THE FUNCTION OF MONEY

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IT is always difficult to think clearly of the function of money in the industrial world because of its dual character. Money plays two equally important roles: first it registers the exchange value of all goods, not be it observed, the intrinsic value, with that it has nought to do. It simply fixes the rate at which each article of trade exchanges with every other article. It is the medium of exchange. For of course all transactions of sale or purchase of goods are in reality exchanges of one kind of goods for another. No one wants money for its own sake but only for its command of goods, and every transaction of sale if traced to its source will be found to be in reality an exchange of goods. With intrinsic value money does not deal, no matter what the cost of making a given goods may be, money only measures the rate of its exchange with other goods, that is, in common parlance, its value, what it is worth, that is what quantity of other goods can be had for it. Even when a seller of goods has no other goods in immediate contemplation, where he takes the money of the sale and keeps it in his purse or his bank, there is always in the back of his mind the command of other goods which the money gives him and the future possibility of completing the exchange begun by the sale and which at some time he expects to carry out when his needs require it or his judgment tells him there is advantage in so doing.

With this first use of money, however, as a simple register of exchangeable values of all goods, there is combined, inextricably entangled, for the confusion of our thinking, the second and equally important function, which is its power of purchase over all goods, its compulsory market. Money in this aspect is to all intents and purposes a commodity, as much a commodity as bread or iron, but differing from all other commodities in this very essential and vital feature that unlike other commodities it is under no necessity of finding a purchaser for itself, i. e., of finding other goods which somebody is willing to exchange for it. Money has always a purchaser, it is the universal commodity in that it represents all commodities, and the demand for money is the aggregate demand for all goods concentrated in it as the concrete representative of all goods. It gathers to itself the entire demand of the community for goods. Representing as it does all goods its possessor is assured that unlike the possessor of ordinary commodities he need never seek a purchaser, he can always exchange his commodity for any other at his pleasure, whereas the owner of other commodities must seek some one who desires his particular commodity and until he finds such a one must go without an exchange or sale.

It is here that we come upon the difficulties of our subject. Money in one sense is a pure abstraction, an idea, a commercial barometer, an artificial invention for the convenience of commerce, a mere symbol to register the ratio of exchange of goods or services with each other. But in another sense it is something concrete, material as bread or iron themselves. It had of necessity to be given a visible tangible form in order that it could efficiently serve its purpose as a medium of the exchange of goods and services. Men had to have something that could be passed from hand to hand, that could be handled like any other commodity. Various, indeed, have been the material representatives of money, shells, skins, tobacco and finally in the civilized world gold and silver with paper as the convenient certificate of ownership in them. And so money became a tangible thing, a commodity to all intents and purposes with, however, these great advantages just pointed out over all other commodities in that it was universally exchangeable for everything or anything at any time at the pleasure of its possessor.

At one time it is only a register of value, at another it is a commodity, not infrequently—indeed oftener than not—it is both at the same time, and so subtly are the two functions blended that it is almost impossible to separate them. It is this Jekyl and Hyde character that makes the discussion difficult and obscure. For example money—or suppose we say gold as the most generally accepted material representative of it—gold registers the exchangeable value of all goods, but observe it registers it in terms of itself, such and such a quantity of gold for such and such a quantity of goods. Thus it has itself become a commodity measured with or against goods, and as such is subject to fluctuation in price like all other commodities, that is the amount of goods it can take at a given time varies. It is often said under the circumstances that goods have risen or fallen in price, that is the value of goods has fluctuated, but it is quite as legitimate to say that gold has risen or fallen in comparison with goods: for its exchangeable value consists in the amount of goods it can be exchanged for; if this amount increases or diminishes the value of gold varies correspondingly.

It is this commodity feature of money's functions that forbids any fixed standard of exchangeable values. If we only registered values in some commercial barometer, some ideal abstract symbol, that symbol might be regarded as fixed, but the moment we are under the necessity of treating our symbol as a material thing such as a commodity we find that as such it is subject to fluctuation of other commodities.

Theoretically, the measure of exchangeable values ought itself to be free of all fluctuations, it should be the unvarying yardstick by which all else was measured. Many suggestions have been made to this end, one being a unit based on the value of selected articles of commerce taken together and averaged in some way. It is not necessary to go into details, but only to remark that a little reflection would have disclosed the truth that a fixed unvarying standard expressed in a concrete commodity is an impossibility, that everything is relative, no one thing can be fixed independently of every other, even the yardstick as Einstein has shown is not an absolutely fixed standard of length. To seek an unchanging measure of value expressed in a concrete something either material or artificial is as fantastic as to seek the philosopher's stone or the elixir of life. It is to seek something which shall always have the same value in exchange with all other commodities. Now value in exchange is only another name for the demand of people for that particular article, and so we find that what we are really seeking is some one thing or combination of things that all people shall always want with the same degree of intensity, i. e., will always be willing to give the same quantity of other things for it. If it were a fixed standard of intrinsic value that was sought possibly it might be found in the wheat which although buried in the tombs of the Pharaohs for thousands of years would, I suppose, have as much intrinsic value, would support as much human life today as when first reaped and gathered.

