

THE  
STATE THEORY  
OF MONEY

BY

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## AUTHOR'S PREFACE TO THE ENGLISH EDITION

*The State Theory of Money* appeared first in 1905; the 2nd edition followed in 1918, the 3rd in 1921, the 4th in 1923. Our translation is based on the 4th.

When the work had appeared in Germany, it was reviewed in England by Dr. J. Bonar in the *Economic Journal*, March 1922.<sup>1</sup> The somewhat unfamiliar features of the book could not have been more happily brought out than in this review.

Thereupon the Royal Economic Society determined to set on foot an English translation, in an abridged form. The work consists of four chapters, of which only the first three will be found here, translated with masterly exactness in spite of all difficulties. The fourth chapter contains the history of currency in England, France, Germany and Austria, as shown in the Contents. The author would not have advised this omission; but the ground is perhaps one of expense and lies in any case beyond his criticism.

Moreover, the same curtailment was made in

<sup>1</sup> Vol. xxxii, pp. 39-47. Mr. C. P. Sanger had reviewed it as early as June, 1906, in the *Economic Journal*, vol. xvi, pp 266-267.

the Japanese translation by Kiyozo Miyata, Tokio, 1922;—it might seem as if German writers laid greater stress on history than foreign writers.

In any case the author is grateful to the Society for carrying out the undertaking, doubtless at some sacrifice. In particular my thanks are due to Messrs. Keynes and Bonar, as well as to the honoured translator, Mrs. Lucas, and her adviser, Mr. Sanger.

G. F. KNAPP.

*Darmstadt,*  
*May 16th, 1924.*

#### AUTHOR'S PREFACE TO THE FIRST GERMAN EDITION (1905)

I GAINED my earliest impressions as to currency questions in 1861 from a summer journey in the Tirol, where there was only paper money in circulation. I had my first teaching on the subject the following winter in Munich from Staatsrat von Hermann. My teacher was a well-informed and clear-sighted man, a silver metallist and an upholder of the theory that the use of paper money was based on credit. In the winter of 1862–63 his favourite subject was currency conditions in the United States, and I was again among his hearers.

When in Strassburg I myself began a small course of lectures on currency, I tried to keep theory in the background and to bring out clearly what is matter

of rule and ordinance<sup>1</sup> in the most important States, and I still think this heuristic method the best for lectures.

One of my pupils, Karl Helfferich, has far outstripped me in this art; for clearness of construction his works cannot be praised too highly. Another pupil, Philipp Kalkmann, by his studies on England, Holland and Switzerland, has greatly increased my knowledge. I would gladly have had him with me as an associate, had he not adopted another profession.

In the autumn of 1895, in a course of lectures in Berlin, I put forward my views fully for the first time, laying down: that the money of a State is not what is of compulsory general acceptance, but what is accepted at the public pay offices; and that the standard is not chosen for any properties of the metals, but for the deliberate purpose of influencing exchanges with the commercially important neighbouring States.

Soon after this Georg Simmel brought out his able book on the *Philosophy of Money* (Leipzig, 1900). As it treats only of the sociological side of currency, I do not need to regard my work as competing with his. I feel myself nearer to Otto Heyn, whose work (1894) is entitled *Paper Standard with a Gold Reserve for Foreign Trade* (Papierwährung mit Goldreserve für den Auslandsverkehr). It was a book that appealed to public men and deserved more attention

<sup>1</sup> *Das Pragmatische.*

than it received. For myself, I came to give up any attempt to influence public men, and I give the first place to the theory or philosophy of the subject, at the risk of displeasing both schools of monometallists, not to speak of the bimetallicists, who will not be any better satisfied.

On the other hand, I hope for the approval and perhaps the help of those who take the monetary system (or, better, the whole system of payments) to be a branch of political science. I hold the attempt to deduce it without the idea of a State to be not only out of date, but even absurd, however widely these views may still obtain. To avoid polemics, I have always called this the metallistic view, and have opposed metallism as such without naming its supporters, and also without opposing the use of metal.

