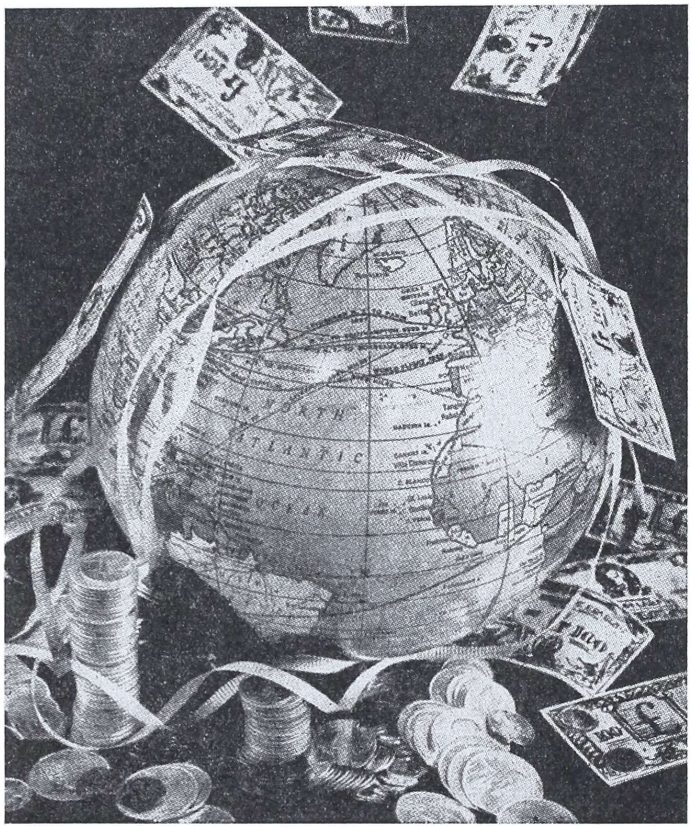
What Is Money?

By Henry Uy Cho-Yee



Courtesy o, Nation's Business

The word money comes from Latin "Moneta" which was a surname of Juno. The Romans gave the name "Moneta" to their silver coins because they were coined in the temple of Juno Moneta in 69 B.C.

The term money is used, both in matters of business and in economic theories, in such very different ways that it is impossible to cover them all with a simple definition. Money is, however, generally understood to be the standard by which the value of commodities is measured, and is the article which is universally recognized as medium for their purchase and sale. The principal characteristic of money is that it is received without reliance upon the personal credit of the person offering it and that it is accepted without reference to an assay of its quality. There is standard money (gold or silver) as well as representative money (fiat money).

Standard coins, bars of bullion which can at once be converted into standard coins, token coins, paper currencies in the form of convertible banknotes and inconvertible banknotes, are all included under "money", although they represent essential differences.

In modern societies, one of the most important forms of money is "bank money", or the money of the money market, which for the most part consists of neither coin nor notes. The whole of the banking system of the United Kingdom, for example, really rests upon the reserve kept by the Bank of England, and every bank receives deposits of "money", and makes advances of "money" with the use of a very small proportion of the coins or bank-notes.

In primitive societies, exchanges first took place by means of barter, but the difficulties of simple barter were obviously very great. A coincidence of mutual wants at the same time and place was the first condition of any exchange, and it was plain that a common *medium of exchange* would obviate one of the principal difficulties of direct barter. If there was some one thing which every one was willing to take, it followed that anything else could be bought or sold against this particular commodity.

Accordingly, the first function of "money" was to provide (1) a *medium of exchange*, and its first forms consisted of things which were generally desired in simple states of society such as skins, cattle, shells, corn, pieces of cloth, mats, salt, tea, tobacco and many other commodities have, at different times and places, been used as "money" in the sense of a common medium of exchange.

The commodity chosen, however, would be of little advantage unless it could be used both in large and small quantities; this condition led to another primary function of "money"—viz. (2) as a *measure of value*. Not only was it necessary that things could be exchanged against a common substance, but the rates of exchange must be measured.

Finally, as society advanced, a basis for (3) *deferred payments*, and also a method of (4) *storing "values"* without deterioration, became of importance.

