More Money Matters--The Silver Situation

THE money commodity, in order to retain its position, must possess certain properties. Such properties are dependent upon the conditions existing at whatever period we care to examine. What may appear a characteristic of absolute necessity to the money commodity at one particular time may, in other conditions, prove detrimental to the performance of its various functions.

In modern civilization, the properties indispensable to the material serving to measure values, have been enumerated by recent economists as portability, durability, homogeneity, divisibility, stability of value, and cognizability. The substance that possesses these attributes bids fair to defeat its competitors and relegate to itself the office of intermediary in the modern system of trade and commerce.

It will be noticed, at once, that the requirements of our monetary system automatically eliminate practically every form of material outside the category of the precious metals. Even within this category, very few of the occupants measure up to the qualifications demanded. The portability and durability of iron, lead, tin, and several others of the baser metals is not sufficiently noticeable to ensure their admittance to the channels of exchange. Gold and silver alone possess the requisite properties to the extent of functioning even fairly satisfactorily in this respect.

Back in ancient Rome, both in the time of the Republic and of the Empire, silver was the metal most commonly used in the capacity of money. In Saxon England it was still the most important representative of the mineral kingdom insofar as facilitating exchange is concerned. The system of coinage in that age was identical with a system of weights, the unit of weight resolving itself into the unit of value. The English pound sterling has its origin in the Saxon pound weight of standard silver, which was divided into two hundred and forty silver pennies each equal to a pennyweight.

During all the early years of the feudal system, in the most important countries of Europe, silver continued to function as the money commodity. Its natural qualifications admirably adapted, it to this position. Trade, during those years, was not carried on in a very elaborate manner, and the silver supply not being exceedingly plentiful, this metal amply provided a medium for transferring values.

With the discovery of a new world, however, a disturbance was inevitable. Vast deposits of rich silver-bearing ore were found in the two Americas. Capital, seeking an outlet, could here be profitably invested. The natives of these new areas, it is true, proved themselves monumental failures in the realms of production. They showed that healthy contempt for work so characteristic of all primitive peoples from the very start. They could neither be coaxed, bribed, coerced or frightened into accepting their new status in society, and, doubtless, caused many an unhappy moment to the Spanish, English, and French exploiters who were anxious to develop their newly discovered treasures.

When, through other means, the silver mines were placed on a paying basis, and great quantities of the metal exported back to Europe, a great change was effected in the trade situation. Not only was it possible to produce a new supply of silver at a greatly reduced cost, but the existing European supply, likewise, suffered a depreciation in value. With a materially extended world market, and soaring prices keeping pace with the growth of trade, the position of silver as a money commodity became yearly less secure. Something with greater value in smaller bulk was urgently demanded. This something was a characteristic of gold.

The immediate result was not a complete elimination of silver from the arteries of exchange, and the establishment of gold in its place. For a period of about four hundred years, in England, gold and silver were jointly appointed by law to fill the position. How well they functioned history has explained. As Marx has it—"To assume that there is an invariable ratio between the quantities of gold and silver in which a given quantity of labor-time is incorporated, is to assume, in fact, that gold and silver are of one and the same material, and that a given mass of the less valuable metal, silver, is a constant fraction of a given mass of gold.

Cheap politicians, of the W. J. Bryan type, unconsciously adopt this attitude. The spirited campaign for free silver, that enlivened the political history of the United States during the latter years of the past century, was founded on the absurd notion that the purchasing power of the precious metals could be fixed by governmental fiat. Bryan's idea was that the "gold standard" was of artificial creation, and this golden cross, on which mankind was being crucified, existed solely because of the hideous machinations of the banking interests. The financial magnates of the U. S. might well revere the name of a statesman who thus unreservedly ascribed to them a power approaching the supernatural. His solution was to destroy the existing standard and replace it by one of silver. Possessing no knowledge of economics, and very little of anything else, he thought it feasible to arbitrarily set a buying-power on silver.

Had the U. S. government secured possession of the world supply of silver, as well as the mines from which silver might be obtained in the future, and all patents covering the processes of manufacture, it might have been possible to place an arbitrary price on silver, and maintain it, though at an enormous and maybe ruinous cost. But, even in such a case, the gold standard would not have been put out of business.

