Anarchism and the Money problem

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In early times cooperation was limited to members of small groups such as the family and tribe. But due to the natural localization of different materials and capabilities for production and also because of the different potentialities of individuals, the desirability and need for a division of labor into industries and to specialization within industries became manifest. And as specialization implies exchange it became necessary to discover some method of making these exchanges as easily as possible. The difficulties encountered in simple barter preclude any attempt toward extended specialization. It was then discovered that any commodity possessing the qualities of comparative stability in value, durability, recognizability, divisibility without impairing its value, utility, uniformability, portability, and [comparatively] great value in small quantities would be universally acceptable and would serve admirably as a medium of exchange. For obvious reasons the precious metals especially gold and silver became recognized as possessing these qualities more than anything else but as long as these metals were used as a monetary substance men had not emerged from the stage of simple barter. The advent of credit was more or less a matter of accident. So long as gold was used as a monetary substance it was necessary that its amount and quality be accurately determined hence goldsmiths were employed to weigh and assay the metal sometimes giving those who left it in their charge receipts of deposit. The discovery that these receipts circulated as readily as gold itself marked the beginning of credit in the field of exchange there then being two kinds of money, commodity money and credit money.

Money, [especially] credit money, is the greatest cooperative discovery made but its control has been so shamefully abused that this abuse alone has far outdistanced all other influences tending toward contention among men. From the first, the goldsmiths seeing the inadequacy of the amount of money conceived the idea of lending out the gold left in their care at interest and when it was seen that paper claims or receipts for gold circulated as readily as gold itself they "loaned" such claims on or for other security always keeping [enough] gold on hand to meet contingent demands of the original "depositors". They, of course, charged interest on these loans, the rate depending on the need for money and always as "high as the market would bear". The monarchs of the time who constituted the State observing this lucrative business soon found pretext to taking a hand in it stamping their visages on the coins they issued. Their continual debasing of the money by means of diminishing their gold content caused the people to demand a standard to which all the coins of a certain time must conform. And so it exists to the present day with either governments directly extorting "interest" from the people or protecting individual groups in doing this. The United States Govt. maintain this system by prohibiting by imposing a fine of ten percent any currency issue no matter how well secured that do not conform to laws that virtually give to a comparatively few banking interests the monopolistic power to extort interest.

Today, in virtually all countries in which specialization plays an important part, nearly all commercial exchanges are immediately consummated by credit instruments. Therefore the nature of credit, a clear idea of the legitimate functions of a bank, of the terms value, standard of value, basis of issue, and of the cause and effects of interest are subject the understanding of which is imperative for the knowledge of what the money problem consists and the means of the solution. To this end it is the purpose of this article to present a brief attempt.

Credit.

A voluntary exchange implies the possession by each party of something acceptable to the other. In the event that one party only has something acceptable to the other an exchange can be made only by getting in return a credit instrument which is a promise to deliver at some future date something acceptable to him. There are several considerations showing the necessity of this type of exchange. One may not want at the time [what the] other possesses, or he may never want it all, in which case he can exchange the promise to another who does have something he desires and who may want what the original issuer promised, or we may consider the final delivery [postponed] thru many exchanges until it is ultimately redeemed. Another use of credit instruments is in large scale production where specialization is so developed and product of such kind that it [is] impossible to apportion the respective values contributed by the many individuals except by means of credit instruments, i.e. money.

Obviously then the acceptance of a credit instrument depends upon the estimate which its receiver has of the promisor's willingness and ability to keep his promise. This estimate is based on the business reliability of the promisor and his ability of the promisee to have the laws of the contract enforced.

A credit exchange is one in which an interval intervenes between its completion. An exchange of this kind may be considered as a complete exchange of the rights to ownership but an incomplete exchange of actual goods. The importance of this type of exchange is evinced by the fact that over 95% of all commercial transactions are conducted in this manner.

Credit is considered as personal credit when the promise is based upon the promisor's ability to procure the promised thing at the specified time and as tangible or secured credit when the promise is based on the actual possession of tangible value proportionate to the amount specified in the promise.