In order that these four primary functions may be fulfilled, the substance chosen for money must have certain properties of which the principal are portability or great value in small bulk, durability, sameness of quality, stability of value, and cognizability. It was soon discovered that these qualities were possessed in the highest degree by gold and silver. Other metals have been used at different times and places even for standard money, but all of them have failed in one or more of these particulars. For example, iron is liable to rust; lead is too soft, having a relative hardness of 1.5 as compared with 3.0 for gold, silver, or copper; tin is too brittle; and, in proportion to its exchange value, copper is too heavy, having a density, in grammes per cubic centimetre, of 8.93 as compared with 19.3 for gold, 10.5 for silver, 7.86 for iron, and 0.001429 for oxygen. Gold has a melting point in degrees Centigrade of 1063 as compared with 960.5 for silver, 1083 for copper, 1530 for iron, 231.8 for tin, and 327.5 for lead.

It may be stated here that our word "salary" comes from the Latin word "salarium" originally meant salt money, or the money given to the Roman soldiers for salt when salt was a part of their pay. The English symbol *d.* standing for penny or pence comes from "Denarius" which was at one time the standard coin of Rome. Before B.C. 210, a denarius (which meant "ten asses") consisted of ten asses, but in the time of Augustus (B.C. 63—A.D. 14) it consisted of 16.

Standard money is the form of money with which all others are kept at a parity. The precious metals, gold and silver, are the standard or primary moneys in the world today. Primary, typical, standard money is the unit in which the value of money of a country is expressed, no matter what its form may be; the standard is a certain weight and fineness of a particular metal. Coins of this standard are called full or real money by some writers who deny the title of money to everything else.

Take a twenty dollar gold piece, mar the Goddess of Liberty, pound out the United States of America and batter the eagle, and after you get it pounded, it is still worth twenty dollars, although in this form it is no longer legal tender, but the value remains unchanged—twenty dollars.

Take a United States silver dollar which contain 0.7734375 troy ounce of fine silver. It is a legal tender token coin. Pound it into a cube and it will then be worth approximately 35.03 cents, U. S. currency, based on the present price of silver in the New York market of approximately 45-1/4 cents per troy ounce 0.999 fine which (at the approximate New York-London cross-rate of U.S.$4.9051 per £1) is equivalent to the London silver price of 20-1/2 pence per troy ounce 0.925 fine, as of London, January 21, 1937.

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What Is Money?

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Before the silver dollar coin was disfigured and pounded out of shape into a cube, it was a legal tender good for one dollar gold because it contained the promise of the United States government to keep it on a parity with gold. For the pure metallic silver content in the American silver dollar to be worth its full monetary or face value, it will be necessary to have a market price for silver of U.S.$1.2929 per fine ounce.

Gold and silver are commodities. They are the products of labor; they are the things exchanged for something else. The coining of the precious metals is a device to facilitate exchanges. Gold and silver are coined because every man cannot take a chemist outfit with him; he cannot carry a crucible and retort, scales and acids, and so the governments coin them, simply to certify how much gold or silver there is in the gold or silver piece. The coining of thirty-five (35) cents worth of silver, for example, does not make it worth a dollar; the coin (then, a "token coin") is given the value of a dollar not because it is legal tender but because of the promise of the government to keep it on an equality with the gold dollar.

Gold and silver get their value from labor. The dollar in gold, for example, represents, on the average, the labor that it took to dig and mint it, together with all time and expense of the man who looked for it without finding it. The dollar in gold, on the average, will or should buy the product of the same amount of labor in any other direction of industrial activity.

Currency meant originally the capacity of being current, or, as Samuel Johnson (1709–1783) defines it, "the power of passing from hand to hand". It was applied to the thing that was so current, and, generally, to whatever, by being current among any nation or class of persons, served as the money with which they bought commodities or pay their debts.

In modern times, it denotes money itself, as fixed by law. There is metallic currency in vogue, as well as fiduciary (banknotes) currency. A depreciated currency means metal or paper currency circulating for less than its face value. During the Civil War in the United States, the paper dollar sank in 1864 to 38 cents; it did not reach par (100 cents) till 1879. A depreciated currency may be created by a government calling notes or any other form of money a legal standard, and issuing a greater quantity of it than the real transactions of the country and the property passing from hand to hand require.

