower, than the price of the quantity adapted to satisfy the respective desire, and each purchaser will acquire only so much as will cover the first class of utilities, the price precluding the gratification of those desires represented by the second class. The prevailing price, then, decides the point of division between the utilities that will be made use of and those that will remain unused, and accordingly determines the amount demanded. A change in the price changes this point of division, and with it the amount demanded. The particular utility located at this point of division is the least important one of those rendered available by the supply and is termed the "Marginal Utility."

At first sight this line of thought seems to be inapplicable to the determination of the value of capital, which is not directly able to gratify desires. This difficulty is, however, only apparent, since capital should be treated as unfinished merchandise. A loom, for instance, is capable of weaving only a limited quantity of cloth before it becomes unless by wear, and the labour of its production is as much a part of the labour requisite to produce that cloth as is the labour of the weaver. From an economic standpoint, then, a loom is virtually

The first is just sufficient to keep him from starvation. With the second he can complement his meals so as to remain strong and healthy With the third he feeds poultry that will furnish him with a variety of food. The fourth he uses for making whiskey, and with the fifth he feeds parrots which he keeps for his amusement Each of the sacks is adapted to satisfy a different desire, and each has, accordingly, a different degree of utility.

a large amount of cloth, partly finished, and is desirable for this reason. Had capital always been considered a definite quantity of partly matured utilities, instead of being described as a means of production, much confusion might have been avoided.

A correct understanding of the law of supply and demand can, according to the foregoing, be obtained only by conceiving the quantity "Demand" as a resultant of the relation which utility bears to price, or of that which gratification bears to sacrifice, the increase of demand, in the event of a falling price, being due to a more extended use of the commodity, the higher price having precluded the less important uses which through the falling of the price were made available. In the same sense the "Supply" is a resultant of the relation which the price bears to the difficulty of production, free competition being premised.

The quantity "Demand" in the above sense, is evidently equal to the sum total of all value which the would-be purchasers freely and willingly offer in exchange, at the market price, for the kind of goods in question.

CHAPTER III.

CREDIT.

BEFORE passing to the consideration of the subject of money, a few words on the topic of "Credit" may conduce to a clearer understanding of the subject. In economic discussion this word should be confined to that meaning which is the antithesis of debt. In this sense it is synonymous with an assurance that a debt already contracted will be paid on maturity, and is not the mere reputation which entitles a person to be trusted. It designates the economic relation following, and not the one preceding, the contraction of a debt. It is the relation existing between the creditor and the debtor, and constitutes a right closely related to the right of ownership. This relation is capable of further analysis. The right of ownership is in practice often so qualified that the right of possession is temporarily excluded. The most familiar case is that of the ownership of a house that has been rented, the right of possession having been temporarily transferred to the tenant. Only after the expiration of the lease can the owner insist on obtaining possession, and if the tenant refuses to give it, he can obtain it by process of law. In fact, since the right of ownership is that relation between a person and a thing which results from the universal public sanction, supported by judiciary guarantee, of exclusive possession, his recourse to law is that which alone can establish his right to ownership.

The position of the creditor is almost precisely the same. On maturity of the debt he may insist upon receiving the amount promised, and if the debtor fails to pay, he can, by process of law, take so much of the debtor's property as will bring, by public sale, the sum involved. The right of the creditor is obviously a form of joint ownership in the debtor's property, to the amount of the debt, though qualified in relation to time in the same sense in which the right of the owner of a rented house is qualified.

Credit may therefore be defined as a form of joint ownership, temporarily deprived of the right of possession, or as a temporary separation of possession and ownership, the creditor being the owner, the debtor the temporary possessor, of the value involved.

By keeping this conception of credit in view, many otherwise obscure features of the theory of money will lose their mysterious aspect.

CHAPTER IV.

MONEY.

IN order to avoid the ambiguities which usually complicate the study of the financial question, the word "Money" should first be carefully defined. Many writers, instead of presenting a definition, enumerate a number of functions, thus preparing the way to the inextricable confusion in which this subject is generally enveloped. The following definition, based on a single function, will enable us to steer clear of the rock of ambiguity, so fatal to logic. Let it be defined as "Any medium of exchange devised to overcome the difficulties attending a pure system of barter". Wherein these difficulties consist is too well known to require elaboration in these pages, and since a division of labor would be impossible without the removal of these difficulties, the importance of money is measured by the advantages afforded by the modern system of production.

It is a fatal, though very common error to add to the function of mediating exchanges that of measuring values. Money on the one hand and the unit of value, or the conventional value-denominator on the other, are radically different concepts. The unit of value is not necessarily money, nor is money necessarily a denominator of value. There is a distinction between "The Dollar" and "A Dollar" The dollar is the American unit of value, consisting of 25 8 grains of gold, 9/10 fine. A dollar is a piece of money the current value of which

equals the unit. Only in standard coin are both functions combined. The assertion that money is a measure of value is a meaningless phrase. It is not the money, but the gold, or the silver, or whatever has been adopted as a unit, which may be said to measure values, and if the definition of value is taken into consideration, " measuring values " must be understood as synonymous with " obtainable in exchange ".

The different forms in which money is used, are susceptible of classification on two lines. These divisions are. Standard coin vs. Credit Money, and Legal vs. Tolerated Money. Standard coin is that made of the adopted denominator of value. Credit money exists in the form of subsidiary coin, or partial credit money, and notes, or credit money proper. Any of these forms of money may by law be declared " Legal Tender ", or they may be simply tolerated. Subsidiary coin is legal tender only if presented in limited sums. The gold dollars coined by private parties in California, although standard coin, have not been legal tender. Some notes are legal tender and others are not.

