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THE NATURE OF MONEY.

By Edward J. Shriver.

In political economy, as in the field of ethics, money might well be termed the root of all evil. No other department of the science has served more thoroughly to tangle up the brains of those who have studied it, from whichever point of view they have approached the study. Nor is this strange; for, while such processes as the production of wealth or the operation of rent are created by natural forces, and governed by natural law, money is a mere artificial device, evolved though it has usually been by the involuntary concert of men as they have come together into societies. Reduced to its essential characteristic, money is simply a tool of trade, the representative of other things the exchange of which it makes more convenient. Its quality is wholly unimportant, so long as

it is generally acceptable, just as its quantity has little, if any, such influence on trade as is generally ascribed to it. The other functions commonly ascribed to money—those of measuring values, of serving as a standard of value during more or less extended periods of time, and as a "store of value"—are purely incidental to the primary one of acting as a circulating medium; and the last named of these is not really a property of money at all, but only of the precious metals, of which it has, until the most modern times, been chiefly composed.

For within a comparatively recent period, the nature of money has almost wholly changed. In barbarisms which have progressed just beyond the state of barter, the articles used to represent goods when passing from one hand to another, have rarely had intrinsic value. A string of wampum or of shells came to be accepted by common consent as representing a certain value in the skins or other articles that constituted the germ of commerce thus far developed; and men therefore gave up their surplus of useful things for the valueless money, in simple confidence that other men who might have to dispose of what they in their turn might need, would do the same. So long as trade was confined to narrow geographical limits and amongst closely related tribes, this did well enough; but as it spread more widely abroad the need of more security was felt, and when men sold goods they required to be paid in something which cost some labor to get and was sure to be wanted for its own sake, so that when they might wish to buy there would be no difficulty about it; and thus such materials as gold and silver came into use.

With the still further widening of commercial circles, we have now fairly reached another stage. Returning in one sense to a system of barter, we have adopted a circulating medium even less intrinsically valuable than wampum, because purely intangible. Fully nine-tenths of all transactions within advanced nations, perhaps three-fourths of the domestic dealings of the more backward ones, practically the whole of international trade, is conducted entirely without the use of any representative except the writing down of values in books and on exchangeable slips of paper. The farmer delivers his grain to the commission dealer and gets from the latter a certificate that he has done so in the shape of a check on the local bank, which the dealer makes good by depositing a draft upon the city house to which the grain has been shipped. The farmer has meanwhile transferred his credit at the bank, perhaps for dry goods or groceries at the country store, the keeper of which transmits it again on paper to the city whence these goods came and where they have been produced by operatives who have eaten the flour ground from the grain, and where the exchange of the grain for the dry goods or groceries is effected by means of the issuance of more checks and the cancellation of these against each other on the books of the banks, and usually by a final settlement of balances in the clearing-house between the banks.

All this is simple enough and familiar enough; and yet it is but a microcosm of what nearly all commerce has got to be, in which money as a concrete substance that is taken by A from B and given to C as a material representative, has disappeared, and become merely a term for the more convenient expression of the comparative value of the goods interchanged. For all such trade, a dollar in reality means a certain accepted value of goods or services, and is no longer even superficially identical with a given number of grains of gold or silver, or a piece of paper printed in some particular way. There is no magic in any of these things; they are of service in their monetary capacity only so long and to such extent as they can be more conveniently used and will be more readily acceptable than other things, as representing values in general. Their relative abundance or scarcity cannot in itself increase or diminish the number of transactions in which they are used, any more than the number of valves in an engine will affect the power or the volume of the steam which passes through them; though just as the lack of these may retard the passage of the steam, or their excess may waste it by means of extra friction and leakage, so the volume of circulating medium may influence the ease of doing business, to the extent that the one is dependent upon the other as an exclusive agent for which no convenient substitute can be found in case of need.

In effect, modern commerce has provided itself with just such a substitute in its increasing use of checks, and drafts, and money orders, and ledger accounts. By charging off services of one kind on one side against services of another on the other side until merely insignificant balances are left to be finally settled, we get rid of so much of the necessity for outright payments. Almost all international trade has come to be conducted on this basis, the "rate of foreign exchange" quickly showing the traders of a country whether it is importing or exporting in excess, and affording an inducement to make shipments one way or the other to restore the balance, which overcomes even hostile tariffs. Narrowing somewhat as it descends from foreign trade through the various departments of wholesale business to the smallest retail transactions, these reciprocal credits of which the so-called "money of account" consists, have entered already into the daily routine of purchases for final consumption, and are destined to be more and more utilized as their greater convenience comes to be more fully appreciated.

Every man who keeps his little bank account for household expenses, and pays his butcher's bill with a check instead of with greenbacks or coin, everyone even who uses the more cumbersome postal order system, is expanding the currency, and doing it much more efficiently than an act of Congress ever can, because the expansion comes just when and where it is needed, and is done away with as soon as the need is past.