Token money consists of subsidiary coins the intrinsic value of which is below the face value. In the Middle Ages, silver was very scarce, and prices were extremely low. In a petition of the date of 1330 in England, it was pointed out that "beer is one penny for three gallons", and that a penny was the smallest coin, and the petitioners prayed that smaller coins might be struck to pay for little purchases and "for works of charity". The smallest coins cannot be made of the precious metals of full value and accordingly baser material must be used.

Fiat money means irredeemable paper money made legal tender by law. The word "fiat" is Latin meaning "let there be", or "let it be done", and the fiat money advocates believe that the government has but to say, 'let it be money", to invest paper with value. The typical fiat advocates in the United States were the "Greenbackers", those voters who wished to retain the paper money issued in the Civil War (A.D. 1861–1865), and to increase its amount greatly. They saw in paper money an unlimited source of income to the government. They proposed the payment of the national debt, the support of the government without taxes, and the loan of unlimited money without interest to citizens. All might live in luxury if the extremely fiat money theorists could realize their dream.

Money cannot be the creature of law, although law may, at times, be the creature of money. We cannot create money by law any more than we can create rice, corn or mangoes by law. When the volume of currency is inflated, it is at the expense of the creditor class; when it is contracted, or currency deflated, it is at the expense of the debtor class. Every paper dollar issued for circulation should be able to hold up its hand and swear "I know that my Redeemer liveth". We cannot bring prosperity by merely cheapening money. If the prosperity of a country depends upon the volume of its currency, then the successful counterfeiter is a public benefactor.

Bimetallism is the name given to a monetary system in which both gold and silver are on precisely the same footing as regards mintage and legal tender. A bimetallic standard therefore denotes that a country has both gold and silver conjointly.

In 1792, the United States government, based on the investigation and recommendation of Thomas Jefferson and Alexander Hamilton, made gold and siver the standards, and they went on and issued American dollars 15 to 1 which was the approximate value-ratio of silver and gold prevailing in the commercial market at that time. But where you have two metals and endeavour to make a joint standard, or double standard, it is very hard to keep them even. They vary, and, as the old saying goes, "when two men ride a horse, one must ride behind".

The principal difficulty in the adoption of both metals as a joint standard is that the joint standard or double standard would be in reality a fluctuating single standard because, considering the variations in supply and demand of the two metals, variations must constantly occur in the relative market values of gold and silver considered as bullion. Thus, in England in 1717, according to the ratio adopted by the advice of Sir Isaac Newton, gold was compared with silver, overvalued about 1-1/2 per cent, that is to say, gold was so much more valuable as currency than as metal. Consequently, the full weight silver coins were withdrawn, and gold became the principal currency. In 1816 Great Britain demonetized silver and adopted the gold standard.

In France, on the other hand, at the time of the great Revolution (A.D. 1789–1799), silver was slightly overvalued, and thus became the principal currency, the gold being to a large extent driven from circulation.

In the United States, in 1806, when Thomas Jefferson was President, the coinage of silver was stopped, as there was too much silver in the dollars and people, instead of passing them around, put them aside and sold them to the silversmiths or exported them for profit. In 1853 the United States gold standard was in fact adopted and silver in that year was demonetized.

Other things remaining the same, an increase in the quantity of money will raise general prices. This theory is confirmed by the effects of the great discoveries of gold in Australia and Cafornia about 1850. Similarly, in the 16th century, when silver was the standard money, the discovery of the silver mines of Potosi (Bolivia, South America), caused a great rise in prices. Conversely, a decrease in the quantity of money, or a contraction of the currency, will operate to lower general prices.

The quantity of standard money, other things remaining the same, therefore determines the general level of prices, but the quantity of token money, or subsidiary coins, issued, is determined

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COPRA CAKE AND MEAL.—In the early part of January the copra cake market stiffened up perceptibly in Europe, and the Hamburg price advanced to a point where cake was sold at $36.-50 c.i.f., which is, roughly, the equivalent of a local price of P52.00 f.o.b. At the same time copra meal picked up a little bit in the United States and advanced to $31.00 per short ton, which was, roughly speaking, P3.00 per ton better than the cake equivalent. Pacific Coast business, however, was sporadic. Sellers were fairly short of stocks and there was not a great deal of selling interest.

Some local mills desisted from making shipments to the United States on account of the strike, while other shippers continued taking their chances of having the meal unloaded at Vancouver and shipped down to Los Angeles by rail. It was felt that the European market for cake was unusually high and had conditions been normal, doubtless there would have been considerably more selling pressure to Europe.

