

The State Theory of Money

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voluntary specie payment. No question of conversion of notes into gold. Further details as to the regulation of the inter-voluntary exchange with the Western countries.

§ 20. "Value of Money" and Prices.

"Value" always implies a comparison, and in the particular object compared with it we have an expression for the value of money. These different forms of expression are mutually independent, cannot be interchanged, and still less be regarded as one. Money can also be compared with groups of commodities, but the composition of the group must be agreed upon. Index-numbers are a welcome indication of the alterations in price of the goods contained in the group. Other groups would give other index-numbers. There are always alterations in price, due to the condition of the market. They should not be explained as showing that the value of money has altered in the opposite direction, for that would be merely tautology. As to the value of money, price statistics a help, but need an interpreter. In the case of income, "producers" or "consumers" differently affected by price alterations. Alterations in price not alterations of the "validity" of a piece. The State Theory of Money to be kept separate from economic reflections on Money.

THE STATE THEORY OF MONEY

CHAPTER I

PAYMENT, MONEY AND METAL

§ 1. *Autometalism; Nominality of the Unit of Value*
 MONEY is a creature of law. A theory of money must therefore deal with legal history.

The favourite form of money is specie. As this implies coins, most writers have concluded that currency can be deduced from numismatics. This is a great mistake. The numismatist usually knows nothing of currency, for he has only to deal with its dead body; he has no ready way to the understanding of paper money pure and simple. It may be a dubious and even dangerous sort of money, but even the worst sort must be included in the theory. Money it must be, in order to be bad money.

Nothing is further from our wishes than to seem to recommend paper money pure and simple in such a form, for instance, as the Austrian State Notes of 1866. It is well for any State to wish to keep to specie money and to have the power to do so. And I know no reason why under normal circumstances we should depart from the gold standard. I say this at once to reassure the public man. Still, in this book

the silver standard too is carefully studied, and we have paid more attention to paper money than has been its lot hitherto. For on close consideration it appears that in this dubious form of "degenerate" money lies the clue to the nature of money, paradoxical as this may at first sound. The soul of currency is not in the material of the pieces, but in the legal ordinances which regulate their use.

All money, whether of metal or of paper, is only a special case of the means of payment in general. In legal history the concept of the means of payment is gradually evolved, beginning from simple forms and proceeding to the more complex. There are means of payment which are not yet money; then those which are money; later still those which have ceased to be money.

What then is a means of payment? Is there a wider concept under which means of payment can be subsumed?

Usually, "means of payment" are explained by recourse to the concept "exchange-commodity," which presupposes the concepts "commodity" and "exchange."

In defining one must start from some fixed point. We will venture to regard "commodity" and "exchange" as sufficiently elementary ideas.

If we assert, "Every means of payment is an exchange commodity," we are altogether wrong, for in the course of history we meet with means of

payment which are not in any way commodities of exchange in the proper sense of the term. "Exchange-commodity" is therefore not the wider concept we are seeking.

If, however, we say conversely, "Every exchange-commodity is a means of payment," we have not got what we wanted. There are exchange-commodities which are not means of payment.

If one man exchanges corn for another's silver, the silver is an exchange-commodity for the one, corn an exchange-commodity for the other, within this one transaction.

In this wide sense the concept "Exchange-commodity" does not yet serve our purpose; it remains uncertain whether the exchange-commodity is a means of payment. And this cannot be asserted either of silver or of corn, so long as we look only to one transaction.

When, however, in any society, for example, a State, it is a custom gradually recognised by law that all goods should be exchanged against definite quantities of a given commodity, *e. g.* silver, then in this instance silver has become an exchange-commodity in a narrower sense. It is called, therefore, within the range of its use, a general exchange-commodity. The general exchange-commodity is, accordingly, an institution of social intercourse; it is a commodity which has obtained a special use in society, first by custom, then by law.

Such a "socially" recognised exchange-commodity is, of course, always a means of payment, and therefore is included in the concept "means of payment." On the other hand, it is untrue that every means of payment is a socially recognised exchange-commodity. It is indeed always socially recognised and also is always used for exchange; but it is questionable whether it is always a commodity. In order to be a commodity it must, in addition to its use in the manner provided by law, also be capable of a use in the world of art and industry, and this is not the case with all means of payment. The sheets of paper, which are all the eye of the craftsman sees in paper money, are an example of an object which has no other industrial use. They are therefore not an exchange-commodity, though they are a means of exchange.

The result of our considerations, cautiously stated as theory demands, is as follows. In the socially recognised exchange-commodity we have an instance of a means of payment, and therefore not its definition; it is only a special case of a means of payment, and that the simplest that can be imagined. Let us assume that this exchange-commodity consists of a metal—which is not absolutely necessary, but occurs in the most important case—we can then give a name to this simplest form of the means of payment; it is "autometallistic."

Autometallism views metal only as material and

gives no juristic consideration to the form of the pieces. The quantity of the material is measured in a merely physical manner; in the case of a metal, by weighing. The exchange-commodity is always weighed out to the creditor.

There is no difficulty in conceiving autometallism; the only difficulty is with those means of payment which are no longer autometallistic (*e. g.* money). We shall therefore use autometallism in order to show what is the distinguishing characteristic of the concept "means of payment." Let us put ourselves in the place of the creditor. A man receiving a pound of silver (or copper or gold) in exchange for commodities, which are not means of payment, can use it in two ways. Either he can use the silver in some craft to make vessels such as goblets or plates, or perhaps even rings and chains for ornament, or else he can use it as a means of exchange, and obtain with it other commodities as he needs them. The holder can make use of his property in one of these two ways, but not in both at once. He can either use it in some craft, thus obtaining "real" satisfaction, or else obtain other commodities with it, when his satisfaction is derived from its value in exchange.

The possibility of "real" satisfaction is undoubtedly a necessary condition for any commodity becoming a socially recognised exchange-commodity. If metals had not been indispensable in handicrafts, autometallism would never have arisen. But there

is "real" satisfaction in every commodity which is taken in exchange. A man who barter a sheep for wooden dishes, takes the dishes only because they give real satisfaction, *i. e.* because he can use them. But the dishes do not thereby become socially recognised exchange-commodities. The possibility of "real" use is therefore essential if a commodity (*e. g.* a metal) is to be chosen as a socially recognised exchange-commodity; but this property is insufficient to make it a means of payment.

With the satisfaction derived from exchange ¹ the position is quite different. It is a necessary and sufficient property of every means of payment, and of the autometallistic in particular. A man who can employ the exchange-commodity he has received for some craft, but cannot pass it on in circulation, owns a commodity, but not a means of payment. For example, the owner of a pound of copper would be in this position if in his country silver was the autometallistic means of payment.

It is of the greatest importance that this should be borne in mind. Even in autometallism (the simplest form of a means of payment) it is first the possibility of employing it in exchange that gives it the property of becoming a means of payment. The possibility of "real" use does not produce this property, otherwise all goods would be already potentially means of payment, for they all have a technical use.

¹ "Circulatory satisfaction."

The use in exchange is a legal phenomenon. Even autometallism is therefore a legal form of the means of payment.

