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WHAT IS MONEY?

By A. Mitchell Innes.

The fundamental theories on which the modern science of political economy is based are these:

That under primitive conditions men lived and live by barter;

That as life becomes more complex barter no longer suffices as a method of exchanging commodities, and by common consent one particular commodity is fixed on which is generally acceptable, and which therefore, everyone will take in exchange for the things he produces or the services he renders and which each in turn can equally pass on to others in exchange for whatever he may want;

That this commodity thus becomes a "medium of exchange and measure of value."

That a sale is the exchange of a commodity for this intermediate commodity which is called "money."

That many different commodities have at various times and places served as this medium of exchange—cattle, iron, salt, shells, dried cod, tobacco, sugar, nails, etc.;

That gradually the metals, gold, silver, copper, and more especially the first two, came to be regarded as being by their inherent qualities more suitable for this purpose than any other commodities and these metals early became by common consent the only medium of exchange;

That a certain fixed weight of one of these metals of a known fineness became a standard of value, and to guarantee this weight and quality it became incumbent on governments to issue pieces of metal stamped with their peculiar sign, the forging of which was punishable with severe penalties;

That Emperors, Kings, Princes and their advisers, vied with each other in the middle ages in swindling the people by debasing their coins, so that those who thought that they were obtaining a certain weight of gold or silver for their produce were, in reality, getting less, and that this situation produced serious evils among which were a depreciation of the value of money and a consequent rise of prices in proportion as the coinage became more and more debased in quality or light in weight;

That to economize the use of the metals and to prevent their constant transport a machinery called "credit" has grown up in modern days, by means of which, instead of handing over a certain weight of metal at each transaction, a promise to do so is given, which under favorable circumstances has the same value as the metal itself. Credit is called a substitute for gold.

So universal is the belief in these theories among economists that they have grown to be considered almost as axioms which hardly require proof, and nothing is more noticeable in economic works than the scant

down of the volume of national bank notes, including a method to make the 2 per cent, bonds available for investment by raising the rate to 3 per cent, and the repeal on the present limit of retirement of notes, (which is $9,000,000 monthly). Mr. Cannon feels satisfied that in this manner excess of the bond-secured notes would be reduced to an amount which would be normal, leaving the new class of currency to provide for the country's additional needs.

The prevention of inflation is not overlooked, Mr. Cannon says:

In order to properly control the issue of a currency such as I have mentioned, adequate provision should be made for its redemption, and for that purpose all notes issued through each District Association should be marked with the name of such Association, and it should be incumbent upon every other Association to forward all notes received by them to the different District Associations through which they were issued, say once a week, or oftener, for redemption, and I would favor any provision that would serve to place such notes on as nearly the same basis as checks, as possible, with respect to their quick redemption.

It should be incumbent upon all District Associations to maintain an adequate gold reserve at all times upon issues of notes outstanding through them.

I think it is important that jurisdiction over the issue of these notes, should be given to the Secretary of the Treasury, so that if any limit is placed upon the maximum amount to be issued, there can be an equitable distribution to each section, based, possibly, on the relationship which the capital and surplus of each District Association bears to the whole, or on some other plan.

The Central Governing Board would be given power to regulate the rates of rediscounting through the Sub-Treasuries and District Banking Associations, by means of which the volume of currency issues would also be regulated and a powerful influence exercised over the movement of gold internationally.

Finally Mr. Cannon points out how greatly inland exchanges would be facilitated by ready transfers of currency via Sub-Treasuries; and how the great question of country-check clearing could be solved by the eventual development of the system. It is clear that such a monetary organization would offer the greatest measure of facilities for the cheapening of the cost and shortening the waste of time on our domestic business.

Mr. Cannon closes thus:

The machinery of our Clearing Houses could be easily adapted to doing business with the District Associations, so that it would be the natural thing for the bank members of each association to apply through their Clearing House to the District Association for rediscounts and currency privileges at all times, according to their needs, and rules and regulations could be promulgated to effectively reach that end.

This plan would give the country an absolutely safe asset currency, flexible in volume so as to be adapted to the needs, and under proper supervision and guarantee. We cannot afford to put anything less into the hands of our people.
historical evidence on which they rest, and the absence of critical examination of their worth.

Broadly speaking these doctrines may be said to rest on the word of Adam Smith, backed up by a few passages from Homer and Aristotle and the writings of travelers in primitive lands. But modern research in the domain of commercial history and numismatics, and especially recent discoveries in Babylonia, have brought to light a mass of evidence which was not available to the earlier economists, and in the light of which it may be positively stated that none of these theories rest on a solid basis of historical proof—that in fact they are false.