It is a state of mind, a psychological condition that we deal with. It has no effect on intrinsic values but has all to do with exchange values. It is not what things are worth but what men think they are worth that matters. Every day the stock exchange gives us instances of this. Its values fluctuate from day to day under the stress of the hopes and fears of the dealers. Fashion, odd fancies that seize men's minds, come into play in articles perhaps less important but illustrating the psychological element in all exchange values. A craze for old furniture, Adams, Sheraton, for rare postage stamps, autographs, or as in Holland for tulip bulbs, the "tulip mania" of the seventeenth century, are instances of how articles worth intrinsically very little rise to fabulous prices in the exchange values created solely by the excited fancies of the purchasers. These are to be sure extreme cases having little economic significance save as illustrating the effect of men's minds on values in the ordinary course of dealing in the market.

Of course, this is not true of primitive societies where each man works for himself alone and the intrinsic value is all that is considered, money not being necessary and exchange values having no place. But in society as now organized exchange values are the only values of any account and they depend on the demands of each and every member of the society for goods. A great quantity of goods or of money, demand being absent, are about as valuable as the clouds in a blue sky.

Thus it appears that even goods themselves have little value of and by themselves, they are not wealth except under certain conditions. In the societies with which money deals,. wealth is by no means the simple agglomeration of material things, food, clothing, the necessities and conveniences of living, it is of course these, but it is much more for these things to be real wealth must be in certain relations with each other, with the wage-earner and the consumer. Wealth might be called a certain condition or relation of things with each other and with producers and consumers. Herbert Spencer has very acutely said of the human body that co-ordination of all its organs spell health and well being, a failure of co-ordination death. The like might well be said of the body industrial, its true wealth depends not simply on the presence of various material goods capable of satisfying wants but very largely on the proper and accurate co-ordination of all these things with each other and with the wants of the individuals constituting the society, in other words the complete co-ordination of wants and satisfactions, so that each shall meet and cancel each other. Without the material things, the instruments of satisfaction, there would be no wealth, but without the wants, the demands for these things, they would not be valuable, would not be wealth but an empty useless mass of matter.

Value exists in things when each man is giving his neighbor what he wants and receiving in return what he himself requires, or stated in terms of things, when every useful thing finds for itself a user, until it does that it is not useful, has no value. The ideal co-ordination being when the moment a useful thing is made there steps forward a user for it having in his hand something acceptable to give in exchange to its maker. Such a condition of perfect co-ordination is not practically attainable, but it is the ideal toward which industrial society must ever struggle.

Consider the reverse condition, the lack of co-ordination that occurs when a great mass of useful articles is stored up in warehouses or in shops and no one wants them, or wanting them, has nothing acceptable to their owners to give for them. We have the strange spectacle of warehouses crowded with goods, factories producing quantities of desirable things and alongside of them hundreds and thousands of persons suffering for want of the very things of which a superabundance is oppressing the world. The owners of the goods behold their property ruined, the value fading away for want of effective demand. Their goods might be called potential wealth, goods capable of becoming valuable awaiting the magic touch of effectual demand, as the sleeping beauty waited for the awakening touch of the fairy prince.

Thus we are made aware that the demand for goods is the basis of all values with which we are concerned in the present discussion; for all exchangeable value of goods depends on the demand for the goods. Men buy to satisfy wants and what they want. This buying establishes all values. It seems almost superfluous to make such a statement were it not for the many important and less obvious truths that derive from it regarding money and its functions. It enables us to justly estimate the significance of the quantitative theory of money, that is we can see that whatever effect a quantity of money has on prices must be through its action on demand for goods, it enables a fuller satisfaction of the demand for goods, and so by stimulating demand tends to raise prices. In the absence of demand no increase of money would raise prices. This means an effective demand, that is a demand which furnishes other goods in exchange. Or to put it a little differently, a purchase with money ought always to signify an exchange of goods or services, any other purchase is suicidal, it would exhaust the supply of goods and leave only the barren money. The effective demand for goods must always come from other goods, or services, the money being simply the convenient means of making the demand. The process is something like this: a man sells his goods, receives money for them, and straightway comes into the market to demand other goods for his money and this is an effective demand, it signifies an exchange of goods, but if a man is merely given the money, or steals it, or gets it by any other means than the giving of goods or labor for it, his demand signifies not an exchange of goods one for the other but an exchange of money for goods and if we suppose all purchases of goods to be of the same character, he would speedily find the total supply of goods exhausted and the barren money perfectly worthless by reason of the disappearance of all goods capable of answering its demands. An arbitrary increase of money, therefore, while it might temporarily increase the demand and so the price of goods could never have anything but a temporary and, if continued long enough, a destructive effect on all dealings in the market and would finally bankrupt the industrial society, as in fact it very nearly did in Germany where an unrestricted issue of paper money raised prices without any effective demand to justify it.