Let us not forget, however, that autometallism is only one instance of means of payment.

Whenever a material, measured in some physical manner, is used as a recognised exchange-commodity, we will call this form *authylic* (*hyle* meaning matter). Autometallism is only the most important example of *authylism*; and *authylism* itself is only one instance of a means of payment, an instance, namely, where the holder can choose between "real" satisfaction and "circulatory."

What then is a means of payment? A movable object which can in any case be used for circulation. This, however, is a mere general hint, and you will please note that "real" use should not come into the definition. It would be equally wrong either to demand or to exclude it.

It is difficult to give a correct definition of a means of payment, just as in mathematics we cannot say what a line or a number is, or in zoology define an animal. Often the simplest case (straight line, positive integer) is taken, and one can then proceed to widen the concept, at first recognised in a given example.

Suppose we said, "A means of payment is a movable thing which has the legal property of being the bearer of units of value," this would be exactly what we mean.

But let us not give this as a definition, for it would assume "unit of value" as a self-evident notion, which it is far from being.

Let us say no more than is absolutely necessary for our purpose. First, the unit of value is nothing but the unit in which the amount of the payment is expressed. Every traveller entering a new country asks the name of this unit—whether accounts are in marks, francs, crowns or sterling. When this question is answered, the traveller asks what the usual means of payment look like and what they are worth in the unit of that country. He is then in a position to make payments himself. We see that the unit of value has everywhere a name which in some countries has remained unaltered for centuries (pound sterling), while in others (*e. g.* Austria) it has been deliberately changed (to krone since 1892). In any case there is a name, and the question is now what it means.

Can it be defined according to its technical use (that is, use in a craft)? For example, a mark is the $\frac{1}{13.5}$ th part of a pound of gold. The metallists would so define it.

Or is it absolutely impossible to define by technical use? If so, in what other way are we to define? This is the task of the nominalists.

The metallists tell us we can only speak of the value of a commodity by comparison with another commodity. A man purchasing a commodity says how much of another commodity he is prepared to spend

on it. A man selling a commodity says how much of another commodity he will take for it. Each time the equivalent is mentioned for comparison, so that the idea of the value may have only one meaning. It is equally clear here that the value is a fact which cannot be determined by observation, but rests on an agreement. A third person can, of course, observe what an object is worth, but only by observing the agreement of the buyers and sellers. If the commodity used for comparison is not expressly named, the value of an object then means the *lytric* value, that is, the value that results from a comparison with the universally recognised means of exchange. From this, again, it follows that we cannot in this sense speak of the value of the means of exchange itself. Only those commodities have lytric value which are not themselves means of exchange.

The metallist always conceives a means of exchange to be an exchange-commodity.

All these propositions are indubitably correct. It follows that the concept of lytric value can only arise from a comparison with a generally recognised exchange-commodity, which, as we have seen, is always the simplest form of the means of payment.

But there are means of payment which extend beyond this simple form, namely, those which are not commodities except in so far as law makes them so. The most important case is real genuine paper money. The name of the unit of value (*e. g.* gulden,

in Austria) continues to exist, but it is no longer possible to give it a technical definition such as "a gulden is the $\frac{1}{5}$ th part of a pound of silver," for it is plain to anyone that this is indeed a definition of a gulden of sorts, not of that gulden in which payments are made, but of a kind of gulden in which no one pays. What we must define is the unit of the customary means of payment, and this is impossible for the metallist in the case before us.

We have now reached the point where opinions differ. As long as autometallism prevails, the technical definition of the unit of value can be quietly accepted, at any rate as long as the metal once chosen is retained unaltered. The man in the street is, however (in secret and quite unconsciously), of the opinion that we still have autometallism, only slightly altered and rendered more convenient by coining. Hence the wide acceptance of the view that we can define the unit of value as a given quantity of metal. The natural man is a metallist; the theorist, on the other hand, is forced to become a nominalist, because it is not always possible to define the unit of value as a given quantity of metal.

It cannot be done in the instance, already mentioned, of genuine paper money. Another fact, however, is more astonishing—it cannot be done at all when the means of payment are money, which is not yet the case with autometallism. But the strangest fact of all is this. Even in the case of autometallism, as soon as another

metal is chosen, the concept of the unit of value becomes independent of the former metal, *i. e.* technically independent of it. For the unit of value is always a historical concept.

The fact of the existence of debts gives the reason why it is not always possible to define the unit of value technically, but is always possible to define it historically.

Our theorists are inclined to think of payment as immediate; the craftsman supposes that coin is handed over in exchange for a given weight of silver. But, if payment has not been made on the spot, there are certain permanent obligations to pay, that is, debts. The State, as the maintainer of law, adopts a definite attitude to this phenomenon, which is not technical but juristic. Through its Courts of Law the State gives a right of action for debt. We are speaking here only of debts which are expressed in units of value (sterling, marks, roubles), yet not merely of those under the ruling monetary system, but of lytric debts generally, so that in times of autometallism we include debts expressed in pounds of copper or pounds of silver.

Debts which are expressed in units of value and are discharged with a means of payment (*lyttron*) will be called *lytric* debts.

In what then does a lytric debt consist—especially in the case of autometallism, and, more generally, in the case of authlylism?

In the case of *authylism* the unit of value is named in terms of the material composing it. As everyone knows wheat or rye, copper or silver, and the meaning of a bushel or a pound, there is no uncertainty as to the means of payment. A *lytric* debt is defined by means of this well-known concept. A man is bound to hand over so much corn, when corn is used for payment, or so much copper when that is in question, and if we at first regard the material of payment as invariable.

As the thing which serves as a means of payment according to existing laws is technically defined, it can be said in the case of *authylism* that *lytric* debts are "real debts." For the material in which the debtor is bound to discharge his debt can always be named.

If the law remains unchanged, the *lytric* system ends here; further development is excluded; money cannot come into being. In that case, if *autometalism* had begun with copper, we should still have *autometalism* in copper, and scales would be an indispensable adjunct for payments.

This obviously is not so, and the course of history shows that the State as lawgiver must certainly take up an attitude towards existing debts quite different from that we have here imagined.

This view is not easy for the jurist, as he is accustomed to take as his starting-point an existing state of law, which is in his eyes unalterable. The legal

historian, on the other hand, will adjust himself to the position more easily.

In the case of *autometalism*, if the material, once chosen, remains unaltered, the principle is maintained that debts should remain unaltered.

Now almost everybody thinks that it is a legal principle that the absolute amount of debts judged according to the original material used in payment should remain unaltered. Historical experience, however, teaches quite a different lesson. The State always maintains only the relative amount of debts, while it alters the means of payment from time to time. Sometimes it even does this while it is still in the state of *autometalism*, by introducing a different metal from the one previously employed for *lytric* use. If the State declares silver to be the material for payment instead of copper, the relative amount of the existing debts remains unaltered, but anyone might think that, judged on the old basis of copper, the debts have changed.