Some writers make a distinction between " Money" and "Currency", applying the first term only to standard coin and reserving the second for notes and subsidiary coin. Others use the word " Currency" in the sense of " Money " as previously defined and confine the term " Money " to that portion of it which is legal tender. This is, of course, only a question of terminology and

appropriate definition. The sense is not affected if one school applies the word "Money" to that which the other school terms "Standard Coin" and uses the word "Currency" in place of "Credit Money". A difference in mere terminology is no valid ground for controversy.

Money has been originated and developed by the process of evolution, initiated in the early stages of human history. Commodities known to be in general demand were accepted by many, not because they wanted them, but because they had reason to believe that those who had other things to sell would accept them in exchange. A tacit agreement was thus developed to accept certain things merely to mediate exchanges, but while any commodity of general acceptability can in a measure perform this function, the choice had fallen on gold and silver. This evolution of money has incidentally led to the adoption of the commodity of which money was made as a universal value denominator. In fact, the genesis of money and that of the unit of value are so intimately interwoven and so interdependent that their history cannot be separated. This is, however, no excuse for so completely confounding these two concepts as to use the same word to denominate both.

Originally, silver and gold were weighed as they figured in each exchange, and the attending inconvenience suggested the propriety of making pieces of definite weight and of impressing upon them a stamp vouching for their correct weight and fineness. Thus coin was originated.

The development of the industries on the basis of divided labor has increased the volume of commerce so much that the amount of gold and silver available for money has become inadequate to transact all business. An increase of the amount of money was imperatively demanded by our industrial progress, and a rational solution of the problem has been found in the use of credit money. Wealth other than gold and silver was substituted for those metals, and in order to make such money portable, divisible and commensurable with the accepted unit, the principle of credit was called into play. Instead of passing the wealth bodily from hand to hand, only a right resembling that of ownership is now transferred by means of notes, the value of which is expressed in dollars. Such notes are now largely in use, being the most convenient form of money.

In the light of these remarks the following two factors will be found to be indispensible constituents of money.

First —Wealth, which forms the substance of money, and,

Second —A mutual agreement, tacit or express, to use this wealth as a universal medium of exchange.

The existence of the first of these factors is not directly evident in the various forms of credit money, the wealth being represented by tokens. These may be intrinsically worthless or may possess a metal value more or less approaching their face value, but in either case they are virtually claims to wealth intrusted to the issuer.

Standard coins, being composed of the value-denominator, contain the wealth specified on their face. In the case of gold certificates, the wealth, in the form of gold, is deposited in the national treasury, practically at the disposal of the holders of the notes. The bulk of our present money consists of wealth other than gold, circulating in the form of tokens, which are well secured promises, redeemable in good. Preparation for such redemption is made by providing a reserve fund of gold or legal tender, but the amount of this fund being only a fraction of the amount of notes issued, the promise of redemption on demand is made on the assumption that at no time more than a fraction of the issue will be presented for redemption, and that in the event of progressive redemption sufficient time will elapse to permit the exhausted reserve fund to be replenished. The ability of the issuer to do so is therefore an essential factor of those issues, and this ability can be secured only by the possession or the control of an adequate amount of marketable wealth, the value of which serves to cover the deficiency of the redemption fund. The absolute value of the wealth pledged must exceed by a considerable margin the nominal value to be sustained, in order to provide against a possible deficiency resulting from a fluctuation of values. Several varieties of this kind of money are now in use. The treasury notes are secured, partly by the gold reserve of the treasury, partly by the wealth of the nation, through the taxing power of government. The national bank currency is secured by national bonds, which likewise derive their value from the fiscal taxing power. Subsidiary coin, including the

present silver dollar, should also be classed as credit money. It is issued in limited quantities by the government by which the difference between the actual and the face value is appropriated. This "Profit" should properly be viewed as a loan, to be returned when the coin is retired. That subsidiary coins will pass at face value only as long as the government accepts them at par has been amply proven by the history of the trade dollar. Although a definite promise of redemption is not incorporated in our statutes, it cannot be denied that the limited legal tender quality of such coins, which obliges the government to accept them in payment of taxes, is in a measure an assurance of redemption; not in gold, to be sure, but in services, since the payment of taxes must be regarded as a payment of services rendered by the government to the individual This promise of redemption is, however, rather precarious and indefinite, and it would be but in harmony with justice to have promises regarding the redemption of subsidiary coin expressed more definitely.

Directing our attention to the second factor of money, to the mutual agreement of acceptance, we find this to be the specific characteristic by which money is distinguished from the other wealth This agreement imparts to money its specific desirability. The knowledge that others are parties to this agreement, that others will freely accept money in exchange, imparts to it the faculty of mediating exchanges and of overcoming the difficulties attending a system of pure barter. When money is by law declared to be legal tender, all those who sell goods for a money price are obliged to accept it. But

since notes which are not legal tender are known to circulate freely, it is evident that a tacit agreement is fully competent to take the place of the legal agreement

We can now study the process by which money is made. The money quality being of social nature, inasmuch as it is a result of a mutual understanding, either tacit or expressed by statute, money can be conceived only in an association of human beings who are more or less intimately united by social ties, one of them being the agreement to use a certain portion of wealth as money. Any kind of wealth can be monetized by bringing it within the range of that mutual agreement that renders it acceptable to all as a medium of exchange. In this process its exchange value is not affected, this value remaining equal to that of the original wealth which constitutes the raw product, the substance, of money.

With the aid of the information gained it is possible to modify the original definition of money, by incorporating the method employed to accomplish the desired end. Instead of merely intimating that a medium of exchange can be devised to overcome the difficulties attending a system of pure barter, the method of doing it may be embraced thus. "Money is wealth which by mutual agreement is rendered universally acceptable in trade, for the purpose of mediating exchanges".