Money may be considered as a specific kind of credit if as money is considered a generally circulating medium of exchange. Money is of two kinds: commodity and credit money. Commodity money, as a gold piece, has its value inherent in its substance and its use is barter pure and simple. It has no place in the discussion of credit.

The value of credit money depends on the marked value of the security upon which it is based, gold when gold is used as a basis. Its value is also affected by the probability of its ultimate redemption. If more money should be issued than the security upon which it is based warrants it will most probably depreciate in purchasing power.

Money serves as a medium for facilitating exchanges. The farmer needs it as a secured advance so that the values which he is creating which are in an unusable condition may be used as an earnest for the receipt of goods which he may immediately need. The manufacturer needs it for a similar reason, one of the goods which he immediately needs is labor so some of the money he receives he pays as wages. Producers of all kinds need money to make fluid the values which they are creating. Money greases the wheels of production and the receipt of money is always accompanied by a proportionate decrease of production.

In all cases where the loan of money is accompanied by the furnishing of security by the borrower he may be considered as the real issuer of the money for it is his wealth which must be used for redemption in case he should default. The terms "borrower" and "lender" used in reference to bank "loans" are therefore misnomers. Banks do not lend money they merely insure credit. Except serving as a clearing house for credit and debts this is the only legitimate function of a bank. A promissory note issued by an individual or a single firm would not circulate very far because they may not be generally known or their responsibility uncertain. Hence the necessity of banks. The function of a bank is to inquire into the security on which their "loan" is based, to which may be added serving as depository for savings.

Value.

For a thorough understanding of what is to follow it may well to briefly investigate the meaning and determination of value. Utility is the estimate which man places upon the ability of anything to satisfy his desires. There are three main factors determining the intensity of his desire: First, the subjective condition of the individual–his tastes, opinion, knowledge, need; second, the material, form, and qualities of the objective thing; and third, the environment in which he finds himself as affected by time, place, climate, etc. The opposite of desire is aversion which, while also being affected by the same three factors, is mainly determined by the obstacles necessary to overcome in the satisfaction of desire. The balancing of desire with aversion results in a conclusion whether effort will be expended or not. Starting with the theses utility and desire, and the antithesis aversion, and the synthesis —formation of the will, we are prepared to inquire into the theory of nature of value.

The concept of value arises under conditions which presuppose property, division of labor, and exchange. Robinson needed no (Crusoe) concept of value for he produced utilities only and not values. The analogy between value and utility is close, however. Both imply a psychological estimate based on a relation involving desire and aversion. Value is the exchange power of one thing for another thing. When two things are "brought to market" there arises the question: How much of one should exchange for a definite amount of the other. Naturally each party wants to make the best "bargain" he can. One will make an offer. The mental process of the other would proceed somewhat along this manner: "Let's see! Is there any way I can procure this product with any less effort than which I have expended on my own? And also which do I do desire most, what my confederate has or what I have? And also let me estimate what his thoughts and desires are in respect to the exchange." This is what, consciously or unconsciously, goes on in each individual's mind making a sale or purchase. Should it happen that one party reaps an advantage all out of proportion to the other the probability will be that others will produce and compete with him in order to reap the benefit of this decrease of effort in acquiring what they ultimately want. So, eventually, products will exchange in proportion to the effort necessary to be overcome in their production. Under a freely competitive economic system, i.e. where the opportunities of production are equal, not only will supply adjust itself to demand but exchange rates will be determined by equal productive effort. Nothing for which there is no desire could be sold, thereby stopping its production; anything for which there is an actual or potential demand will be sure to have producers. Any discrepancies to this law will be due to the different capabilities and efficiency of producers or to an unbalanced condition in the supply of and demand for particular commodities. The advent of money into the transactions should not complicate the matter when it is understood that the value of money, i.e. its power in exchange, is determined by the effort necessary to overcome the obstacles necessary to the production of the security on which it is based.

We have assumed that the obstacles necessary to production, omitting personal factors of competence and efficiency, were the same for all producers, i.e. that individuals or groups had each an equal opportunity for production and exchange. Those assumptions is unwarranted if we are to deal with actual conditions in the present industrial [world]. Here we come in contact with privileges and handicaps maintained by the government. These artificial restrictions and handicaps, no less than natural obstacles, affect the exchange value of things under which they are produced.