The proceeding we mean is the alteration of the means of payment by the introduction of a new commodity for payment in place of the old one. Two epochs are separated from one another by the moment in which the State declares that payments shall no longer be made by weighing out copper, but by weighing out silver. This causes a most remarkable change in the debts arising in the earlier period. They are incurred in pounds of copper—the State declares

that they are repayable in some ounces of silver. It lays down the ratio of silver to a pound of copper, regulating the amount perhaps according to the price of silver on that day in the older means of payment, copper.

The State therefore treats the older debts as if the unit of value, a pound of copper, were only a name by the use of which the relative amount of the debt was indicated, and which does not mean that in reality copper was to be delivered. The State reserves to itself the right to order that "a pound of copper" should now mean that a given weight of silver was to be paid.

At the moment of transition from copper to silver, the State treats existing debts as nominal debts and immediately adds what other material, and how much of it, shall in future represent the unit of the means of payment.

While, therefore, most people believe that in the case of previously existing debts the State recognises the continuance of the former means of payment, legal history shows that all the State recognises is the relative amount of the old debt, and says that it will alter the means of payment from time to time. Or, in actual fact, the State says nothing, but acts; the legal historian, however, calls the State's action frankly by its proper name.

The State accordingly regards the former unit of payment (a pound of copper) as if it meant only the

name of the former unit without attaching any importance to the material of which it was composed. On the other hand, it recognises that all old debts are uniformly to be converted into debts in the new means of payment.

Lytic debts are, therefore, from the State's point of view, debts which are to be discharged in the means of payment for the time being. If the State alters the means of payment, it lays down a rule for the conversion of the one into the other. The new means of payment must therefore refer back to the old one. It is only this reference that makes it possible to carry on business in the new means of payment, because at the moment of change care must be taken that the old debts should not lapse, but be able to be discharged.

Lytic debts under autometallism are therefore "real" debts as long as the material for payment remains the same. As, however, the introduction of another means of payment is from the State's point of view possible, they are in that case "nominal" debts.

"Nominal" debts are debts repayable in the means of payment current at the time. Their amount in the units of value then in use is calculated in relation to the earlier unit.

The State, therefore, conceives lytic debts not as "real debts" in the material for payment which was in use when the debt was incurred, but as nominal

debts repayable in the material in use at the time of repayment.

Such "nominal debts" are not really indefinite. All that is indefinite is the material in which they are discharged.

Considered from the point of view of legal history, lytric debts are therefore always "nominal" debts, *i. e.* they refer at first to the lytric unit at the time they are incurred; but should the means of payment change they are converted into debts in the new lytric unit. They therefore do not depend on the old means of payment, but on the relation of the new unit of value to the old.

The nominality of lytric debts, as a matter of legal history, is clearly seen, even under autometalism, though of course only at the moment when the State institutes a change in the material of payment. Old debts must in any case be maintained. Consequently the nominality of lytric debts exists already even where both the old and the new means of payment are defined entirely in terms of material. The nominality of the debts is therefore not inconsistent with the material nature of the means of payment, but only with its immutability. As soon as the material of payment can be changed, lytric debts are "nominal."

For a long time I shrank from recognising that the nominal unit of value was quite sufficient for judging the lytric value of commodities—I made the same

mistake as almost everybody else. I thought that judgments of value could only be made by comparison of commodities between themselves. Now, however, all we can say is that the first judgments of value came about in that way. But, when once this form of judgment has become habitual, the comparison of commodity with commodity is unnecessary, for judgments as to the value of a given commodity can be given in terms of the nominal unit of value, which is only defined historically. I must refer anyone who doubts this to the historical development of lytric dealings. Such phenomena as genuine paper money actually exist, and are only possible, if we assume nominal units of value. The nominality of the unit of value, therefore, is established by experience like the facts of the legal development of lytric institutions.

This, however, must not be taken to be a defence of such a lytric form as is only adequate for home business; for example, genuine paper money.

Nothing prevents us from developing the lytric form, so that, if need be, it can afford "real" satisfaction, and then, in addition to its use at home, facilitate dealings abroad.

All this can come about while the unit of value is "nominal," for there is no necessary contradiction.

Now when the State alters the means of payment, though at first still within the limits of authenticity (that is, by the introduction of a new material in place of the old), does anyone lose? Of course; and why not.

if the State has paramount reasons for its actions? It can never gain its ends without damage to certain private interests. What interests these are we will illustrate by the transition from copper to silver.

A man who in former times produced copper by mining had straightway means of payment in hand—from a commercial point of view, an enviable position. Now he must first bring his copper to market as a commodity in order to buy silver, the new commodity for payment.

The man who formerly used copper as raw material for the production of weapons had a fixed price for it. Now he has to buy his raw material as a commodity, for he must offer silver for it.

On the other hand, the owner of silver mines is now in the favoured position that his produce is now straightway a means of payment, and the man who works up silver into vessels or ornaments can now get his material at a fixed price, for he takes it from the new means of payment now in circulation.

All these are disturbances of existing interests.

But now we turn to the large group of the "neutral" inhabitants of the State, that is, to those who neither now nor before produced the material for payment nor yet consumed it, *e. g.* worked it up as raw material. For the group of neutrals the change in the material of payment is unimportant.

They now pay their debts in silver instead of in

copper, but they also receive what is owed to them in silver instead of in copper. Neutrals are only concerned with the lyric aspect of these two metals, and consequently they make little or no resistance.

Thus a change in the material for payment causes but little disturbance. If the new material is easier to handle than the old, almost everyone is pleased with the change and it soon seems quite natural.

The nominality of debts does not lie in the fact that the State alters the means of payment more or less often, but in the fact that such an alteration is possible in principle, whether it is made or not. The nominality of debts and of the unit of value is a necessary premise before money can come into being. Money is a means of payment, but not necessarily a material one. It is therefore in any case a differently constituted means of payment from the purely material one of authenticity.

Each alteration of the means of payment implies that the unit of value, at least at the moment of transition, should be regarded as "nominal."

The nominality of the unit of value, and therefore of lyric debts, is not a new, but a very old phenomenon which still exists to-day and which will continue for ever. It is compatible with any form of the means of payment, and is nothing but the necessary condition for progress from one means of payment to another.

It only remains unnoticed in periods when the means of payment do not change. From the temporary constancy of the means of payment, people draw the false conclusion of immutability.

The permanent element in lytric debts is then not the means of payment, but the principle that these debts expressed in old units of value are all convertible into the new units in such a way that their relative size remains unaltered.

In the authylystic, and especially in the autometallic system, there is usually no proper name for the unit of value. The designation "a pound of copper" or a pound of silver is ambiguous, so that it remains uncertain whether a "real" debt or a "nominal" debt is meant. A man using copper or silver for a craft will regard such debts as "real" debts and will demand that the material named should be delivered. A man, however, who sees in silver or copper only the means of payment then current, will expect that at a later time the debt should be discharged in the equivalent means of payment. How is this difficulty to be settled? It has been settled long ago, for the State has adopted *de facto* without conscious intention the following presumption.

A debt expressed in quantities of a material which, at the time it was incurred, was a means of payment, is a nominal lytric debt. If a "real" debt is meant, this must be explicitly stated. If it is not, the debt

is nominal. In doubtful cases the nominality of lytric debts is presupposed by the State.

