EXCHANGE

A Consideration of the Money-commodity—Its Properties and Functions.

IV.

SILVER.

It has occurred to me that it would be well, before tackling the silver question, to state the law which governs the amount of money required in circulation. Now there are two leading theories:

The **labor** or **cost of production theory** and

The **quantity** theory of money.

The first of these is the only one consistent with the arguments here set forth and is to the effect that: The total quantity of money functioning during a given period as the medium of exchange is determined by the **sum of prices** of all commodities circulating during that time, divided by the rapidity of the circulation of money, that is, by the **number of turns** made by each single coin. The sum of prices, of course, depends on the quantity of commodities and all these three factors, the quantity of commodities, their prices and the velocity of the currency are variable. The velocity of the currency is greater in cities than in the country and greater in some cities and countries than in others, depending on the wealth of the country and the density of its population. Nevertheless, at any given time and place these factors are given quantities and, in combination, their general effect will be as stated. For instance, supposing that the total prices of the commodities produced and sold in a given time to be one million dollars and further, that each dollar makes twenty turns in that period, then the quantity of money required in circulation will be fifty thousand dollars. This law follows inevitably from the law of value. As we have seen, money is a commodity. The exchange-value of any commodity is determined by its social cost of production. Price is the exchange-value of any commodity expressed in money. Consequently, it would be a contradiction to say that the quantity of money required to circulate a given mass of commodities was not determined by the sum of prices of those commodities divided, of course, by the number of times each money unit functions. "The quantity wanted will depend partly on the cost of producing gold, and partly on the rapidity of its circulation. The rapidity of circulation being given, it would depend on the cost of production: and the cost of production being given, the quantity of money would depend on the rapidity of its circulation." (Senior, quoted by Mill.) This law, of course, being based on the law of value, is subject to such variations and modifications as the law of value itself may be subject.

So far, we have considered gold as the only money-commodity as, in fact it now really is in all the great industrial countries. Until comparatively recently, however, silver was money in those countries and still circulates in large quantities as a kind of subsidiary currency. Even if no other reason existed for its use, it is obvious that it would be exceedingly inconvenient and expensive, if not impossible, to use gold for the multitude of small transactions carried out daily. In all of those countries, however, which have now adopted the gold standard, silver was once money as well as gold, that is to say, they used the bi-metallic system. Not that any of them consciously adopted such an impracticable money system. The fact is that the countries of Europe were, during the middle-ages, almost exclusively silver using countries. With the development of trade and commerce, however, gold was coined in greater quantities. The discovery and exploitation of the Americas resulting in a largely increased supply of the precious metals at a cheaper rate caused considerable depreciation in the existing stocks. This again brought about an era of greatly enhanced prices, which, along with the greater amount of business that was being done, necessitated a more valuable money unit. Gold, therefore, took its place alongside silver as money and was coined at a fixed ratio to it. Here, then, the trouble begins. Both gold and silver are commodities and as such vary in value from time to time. Naturally, their values will vary relatively to each other, a fact of no great importance in itself, but which is of immense consequence when the commodities in question are functioning as money. The difficulty lies in the fact that, in any system of bi-metallism, three things are essential.

(1) That the two metals be coined at a fixed ratio to each other, say 16 of silver to 1 of gold.

(2) That both have the privilege of **free coinage**, that is to say, that the coinage is unrestricted and that anyone bringing silver or gold to the mint shall have it coined. Such coinage may be **gratuitous**, or free of charge, though this is not essential. It has, however, been the practice in England and the United States.

(3) That both be **legal tender**. This phrase will bear some explanation.

A debt can only be extinguished by the payment of money. Money is what the creditor contracted for and the only thing he will take. Of course, in default of money he will take what he can get but that is another matter. Well then, the quality of "legal tender" attached to any form of money means that such money being "tendered" or offered by the debtor must be accepted by the creditor, otherwise the courts will not consider the debt collectable. That is to say, that the tender of such money extinguishes the debt whether it is accepted or not. This law, no doubt, had its origin in the middle ages when it was the custom of certain kings who, having the privilege of coming the money and wishing to make a little easy money would coin money, not only of a diminished weight but of baser metal. This money, very naturally, people refused to accept and so, in order to give it what is known as **forced currency, it** was invested with the quality of legal tender.