In other words our formula must be: demand makes exchangeable values, goods or services alone make effective demand and money makes demand only as it represents them, that is only when it has been received by its owner for goods or their equivalent, any other demand made by money is self-destructive.

And so we find that wherever there are the most goods there will be the highest prices for them, contrary to the familiar and occasional occurrence where a glut of goods of some particular sort outruns the demand for that particular sort and so brings lower prices or perhaps forbids a sale at any price. The demand for all goods, however, is never exceeded by the supply, the more men have the more they want.

In London or New York for example an Arab horse or an oriental rug brings more money than in Constantinople although probably there are more of each in the former cities than in the latter, and so of all other goods brought there for sale. All goods go there because they are great markets and have high prices, because some might say there is more money there than elsewhere. But this puts the cart before the horse, it is because there are more goods there. It cannot be repeated too often, goods make money, money never makes goods. It was the existence of goods and the necessity of exchanging them that gave birth to money in the first instance, and it has been so ever since. No matter how much money there is in London or New York, purchase in their markets must always be made with goods. English money may apparently purchase goods but it must always be backed up by English goods; for it is English goods that must be exchanged for the goods purchased no matter how long or devious the road by which that exchange is accomplished. All normal purchases and sales are in reality exchanges of goods, the rug or the horse is bought with goods. No matter what transformation the purchase money may suffer if we trace it through to the ultimate completion of the transaction we shall find it to be redeemed with English goods. If this were not so English money would drain away in an endless chain of purchases of goods and would never return to England. Its return can only be effected by English goods which buy back English money by exchanging themselves for it or rather for the goods which were bought with it, an exchange of which the English money was merely the convenient medium. In other words, English goods must back up English money.

Indeed the history of mankind is a full-page picture of the gradual increase in the price of all things including wages accompanying and caused by the multiplication of goods, of articles of use and luxury added year after year, century after century, to the comfort and well being of men.

Goods have made money, raised prices, both of wages and goods, simply by their gradual increase in quantity and variety. Every member of society is in receipt of more comforts and luxuries than ever before in the history of the world, and the incidental increase of the cost in money works no hardship for it entails no greater exertion, no longer labor. The workman of today works probably shorter hours and no more strenuously than the slave of Egypt or Greece or the craftsman of the Middle Ages while his wages are far in excess of any those ancient laborers received.

A vivid idea of how the multiplication of things increases the money price, i. e., the exchangeable value of every article, and of wages also, can be had by considering for example the wages say of an ordinary workman let us say in Egypt or Greece two thousand years ago and contrasting them with those of a like workman today and in the United States. By wages here is meant the real wages, the satisfactions which each man receives for his daily task. While we do not know exactly what an Egyptian or Greek received beyond his food, shelter and the scanty garments that were then in use, we do know, however, quite positively what he did not get, trolley rides, moving pictures, phonographs, pianos, wireless, all of which the workman of today has without a thought that they are new and unusual wages. Nor did the older workmen have coffee, sugar, tobacco, gas and electric light, hot and cold running water, all of which now go to make up the real wages of the present workman, however poor. Here is the secret of high prices for things, high prices for labor, the multitude of new things constantly appearing in the industrial world. The worker gets more wages in money because there are more things. The things cry out to him to come and take them. If he did not take them they would go untaken, unpurchased, and speedily could cease to appear for they could not otherwise be sold save in exchange for his labor or the things by his labor. A living wage in the United States is thus a very different wage from a living wage in Egypt, it includes pleasures, luxuries, conveniences, that did not exist in those early days.