This action of the State as maintainer of law does not appear with the creation of money, *e. g.* with the coining of lytric metal or the introduction of independent paper money, but at the first time of alteration in the means of payment. Before that there were no grounds for deciding the question of "nominality" or "reality."

As soon as the State introduces a new means of payment in the place of the old, the law (1) should so describe the new means of payment that it should be immediately recognisable. (2) The law should settle a name for the new unit of value and call the new means of payment by it. By this means the validity (*Geltung*) of the new means of payment is established in units of value. (3) The unit of value which is to come into use is defined by its relation to the previous unit. It is therefore historically defined.

In general there is no other definition of the new unit of value. The historical definition signifies that so many of the new units represented in the new means of payment are legally valid for the discharge of an existing debt in the old unit.

The definition of the new unit therefore consists in the declaration as to how many new units are legally equivalent to one old unit. This definition has absolutely nothing to do with the material in which the

old means of payment consisted, nor yet the new. It only contains the proportion of the new to the old unit of value, *i. e.* it relates the new unit back to the old one.

All this had already happened in the epoch of autometallism. Let us assume that the transition has been made from copper to silver; the process will be as follows.

First, the State describes the new means of payment by saying it shall consist of the metal silver.

Secondly, the State ordains that the new unit shall be called a "pound of silver," and for the description of the new means of payment it lays down the rule in this special instance, that it shall be formed by the physical experiment of weighing. Each quantity of silver is called legally as many "pounds of silver" as it weighs pounds.

Thirdly, the State says that the unit "pound of silver" takes the place of so many earlier units, *e. g.* fifty pounds of copper. That is the legal definition of the new unit.

As soon as all this has been done, the transition from copper to silver is complete.

It is frequently overlooked that autometallism already possesses a name for the unit of value. It always coincides with the unit of weight of the material, but it is still there. The characteristic of autometallism is not that it has no name, but that it has no special one, and, what is much more important,

autometallism has the rule that the denomination of the means of payment in units (that is, the lyric denomination) should be found by the physical experiment of weighing. But it is not true, and would entirely destroy the generality of the theory, if we say that the denomination of a means of payment is determined in accordance with the result of weighing. That is only in a given instance. In general the lyric name is not subject to this rule, but is an authoritative act of law.

Many people think—to continue with our example—that the back-reference of the unit "pound of silver" to the earlier unit "pound of copper" is regulated according to the prevailing price of silver expressed in copper.

This makes the transaction easier for those people who can only conceive the material for payment as a commodity. But it is not essential to the reference. For one thing, there are transitions from one means of payment to another where such consideration of the price is out of the question. In its broadest aspect the reference back to the earlier unit is in every case, like the name of the unit of value, an authoritative act of law, which may or may not follow such a rule.

Finally, it is correct to say that in the example chosen above, both the old unit of value, "a pound of copper," and the new, "a pound of silver," can be presented in a "real" form, for the example is drawn

from autometallism. But presentation in a "real" form is always a special case, which is possible but not necessary. If this is forgotten, the most important transitions, which we shall consider later, are incomprehensible.

The following general principles remain :

- (1) The choice of the means of payment is a free act of the State's authority.
- (2) The denomination of the means of payment according to new units of value is a free act of the State's authority.
- (3) The definition of the new unit is also a free act of the State's authority.

Just because these acts are free, they may or may not follow special rules.

This view excludes the idea that the "real" form of the unit of value is the rule and its absence the exception; that, as a rule, the denomination is given by weight, and that the reference of the new unit back to the old one is settled according to the level of price.

Only a very imperfect logic can speak so. Here the question is not of what happens in most cases and of what is only rarely absent; we want to get at the essence of the matter—the actual general statement which does not admit of exceptions but only of special cases.

In the interest of the universality of our theory we are compelled to say that the validity of our means of

payment is not bound to its material content, and that the unit of value is only defined historically.

§ 2. *Chartal Means of Payment*

We observed the fact that in human society a definite commodity, or, more accurately, a definite material grew into a means of payment. Then we saw that the notion of a means of payment is not bound to a particular material. Hence the concept, means of payment, is freed from the actual nature of the material, *e. g.* is indifferently copper or silver, but remains bound to the condition that there should be some material. This is as far as one can get by an examination of autometallism. The unit of value is no longer definitely "real," but it is so indefinitely, no longer a pound of copper or an ounce of silver, but always a given quantity of a material prescribed by law, whether copper or silver or gold. Debts in units of value—lytric debts—are debts repayable in the material used in payments at the time, even if they were contracted in another material.

As long, therefore, as this lytric system lasts, nominality is a property of lytric debts. Under autometallism there are no means of payment other than metal, though the decision what metal is to be used for payment is the business of legal regulation. This choice of the metal by the law is here the only sign of nominality. So long as a given material is *per se* a

means of payment, money has not yet come into being.

The question is now whether the means of payment can reach a still higher stage of development; whether a state of things is conceivable in which the means of payment is something other than a material selected for this purpose.

As the first means of payment are movable objects, and as movable objects cannot be thought of apart from matter, of course no means of payment is conceivable which does not consist in matter. The question is, therefore, not whether there might conceivably be immaterial means of payment, but whether there could be means of payment which are defined otherwise than pensatorially, by the weight of a particular material.

There must obviously be something of the kind, for it is common knowledge that in our present lyric systems no payments are made with raw material. To-day, in the countries of our standard of civilisation, it is not possible to pay by weighing out copper or silver or gold.

We always pay in "pieces," *i. e.* in movable objects which are defined not by their matter but by their form. We pay, therefore, in shaped movable objects, and shaped movable objects which bear signs upon them. This is not all; but think for a moment what it means. All coins which we use in payment come under this head, whether formed of precious or of base

metal. They are all made of metal, shaped and bearing signs. Sometimes also there are warrants, that is, means of payment which, to the outward eye, consist of writing material, not metal but usually paper. Such warrants are undoubtedly movable, shaped, sign-bearing objects, whatever else they are.

What has been hitherto said about the "pieces" used in payment is insufficient, for we have only spoken of their nature as technical products. It must be added that we pay with pieces that have a legal significance. Our law lays it down that only pieces formed in such and such a manner are to be admitted as means of payment, and the significant marks of the pieces are prescribed by law. In what follows only such pieces are meant.

The means of payment at present in common use always have this form, *i. e.* that of pieces in the legal sense. They are "morphic."

Morphic means of payment are, as we shall see, not always money, but all money comes under the head of morphic means of payment. *Morphism* is a necessary, but is not a far-reaching, condition for a system of money.

The morphic form is no longer authylystic, for authylystism is from a legal point of view amorphic. It admits pieces which, technically considered, have forms and signs, but these forms and signs have no significance in law. As soon as the forms and signs

are significant for delimiting what is a means of payment and what is not, we have morphism.

Authyism has still another property—measurement by weighing, which in the case of autometallism gains a legal significance. There is nothing here contradictory to morphism, though morphism tries to make weighing superfluous.