The effect of the law on value.

So long as opportunities for using natural resources are free and equal, opportunities to adopt and use all known productive processes free and equal, and opportunities to exchange products free and equal irrespective of place, and hence no producer having any advantage over a competitor except the unavoidable differences due to managing ability, and location, no producer can possibly get rich [at the] expense of others. Competition will keep prices down to production costs and will also adjust the supply of goods offered on the market to the demand for them. But, unfortunately, due to the privileges which governments grant to some and the handicaps placed upon others it necessarily happens that, as all prices are determined by the cost of production of the marginal producer, that is the producer that, having the greatest production cost, is still able to maintain himself in business, and producers having a production cost less than he are able to make a profit equal to the respective differences. These handicaps and privileges are caused by a system of land ownership wherein any person or persons can own land irrespective whether he or they use it themselves and can rent the privilege of using the land (mines, oil wells, or other natural resources for anyone who has a desire for its use. In this respect we may divide people into land owners and land users, the former having ostensibly an economic advantage over the latter and the "use value" of respective pieces of land constitutes the monopolistic rental value. The prices of ownership tribute constitute an increased production cost which the non-owner has over owner.

The next difference which exists between producers is in the use of processes of manufacture. Due to a patent [system] by which a monopoly is made of a certain process by which a better or cheaper article can be produced, all producers protected by law in the sole use of this process have an advantage over all those prohibited from its use which advantage is measured by the differences of desire for the similar articles and by the difference of production cost which the user of the patent has over his prohibited competitor.

A third instance of how the power of government causes unequitable exchanges is the prohibition it places upon foreign producers in selling products which they can produce better or cheaper than native producers except they pay a price called a tariff. The effect of this is to cause consumers in a country to pay a higher price for articles than if the producers in their own country were subjected to the competition of foreign producers. All native producers, therefore are able to charge a price for their goods over their production cost, the difference very closely approximating the rate of tariff.

And finally we come to the business of insuring credit, the banking business, which is made a monopoly by governments by virtue of the special privileges attributed to gold to serve as the only basis of issue of money and by prohibiting, [by] imposing a tax of ten percent on all notes not backed by gold, any issue of money that is attempted by persons not the holders of gold. Of the effects of this monopoly is the principal point of this article.

Standard of value.

Value is the exchange equivalency of one thing measured in terms of another. We may say the the exchange value of a certain building is, say, 25,000 ft. of lumber of specified kind and quality, and that the value of the lumber is 100 suits of clothes, and the value of the suits is 1 automobile, and the automobile equivalent to 5,000 bu, of apples, etc. The practical impossibility of estimating, every time an exchange is made, these innumerable value relationships [are] apparent so men choose one commodity, say wheat, and measure all things in terms of it. Wheat, in such a case, would be a standard of value. The amount of labor necessary to produce wheat would be considered to have been "constituted" which means that the amount of labor necessary to produce the unit of wheat which has been adopted as a standard has been recognized as [comparatively] stable and unchanging and that this amount of labor can be used to measure the relative values of other commodities (or services) in which other kinds of labor have been incorporated.

The functions of a bank.

Having shown the utility and almost necessity of money as a credit instrument used for facilitating the exchange of values, whether completed or in the process of production, and shown that values cannot be easily exchanged without [referring] them to a standard unit, we can now investigate the manner in which money can come into existence. Ostensibly it is possible for anyone to issue a credit instrument or promissory note but the [probability] of its circulating very far depends on the extent to which its issuer is known and his dependability esteemed. Obviously many enterprises, principally small ones, would have difficulty in having their notes circulate farther than a few immediate constituents and thus their business would be visibly hampered. For this reason the inauguration of banks or institutions who make it their special business to inquire into the dependability of its patrons and to endorse or insure their dependability by giving them notes in exchange for the right to confiscate their property in case they should default. This right is necessary to insure to those who have surrendered him goods for the notes will be repaid by him. (Insert bottom of page 2 here). It may be appropriate to state here that the actual labor cost of printing notes, inquiring into security, and doing the general run of bank business is about one half of one percent.