Statistics for the month follow:

Shipments—	Tons
Pacific Coast	1,110
Europe	3,119
China and Japan	51
Total	4,280

	Beginning of Month	End of Month
Stocks on hand in—	Tons	Tons
Manila and Cebu	4,120	6,888

DESICCATED COCONUT.—Local factories were running light in January with one factory entirely shut down. The cost of nuts was so high and nuts were so scarce that operation was unprofitable. On January 1st the price of desiccated coconut in the New York market advanced to 8-3/4 cents per pound with the possibility that a further increase will have to be made in the near future if local prices continue high. Shipments were not greatly affected by the strike because desiccated coconut being a good-paying freight, space was found for it at the expense of less remunerative commodities.

Shipments for the month totalled 1,502 tons.

GENERAL.—At the end of the month the situation was still uncertain with prices on the downgrade for everything except desiccated coconut but with every indication that the decline might easily be checked early in February, particularly in view of the prospects for a short copra crop for the first half of 1937 especially in the Northern districts. Conditions were more normal in the South and the crop looked fairly close to average. Carry-overs from 1936 were unusually low. There was much speculation as to the effect of the end of the strike on the copra market with the general impression that prices might decline temporarily but might easily advance again later in the Spring. This was offset by the undeniably weak statistical position of coconut oil as compared with other oils and fats, coconut oil being very definitely overpriced.

Copra buyers were looking forward to a speculative market for the first half year with very satisfactory prices and oil millers to an erratic market requiring great caution and a thorough, conservative buying policy, if profits were to be realized.

The local demand for coconut oil, which increased greatly in 1937, was much in evidence in January, not only to supply the local soap manufacturers but also the steady and constantly increasing lard compound and margarine industry. This industry can never take a large portion of oil production but is undeniably reflecting a thriving condition.

What is . . .

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by the general level of prices. When prices are high, more token money or subsidiary coins will be required as a circulating medium than when prices are low.

History has repeatedly shown that depreciation of silver, caused by monetary disturbance, has injuriously affected the trade of gold currency countries with silver currency or silver-using countries, and that, in effect, this depreciation acted like a protective duty on imports into the silver-currency countries, and a bounty or premium on their exports to the gold currency countries.

Since it is generally admitted that the effect of a bounty is to lower prices in foreign countries, and protective duties operate indirectly in the same way, it is maintained that the depreciation or fall of silver has lowered all prices measured in gold.

The term "appreciation", as applied to gold or silver, requires some explanation. If gold, for example, is the standard of value in a country, it may be thought that its own value cannot change, just as a foot measure always remains of the same length, and that a gold dollar of full weight must always remain of the same value. But it is one thing to appoint by law that a certain amount of gold shall be coined into a certain kind of a dollar, and quite another to suppose that these dollars shall always exchange for the same amount of wealth or goods. If, on the whole, a dollar purchases more than it did, from whatever cause, that constitutes an appreciation of gold. An appreciation (or an increase of value and purchasing power) of gold is thus the same thing as a general fall in prices; such a condition prevailed in the United States during the great depression before the suspension of the United States gold dollar standard on April 19, 1933.

In spite of the many evils resulting from its introduction and use, money is the most successful device man has discovered for distributing the supplies of a journey along its course, and the goods of daily need over a period of time. A hundred loaves of bread in the hands of a single individual, for example, would mold long before they could all be consumed. Money enables men in society to acquire these hundred loaves in a series so that they can be used when most needed; hence, money serves as a storehouse for keeping things for the future when they will have a greater gratifying power.

The term "intrinsic value", strictly speaking, is an expression which is not absolutely logical. The intrinsic value of a coin—the value within itself, or its real or inherent value—is the market value of the metal contained in the coin. Under certain conditions it may occur, however, that, in certain districts and places, the metal contained in a coin is of no value at all, because it cannot be exchanged for anything. Shipwrecked in a small boat in mid-ocean and dying of starvation and thirst with no immediate prospect of being saved, a man, with all the money he may have in gold, silver, or other precious metals or stones in his person, cannot buy or exchange for a single loaf of bread or a bottle of fresh water to save his life, and the gold or silver, etc., will then and there be of no value or worth whatever to him.