I began to develop the State Theory of Money in September 1901, and I dare not confess how many false starts I made. A theory must be pushed to extremes or it is valueless. The practical man can, nay, must, content himself with half-truths. The theorist who stops short at half-truths is lost.

In order to attain my end and replace the metallistic view by one founded on Political Science, I was forced to invent a terminology of my own. Even if new expressions could have been formed in German, it seemed important that in this branch of science, which has nothing national in it, terms should be found that could go easily into any language, as being

erudite rather than popular.<sup>1</sup> I have renounced the advantages of a pleasing style to obtain the greater advantage of scientific treatment. My aim is with clearness and certainty to reconstruct the ideas at the bottom of the prevailing rules and ordinances about money.

I am sorry that I am not able to enter into the merits of my predecessors, Richard Hildebrand, Ignaz Gruber, Karl Knies, Lexis and Bamberger, and many others. To write a full literature of the subject would be a special historical work in itself.

I am making a first sketch, which others must complete.

My heaviest debt is to G. Th. Fechner, who never wrote a line on currency, and indeed knew nothing about it. From him, for example, from his little book on the Soul,<sup>2</sup> we learn how to distinguish the essential from the accidental, and, if anyone says that my own aim has been to discover the soul of money, well, so be it.

*Strassburg,*  
*July 5th, 1905.*

<sup>1</sup> They will be found to be usually Greek, occasionally Latin, as in Chemistry and Botany (Tr.).

<sup>2</sup> *Ueber die Seelenfrage*, Leipzig, 1861.

## NOTE BY TRANSLATORS

THE present is an abridged version of Prof. Knapp's book. For reasons of cost the translation has been confined for the present to the theoretical part; and Prof. Knapp's illustrations have been considerably abridged, while every effort has been made to preserve his essential arguments.

To show the scope of the whole book, translated and untranslated, we have given the "Contents" in the complete form, including Chapter IV and the Appendices, which are here omitted.

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piece should be valid. From the two together follows the *specific* content of the piece.

If the law lays it down that a certain metal may be physically converted into money *without limit*, this is a *genetic* relation between money and metal. We call this metal *hylie*. The *hylogenic* norm lays down how many units of value in money are to be produced from a unit of weight of the given metal. If this conversion takes place by means of free coinage, and if the content of the piece answers to the norm, we have *specie* money. All other is *notal*, whether coins or paper money pure and simple.

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In accordance with the regulations as to legal tender, money is divided into *current money*, purely *facultative* money, and *small change money*. There must be at least one *definitive* kind of money, *i. e.* which the creditor must take without being legally entitled to receive other kinds of money for it. There are also provisional kinds of money, legally convertible into definitive money.

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It also remains undecided which of the two metals has a fixed price, only a lower limit of price being kept for each of them. The classification of standards according to their treatment of metals leads to eight subdivisions, the usual classification into gold, silver and paper standards being superficial. The "limping standard."

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<sup>1</sup> Not here translated.19a. *Austria, 1857–1892.*

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<sup>1</sup> Not here translated.

voluntary specie payment. No question of conversion of notes into gold. Further details as to the regulation of the inter-valuation 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. *Autometallism ; 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<sup>1</sup> 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.

<sup>1</sup> "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  $\frac{1}{139.5}$ 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  $\frac{1}{45}$ 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 (*lytron*) 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 authylism?

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 autometallism had begun with copper, we should still have autometallism 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 autometallism, 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 autometallism, 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.

Lytric 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.

Lytric 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 lytric 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, lyric debts are therefore always "nominal" debts, *i. e.* they refer at first to the lyric unit at the time they are incurred; but should the means of payment change they are converted into debts in the new lyric 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 lyric debts, as a matter of legal history, is clearly seen, even under autometallism, 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 lyric 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, lyric debts are "nominal."

For a long time I shrank from recognising that the nominal unit of value was quite sufficient for judging the lyric 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 lyric 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 lyric institutions.

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

Nothing prevents us from developing the lyric 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 aucthority (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 *authylism*.

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 authylistic, and especially in the autometalistic 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,

1 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