Distinction between basis of issue and standard of value.

As money must serve [both as] a representative of value and a measure of value, and as gold has almost universally served in both capacities, there is widespread confusion as to the meaning of these terms. Anything which serves as security on which a promise is based is the "basis of issue" for that promise. However the security may be evaluated in terms of some commodity used as a standard. Society in discovering that gold served admirably as a commodity money failed to generalize one of its functions as credit money came into [existence]. Instead of retaining gold merely as a standard of value, for which it serves quite well, and admitting all wealth which has exchange value to serve as a basis of issue, it retained gold for both functions thereby giving the holders of gold a [monopoly] on the issue of money with the result of enslaving all other holders of wealth to them. Anyone who desired to have his credit insured had to go to the holders of gold, the bankers, and he charged a price for this service almost equal to the advantage which the use of money conferred upon him. [Government], on the pretext of protecting its subjects has always protected this monopolistic system and have, generally been the recipients of part of the royalty thus extorted from business and industrial enterprises. The payment for the use of money is called interest and we are now prepared to inquire into its justifiability and whether it is unavoidable or not.

Interest.

In order to clarify the discussion of interest it may be advisable to inquire into the meaning of some of the words necessary to be employed. Some economists claim that interest is paid for the use of money and others that it is paid for the use of capital. Others claim that money has the power to command interest because capital has such a power and as money can be exchanged for capital, it also will command interest. Others say that money is capital so a great confusion arises evidently due to different conceptions of what the word capital means. The two definitions of capital which give rise to this confusion are, first: Capital is that part of a product which is used in the production of more products (or wealth), the other: Capital is the means by which we are afforded an income. The first would include only products of labor; the second would include labor itself and also any law created privilege the use of which an income would be afforded to the privileged parties. Needless to say it is vital in logical discussion to have a word mean but one definite thing so it is feasible to determine which of these definitions is more valid in the discussion of economic subjects. If money can be considered capital then we must admit the strange statement that by increasing the amount of currency in a country we thereby increase the amount of capital. If by capital, in the last sentence, is meant the means of affording an income then it necessarily follows that by increasing the amount of money we thereby increase the amount of wealth or income which the lending of money involves. But any other law-oriented privilege which gives one competitor an advantage over another must, then, also be created by law and not only by human work. So, at least for the present, we deem it desirable to consider the final conception valid and consider capital only labor or the products of labor. It will be necessary, therefore to discard the idea that interest is paid for the use of capital, and use the more logical statement that interest is paid for the use of money. The reason any men will pay for the use of money, which is unproductive, is not far to seek. Its use as a credit instrument so facilitates production and exchange [that for] this benefit men are willing to pay a price which may go as high as the value of this added advantage which the use of money yields. The insuring of credit is a service and as reason and experience proves that, in a competitive field, the exchange of services, either directly or incorporated in a product, always levels itself to an exchange of equally arduous accomplishments, we will have to determine whether the rate of interest is determined by the difficulty of insuring credit, by the difficulty of making the supply equal to the demand, or because of some legal restriction which confers a [monopoly] of this service.

Various Interest Theories.

If interest is payment for the use of money, or, to speak more accurately, payment for the insurance or authentication of credit, the question arises how much this payment ought to be and to whom it should be paid. Statistics of banking costs show that actual running expenses, cost of printing money, the investigation of the value of securities, book-keeping, salaries, building [upkeep], etc. closely approximate to one-half of one percent. This amount would, of course, depend on the amount of business done in money values. There remains, then, the difference between one-half of one percent and the rate actually charged, 3 5 6 10 or whatever it may be, which payment must be accounted for in some manner. The conventional [explanation] and justification for interest are: That it is payment for sacrifice; that it is payment for relinquishment of capital without immediate return; that it is payment for benefit which the use of money confers on the borrower; that makes men overestimate the advantages of present goods over future goods. It is not within the bounds of this paper to make an extended examination of the authenticity of these theories. We may summarily dispose of them as follows: If interest is paid for sacrifice, what is the nature of sacrifice?

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