It is important to be clear on this point. There can be morphic means of payment the validity of which at the time of payment is established by weighing; in the language of the Bourse this use is *al marco*, by weight. As we should express it, these are morphic means of payment with pensatory practice.

We do not mean by this that the pieces are weighed out when they are struck, for this happens in the case of all our coins. *Ponderal* production—production according to weight—means a weighing which precedes the act of payment. Pensatory practice, on the other hand, means the practice of weighing at the time of payment in order to establish the validity. Since there is such a thing as a wearing down of the pieces, it is necessary to keep the two distinct.

Let us suppose, for example, that the familiar gold coins called ducats are introduced as the means of payment. When they are struck, the discs are weighed out; there is ponderal production. Suppose it is laid down that the ducats are to be used for payment according to the weight which they actually

have; this is pensatory practice. The unit of value would be in that case, by our own system of weights, the gramme of ducat gold, *i. e.* not any gramme of gold of the fineness prescribed for the coining of ducats, for that would be autometallism, but the gramme of gold coined into ducat form. The gramme of gold in this form is a totally different concept from the gramme of gold of which ducats could be made.

Such a system is conceivable. It would produce a pensatory morphic means of payment, and the wearing down of the pieces, so long as they were still recognisable as ducats, would be quite unimportant, because the ducats were valid "*al marco*." On the other hand, mere payment by counting would be excluded, because there would probably be many worn pieces. The gold scales must always be held in readiness.

As is well known, we have no such system in modern civilised States. We are most careful to avoid pensatory practice, because the aim of all modern monetary systems is to discard the scales as an instrument of payment. Mere morphism does not yet bring this about, for the ducat system we have described above is unquestionably already morphic, though it still remains pensatory.

Is there then another method of settling the validity of the pieces besides weighing? Certainly, as soon as there is a morphic monetary system.

Morphism gives the possibility of recognising the means of payment without the necessity, which

previously existed, of naming any given substance, for the legal ordinances describe the permissible pieces explicitly. When legal ordinances give the name to the unit of value (as mark, franc or rouble) and define it by reference to the earlier unit, there is nothing to prevent us from giving to the morphic means of payment a validity dependent not on weight but on fiat. A proclamation is made that a piece of such and such a description shall be valid as so many units of value. Morphism therefore opens a way which is not pensatory. The validity can depend on proclamation. This means the final abolition of the scales for the act of payment. Moreover, the wearing down of the pieces is of no importance so long as they are still recognisable.

Validity by proclamation is commonly called the "face value," in contrast with the "intrinsic value" of the pieces, which is supposed to depend on their metallic content. This is a habit of the metallists, who are always autometallists at heart.

Validity by proclamation is not bound to any material. It can occur with the most precious or the basest metals, and in all cases where payments are not pensatory, *i. e.* in all modern monetary systems. Moreover, as we have seen, we should not apply the concept "value" to this means of payment, and therefore not to this money itself, but only to things which are not means of payment, for in the case of "value" we always use the current means of payment as a

standard of comparison; but do not refer back to the autometallic form, for it is precisely the overcoming of autometalism that we are depicting.

Settling the validity by proclamation is therefore not inconsistent with the contents of the pieces being of a given quality, but it is inconsistent with the pensatory definition of the validity. In modern monetary systems proclamation is always supreme. The fact that the pieces are of a given content may have all sorts of results, but it is not the basis of the validity. It is so only when payment remains pensatory, a case so rare that we had to invent our example of the ducats. There are, however, pensatory reactions so important that we had to admit this form into our system in order to be able to refer to it on occasion.

As a set off to "pensatory" we need another short name for "morphic proclamatory" means of payment, the metallic contents of which are of no importance for validity. At least they are movable objects which have in law a significance independent of their substance. Law offers many such objects in ordinary life. When we give up our coats in the cloak-room of a theatre, we receive a tin disc of a given size bearing a sign, perhaps a number. There is nothing more on it, but this ticket or mark has legal significance; it is a proof that I am entitled to demand the return of my coat.

When we send letters, we affix a stamp or ticket

which proves that we have by payment of postage obtained the right to get the letter carried.

The "ticket" is then a good expression, which has long since been naturalised, for a movable, shaped object bearing signs, to which legal ordinance gives a use independent of its material.

Our means of payment, then, whether coins or warrants, possess the above-named qualities: they are pay-tokens, or tickets used as means of payment.

The idea of the ticket or token tells us nothing as to the material of the disc. It is made both of precious and of base metal and also of paper, to mention only the most important. Let it not be thought, therefore, that a ticket or token means an object made of a worthless material, compared with the autometallic means of payment which preceded it. The value of the disc is left unconsidered for the present. It is only necessary that we recognise this sign-bearing object as a legal non-pensatory means of payment.

Perhaps the Latin word "Charta" can bear the sense of ticket or token, and we can form a new but intelligible adjective—"Chartal." Our means of payment have this token, or Chartal, form.

Among civilised peoples in our day, payments can only be made with pay-tickets or Chartal pieces.

The chartality of the means of payment would never disappear even if coins should be totally

abolished, which in view of their convenience for small payments is not likely.

It is important that these tokens should bear signs exactly described by legal ordinance. It is not important that they should bear any written inscription. The letters or hieroglyphics (coats of arms) are of no consequence. They are significant merely as a means of identification. The meaning is to be found out not by reading the signs, but by consulting the legal ordinances.

Coins bearing both the arms of the Austrian State and the effigy of the Austrian Emperor can, accordingly, cease to be Austrian means of payment as soon as the Austrian legal ordinances command that they should. But the very same coins, in spite of their foreign imprint, can be means of payment in the German Empire (*e. g.* the Austrian *Verenshtaler*) because German law so ordains. This is no imaginary instance, but until 1900 was a well-known fact.

The legal significance of Chartal means of payment is not, therefore, to be known from the pieces themselves. The piece has on it mere signs to be interpreted by Acts of Parliament or other sources of law. Objects thus inscribed could be called "symbols," if this phrase did not suggest the wrong idea that such means of payment are there simply to recall others better and more genuine, without being themselves either good or genuine.

In the first place among "Chartal" means of pay-

ment are many which leave nothing to be desired in the matter of genuineness and goodness, even from the standpoint of the strictest metallism, such as our own gold pieces. Secondly, the warrants or notes, which are no less Chartal, also contain much that is good and genuine, though in a field less familiar to the metallists. For these reasons it is inconvenient to speak of symbolic means of payment, especially as people would understand this in the purely negative sense of autometallistic if they had that term.

This, however, has never been clearly stated, for the expression autometallism has not been current hitherto.

In the case of *Chartality* the pieces are regarded as something one and indivisible, as objective individuals.

Chartality and pensatory practice are mutually exclusive, like morphism and amorphism.

The chartality of the means of payment is not a question of technique; only the production of shaped pieces, which we call morphism, is technical, and the first kind of morphism is the production of coins in their earliest form.

Chartality rests on a certain relation to the laws. It is, therefore, impossible to tell from the pieces themselves whether they are Chartal or not. This is at once evident in the case of warrants. As to coins, we must always refer to the Acts and statutes, which alone can give information.