CHAPTER V.

A RATIONAL MONETARY SYSTEM.

MONEY being that tool of trade by which a division of labour is made possible, it is the most important factor of our industrial progress. If the supply is inadequate to permit all that which is produced to be freely exchanged, a stagnation of trade must ensue which is competent to fully account for the phenomenon known as overproduction.

This brings us face to face with the question of how to determine the amount of money demanded by our industrial system. There being no rule by which to compute this amount, the regulation of the production of money should be left to the law of supply and demand, a law which is depended upon to regulate the production of all other tools. All money systems other than that of credit money possess an element of definite limitation which will enter as a disturbing factor. A recourse to credit money is therefore the only alternative. But the very nature of credit money requires that precautionary measures be taken. To this end the issue of bank notes has been placed under the control of the government.

As mentioned before, the measure now adopted to provide for redemption is to hold in readiness a reserve fund of gold. The fund sustaining the gold certificates is equal to the nominal value of the outstanding notes, hence the issue of such notes is strictly limited to the amount of gold so deposited. For insuring the redemp-

tion of the treasury notes and greenbacks a reserve fund is held in the national treasury approximately equal to one-quarter of the nominal value of these notes. For the purpose of securing the national bank currency the national banks are required to hold a reserve fund of legal tender, amounting to from fifteen to twenty-five per cent. of their circulation. The amount of money issued on any one of these plans can evidently exceed only a few times the value of the gold available for money These plans are therefore not free of an artificial limitation to the production of money.

Whether this embargo to the expansion of the volume of money can be removed depends on the feasibility of providing adequate security and of formulating a practical plan for redeeming every note in the unit commodity, even though the nominal valve of all notes be indefinitely in excess of the medium of redemption.

The first part of this problem offers no serious difficulty. Experience has furnished ample proof of the practicability of the general plan embodied in the national banking system, and the extension of this system, by admitting securities other than national bonds, has frequently been suggested. The objection usually urged against this measure is based on the fact that even the best of securities are not altogether free from risk, but this obstacle is not insurmountable, as will be seen.

On a rational solution of the second part of this problem hinges the financial problem of to-day, and the presentation of a definite proposition aiming at its solution is the principle object of this treatise, the author

believing that the only feasible plan consists in replacing the promise of redemption on demand by one embracing redemption on time notice, with the object of enabling the issuer to procure the gold demanded, instead of compelling him to keep an indefinite amount in readiness for an indefinite time. The time so gained will make it possible for the same quantity of gold being used repeatedly in the process of redemption, if for any reason the call for redemption should at any time be excessive. This principle can be put into practical shape in many ways, and the following outline of a plan is presented merely to show the possibility of a practical solution.

Let the government print notes, redeemable in gold, in denominations and quantities adapted to the demand therefor, and issue them to any applicant who will, firstly, promise and guarantee to return their equivalent, either in notes or in gold, at the expiration of one year; secondly, submit to a discount, the rate of which is to be determined as explained below; and thirdly, agree to furnish the gold necessary for redeeming the notes that may be presented for redemption. The renewal of a loan, after the expiration of the term, would logically be subject to the same conditions.

The first condition contains a feature which, as previously intimated, is by many regarded as an insuperable obstacle, inasmuch as no guarantee can be absolutely free of risk. Any difficulty arising from this source can, however, be successfully avoided by an application of the insurance plan, *i. e.*, by the payment of a premium adapted to cover the risk. For this

purpose the securities offered may be classified, and with the aid of statistics the rate of risk of each class determined. This rate should form the basis of the discount to be charged, which thus becomes in effect an insurance against risk. The income from this discount should be devoted exclusively to cover losses resulting from the occasional inability to realize on securities and to pay expenses incurred in prosecuting delinquents when such a course becomes necessary. At first the discount should exceed the actual rate of risk until an emergency fund has been accumulated, which may be called upon if at any time the losses should exceed the average rate. Under a proper administration of this insurance system there can be no objection, theoretically, to the acceptance of any security, however risky, if properly classified. But in practice, expediency will dictate the exclusion of high risks. Especially at the beginning it would be advisable to proceed on a very conservative basis, and to adopt more liberal rules only after experience indicates the propriety of so doing. A beginning may be made by accepting only real estate securities in the form of first mortgages not exceeding one-half of the lowest officially assessed value for the last ten years. The examination of these securities may perhaps be facilitated by means of certificates, attested by the county authorities, confirming the statement of assessed value, and testifying to absence of prior encumbrances. With these precautions the danger of loss would be exceedingly small and could be fully covered by a small rate of discount. Of course, all expenses attending the scrutiny of the securities should be borne by the borrowers.

The cost of preparing the notes and of replacing those worn out should properly be defrayed from the public treasury, since the wear is due to the public use of the currency. But this expense is relatively so trifling that there is no material objection to charging it against the income from discounts, by increasing that rate correspondingly.