The stock of money of the United States, classified by kind, as at the end of the fiscal year, June 30, 1935, is as follows:

Gold coin and bullion	$ 9,115,643,492
Silver dollars	$ 545,642,265
Subsidiary silver	$ 313,423,778
Federal reserve notes	$ 3,492,853,620
National Bank notes	$ 769,095,645
Other	$ 877,383,181
Total stock of money in U. S. as at June 30, 1935	$15,114,041,981
Percentage of gold to total money	60.31

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and other regions produced a very depressing effect upon most dealers and producers, with the result that large supplies were offered in all local markets except Davao at a time when there were no foreign buyers. The natural consequence of such a situation was a rapid decline in prices, and the market closed with every indication pointing toward still lower prices.

The situation in Davao was quite different from the northern markets, as production there continued on the low side, and buyers went on paying the peak prices throughout the whole month of January.

Prices of Loose Fiber in Manila
Per Picul

December 31st		*January 31st* *Nominal*	
CD	₱28.00	CD	₱30.00
E	23.00	E	24.50
F	21.00	F	21.50
I	19.00	I	19.00
J1	16.50	J1	17.00
G	16.75	G	16.00
H	15.50	H	14.50
J2	16.00	J2	14.50
K	15.25	K	14.00
L1	14.75	L1	13.50
L2	13.00	L2	12.00

Prices of Loose Fiber in Davao
Per Picul

December 31st		*January 31st*	
F	₱22.50	F	₱23.50
I	21.50	I	22.00
S2	20.00	S2	20.50
J1	20.50	J1	21.00
G	19.00	G	19.50
H	16.00	H	16.50
J2	19.00	J2	19.50
K	16.75	K	17.00

What is . . .

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Circulation, $5,568,099,785, equivalent to Per Capita 43.79

On January 31. 1934, the President of the United States proclaimed the new United States standard gold dollar to be 15-5/21, that is, 15.23809 grains 9/10 fine, equivalent to $35 per fine ounce troy. The Assay Commission (1901) reported that the fineness of gold coined in the U. S. Mint was from 0.899 to 0.901; silver 0.8982 to 0.9009.

Contrary

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The bully relies on two weapons—his superior equipment and a surprise assault. Both of those factors seemed to be on the side of the attacker in the War of 1914; neither is possible for this freely predicted sure-as-sin melee in 1936-7—or pick-your-own-year.

With the surprise attack an impossibility, and with all the major nations about equally prepared, it's a good sensible bet that no belligerent will dare to fire the first gun until it feels it has shot ahead of its rivals in the armament race. So it may be that this "absolutely positive massacre" will be fought out by ships that are launched but do not shell, by planes that fly but do not bomb, by men who march but never out of their own back yard.

Another strong antiseptic working on the germ of war is the matter of alliances. The various lineups among the nations change as rapidly as the lineup of a football team in the last quarter. If the geographical boundaries of the countries of Europe shifted as rapidly as do the opinions and agreements of their leaders, the map would resemble a whirling roulette wheel. And you may be sure that so long as this bewildering, tricky, ever-changing alignment of pacts, loyalties and "friendly" agreements continues, there will be no frightful World War.

A third agent putting in some quiet but mighty licks for peace is the ever-swelling tide of world prosperity. All the nations are on the commercial upgrade, some faster than others, but every country now has not only more hope but more cash. When you add to this pleasant picture the prospect of a stabilized world currency, started by the recent devaluation of the franc, you have even more practical reasons for a sane belief in no horrible World War. With surging prosperity and harmonious world money—which many economic analysts claim is the fundamental difference between war and peace—it is possible that the only serious international conflict will be a matter of tariffs and raw materials.

A final and perhaps most vital reason for believing that this "frightful World War" is not inevitable is its own propaganda. That is, the very picture of coming horror will prevent its coming. We have been told so long, so colorfully, so plausibly, that the next World War will be frightful and destructive beyond anything the earth has ever seen that we believe it. And the more we believe it, the more we are told how deadly and destructive it will be, the more we are shown that no nation will escape—the less likely is such a war to occur.

So, still out "on a limb," we repeat: the "inevitable" war is not inevitable. It is possible—even though at present it does not seem probable that preparedness, shifting alliances and horror propaganda may postpone the actual clash until returning prosperity and stable money-exchange quietly but surely turn the war of guns and blood into one of trade and tariffs.

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