Now while morphism originates in a technical invention—the coining of the metal which was formerly used by weight—Chartality has come in unperceived, so completely unperceived that hitherto it has not even had a name.

What happened was this: When shaped pieces were first coined, the chief consideration was that it should be possible to recognise immediately the nature and quantity of the metal, which had formerly been used by weight. This was in order to make it unnecessary to examine or weigh the material. At first no one thought of the wearing down of the pieces. It was therefore unnecessary to consider whether the use of the pieces was to depend on weighing or proclamation, for when the pieces are intact the distinction is useless.

As, however, in course of time the wearing down of the pieces became noticeable, the question arose, which causes uncertainty even in modern times: “Are the pieces valid in accordance with their weight?” If the answer is yes, pensatory payment still continues; but if the pieces gain their validity through proclamation, they are Chartal.

Chartality, then, is simply the use in accordance with proclamation of certain means of payment having a visible shape.

As soon as the legal property of chartality has arisen, this makes possible another development, at which we have hitherto only hinted.

Authylism—and, consequently, its most usual form, autometallism—always presupposes that there is a material for payment. The means of payment are therefore in this system always *hylogenic*, as we call this property.

It is already there in the material. It does not come about through the material alone; but emerges only through a particular use of the material.

Once the concept of chartality has come into being, the possibility for the first time arises of means of payment which are no longer *hylogenic*, and which we will call *autogenic*. Autogenic means of payment need not necessarily arise at this point, but they may do so and cannot do so before. For chartality makes the material contents of the pieces a concomitant circumstance, which perhaps may have important effects, but which is no longer essential to establish the validity of the coin.

In the authylic form the material is all-important, for the description of what is to be a means of payment consists, and can only at this stage consist, in a statement of the material.

This is all, and it is not at that stage possible to imagine any other means of recognition.

When, however, chartality has developed, the description of the stamped pieces gives a new method of recognising the means of payment, for the State says that the pieces have such and such an appearance and that their validity is fixed by proclamation.

Here, therefore, it is not the statement of a specific material, but the description of the shaped pieces, which makes the means of payment recognisable.

This being so, the Chartal pieces may still be *hylogenic*, but they may also be *autogenic*.

At the beginning people hold fast to the *hylogenic* tradition, and produce *hylogenic* Chartal pieces. At a later stage a change is made to means of payment which are no longer *hylogenic*, and this is made possible by chartality. The reasons for this proceeding are not in place here, and the dangers incidental to it must be discussed elsewhere. All we have to remember is that chartality makes possible *autogenic* means of payment.

The autogeneity of the means of payment was virtually, though not actually, created at the moment when, through a legal decision, chartality arose. For why should not pieces out of any stuff you please be chartally treated? If, however, the material can be chosen at will, then the authylic material formerly used may be just as well left in its place as driven from it. Chartality does not demand *autogenic* means of payment, but admits them as well as the *hylogenic*.

Grasp the meaning of chartality and you understand *hylogenic* means of payment just as easily as *autogenic*.

After this introduction it is easy to answer the great question of Lytology, "What is money?"

In the German language money (*Geld*) always means a formed (morphic) means of payment; but there are morphic means of payment which nevertheless are pensatory. This, however, is at a lower stage of development which will be outgrown in the course of history. For the more exact observer money in the modern sense first comes into being when the morphic means of payment have their validity settled by proclamation and become Chartal. So we get the following answer to the question we have asked.

Money always signifies a Chartal means of payment. Every Chartal means of payment we call money. The definition of money is therefore "a Chartal means of payment."

But, once money exists, a distinction should be made between the hylogenic and the autogenic.

For many reasons people prefer hylogenic money, but no one denies that there is also autogenic money, for the much-decried inconvertible paper money is still money, and what is it but autogenic money made of paper discs? Our theory therefore gives even this step-child its due.

The order in which lytric phenomena are dealt with here is not arbitrary but necessary.

(1) We presupposed the hylogenesis of the means of payment, for only hylic means of payment allow of pensatory use. (2) Then morphism appears; only morphic means of payment can be proclamatory and therefore Chartal. (3) Finally, it is only in the case of

Chartal means of payment that the hylic basis can disappear; they alone, therefore, can be autogenic.

Our classification, therefore, of means of payment is not only possible but strictly necessary, as may be seen from the fact that historically the phenomena appear in this order.

The nominality of the unit of value is, as we have seen, created by the State in its capacity as the guardian and maintainer of law. This, however, does not occur through philosophic reflection but quite otherwise. The State sees itself for some reason or other forced to introduce a new means of payment in place of the old, while it wishes to preserve existing debts, at any rate in their relative proportions one to another. Jurisprudence, having to reckon with this fact, now sets reflection to work, and under compulsion proceeds to put the lytric nominal debt in place of the real debt, because in no other way can it accommodate itself to the new situation.

The chartality of the means of payment arises in a similar way. The State as guardian of the law declares that the property of being the means of payment should be inherent in certain stamped pieces as such, and not in the material of the pieces. In this case also juridical reflection goes to work and creates the concept of the pay-token or ticket, not from caprice but because it must accommodate itself to the altered situation. Finally, the same holds good of autogenesis. The State, not the jurist, creates it.

In all these cases the impulse comes from the political action of the State, jurisprudence only drawing its conclusions from the State's action as it needs them.

If we have already declared in the beginning that money is a creation of law, this is not to be interpreted in the narrower sense that it is a creation of jurisprudence, but in the larger sense that it is a creation of the legislative activity of the State, a creation of legislative policy.

The Chartal form does not forbid the use of costly material for the making of means of payment, but, on the other hand, it does not demand it. Chartality makes the concept of the means of payment independent of the material. The Chartal form is the ample frame in which can be set means of payment, whether made of precious material or of the poorest material.

It is not on this account, however, a matter of indifference which case actually occurs. The nature of the material has its special effects, to which we will devote our attention in the proper place. Here it is only important to establish what the nature of the Chartal form is, leaving aside for the present the question as to what qualities are inherent in the different kinds of Chartal constitution.

From what we have said it appears that the Chartal form is associated with the State which introduces it, for the use of the piece must take place where the law runs, *i. e.* it is limited to the State's territory, for the

law does not operate beyond its boundaries. The Chartal form can never be effective "internationally," or, rather, it can never be effective from State to State, as long as States are totally independent of one another.

This is a striking limitation of it, compared with autometallism.

If two States have the same autometallism, that is, both pay in copper or both in silver, in that case they have at once an international (better, interpolitical) means of payment. This form of common system is excluded by the idea of the Chartal constitution. If two States should make an agreement for pooling their money, then for our purposes they are no longer separate States, but form a community of States which is to be regarded as a whole.

The question, therefore, why we have no interpolitical money in the countries of our civilisation is easily answered. It is because the Chartal form prevails everywhere, and this essentially excludes the idea that there should be a money common to two independent States.

The person who demands inter-political money opposes the Chartal form, with small prospects of success. If he fixes his hopes on unions, let him remember that States have to care for other things besides currency.