Nor is there even the most remote connection between the volume of currency and what is so often spoken of as "ease" or "tightness of money," except in so far as popular misconception leads to expanding or contracting the use of capital, because of the quantity of tangible currency that may happen to be in sight. The thing which we commonly have in mind when we think or speak of capital (the power which capitalists control, a power including far more than "capital" in the accepted economic sense of the word) is for the most part utterly intangible; and even economic "capital"—the wealth in use for the purpose of new production—is not stored up, except in very minor degree, from year to year. The most stable form of capital—that in which it decays and is used up most slowly—is seen in buildings; yet it will generally be found that the value of a house that any man occupies is usually about equal to but one year's ordinary income earned by him; considerably less for the great majority than the value of a year's product. The subject of loans, which is the "money" that periodically becomes "tight" or "easy," is in most cases nothing else than the sum of productive energy, the power of directing which—and accordingly of determining whether or not it shall be exerted or remain stagnant—is more or less concentrated in few hands. With the causes of this concentration, "money" proper has literally nothing whatever to do: nor, except by its influence on the sentiment of those in control, has it with their action in any given case. No conceivable increase of the amount of "money" can really add to or deduct from this sum of productive energy, and the probabilities, at least, are that it in no way appreciably affects the ease of setting it in motion.

How true this is cannot but be apparent to anyone who makes the most cursory comparison of the volume of loans or exchanges (taking even the very incomplete data concerning the visible part of these which is attainable) with the volume of currency extant. The latter, in the United States, is but little more than 1,600 million dollars, nor does it vary greatly, as it surely would if it were the essential factor for the constantly fluctuating volume of trade; while the exchanges at the New York Clearing House alone in the month of February, 1892, represented values three times as great, and in all the clearing houses of the country more than five times. And yet, the values thus shown were only the differences on innumerable transactions, and make no exhibit whatever of the aggregates that were written off on ledgers because of reciprocal purchases and sales among merchants. Or, if we look at the matter of loans, it is anything but uncommon to find 500 million thus owing to the banks of New York alone at a given time—half as much nearly, as the total volume of currency—for which they in turn are debtors on their deposit accounts; and it was not long since stated that the loans made by 47 New York banks in a single day amounted to 300 millions, by 21 Chicago banks to 87 millions, and by 9 St. Louis banks to 27 millions. In the study of such figures as these, it ought not to be hard to realize how thoroughly unimportant a part is played by currency proper in determining the activity or stagnation of trade, except as the superstition that it does, may act as a sentimental force upon the minds of those who set the wheels in motion or stop them.

Such a superstition is unquestionably a prime article in the creed at once of the "money sharks" of Wall street and of the greenbackers who most ardently denounce them. Every year important shipments of currency are expected "to move the crops," and countless columns of type are filled with speculations as to why the shipments do not take place in just the way that was expected; the simple fact being that the financial world has grown out of the necessity for them, even the time-honored settlement in cash of obligations outstanding at the first of April throughout the state of Pennsylvania having for the most part disappeared. Much of the value of Southern and Western farm products does not return in any shape, because it merely pays interest on the mortgages of which we hear so much; and the percentage which is paid for, is paid for directly in goods, too often of necessity obtained before the crops are harvested. In all these dealings, men have learned for themselves, and without the intervention of law, that they can make their own currency far more easily and cheaply than either the government or the banks can make it for them.

Whether it be in the shape of wampum or bills of exchange, of gold eagles or bank checks, of greenback dollars or commercial drafts, the essential character of "money" proper is one and the same—that simply of a convenient piece of machinery for the more convenient exchange of goods or services (which in the last analysis are the same thing, by the way); and according to whether it performs that duty well or ill, is it to be determined whether a given kind of money is primarily good, bad, or indifferent. Tested by this standard, it is not hard to see that the best form is that which is simplest, is surest to pass current anywhere, and whose volume is automatically self-regulative; and that any attempt to arbitrarily increase or diminish a currency does harm in direct proportion to how far a legislative guess may miss the real quantity needed by trade.