Naturally, much more money is required for modern commerce to effect the exchange of all these, but this will not of itself increase the price of the articles dealt in. that increase is due to the increased demand for things, a demand created by the presence of the new things, so that each and every thing demands each and every other thing more intensively and by that demand increases prices. At the first view of new inventions we are apt to concentrate our attention solely on the new thing thus introduced and the new demand for itself, we neglect or overlook the less obvious but important item, namely, the demand, new and more insistent by reason of its presence, which the new invention makes on all the other things already existing to come and be exchanged with it: for it has to be purchased, if purchased at all, by other existing things. The new invention is a bidder for every other thing already in existence. Every newly invented article cries out for its brother article already in existence to come and be exchanged for it. It quickens the demand for the existing and formerly demanded goods. A motor car for example is not sold in reality for money, it is simply exchanged for other articles. The money paid for it constitutes a fresh demand not hitherto existing on the general stock of goods of the community into some of which the recipient of the money will eventually convert it. All this lessens the value of money in goods, money buys less and less as the number of purchasable articles increase. But it is always the increase in goods that is the real and vital element, goods make money, money never makes goods. So in the great industrial countries like England and the United States, by reason of the variety and quantity of all goods, everything has a higher price in money than in Persia or China or Africa. Every new article must find another article to be exchanged with it so only can it be paid for, the money paid for it simply represents that other unascertained article which the recipient of the price will eventually buy with it. An increase of money is a barren thing, it brings no new comforts or conveniences of life into existence but simply makes a fresh demand for the already existing comforts and conveniences.

All juggling with money, substituting silver or gold, inflating the currency by issues of paper money, contrivances for giving special credits to some one class in the community, are vain and useless devices for producing prosperity or relieving commercial distress. They may serve the purpose of helping one class to the disadvantage of another, robbing Peter to pay Paul, but in the long run these short cuts to prosperity for anybody or everybody die a natural death at the hands of economic laws that do their work in spite of these devices.

The only prosperity for any society lies in things: the more things that are produced the richer the society, and the only sound business lies in the rapid exchange of things. The price in money is not important, high or low prices are entirely beside the mark so long as the ratio of exchange between things and services remains unaltered. A sudden change in price of an article may work temporary hardship or confer undeserved benefits until the change becomes distributed through all the other articles of trade or until by reason of the high price of some particular article great quantities of that article come flooding into the market and so restore its former price. In one of these two ways inequalities of price are speedily adjusted. Instances of both processes are sufficiently familiar to all. Thus a few years ago the price of sugar ran up to twenty cents per pound, and at once from all parts of the world the sugar ships came rushing with their cargoes and sugar fell to its former price over night. Just now the wages of house-builders have soared to impossible figures, and at the same moment up rose the price of houses and the rents of the same so that both by their advance met the higher wages and so equalized the ratio of exchange between labor and houses. Until the process of equalization has been completed throughout the whole industrial cycle, many persons are severely taxed for the benefit of the favored class, many persons receive undeserved gains, as where the owner of a house built under the old tariff of wages finds the value of his property automatically raised because of the new and greatly enhanced cost of building it.

But it may be laid down as incontrovertible that the only real and permanent increase of wealth or of wages must be by an increase in the production of things. A mere increase of price of anything in money cancels itself in a corresponding increase in the price of other things thus equalizing the ratio of exchange between them. High prices not caused by playing tricks with money, inflation, and the like, are an evidence of prosperity, and the highest prices of labor and of goods and of all other items of civilized life are found in the most prosperous countries such as England and the United States.

It is not easy, perhaps, to understand exactly the process by which an ever-increasing multitude of goods serves to raise wages and with them the price of things. As has been said it is a picture of civilization from the earliest times. Every year for centuries has shown an increasing of the comforts and conveniences of living, and possibly a brief consideration of these may at least give us some hints of how the process has taken place. It must be plain, for one thing, that all this increasing multitude of things must be used and enjoyed by all, or most all, of the members of the community except the very poorest, otherwise the things would not be produced. People must purchase and use them if they are to continue to be produced. Again the presence of these new things, chewing gum, soda water, trolley cars, radio sets, are a perpetual challenge to a man's wants. They stimulate demand by offering new pleasures, inventing new wants. They are the real wage fund of which so much has been written: out of them all real wages are paid, as they increase so do wages. The struggle for higher wages is therefore only the expression in money of the desire of the workman for his share of the new things which he sees about him. He is a child in a toy shop, he gazes at all the toys, the enticing novelties that present themselves on every side. He wants all that he sees, his desires are awakened and he reaches out to take all that he can of the new things. He finds that his wages do not equal the purchase of all he wants, he is short of money for them, and what more natural than that he should ask for an increased wage which is in reality asking under the guise of money for those new and hitherto unknown things. This goes on every day under our very noses, the mill worker has bought his Ford car, has put up his wireless telephone, these require money and so raise wages. What has been called the standard of living has been raised, that is these new things have been added to what the workman demands as requisite to his contentment and happiness in life, without which he is unwilling to live and labor.