Of course such supplements could be made to the Chartal system that the chief ends of an

“international” monetary system could be attained, by roundabout methods, of which we will speak later. It is a completely perverted idea to demand “international” money for independent States which are not even allied. On the other hand, it is always permissible to wish for monetary arrangements which hinder international dealings as little as possible.

The “genetic” division of means of payment results from what we have said. We call that division “genetic” when we only take account of those circumstances which are characteristic of its origin. At this point be it assumed that the State only admits one kind of money, though it is accustomed to allow many kinds of money which are different in a genetic sense. The co-existence of many different kinds of money which are genetically different must be considered later. It gives rise to other classifications, which we call *functional*, and which, on account of their totally different basis,¹ must be strictly separated from the genetic classification. A great deal of the confusion in classification of currencies arises from neglect of this distinction.

The classification of means of payment into *pen-satory* and *proclamatory* is, as we have already seen, genetic; our concept of money is therefore genetic, as it signifies *Chartal* means of payment.

The concept of specie money, which we have not yet discussed, is also genetic.

¹ *Fundamentale divisionen.*—Tr.

On the other hand, the concept, for example, of current money, small change and *valuta* money is entirely functional, as will be seen later. We have not yet anything to do with this classification and only mention it here for the moment in order to dismiss it. The genetic classification has in the first place the three characteristics already mentioned.

- (1) The means of payment are either *pensatory* or *proclamatory*.
 - (2) They are either *morphic* or *amorphic*.
 - (3) They are either *hylogenic* or *autogenic*.
- The characteristics now appear in the following scheme, on which the genetic classification is based.

Means of payment are			
<i>Pensatory</i> (can only be <i>hylogenic</i>).		<i>Proclamatory</i> (can only be <i>morphic</i>).	
<i>Amorphic</i> .	<i>Morphic</i> .	These means of payment are <i>Chartal</i> . <i>Chartal</i> means of payment = money.	
<i>Autometallism</i> comes here.	The example of the <i>ducats</i> (p. 28) comes here.		
I	II	III & IV (see below).	V & VI (see below).

I. The first kind is an *authylic* means of payment,

as in practice only metals are the material; this means autometallistic means of payment.

Bar form is sufficient. The form of coins is not excluded, so long as we mean coin only in the technical sense. But the form of the coins must not have any legal significance.

II. The second kind (morphic-pensatory means of payment) always appears in the form of coins. The metal is immaterial. But it should be noticed that all coins do not come under this head, but only those which are used according to their actual weight.

The form here described is so rare that we had to invent our previous example of the ducats with pensatory use (p. 28).

III-VI. All four are money proper. It should be noticed that there are both hylogenic and autogenic moneys, and also two sub-classes of each, to which we shall return later.

The more exact classification of Chartal means of payment, *i. e.* money, we must defer once again. We must now give an account of the kind of satisfaction which is produced through the use of Chartal means of payment.

§ 3. Use in Circulation

The receiver of pensatory payments has the choice between use in the arts and use in circulation.

If he decides for the former or technical use, he considers very closely the nature and quantity of the

material. If, however, he decides for the use in circulation he considers only their legal validity as means of payment.

When we consider the want that is satisfied by Chartal means of payment—money—we cannot make the general assertion that the satisfaction is in no case “real,” for there are kinds of money which offer “real” satisfaction though belonging to the Chartal system. For example, specie money, a difficult concept which we shall come to know by and by, has the form of a Chartal means of payment and yet has the property, at any rate when not diminished in weight, of giving real satisfaction in the same way as a morphic pensatory means of payment.

A great many other kinds of money, whether coins or warrants, regarded as material, either cannot be used technically at all (paper) or only in a way which would involve great loss, so that in their case real satisfaction is in practice excluded.

Money, then, generally speaking offers no certainty of “real” satisfaction, but an absolutely sure satisfaction through circulation.

The common feature, then, in all means of payment is that the holder uses them in circulation as soon as he is in a position to hand over units of value. The satisfaction, therefore, of the holder does not depend on possession *per se*, but on possession with a view to future use for payment.

Their distinction is that pensatory means of pay-

ment can always be put to technical use, and give "real" satisfaction, while Chartal means of payment may or may not do so.

Why is the man in the street always so distrustful at the absence of the "real" satisfaction? Apparently from the following reasons.

A lyric debt can only be reduced or paid off through the delivery of an object (a pound of copper), or perhaps also by the delivery of another object (silver) substituted for it by the State; in any case, however, only by such objects as, even apart from legal ordinance, form an economic commodity.

But there are Chartal pieces (*e. g.* warrants and notes) which, apart from legal ordinance, are not economic commodities. What does a scrap of paper considered *per se* represent? Clearly nothing.

The man in the street, reasoning thus, considers it justifiable to separate the means of payment from the legal ordinance, to subject them to criticism in the light of nature and, if their material is no longer an economic commodity, to reject them. He is in the mood to speak of "a scrap of paper," on seeing before him a Chartal piece in this form, or if he should be required to take it in payment.

When, however, he himself tenders the piece and the other man shows signs of using the expression about a scrap of paper, the tables are turned and he calls the other an ignoramus.

But it is wrong to judge Chartal pieces turn and

turn about alternately in their legal aspect and in the light of nature. Payment is a legal proceeding, and it is sufficient that the Chartal pieces should be legally valid.

In speaking of debt each man in his native innocence thinks of himself as the creditor and judges the means of payment from the standpoint of their acceptability to himself.

But from my own point of view there are, besides the debts in which I am a creditor, others in respect of which I am a debtor. The latter are called first and foremost my "debts," the others are my claims.

The concept "debt" is *amphibolic*; i. e., if indebtedness is the relation between two people, it is not laid down which of the two is to be creditor and which debtor.

For the one, the debt is positive; he is called the debtor. For the other, it is negative; he is the creditor. Negative debts are claims.

Therefore the converse is also true, that the concept of a claim is amphibolic. If a claim exists between two persons, it is not in the first place laid down which of the two is creditor and which debtor.

For the one the claim is positive—he is the creditor; for the other, it is negative—he is the debtor. Negative claims are debts.

The principle we have so often mentioned, that the State maintains existing debts, is better stated in the following way: "The State maintains in each

individual case both negative and positive debts," or, if you like, "The State maintains in each case both negative and positive claims." When the State introduces new means of payment, this takes effect in reference to the negative and positive debts of each person, or—what comes to the same thing—his negative and his positive claims.

Each individual has an *amphitropic* position in trade, *i. e.* he is in some quarters a debtor and at the same time in other quarters a creditor.

This amphitropic position of the individual in economic transactions was so obvious that it was completely overlooked.

The objection of the layman to means of payment like the much-decried inconvertible paper money is always based on his mistake of looking at the position in economic transactions *monotropically*; he thinks of himself as always creditor.

He makes two mistakes: he regards such Chartal means of payment under their natural, not their legal aspect, and secondly, he considers his own position in trade *monotropically*, not *amphitropically*.

If, however, we avoid those two mistakes, it will no longer seem strange that there can also be a money of a material which, apart from the law, is no longer a "commodity."