Various methods for obtaining the gold required for redemption may be devised, but the following recommends itself by the simplicity of its operation. Let each borrower, before making or renewing a loan, furnish a certain amount of gold, say one per cent. of the amount of the loan, for which he will receive an equivalent in notes; the gold so procured to be used exclusively for redeeming notes that may be presented for redemption. This gold will obviously not always suffice to redeem on demand, since the applications may at times exceed the amount so obtained In this event the applicants shall receive numbered certificates, redeemable in the order of their issue by the incoming gold. Whenever a delay of redemption is thus resorted to, the amount of gold to be provided by the borrowers, in exchange for an equivalent of notes, shall be increased, in order to hasten the process of redemption. If, for instance, the applications for redemption should equal five per cent of the total issue, the demand for gold might be increased by this rate, *i. e.*, to six per cent. of the loan, in place of one per cent. With this proviso the delay of redemption could not, under the most unfavorable circumstances, exceed one year. It is, however, likely that a recourse to a delay of redemption will but rarely become necessary, since notes are for

most purposes more convenient than coin, and the par value of the notes is assured by the provision made for redeeming every outstanding note in gold. Nor is it necessary that the amount of outstanding notes shall bear any specific relation to the available amount of gold. This system would obviously dispense with the necessity of storing hundreds of millions of dollars worth of gold because of a possible demand therefor, since the right to delay redemption allows time to obtain the requisite amount of gold in the market. Nor is it likely that the market will fail to furnish the necessary amount, for after being delivered for notes, the gold again passes into the markets of the world, and the same quantity can be repeatedly used in the process of redemption.

Objections will, no doubt, be raised against the proviso which permits a delay of redemption. Financiers persistently maintain that notes can take the place of money only if redeemable on demand, although they fail to support this assertion by cogent reasons. That their standpoint is untenable, is proved by history. More than once has the bank of England resorted to a temporary suspension of specie payment, and its notes did not depreciate until there was good reason for doubting their ultimate redemption. In this country the premium on gold disappeared some time before specie payment was actually resumed. Whenever notes have depreciated, their depreciation could invariably be traced to the uncertainty of redemption, but never to a mere delay within reasonable limits.

If notes will perform the money work as well as

coin, then gold will be demanded for notes only by those who wish to use it in its capacity as a commodity. This is also true when gold is used for paying the balance of international commerce, where it figures as a commodity, not as money, the payor being virtually an exporter of the commodity gold. Gold would accordingly be on the same plane with other commodities, and since those who wish to obtain other commodities must take the chances of the market, there is no reason why special provision should be made, by holding hundreds of millions of dollars' worth of wealth out of use, to enable those desiring the commodity gold, to obtain it at a moment's notice. If an exporter contracts to deliver a thousand tons of steel rails and fails to provide himself with those goods, he alone must shoulder the responsibility. Why, then should we secure to the exporter of gold an immediate supply, if he enters into a contract without providing the means for filling the same ?

The success of the proposed system will evidently hinge on the willingness of the people to accept these notes in trade, and this question could be readily tested by putting the plan into execution without making the notes legal tender. They may then be accepted or refused at option, and if they should not pass as freely as expected, they would be retired without subjecting anyone of their holders to any loss. There is, however, no reason why these notes should be accepted less freely than the national bank notes, the economic status of which is practically the same. Notes issued as proposed, like the national bank notes, are mere pieces of printed paper, which have no value until in the process of issue

they are exchanged for securities, being thereby converted into legal claims to the wealth pledged. By this process this wealth is virtually coined, but instead of passing bodily from hand to hand, only the right of ownership is transferred by the transfer of the notes. The wealth pledged as security is the substance of this money, the notes being merely an evidence by means of which the right of ownership is established and transferred. The wealth pledged as security is thereby endowed with a new function, with the faculty of figuring as a medium of exchange, without interfering with its other economic functions. If a sound currency can be produced by these means, it would be a crime against national economy to oppose its introduction.

The proposed system would permit the volume of money to adapt itself to the needs of commerce. There will be a demand for money, and its volume will be increased, so long as men are willing and able to comply with the requirements specified. A redundance of currency is indicated if men no longer feel warranted to submit to those requirements, and the consequent cancellation of loans will cause a contraction of the currency.

Even the hoarding of money would no longer have the effect of reducing the available amount of money below the needs of trade. Indeed, the hoarder of money would actually confer a benefit upon society. Money being an evidence that the holder has given wealth to others and received for it merely a right to select at pleasure an equivalent from the nation's stock of wealth,

the hoarder really permits his wealth to be used by others without receiving any compensation other than the ultimate return of an equivalent.

It is often proposed to monetize the national credit, by the issue of treasury notes, but since the amount of notes so issued would be determined by act of congress, this system lacks the feature of elasticity and therefore does not fulfill the requirements of a rational system of currency.

In putting a plan similar to the one suggested into operation, expediency will no doubt dictate the adoption of numerous additional rules. It may be desirable, in order to relieve the federal office of retail transactions, to exclude applications for loans of less than, say, $1,000. The scrutiny of the securities offered may be simplified by appropriate means. The rules originally adopted for their classification may subsequently be improved, in accordance with accumulating experience. Token coins may be substituted for paper notes because of their greater durability, convenience and cleanliness. It may be advisable to demand of applicants for redemption an assurance of good faith, by requiring a deposit of, say, five per cent. of the sum to be redeemed, which shall be forfeited if within, say, one month after the applicant has been notified of the maturity of his certificate, he fails to take up the gold provided. Provision should also be made for ascertaining, at periods, the amount of tokens destroyed by accident. This may be accomplished, with tolerable accuracy by an occasional change in the design of the tokens and a gradual redemption of

the old by the new issue. The most equitable disposal of a profit accruing from this source would be to transfer it to that fund from which the cost of making the tokens is defrayed It is hardly possible for any contingency to arise which would offer any serious difficulty or would put an obstacle in the way of the success of the system.

The words "Borrower" and "Loan" in the preceding paragraphs are perhaps not quite appropriate The borrowers would virtually be the issuers of the money so issued, for they would be the possessors and trustees of the wealth upon the value of which the issue is based. The securities demanded would simply be instruments conveying to the holders of the notes, through the agency of the government, a right of action against the possessions of the issuers, and the function of the government would be confined to that of a mere agent, responsible only to the extent of the available assets, the proposed plan positively providing for an excess of assets over liabilities.