To start, with Adam Smith’s error as to the two most generally quoted instances of the use of commodities as money in modern times, namely that of nails in a Scotch village and that of dried cod in Newfoundland, have already been exposed, the one in Playfair’s edition of the Wealth of Nations as long ago as 1805 and the other in an Essay on Currency and Banking by Thomas Smith, published in Philadelphia, in 1832, and it is curious how, in the face of the evidently correct explanation given by those authors, Adam Smith’s mistake has been perpetuated.

In the Scotch village the dealers sold materials and food to the nail makers, and bought from them the finished nails the value of which was charged off against the debt.

The use of money was as well known to the fishers who frequented the coasts and banks of Newfoundland as it is to us, but no metal currency was used simply because it was not wanted. In the early days of the Newfoundland fishing industry, there was no permanent European population; the fishers went there for the fishing season only, and those who were not fishers were traders who bought the dried fish and sold to the fishers their daily supplies. The latter sold their catch to the traders at the market price in pounds, shillings and pence, and obtained in return a credit on their books, with which they paid for their supplies. Balances due by the traders were paid for by drafts on England or France. A moment’s reflection shows that a staple commodity could not be used as money, because ex hypothesi, the medium of exchange is equally receivable by all members of the community. Thus if the fishers paid for their supplies in cod, the traders would equally have to pay for their cod in cod, an obvious absurdity.

In both these instances in which Adam Smith believes that he has discovered a tangible currency, he has, in fact, merely found—credit.

Then again as regards the various colonial laws, making corn, tobacco, etc., receivable in payment of debt and taxes, these commodities were never a medium of exchange in the economic sense of a commodity, in terms of which the value of all other things is measured. They were to be taken at their market price in money. Nor is there, as far as I know, any warrant for the assumption usually made that the commodities thus made receivable were a general medium of exchange in any sense of the words. The laws merely put into the hands of debtors a method of liberating themselves in case of necessity, in the absence of other more usual means. But it is not to be supposed that such a necessity was of frequent occurrence, except, perhaps in country districts far from a town and without easy means of communication.

The misunderstanding that has arisen on this subject is due to the difficulty of realizing that the use of money does not necessarily imply the physical presence of a metallic currency, nor even the existence of a metallic standard of value. We are so accustomed to a system in which the dollar or the sovereign of a definite weight of gold corresponds to a dollar or a pound of money that we cannot easily believe that there could exist a pound without a sovereign or a dollar without a gold or silver dollar of a definite known weight. But throughout the whole range of history, not only is there no evidence of the existence of a metallic standard of value to which the commercial monetary denomination, the “money of account,” as it is usually called, corresponds, but there is overwhelming evidence that there never was, a monetary unit which depended on the value of a coin or on a weight of metal; that there never was, until quite modern days, any fixed relationship between the monetary unit and any metal; that, in fact, there never was such a thing as a metallic standard of value. It is impossible within the compass of an article like this to present the voluminous evidence on which this statement is based; all that can be done is to offer a summary of the writer’s conclusions drawn from a study extending over several years, referring the reader who wishes to pursue the subject further to the detailed work which the writer hopes before long to publish.

The earliest known coins of the western world are those of ancient Greece, the electrum of which, belonging to the settlements on the coast of Asia Minor, date from the sixth or seventh centuries B. C. Some are of gold, some of silver, others are of bronze, while the oldest all are of an alloy of the gold and silver, known as electrum. So numerous are the variations in size and weight of these coins that hardly any two are alike, and none bear any indication of value. Many learned writers, Barclay Head, Lenormant, Vazquez Queipo, Babelon, have essayed to classify these coins so as to discover the standard of value of the different Greek States; but the system adopted by each is different; the weights given by them are merely the mean weight calculated from a number of coins, the weights of which more or less approximate to that mean; and there are many coins which cannot be made to fit into any of the systems, while the weights of the supposed fractional coins do not correspond to those of the units in the system to which they are held to belong. As to the electrum coins, which are the oldest coins known to us, their composition varies in the most extraordinary way. While some contain more than 60 per cent of gold, others known to be of the same origin contain more than 60 per cent of silver, and between these extremes, there is every degree of alloy, so that they could not possibly have a fixed intrinsic value. All
writers are agreed that the bronze coins of ancient Greece are tokens, the value of which does not depend on their weight.

All that is definitely known is that, while the various Greek States used the same money denominations, stater, drachma, etc., the value of these units differed greatly in different States, and their relative value was not constant,—in modern parlance the exchange between the different States varied at different periods. There is, in fact, no historical evidence in ancient Greece on which a theory of a metallic standard can be based.