Labor being the fundamental cost of all useful things a rise in wages means a rise in money price of all that labor produces. At the same time the increased demand which the workman makes for the new things tends to raise their price and so on through the whole gamut of wages and things. Thus there takes place a perfectly wholesome stimulation of the exchange of things with each other at an ever-increasing price which, however, inflicts no hardship for it leaves unaffected the ratio of exchange between goods and services which is the essential matter. No man works any harder or pays any more in the real means of payment, namely things, than when as Egyptian or Greek slave he won a scanty reward in things for what was certainly as strenuous exertion as any labor done today. His labor is more productive today by means of machinery, organized division of labor, and the like, and in this way the greater number of things produced cost no more labor than the former scanty production while at the same time it justifies and pays the increase of his wages. So in all healthy industrial societies we find the highly-paid laborer producing more things: for unless he did a mere increase of his wages in money would speedily come to nought. Looking at this matter of wages from an entirely different angle and independent of the multiplicity of things, which it is the contention is the real cause of high wages, let it be supposed that the money price of wages for the ancient workman be raised to the same amount as the modern workman's wage. What then would result supposing no increase in the things offering themselves for sale: the price in money for all the saleable things would of course rise under the increased demand made by the increase in money wages but how would the workmans' real wage in things be increased; there would be no greater variety, no greater quantity, and perforce all his increased wage could give him would be more of the same things which he already had, food, lodging, and clothes, not one bit better than before, possibly no greater in quantity. Thus, again, is seen the absolute dependence of money for its real value on the presence of things, thus again is seen that the real wage fund is things that without an increased production of things no increase of real wages can take place.

The last but by no means least of the functions of money is found in loans. If the foregoing reasoning be correct it follows that the borrowing of money is always the borrowing of things. A man buys a house and borrows money to pay for it—one of the simplest instances—in reality he borrows the house engaging to repay not the house but its representative value in money. All other and apparently more complicated transactions of borrowing, the building of a railroad by selling stocks and bonds, the Government loans, the Municipal loans, the operations of Bankers and brokers, and stock speculators can all be reduced to the same simple formula, the acquisition of things by way of borrowing money.

Whatever the purpose, money in all the borrowings is a commodity pure and simple and behaves as such, it is a mere convenient substitute for the things into which it is ultimately converted. The expression often heard in some localities "hiring money" is an accurate statement of the economic truth that the borrower really hires the use of things and the interest paid on his loans is in reality the hire of the things he uses the borrowed money to buy. The rate of hire or interest is governed by two considerations, one that governs the price of all commodities, supply and demand, and the other by the risk, the greater or less probability of the safe return of the money to the lender.

Out of the commodity character of money there emerges a further and very important use of money as such. Money being the universal commodity representing the demand for all goods is liable to less fluctuation in price than any other commodity. The price of one commodity may rise or fall suddenly and violently, and with respect to the particular commodity money may be said to rise or fall with like intensity, but it is not likely that all commodities will either rise or fall to such an extent or even if they did the average rise or fall will be much less than individual particular rise or fall, and it is with the average rise or fall that money as the universal commodity is concerned, its purchasing power or exchangeable value will therefore fluctuate much less than that of a single specific commodity. This gives to the possessor of money a great advantage so that this alone is often a sufficient inducement to a man to convert his goods into money for thus he escapes the risk of the greater fluctuations in price to which all specific goods are more or less liable. This is a third and highly artificial function of money, the furnishing a safe means of conserving property, of avoiding the risks which the owner of all specific goods must take of a sudden loss of market and depression in price.

Furthermore possessing money the least fluctuating of all commodities, and commanding all goods at his pleasure, the owner of money can take advantage of any sudden change in the price of other commodities to acquire them to the best advantage. Like Napoleon he stands on a commanding eminence surveying the constant battle of contending prices and can at a favorable moment throw his reserves of money where they will do him the best service.

These two great—and they are very great—advantages of money, freedom from violent fluctuation in price, and its compulsory market, are compensated for the owner of specific things in but one respect, the owner of money never has the chance of a great and profitable advance in the value of his property such as at times spells fortune for the owner of some specific thing. If he seeks rapid fortune in the increased price of some particular commodity he must give up his security as the owner of money, convert his money into goods, and taking the risk of loss, makes a bold play for the great gains that sometimes come from a rise in the price of goods. This is indeed the course of all dealers in goods, manufacturers, builders of railroads, houses, all the enterprising adventures in commerce who make the world of business go round.