CHAPTER VI.

THE WAR OF THE STANDARDS.

FINANCIAL discussions have of late been confined chiefly to the question of the standard, and the objections urged against the present system of gold monometallism may be classified under two heads; first —the constant appreciation of gold, due to the ever increasing demand for money, is claimed to put the debtor class to an undue disadvantage, and, in bringing a profit to the hoarder of money, to encourage hoarding; and second —the insufficient supply of gold, in limiting the supply of money, obstructs the commerce of the world, and to the insufficiency of money are attributed, not only the crises that at times convulse the business world, but also a material increase of the current rate of interest over the natural, economic rate, which the producers are obliged to pay to the money leaders.

These are the principal arguments advanced in favor of bimetallism, which is a proposition to give a double specific definition to the word "Dollar", giving to the debtor the option to pay his debts either with gold or with silver. Bimetallism is realized in practice by opening the mint to the free, though not necessarily gratuitous, coinage of both gold and silver, giving to every owner of either gold or silver the right to demand a conversion of those metals into coin. Sometimes the word "Bimetallism" is erroneously applied to denote the use of silver

in subsidiary coin in combination with a gold standard coin. A limited use of silver does not constitute bimetallism. Nothing short of the free coinage of both silver and gold can establish bimetallism. It is, however, questionable if the passage of any of the propositions, of free silver coinage, lately discussed in Congress, would lead to bimetallism. Owing to the difference of value, at the ratio proposed, the immediate effect of the measure would be a reduction of the value of our money unit to that of the silver contained in a dollar, and the withdrawal of every gold coin and gold certificate, gold rising to a high premium. The consequent shrinkage of the value of the sum total of our money to probably less than one-half the present value would then be followed by an intense stagnation of business, which could be relieved only in the proportion in which the volume of money would be increased by the subsequent coinage of large quantities of silver. And it is doubtful if the value of silver would increase sufficiently by the increased demand to ever attain par value with gold, at the ratio proposed by those who advocate the free coinage of silver.

Although the proposition of a double unit is on its face absurd, since debtors will invariably select the cheaper one of the two, bimetallism can notwithstanding become practicable on certain conditions, since factors come into play which tend to keep the value of the two metals at par with each other, at the rate prescribed by law. While both gold and silver are used for coin, the world's demand for those metals is thereby increased and their market value is accordingly affected

If, then, for any reason the value of the two prescribed units should be unequal, only the cheaper metal will be brought to the mint for coinage, while coin made of the more valuable metal will be diverted for use in the arts. As regards the market for free gold and silver, the demand for the cheaper one and the supply of the dearer one will be increased, which will have the effect of increasing the value of the cheaper and reducing that of the dearer of the two metals. Therefore, so long as large quantities of both metals are coined and are in circulation, bimetallism affords a compensating tendency for a limited fluctuation of value. But if a rational system of credit money is once introduced, if the greater part of the metallic money can be dispensed with, this compensating tendency will be lost and bimetallism will become an impossibility. But aside from this, bimetallism can at best afford only a partial relief, since it fails to impart to the volume of money the requisite elasticity, a factor of artificial limitation being still present.

The opposition to the single gold standard has found expression in the proposition of numerous other value units, prominent among which is the suggestion of making labour the measure of value.

The doctrine that labour is the original measure of all values has been promulgated by Adam Smith, and further elaborated by Ricardo and others. It forms the corner stone of Marx's theory of surplus value.

Were this doctrine correct, a definite amount of labour would be the most rational unit of value. But it unfortunately rests upon a misconception. Labour is not a quantity, but an act. Although in a subjective sense one kind of labour may be compared with another kind, an objective comparison is impossible. It cannot, therefore, be either measured or compared with any concrete economic quantity.

In every past attempt to represent labour as an economic quantity its value has been rendered in terms of hours or days. The propriety of so doing is apparently supported by the practice of paying wages by time. A careful analysis of the wages system will, however, reveal that wages are not the pay for the time spent by the workman, but are the purchase price of that which the workman has produced. The practice of paying wages by time is due to the difficulty of determining the exact value of the produce of each man when many cooperate in production. The value of each man's produce is determined approximately by his time of labour in conjunction with his specific rate of productivity, as determined by past experience, and wages are computed accordingly. But the fact that the rate of productivity, as determined by experience, enters as a factor, is conclusive proof that not the time, but the estimated value of the produce is the basis of wages.

Even those who adopt the time of labour as the measure of value are desirous of eliminating individual differences by introducing an ideal or average time

measure, but they fail to see that this expedient destroys their very standpoint. Each man's labour being measured, not by the actual time consumed, but by the alleged ideal time value of his produce, the value of the product is virtually substituted for his time, although, by an ingenious play of words, it appears as if the value of things were still expressed in terms of the time of labour.

As a matter of fact, labour as such has no value. It is the produce of labour which is valued, and if the produce is that which apparently imparts value to labour, then labor cannot conversely be that which measures the value of the produce. It follows, therefore, that not labour, but a produce of labour must be chosen for a value denominator, and those who still insist on having labour the measure of values have no good reason to object to the adoption, as a unit, of the labour required for the production of 25.8 grains of gold, or of that which may be adopted as a value denominator.

The system of money suggested in the preceding chapter, although strictly based on the gold unit, would be free of the objections ascribed to the present system of gold monometallism. By practically dispensing with the use of gold coin, the excessive demand for gold as a money metal would cease and with it that appreciation which is a result of this excessive demand. And the amount of money being independent of the amount of gold extent, a stringency of money could no longer result from the fact that the quantity of the unit commodity is limited.