If the man in the street now raises the practical question that he does not want to have the paper Chartal form at all, it seems to him dangerous, a

menace to the general weal, he may very likely be right, but he is going outside the domain of theory—as indeed he likes to do, for the natural man has the temperament of a public man; he wishes, in laudable anxiety for the general welfare, to employ his activities in bringing the Good to birth. And who would wish to put obstacles in his path?

This, however, is not the attitude of the theorist. He must follow lyric forms, both good and bad, with equal attention. He will not begin by giving advice, but by laying down principles. For him the essence of a thing is something quite different from its practical importance. His temperament is not that of the public man, but of the philosopher.

The system, dangerous in practice, pleases him because essential characteristics are there most easily recognisable, but he takes care not to recommend such a system. He is not there to make recommendations but to explain phenomena. He leaves to the public man the business of bringing the Good to birth; and the most influential public man is often the weakest theorist.

When once money has been stripped of material content, the reproach is usually made that no "real" payment in the proper sense of the word can now be made. Of course not, if by payment is meant payment by something material. But jurisprudence has to adapt itself to political authority. The law recognises such payments on occasions, and therefore

they are for the jurist true payments, and jurisprudence is forced to broaden correspondingly the earlier narrow concept of payment.

There is also another objection which is often raised against non-material Chartal money. Such tickets as paper money pure and simple are, it is said, acknowledgments of the State's indebtedness. Payment in such tickets is therefore only a claim on the State, a provisional satisfaction still leaving something to be done on the part of the State. It is not a definitive payment, consequently not a payment at all in the strict sense. It is alleged in support of this contention that the Austrian State notes of 1866, which were undoubtedly paper money in the strictest sense of the word, even bore the inscription National Debt Office (*die Staats-Schuldenerwaltung*). Here, however, it must be recalled that the inscription on Chartal pieces is not a source of information as to the legal nature of the pieces, but is only a distinguishing mark.

The question is, how these pieces stand in the eye of the law. On their face they may admit that they are debts, but in point of fact they are not so if the debts are not meant to be paid. In the case of paper money proper the State offers no other means of payment; therefore it is not an acknowledgment of the State's indebtedness, even if this is expressly stated. The statement is only a political good intention, and it is not actually true that the State will convert it into some other means of payment.

The decisive factor is not what the State would do if it could, but what the State does. It is therefore a complete mistake to see no actual payment in payment by inconvertible paper money. It is a true payment, though it is not material.

If it is said that the State makes the greatest efforts to give up that paper system and to convert its notes into material money as soon as it can, and that the notes accordingly are a claim on it for better money to come later, and therefore a debt of the State, what are we to say in reply?

The answer is that the notes are still not a debt of the State in the legal sense, but at most appear to be so in the course of legal history when the State shows the intention of altering the means of payment some time or other, and of changing the present means of payment, according to some proportion to be found later, into new means of payment.

To judge by that intention, the notes can be called a debt of the State; but in this sense any means of payment, even the autometallic ones, are a debt of the State. On this account, therefore, the title of true definitive means of payment should not be refused to the notes.

This is not difficult to see. Every new means of payment is named by its units of value; and every new unit is stated in terms of the former one.

The old becomes a claim on the new one at the moment of the introduction of the new, for as the

State does not extinguish existing debts, so it does not extinguish existing means of payment.

The fact that the State might like to give up convertible paper money for "better" means of payment is therefore no ground for thinking of paper money as a debt of the State in some sense different from that of "more solid" means of payment.

In the course of ages all means of payment are subject to change. A note would only be a debt in the legal sense if it were convertible without any radical general change in the means of payment, and this the note according to our premises certainly is not.

Instead of perpetually insisting on the defects of autogenic money, just think a little of its services. It frees us from our debts, and a man who gets rid of his debts does not need to spend time considering whether his means of payment were material or not. First and foremost it frees us from our debts towards the State, for the State, when emitting it, acknowledges that, in receiving, it will accept this means of payment. The greater the part played by the taxes, the more important is this fact to the tax-payer.

Payment with non-material money (I do not say with immaterial money) is for the country of its origin just as genuine a payment as any other. It is sufficient for the needs of domestic trade; in fact it makes such trade possible. It does not indeed satisfy certain other demands, but the phenomenon is not in itself abnormal.

Phenomena are only abnormal in so far as they conflict with our cherished preconceptions. Non-material Chartal money is not constructed according to the requirements of the schools. It is not narrow school tradition but actual fact which should teach us the essential principles of Chartal payment.

The non-material Chartal form is not abnormal. On the contrary, it gives the bare normal lay-figure to be draped in all manner of imposing and useful fashions.

A parallel case is the constitution of an army. It may be highly expedient to equip an army with breechloaders, because it will then be a better match for the enemy. But this technical circumstance is not the essence of an army, which is an administrative whole whether well equipped or the reverse. So it is with the monetary system. It is an administrative phenomenon, which must be conceived as such, before preference is given to this or that means of payment.

No theory of the metallists deals fairly with non-material money. The theory of the chartalists which we have here explained has room both for material and for non-material money. It is perfectly harmless, as it recommends nothing, and perfectly adequate, as it explains everything.

One thing indeed the chartalist admits without more ado. In the case of non-material Chartal money, as we have described it hitherto, the unit of value is

not defined "really," *i. e.* in material. We cannot say a pound of copper, an ounce of silver or so many grammes of gold compose the unit of value. This does not mean that the unit of value is not defined at all, but that it is defined historically. This is the perfectly clear logical consequence of the fact that law contents itself with defining and naming the means of payment and relating them back to an earlier unit. The law never says that the means of payment are such and such a quantity of material, but merely gives them a name and description.

As soon as the State has advanced to the Chartal means of payment, the mutual relations of the concepts are changed.

In former times the unit of value was defined "really," *i. e.* in terms of material. Debts in units of value arose from this, and the means of payment were the result of the definition of the unit of value (*e. g.* it was copper, if the pound of copper was the unit of value).

On the introduction of the Chartal form, however, the situation is as follows. Debts exist expressed in the earlier unit of value. The present unit of value is not defined "really," but by the declaration by the State how many of the present units (say marks) go to discharge the debt expressed in the former unit (say thaler). To know the means of payment we need, not a mere historical definition, but a special description of the pieces, and a statement how many

units of value each piece is worth. The resulting validity is purely authoritative; a definite content for the pieces is neither demanded nor excluded.

In former times the unit of value had to be "really" defined, *i. e.* in some material. Hence arose debts in units of value. Now we know of debts in earlier units of value, and by reason of these debts the present unit is defined no longer "really" but historically.

No conclusion can be drawn about the means of payment from the definition of the unit of value because this definition has ceased to be a "real one."

All this holds good in every Chartal system, therefore in every kind of money, even in the most popular kind, namely, specie money, as we shall soon show.

This is perhaps the boldest assertion that can be ventured, for nothing is so directly opposed to the common view. People will retort that these propositions may be true in the case of paper money, but in the case of specie money they are false. Nevertheless, the great dividing wall between the means of payment is not between hard cash and paper, but between penesatory and Chartal means of payment.

Specie money has all the properties of paper money and a few others in addition.