It is true, however, that the incidental functions of money do somewhat modify the standard by which to judge its relative usefulness. These are, first, the serving as the measure by which to compare the respective values of articles exchanged for one another (through the indirect barter in which modern commerce consists), and, second, as the standard by which the degree of service acknowledged in a debt is to be recorded. The latter, though the chief bone of contention in monetary controversies is, after all, the least essential. In the first place, the conduct of business enterprises upon credit, unknown in barbarisms, is fast disappearing again as civilization advances. The great public and corporate debts which have grown up are in reality of the same nature as the share capitals into which the ownership of great enterprises is usually divided, and it is simply a question of convenience—which commerce can be safely trusted to settle for itself—in which form they are expressed. Justice undoubtedly demands that the amount of service rendered in payment of a debt of whatever kind should as nearly as possible equal that which was originally borrowed, and it is certainly a convenience to have a comparatively unvarying standard by which to reckon the debt and its re-payment. And as to this particular point, the strongest argument in the "hard money" contention is one that is seldom emphasized even by its advocates. This is that when a man lends the product of any given number of days' work, he has a right to expect repayment in something that represents the *same amount of exertion as he had to originally put forth.* Processes of production may in the meantime have been radically cheapened, but if that is so, it is the lender and not the borrower who is fairly entitled to profit by the cheapening. It is judged by this test that gold best vindicates its right to serve as the standard of values, because the amount of exertion necessary to produce it seems to be less variable than that of any other article. Yet there can be no doubt whatever that if a people should find it more convenient to transact their exchanges with some medium that did not afford the requisite stability of value for the recording of indebtedness, they would spontaneously arrange the latter on a basis that would exclude entirely the use of money.

In like manner, it is solely a question of relative convenience whether the values of articles exchanged for one another shall be compared in terms of money or according to some arbitrary scale. Just as in the case of debts, if the "medium of exchange" (whether its adoption is due to an error of popular judgment, or to an intelligent selection because of greater adaptability to its particular work), is not stable enough also to measure values, so that a man may be always sure that every exchange in which he engages may be reckoned on the same scale, then the community will surely evolve its own "measure of value;" just as international trade has come to be almost entirely conducted with the pound sterling as a standard, the relative value of which to all commodities is uniform the world over, although the relation to it of national currencies is constantly changing.

Of course, any radical change in the value of the circulating medium, even if it is a change which permanently substitutes a tool that is better for the work to be done, not only creates confusion amongst all transactions that go on while the change is being made, but also is necessarily unjust to one or the other party to any debt then existing. Whether such change can well arise under present conditions by reason of an increase or decrease in the number of coins in circulation, is getting to be an open question. For all large dealings and for many small ones, the use of concrete money (gold or silver coin and their representatives, government or bank notes) has been almost wholly abandoned in favor of the abstract money which is furnished equally by checks or other orders upon banks and by transfers of accounts on merchants' ledgers. The concrete money doing not more than one-tenth of all the work done, an addition or deduction to it of half its volume, means an addition or deduction of not more than 5 per cent. of the total volume of true money employed;—even if it is not wholly compensated for by a corresponding contraction or expansion in the use of abstract money; a man who ordinarily uses bank checks in settling a part of his personal expenses, for instance, being apt to employ them to a less degree if he should happen to receive more greenbacks than usual, and resort to the checkbook more readily when the circulation of bills or coins, so far as he is concerned, is scantier.

Under these circumstances, it is altogether problematical whether expanding or contracting a currency can have any such effect on prices as is commonly supposed, so long as the true value of each piece of money remains unaltered. For prices simply represent the value of money in relation to other things, and are determined by the quantity of all money, abstract as well as concrete, compared with the quantity of those other things. The value of a dollar being thus got at, it is tolerably certain that to increase the number of dollars of one kind will pretty surely cause an automatic decrease of dollars of another kind, after due allowance is made, of course, for avoiding an absolute famine of the concrete dollars, which are still indispensable for the "small change dealings" of commerce. To change the value of each dollar employed is quite another thing, involving dishonesty to some one concerned, and this can be done by doctoring the concrete dollars, only so long as the denominations of these are accepted as a basis for the calculations in which the abstract dollars really consist. The condition under which this occurs is important to remember, as it is perfectly conceivable that if the value of concrete dollars were to become too uncertain, not only would future contracts be calculated in terms of something else, but even current domestic transactions would also follow the example already set by international trade, and be carried on more than ever by means of abstract money, expressed in some other terms than those of ordinary currency.

While, therefore, as stated at the outset, both quality and quantity are properly subordinate to general convenience, quality rather than quantity would seem to be the true desideratum in selection of a currency medium, and this mainly to insure that the denominator of both the concrete and the abstract forms of money shall remain the same; the object of endeavoring to secure this uniformity being to avoid the expensive labor and the confusion incident to the translation of the terms of small transactions (for which ordinary currency is chiefly used) wherever these mingle with large transactions in which such currency is hardly used at all.

Edward J. Shriver was born at Cumberland, Md., February 18, 1856, and came to New York early in 1878. For a short time he was a reporter on the Tribune, but in 1879 engaged in the iron business, and two years later was instrumental in forming the New York Metal Exchange, of which he has been secretary since its organization. Originally a Republican, he came to the support of Cleveland in 1884 on the tariff issue, and from 1886 to 1888 he took an active part in what was known as the George movement, he having become a convert to "Progress and Poverty" as far back as 1879. In 1888 he was treasurer of the Cleveland Single Tax Committee, of which the late Wm. T. Croasdale was chairman.