CHAPTER VII.

FIAT MONEY.

THE most pernicious of the popular theories is that which treats of the value of money as the quantity independent of the value of the substance of which money is made

The radical advocates of this school declared outright that all value possessed by money is created by law, and that this value exists independent of the value of the money-material. The proposition of making paper money and imparting value to it by law is so persistently repeated that a few words in refutation of the fiat money doctrine are here in order.

The doctrine can be traced to a misconception of the nature of both value and credit. A creation of value by law can be conceived only by those who hold value to be an intangible property of wealth which may even be tacked by law to an otherwise worthless piece of paper. But when value is conceived as a concrete economic quantity, such as an ox, a bushel of wheat, a pound of silver or an ounce of gold, the absurdity of the theory is at once evident.

Many persons are misled by the term "Irredeemable Notes", by which some writers thoughtlessly designate certain legal tender notes, the redemption of which is not definitely promised. They seem to overlook that a

promise of redemption is virtually embraced in the legal tender quality, which provides for the acceptance of the notes in payment of taxes.

Those who give but a superficial thought to the theory of money often assert that money need have no intrinsic value, and are thus unconsciously led to accept the fiat theory. Their mistake consists in confounding money token with money. It is true that the token need have no intrinsic value, but the token is not the money. Its office is to establish the right of the holder to the substance of money. It cannot pass current unless it conveys a right to demand of the issuer a definite value. Money does not consist of the mere token, but of all the rights which the token conveys.

Considering that most people quite properly associate with the word "Dollar" a certain quantity of gold, the advocates of fiat money who desire to have the money unit totally divorced from any definite commodity, could best show their sincerity by suggesting a new name for their unit, accompanied by the statement that this unit is not a dollar consisting of so many grains of gold, nor it is a pound, a franc, a mark, a rouble, a lire or a peso, but a piece of money to which value is imparted by the fiat of law. Since from these data nobody can obtain the first conception of the purchasing power of this money, the absurdity of this method of making money is apparent.

The notion that money can possess a value apart from the market value of the commodity of which it

consists is unfortunately not confined to a number of ignorant people. In a modified form it has found its way into almost every standard work on finance and political economy. The phenomenon of pieces of paper taking the place of coin in the commerce of the world has been misinterpreted even by high authorities. Hume and Ricardo have asserted that the purchasing power of money bears an inverse ratio to the volume of money. In two consecutive chapters John Stuart Mill elaborates two independent theories for the value of money, one based on the cost of producing money, the other on the volume of money. These two theories cannot both be correct, and a careful investigation will show the volume theory to be untenable, being based upon two erroneous propositions of which the first, the seigniorage theory, forms a link by which both theories are apparently reconciled.

Instead of attributing the excess of the current value of each subsidiary coin over its bullion value to the expectation that it will be redeemed by the issuer at its nominal value; instead of viewing as a loan the profit accruing to the issuer in the process of issue, for the return of which loan the issuer should be held responsible, it is ascribed, by the seigniorage theory, to an excessive charge, to a monopoly price, demanded by the government for placing upon the piece of precious metal a stamp vouching for its correct weight and fineness. This charge being a part of the cost of production, it is argued that the exchange value of the piece of money is thereby enhanced. But since a guarantee of correct

weight and fineness cannot enhance the commodity value of the piece beyond the market value of the metal, since the cost of production does not determine the value of the product unless production is open to competition, it must be inferred that the advocates of this theory have the impression that money as such can have an exchange value independent of the commodity value of its constituents.

The seigniorage theory is further applied to explain the value of so-called irredeemable legal tender notes, by attributing this value to a charge of seigniorage equal to the nominal value of the notes.

Having arrived at the conclusion that money can have a value peculiar to itself, it requires but one more step to complete the line of argument. A reason must be given for the existence of this specific money-value, and the "Demand for Money" is naturally selected. And since "Demand" always operates in conjunction with "Supply", the theory that "The value of money, like the value of all other things, depends upon the ratio existing between the demand for, and the supply of, money", has obtained a firm foothold.

But since this theory is apparently in conflict with its own parent, with the seigniorage theory, it must be reconciled with the same. This is done in the following manner. It is held that a certain amount of money is required to transact the business of the nation. By bringing into circulation money, the value of which is wholly or in part due to a charge of seigniorage, a

corresponding amount of standard coin is displaced. The value of the money substitute is then governed by the seigniorage, *i. e.*, the cost of production, and the law of supply and demand assumes the office of maintaining the proper volume of money by forcing the superfluous standard coin out of circulation. But after all sterling money is displaced by an excessive issue of the money substitute, the law of supply and demand changes its function and takes control of the value of this money, entirely displacing the factor of cost in regulating this value. Every further increase of the number of notes entails a proportionate reduction of the purchasing power of each note, the value of the money unit is now independent of the amount of seigniorage charged, but is related, in an inverse ratio, to the volume of money, other things equal. A place is now assigned to both seigniorage and volume, in the theory of money, and the "Volume Theory" is "demonstrated", but alas, the demonstration involves a violation of the law of continuity, and is based on the substitution of eclecticism for consistency.

The argument is faulty in still other respects, since a comparison of money with other commodities, as regards the effect of the law of supply and demand, is simply out of question, as the following considerations will show.

Money as such possesses only the one utility of mediating exchanges, and this utility is a result of its current value or purchasing power. Deprived of its exchange value, it can no longer mediate exchanges.