The ancient coins of Rome, unlike these of Greece, had their distinctive marks of value, and the most striking thing about them is the extreme irrationality of their weight. The oldest coins are the As and its fractions, and there has always been a tradition that the As, which was divided into 12 ounces, was originally a pound-weight of copper. But the Roman pound weighed about 327½ grammes and Mommsen, the great historian of the Roman mint, pointed out that not only did none of the extant coins (and there were many) approach this weight, but that they were besides heavily alloyed with lead so that even the heaviest of them, which were also the earliest, did not contain more than two-thirds of a pound of copper, while the fractional coins were based on an As still lighter. As early as the third century B.C. the As had fallen to not more than four ounces and by the end of the second century B.C. it weighed not more than half an ounce or less.

Within the last few years a new theory has been developed by Dr. Haeberlin, according to whom the original weight of the As was based not on the Roman pound but on what he calls the "Oscarn" pound, weighing only about 273 grammes, and he seeks to prove the theory by taking the average of a large number of coins of the different denominations. He certainly arrives at a mean weight closely approximating his supposed standard, but let us look at the coins from which he obtains his averages. The Ases which ought to weigh a pound, vary in fact from 208 grammes to 312 grammes with every shade of weight between these two extremes. The Half-Ases, which ought to weigh 136.5 grammes weigh from 94 grammes to 173 grammes; the Thirds-of-an-As, which ought to weigh 91 grammes, weigh from 66 grammes to 113 grammes, and the Sixth-of-an-As, weigh from 32 grammes to 62 grammes, and so on for the rest. This, however, is not the only difficulty in accepting Haeberlin's theory, which is inherently too improbable and rests on too scant historical evidence to be credible. An average standard based on coins showing such wide variations is inconceivable; though coins may and do circulate at a nominal rate greater than their intrinsic value as bullion they cannot circulate at a rate below their intrinsic value. They would, in this case, as later history abundantly proves, be at once melted and used as bullion. And what would be the use of a standard coin-weight which showed such extraordinary variations? What would be the use of a yard-measure which might be sometimes two foot six and sometimes

three foot six, at the whim of the maker; or of a pint which might sometimes be but two-thirds of a pint and sometimes a pint and a half?

I have not space here to go into the ingenious hypothesis by which Haeberlin explains the subsequent reduction of the As, first to one-half the Roman pound and gradually sinking as time went on; both of our historians are agreed that from about B.C. 268 the copper coins were more tokens and that both heavy and light coins circulated indiscriminately.

Up to this time the As had been the fixed monetary unit, however much the coins may have varied; but from now on the situation is complicated by the introduction of several units or "monies of account," which are used at the same time, the Sesterce or Numus, represented by a silver coin identical in value with the old As Aerus Gravis or Libral As, as it was sometimes called; an As worth two-fifths of the old As, and the Denarius worth ten of the new Asses and therefore four Libral Asses, and represented, like the Sesterce, by a silver coin.

The coining of the Sesterce was soon abandoned and it only reappeared fitfully much later on as a token coin of bronze or brass. But as the official unit of account it continued till the reign of Emperor Diocletian in the third century of our era, and we thus get the remarkable fact that for many hundreds of years the unit of account remained unaltered independently of the coinage which passed through many vicissitudes.

As a general rule, though there were exceptions, the silver Denarii remained of good metal until the time of Nero who put about ten per cent of alloy in them. Under subsequent Emperors the amount of alloy constantly increased till the coins were either of copper with a small amount of silver, or were made of a copper core between two thin plates of silver, or were mere copper coins distinguishable from the other copper coins only by the devices stamped on them; but they continued to be called silver.

Whether or not the silver Denarii was intrinsically worth its nominal value or not is a matter of speculation, but fifty years later, according to Mommsen, the legal value of the coin was one-third greater than its real value, and a gold coin was for the first time introduced rated at far above its intrinsic value.

In spite of the degradation of the coin, however, the Denarius, as a money of account, maintained its primitive relation to the Sesterce, and it remained the unit long after the Sesterce had disappeared.

Gold coins were but little used till the time of the Empire, and though, as a general rule, the quality of the metal remained good, the average weight, decreased as time went on, and the variations in their weight, even in the same reign, were quite as remarkable as in the others. For example in the reign of Aurelian the gold coins weighed from three-

*The same phenomenon of more than one monetary unit at the same time is common in later ages.
and-a-half grammes to nine grammes, and in that of Gallienus from four-fifths of a gramme to about six-and-three-quarters grammes, without any difference greater than half a gramme between any one coin and that nearest it in weight.

There can hardly be stronger evidence than we here get that the monetary standard was a thing entirely apart from the weight of the coins or the material of which they were composed. These varied constantly, while the money unit remained the same for centuries.

An important thing to remember in reference to Roman money is that, while the debased coins were undoubtedly tokens, there is no question of their representing a certain weight of gold or silver. The public had no right to obtain gold or silver in exchange for the coins. They were all equally legal tender, and it was an offense to refuse them; and there is good historical evidence to show that though the government endeavored to fix an official value for gold, it was only obtainable at a premium.