Now then, as we have seen, the two money-commodities, although coined at a fixed ratio to each other, will nevertheless vary in value relatively to each other. This means that one or the other will now be rated below its bullion or market value and a profit can be made by melting or exporting it.

"Suppose, for example that gold rises in value relatively to silver, so that the quantity of gold in a sovereign is now worth more than the quantity of silver in twenty shillings. Two consequences will ensue. No debtor will any longer find it his interest to pay in gold. He will always pay in silver, because twenty shillings are a legal tender for a debt of one pound, and he can procure silver convertible into twenty shillings, for less gold than that contained in a sovereign. The other consequence will be, that unless a sovereign can be sold for more than twenty shillings, all the sovereigns will be melted, since as bullion they will purchase a greater number of shillings than they will exchange for as coin. The converse of all this would happen if silver, instead of gold, were the metal which had risen in comparative value." (Mill.)

"The result of all experience and history with regard to this question is simply that, where two commodities perform by law the functions of a measure of value, in practice one alone maintains that position." (Marx.)

The obvious mode of escape from these difficulties is, of course, the adoption of one metal as money and as silver, on account of its low specific value and great instability is the less satisfactory in this respect, the leading nations, one by one, beginning with England in 1816, adopted the gold standard and "demonetized" their silver. The process of demonetization consists in (1) denying to silver the privilege of free coinage, that is, the government now buys the metal, coins it for its own account at such times as it thinks fit, and profits by the **seigniorage**. This latter is the term used for the difference between the face value of the coin and its value as bullion. In the second place, the quality of unlimited legal tender is withdrawn. For instance, in England, silver is only legal tender to the extent of 40 shillings and in the United States to the extent of 10 dollars—this only applies to the smaller coins as the silver dollar appears to occupy a somewhat anomalous position. Thirdly, it has been the practice, in some cases, to so reduce the weight or fineness of the coins that their bullion value will be permanently so far as possible, below their face value. This is to prevent their being melted in case of a rise in the value of silver. Under these circumstances silver, while no longer money—continues to function as a medium of exchange in the form of "tokens."

This change, however, did not take place without considerable difficulty and great opposition. This opposition, apart from that raised by people interested in the silver industry, was due to those who, misled by the "quantity" theory of money, were of opinion that the demonetization of silver had something to do with the low prices of commodities prevailing towards the latter end of last century. This theory of money, however, will have to wait till next week when it will be necessary to take it up in the consideration of paper "money."

By the way, I notice that silver which, not so long ago, was as low as 45 cents an ounce, is today quoted at 1 dollar 12 3-4 cents, and still going up. Now there are 371 1-4 grains of fine silver in a dollar and 480 grains in an ounce. A little arithmetic will show that when silver gets to $1.29, the silver dollar will be worth a dollar. A slight advance above that again will send all the "iron men" to the melting pot.

GEORDIE.

FREE SPEECH.

It is said that a government ought to guarantee its subjects "security and a sense of security;" whence it is inferred that magistrates ought to keep ears open to the declamations of popular orators and stop such as are calculated to create alarm. This inference however, is met by the difficulty that, since every considerable change, political or religious, is, when first urged, dreaded by the majority, and thus diminishes their sense of security, the advocacy of it should be prevented.

Evidently such proposals to limit the right of free speech, political or religious, can be defended only by making the tacit assumption that whatever political or religious beliefs are at the time established, are wholly true; and since this tacit assumption has throughout the past proved to be habitually erroneous, regard for experience may reasonably prevent us from assuming that the current beliefs are wholly true. We must recognize free speech as still being the agency by which error is to be dissipated, and can not without papal assumption interdict it.

It is to the abnormal condition of the body politic that all evils arising from an unrestrained expression of opinion must be attributed, and not to the unrestrained expression itself.—Herbert Spencer, Principles of Ethics, 1879.

SANCTITY UNDER CAPITALISM.

Under Socialism women would not require to sell themselves for hire; under Socialism the artistic side of the personality of man would be free to develop.

Under Capitalism, Sir Alfred Keogh, surgeon-general, reported to a meeting, in Queen's Hall, London, on June 13, 1917, that the admission rate to hospitals for venereal disease was:—

21 per 1000 in France.
32 per 1000 in Egypt.
48 per 1000 in Britain.

Henceforth, let the apologists of Capitalism keep silent about the sanctity of the marriage tie!