Here is already one radical difference. While the value of commodities is a result of their utility, the utility of money is a result of its exchange value, and it is illogical to conversely attribute the value of money to its utility. Another discrepancy is this. When a commodity falls in value, the range of its use will be increased, some of its utilities being made available which previously were precluded by the higher price. When money depreciates, its utility is reduced on account of this depreciation. When a commodity rises in value, its range of available usefulness will be contracted, while a rise in the value of money is attended by an increased utility. These differences are so irreconcilable that the law of supply and demand, as applied to the value of commodities is obviously inapplicable to money, except in so far as it determines the commodity value of the substance of which money is made.

The notion that the ratio which the supply of money bears to the demand for the same determines its value is most conclusively refuted by considering that the demand for a given category of wealth equals the sum total of all value which the would-be purchasers freely offer in exchange for it at its market value. The demand for money accordingly equals the market value of the sum total of all merchandise offered for sale, and if the law of supply and demand has any meaning, its dictum would be this:—that the value of money has a tendency to that rate which renders the demand equal to the supply. But it is a well known fact

that the value of the sum total of all money is *not* equal to the market value of the sum total of all merchandise exposed for sale.

The defenders of the volume theory often triumphantly point to the reduction of the purchasing power of money which has followed the discovery of gold mines, and to the depreciation of legal tender notes resulting from their over-issue. But they forget that a theory cannot be demonstrated by pointing to a few facts which are apparently in accord with it. It is necessary that all facts coming within its range shall find explanation, and the commodity theory of the value of money which assigns this value to that of the money substance, will explain not only the above mentioned phenomena but also those which are incompatible with the volume theory. While it is safe to say that the value of the money unit is absolutely independent of the volume of money in circulation, this, like any other proposition, is true only with the reservation : "other things equal". Any change in the volume of money which incidentally affects the commodity value of the money-substance, must naturally affect the value of the money unit correspondingly. Thus, an increase of gold following the discovery of a mine has the effect of cheapening gold and with it the money unit consisting of gold. In conflict with the volume theory, but in full accord with the commodity theory, is the fact that the value of the money unit is increased when a greater portion of the gold extant is converted into coin. The supply of free gold

being reduced, the consequent rise of the market value of gold brings with it a corresponding rise in the purchasing power of money. The more general adoption of the gold standard by the great nations of the world, in so far as it involves the use of an increased quantity of gold for currency, is the principal cause of the appreciation of gold lately observed.

The fact that an increased issue of notes is frequently attended by a corresponding depreciation is likewise no satisfactory defence of the volume-theory. The amount of money cannot be increased by a mere multiplication of the tokens without a corresponding increase of the issuer's responsibility, attended by an increased ability to meet the obligations. A mere multiplication of tokens is fittingly designated as inflation and properly classified as a fraud. If it involves the danger of a failure of redemption at par it is invariably attended by a depreciation of the notes. But if the wealth constituting the security, which is the substance of money, is increased pro rata with the notes, the designation "Inflation" is inapplicable, and depreciation will not follow.

That the purchasing power of money is independent of its volume must be apparent to all those who conceive money as being wealth invested with the function of mediating exchanges by a mere mutual agreement to accept this wealth as money. The amount of wealth used in this capacity cannot possibly re-act upon values by reason of that use.

Although decidedly untenable, the volume-theory of the value of money has been so artfully conceived, so plausibly presented and so dogmatically taught that monetary legislation has universally been adapted to it, to the detriment of national prosperity. It is responsible for the absence, on our statute books, of a definite promise to redeem the so-called irredeemable notes and subsidiary coins, including the present silver dollars, which according to all rules of justice constitute a national indebtedness It is responsible for the depreciation of every one of those issues of paper money which have depreciated, since, according to that pernicious theory, a promise of redemption is not necessary. It is responsible for the legal restrictions that prevent the issue of currency in quantities adequate to mediate the exchange of all that which can be produced by means of our unprecedented facilities of production, and is, therefore, further responsible for the recurring financial crises, for the stagnation of business, for the lack of work, and for the suffering of the unemployed. Fortunately a rational theory of credit money is slowly gaining ground and is gradually displacing the ancient volume-theory which has survived to this day only by force of dogmatic authority.

But we still hear its echoes in the daily press, in which the assertion is persistently repeated that we now have enough money, having more per capita than ever before. But since the demand for money increases with our

progress, with the introduction of every new invention, in short, with every extension of the system of divided labour, the per capita amount of former years is no criterion of our present need. Moreover, the fact that the interval between recurring crises was formerly shorter indicates that the increased amount of money has had a beneficial effect, and that even apart from abstract theory there is every reason to expect that a still further increase may have the effect of indefinitely postponing the coming of the next crisis. Those who object to an increase of the volume of sound money can adduce no cogent reason for their objection save the absurd assertion that the value of money would thereby be impaired. There is no ground whatever for an objection to invest with the function of mediating exchanges all wealth qualified of being so employed; there is no good reason for preventing the monetization of all wealth capable of being safely monetized.

CHAPTER VIII.

FREE BANKING

IF a bill would be introduced in congress for regulating the number of locomotives to be made and used in this country, lest an excessive number might be made, tending to increase the traffic beyond the needs of the people, the sanity of the author of this bill would justly be questioned. Yet, we accept without question the decree of congress which limits the amount of money, although money is by far the most important of all tools.