The coins of ancient Gaul and Britain are very various both in type and composition, and as they were modelled on the coins in circulation in Greece, Sicily and Spain, it may be presumed that they were issued by foreign, probably Jewish, merchants, though some appear to have been issued by tribal chieftains. Anyhow, there was no metallic standard and though many of the coins are classed by collectors as gold or silver, owing to their being imitated from foreign gold or silver coins, the so-called gold coins more often than not; contain but a small proportion of gold, and the silver coins but little silver. Gold, silver, lead and tin all enter into their composition. None of them bear any mark of value, so that their classification is pure guess-work, and there can be no reasonable doubt but that they were tokens.

Under the Frankish Kings, who reigned for three hundred years (A.D. 457-751), the use of coins was much developed, and they are of great variety both as to type and alloy. The monetary unit was the Sol or Sou, and it is generally held that the coins represented either the Sol or the Triens, the third part of a Sou, though, for the purposes of accounts, the Sou was divided into twelve Denarii. They are of all shades of alloy of gold with silver, from almost pure gold to almost pure silver, while some of the silver coins bear traces of gilding. They were issued by the kings themselves or various of their administrators, by ecclesiastical institutions, by the administrators of towns, castles, camps, or by merchants, bankers, jewellers, etc. There was, in fact, during the whole of this period, complete liberty of issuing coins without any form of official supervision. Throughout this time there was not a single law on the currency, and yet we do not hear of any confusion arising out of this liberty.

There can be no doubt that all the coins were tokens and that the weight or composition was not regarded as a matter of importance. What was important was the name or distinguishing mark of the issuer, which is never absent.

I have made this rapid survey of early coinages to show that from the beginning of the rise of the art of coining metal, there is no evidence of a metallic standard of value, but later history, especially that of France up to the Revolution, demonstrates with such singular clearness the fact that no such standard ever existed, that it may be said without exaggeration that no scientific theory has ever been put forward which was more completely lacking in foundation. If, in this article, I confine myself almost exclusively to French history, it is not that other histories contain anything which could disprove my contention,—indeed all that is known to me of English, German, Italian, Mohammedan and Chinese history amply support it,—but the characteristic phenomena of the monetary situation are strongly marked in France, and the old records contain more abundant evidence than seems to be the case in other countries. Moreover, French historians have devoted more attention to this branch of history than, so far as I know, those of other countries. We thus get from French history a peculiarly clear and connected account of the monetary unit and its connection with commerce on the one hand and the coinage on the other. But the principles of money and the methods of commerce are identical the world over, and whatever history we choose for our study, we shall be carried to the same conclusions.

The modern monetary history of France may be held to date from the accession of the Carolingian dynasty at the end of the eighth century. The Sou and the Denarius or Denier its twelfth part, continued to be used for money computation, and there was added a larger denomination, the Livre, divided into twenty Sou, which became the highest unit, and these denominations subsisted right up to the Revolution in 1879. The English pound, divided into twenty shillings and 240 pence corresponds to the Livre and its divisions, from which the British system seems to be derived.

Le Blanc, the seventeenth century historian of the French coinage, states and later authorities have followed him, that the livre of money was originally a pound-weight of silver, just as English historians have maintained that the English money pound was a pound of silver. He supports his contention by a few quotations, which do not necessarily bear the meaning he gives them, and there is no direct evidence in favor of the statement. In the first place there never was a coin equivalent to a livre, nor till long after Carolingian times was there one equivalent to a sou. The only Royal coin at that time, so far as we know, was the denier, and its value, if it had a fixed value, is unknown. The word denier, when applied to coin, just as the English penny, frequently means merely a coin in general, without reference to its value, and coins of many different values were called by these names. Moreover, the deniers of that time vary in weight and to some extent in alloy, and we
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The Banking Law Journal

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The growth of banking in time has made evident a need for a greater comprehension of the functions of the banks. The rapid increase in the number of banks in the United States has made it necessary for the Federal Reserve System to develop a comprehensive plan for the regulation and supervision of these institutions. The Federal Reserve System was established by the Federal Reserve Act of 1913 to provide a uniform and efficient system of banking in the United States. The Federal Reserve System is composed of twelve Reserve Banks, each of which is responsible for the supervision and regulation of the banking institutions in its district.

The Federal Reserve System is divided into three main parts: the Board of Governors, the Reserve Banks, and the discount offices. The Board of Governors is composed of seven members who are appointed by the President and confirmed by the Senate. The Reserve Banks are located in twelve cities and are responsible for the supervision of the banking institutions in their respective districts. The discount offices are located in the larger cities and are responsible for the provision of credit to the banks in their districts.

The Federal Reserve System is designed to provide a stable and efficient system of banking in the United States. It is designed to promote the economic welfare of the country by providing a uniform and efficient system of banking, and by providing a means of facilitating the circulation of money and credit in the United States.
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