The purchasing power of silver, or any other commodity that plays the part of circulating medium, is not determined by legislative enactment. The nomenclature of money may be established by state fiat, but when it comes to a question of what proportions any one will exchange for another, the problem can be solved only by understanding the relative quantities of social necessary labor time required to produce them.

Such being the case, we can see that any scheme pertaining to the establishment, and operation, of a system of bi-metallism is doomed to failure from the start. Fixing an arbitrary ratio between any two commodities is an utter impossibility as long as the law of value continues to function in human society. Each commodity being produced by a process peculiar to itself, whatever changes are introduced to the mode of production must, necessarily, reflect themselves in the values of the things produced, so that instead of having a rigid, iron-bound ratio confirmed between them, their values must vary relatively to each other, and consequently override any legislative decree to the contrary.

Here, then, we find, as Marx has pointed out, that though two commodities can be designated by law to jointly fill the position of a measure of value that, in practise, one only performs the function. The truth of this assertion can be found all through the history of English and American currency. When a change takes place in the methods of production, enabling one of the terms of the equation to be placed on the market with a relatively lower expenditure of labor than the other, all debtors will find it profitable to meet their obligations with the cheaper metal and, thereby, force the more valuable out of the channels of exchange. A fixed ratio, free coinage; and joint legal tender; these are the pre-requisites of bi-metallism and, as we have seen, these conditions cannot prevail.

After centuries of endeavor to maintain the double standard, in the face of economic laws, the scheme is practically abandoned, and one or the other of the two metals adopted as money. Among a population of over 700,000,000 people silver is today the money commodity. Although silver deposits are found chiefly in Mexico, Canada and the United States, the metal eventually finds its way to the Orient, where it serves among more than half of the world's population in the dual capacity of a commodity and a currency.

The great fluctuations in the value of silver during the past five years merit our attention. The average price of silver in the U. S. during the year 1915 was 51.8 cents per ounce, which was the lowest quotation for more than two centuries. In 1918 the average had risen to 98.4 cents per ounce, and by December, 1919, it had reached the unprecedented figure of $1.37⅜ per ounce. Since that time the value of silver, as measured in terms of gold, has been decidedly on the toboggan.

In adducing reasons for these fluctuations, several factors must be taken into conisderation. The reasons for the low price of 1915 are of just as great importance to the student of finance as those in regard to the high price of 1919. When war broke out the immediate effect on the foreign trade of both India and China was a great reduction in imports and exports, due to the scarcity of vessels for carrying on trade. The chief customers of the Orient were also the "dramatis personae" of the great war. Germany had always been a large importer of cotton, jute, rice, tea, and cocoanut products. England, France, and America had also done a thriving business with the merchants of the Orient.

Having little domestic differences of their own to settle, their buying and selling relations with their neighbors in the East were severely shaken for the time. This trade depression had a very decided effect on the position of silver.

As soon as it became apparent to the administrative officials of the Allied powers that the military game they had entered would last far beyond the three months limit, specified at first, they began to notice the necessity of replenishing the larder with everything essential to winning the war. It immediately developed that Asia, and the East Indies would be drawn upon heavily for war materials. Something must be tendered in payment for these supplies and, as the Western nations had but a small surplus of desirable articles to export, they were forced to fall back on the only available method of payment, which was none other than shipping silver.

Another effect of the war was to change China and India from the position of being the dumping grounds for the surplus products of other countries into great productive establishments of themselves. Both of these countries, are now industrially self-sufficient in many lines, taking their place in the production of cotton, jute, shoes, and woolens with the great industrial centres of Europe. As the raw material available for export has also greatly increased, at the same time, the enormous trade balance in favor of the Orient can only be met by increasing shipments of silver. The growth of industry within the boundaries of those countries necessarily involves an addition of no small magnitude to the medium of exchange. The quantity of money functioning as the circulating medium being determined by the prices of all commodities, divided by the rapidity of the circulation of money, it

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