The desire for relief from this oppression has prompted many to advocate free banking, a system that would practically permit everyone to issue promissory notes adapted to circulate as money, leaving it for competition to weed out the notes issued by irresponsible parties. But our past experience with what was pratically free banking is by no means re-assuring and indicates that this system possesses a serious defect. The cause of failure is, indeed, quite obvious. It is unreasonable to expect of the people to acquaint themselves with, and keep themselves informed of, the solvency of every issuer of a multiple issue, and the distrust induced by a single failure is apt to put an insuperable obstacle in the way of the circulation of such notes. Not only is it

necessary that the notes should be well secured, but it is equally essential that everybody should be assured of the fact. Even though the right to use as a medium of exchange whatever they may agree upon be conceded to those who have merchandise to exchange, the right to demand an assurance of the responsibility of the issuer cannot be denied to those among whom these notes are to circulate. Unless a note is accompanied by a guarantee acceptable to all, it cannot perform the function of money, except to a very limited extent. A national control and guarantee of the issue of credit money is therefore amply justified, this being an expedient not inconsistent with the theory that everyone should be free to do as he wills provided he infringes not the equal freedom of others. It is a recognition of the equal rights of contracting parties, the issuers on the one hand and the users of money on the other, the former being trustees of the wealth which constitutes the substance of money, while the holders of the notes are the owners. The office of the government, whose legitimate function consists in preventing infractions of equal freedom, would be that of an agent of the people who are the creditors. And since the government would be acting merely as an agent, the often preferred charge of paternalism is not justified. Those who consider that it is not proper for the government to assume this

agency on conditions that would be dictated by competition, were the issue of money free to all, should also consider that it is an act of despotism to suppress that freedom on any other condition. Indeed, paternalism and partiality can rightfully be imputed to the present attitude of the government, inasmuch as it limits the issue of money and extends the privilege of issue only to the owners of national bonds. There is reasonable ground for complaint, if the government, in controlling the issue of credit money, imposes conditions not consistent with the essentials of a sound money issue, and in this respect the present system is decidedly defective. Not only are the acceptable securities confined, by law, to national bonds, thus introducing an artificial limitation to the expansion of the volume of money, but national banking is otherwise burdened with unnecessary restrictions. These laws exert a detrimental effect, primarily upon commerce, and ultimately upon the industries, in so far as they depend upon commerce.

The imputation that a system of money issue similar to the one described would turn our government into a pawn-shop reflects no credit upon those who use it as an argument in opposing a more liberal financial policy. Pawn-shops are in bad repute chiefly on account of the practice of usury, and only the thoughtless can put into the same category an institution having the tendency to effectually abolish usury.

Expediency dictates the greatest possible simplification of the credit money system, most completely realized by a single, uniform issue, which can be most advantageously controlled by that social organization which is invested with the function of preventing infractions of equal freedom. But the avoidance of needless impediments is an imparative condition. The credit of the issue will then rest upon the integrity of the nation, and the design of the tokens will be uniform and may be sufficiently elaborate, at a relatively small cost, to render counterfeiting practically impossible.

CHAPTER IX.

CONCLUSION.

BEFORE enlarging upon the probable effects of a system of money issue as proposed in the preceding pages, it is proper to repeat that no special weight is attached to the details suggested, which were presented merely to show the possibility of a practical solution of the problem. Only the following conditions are essential.

Money should be regarded as wealth endowed with the functions of mediating exchanges through a mutual agreement making it generally acceptable in exchange, and its volume should be regulated exclusively by the law of supply and demand, freed from all unnecessary limitations, whether resulting from legislative enactments or from the natural limitation of the substance selected as a value denominator. Since nothing but credit money is adapted to meet these conditions, the necessary safeguards must be rigidly enforced. To this end the issuers, or original borrowers, must not only be required to furnish adequate security, with the risk fully covered by the payment of a properly apportioned insurance rate, but also to provide for the redemption in gold, or in whatever may be the accepted value denominater, of every outstanding note. In every other respect the issue of money, or, more correctly speaking, the monetization of wealth represented by

credit, should be free and not burdened with any further expenses or impediments which would have the effect of interfering with the operation of the law of supply and demand.

Since a reform of this kind, although in a measure radical, would be only relatively so,—for every feature has been approved by past experience, and no really new experiment would be involved,—there is no ground for the fear of failure, and some very desirable results are so clearly in view that they can be safely predicted.

From an economic standpoint a sale is an exchange of two economic quantities, one of which is a sum of money. There is no good reason why the reciprocal delivery of both these quantities should not be, as a rule contemporaneous. Yet, we know that business is transacted chiefly on a credit basis, and that even after the maturity of book accounts, payments are often attended by vexatious delays, well known to business men in the difficulty of making collections. Nothing but the insufficient supply of a proper medium of exchange can account for this feature of the present system It then follows that as soon as sound credit can readily be converted into money, as soon as every business man can obtain an adequate amount of the medium of exchange on conditions not exceeding those which are essential to the issue of sound money, the present cause for delayed payments will no longer exist. Business will then rest on a cash basis, since every request for individual credit would at once betray financial weakness. The practical absence of individual debts would naturally reduce the

number of disastrous bankruptcies. Manufacturers and merchants would be relieved of a large part of the interest burden, which now causes them many a sleepless night. The congestion of wealth at the point of sale, usually ascribed to over-production, but really due to an embargo placed upon commerce by the inadequacy of the medium of exchange, would give place to uninterrupted business prosperity. Also the workmen would be benefited, for with returning business prosperity the demand for labor would be increased and wages would rise through the operation of the law of supply and demand.

Even though the stringency of money were recognized only as one of many factors that tend to intensify the distress caused by a crisis; nay, even though we merely had reason to entertain a suspicion that there might exist a relation between our present financial policy and the widespread suffering of the unemployed, —and there are good reasons for attributing business stagnations to the inadequacy of money as the sole cause,—relief should urgently be demanded by every one engaged in productive enterprise, whether in the capacity of farmer, miner, manufacturer, artisan, carrier or merchant. In the cause of humanity all should join in the demand for the abolition of that class legislation through which the production of the most important of all tools, the medium of exchange, is restricted.