

so the legal tender provisions naturally followed this course.

A state may select a valueless commodity as a standard, but that will not make it of value to those who would already give nothing for it; and so, it may give the legal-tender quality to a thing which has become valueless, but that will not of itself insure the maintenance of its former value. This proposition may, at first, appear to be opposed to a widely-spread belief; but its soundness can be fully supported. It should be learned that a commodity, or a standard, holds its value for reasons quite independent of the fact that it is given legal recognition. It has happened that legal recognition has been given to it because it possessed qualities that gave it value to the commercial world, and not that it came to have these qualities and this value because it was made a legal tender.

A good illustration of this truth is to be found in international trade. Money which is not dependent on artificial influences for its value, and which is not redeemable in something else, is good the world over at its actual commercial value, not at its value as fixed by any legal-tender laws. It is not the legal-tender stamp that gives a coin its value in international payments. A sovereign, an eagle, a napoleon, is constantly given and received in international trade not because of the stamp it bears, but because of the number of grains of a given fineness of gold which it contains—the value of which is determined in the markets of the world. And an enormous trade among the great commercial countries goes on easily and effectively without regard to the legal-tender laws of the particular country whose coins are used.

By imposing the attribute of legal tender, however, upon a given metal or money, it may be believed that thereby a new demand is created for that metal, and that its value is thus controlled. And in theory there is some basis for this belief. It is, of course, true that, in so far as giving to money a legal-tender power creates a new demand creates for it (which without that power would not have existed) an effect upon its value can be produced. But this effect is undoubtedly much less than is usually supposed. It must be remembered that the value of gold, for instance, is affected by world influences; that its value is determined by the demand of the whole world as compared with the whole existing supply in the world. In order to affect the value of gold in any one country, a demand created by a legal-tender enactment must be sufficient to affect the world-value of gold. Evidently the effect will be only in the proportion that the new demand bears to the whole stock in the world. It is like the addition of a barrel of water to a pond; theoretically

the surface level is raised, but not to any appreciable extent.

It may now be permissible to examine into the extent to which a demand is created by legal-tender laws. If the article endowed with a legal-tender power is already used as the standard and as a medium of exchange, it is given no value which it did not have before. The customs and business habits of a country alone determine how much of the standard coin will be carried about and used in hand-to-hand purchases, and how much of the business will be performed by other media of exchange, such as checks or drafts. The decision of a country to adopt gold—when it had only paper before, as was the case in Italy—would create a demand for gold to an extent determined by the monetary habits of that country; and this demand has an effect, as was said, only in the proportion of this amount to the total supply in the world. This operation arises from choosing gold as the standard of prices and as the medium of exchange. To give this standard a legal-tender power in addition does not increase the demand for it, because the stamp on the coin does not in any way alter the existing habits of the community as to the quantity of money it will use.

But in case an equal power to pay debts is given to fixed quantities of two metals, while each quantity so fixed has a different metallic value but the same denomination in the coinage, Gresham's law is set in operation with the result that the cheaper metal becomes the standard. After this change has been accomplished, the legal tender has no value-giving force. When the cheaper metal has become the standard, its legal-tender quality does not raise the value of the coin beyond the value of its content. This cheaper standard, in international trade, would be worth no more in the purchase of goods because it bore the stamp of any one country. Prices must necessarily be adjusted between the relative values of goods and the standard with which they are compared. If the standard is cheaper, prices will be higher, irrespective of legal-tender acts. Where two metals are concerned, then, the only effect of a legal-tender clause is an injurious one, in that the metal which is overvalued drives out that which is undervalued.

The example of an inconvertible paper, such as our United States notes (greenbacks) in 1862-1879, is still more conclusive. Although a full legal tender for all debts public and private, their value steadily sank until they were at one time worth only 35 cents in gold. In California, moreover, these notes, although legal tender, were even kept out of circulation by public opinion. In short, the value of inconvertible paper can be but slightly affected by legal-tender powers. Its value is more di-

rectly governed, as in the case of token coins, by the probabilities of redemption. As bearing on the point that the value of the paper was more influenced by the chances of redemption than by legal-tender laws, we may cite the sudden fluctuations in the value of our United States notes during the Civil War. With change in the legal-tender quality and no change in the indebtedness which might be paid with such notes, their value frequently rose or fell many per cent in a single day owing to reports of Federal successes or defeats in battle, which had a tendency to affect one way or the other the public estimate of the probabilities of an early resumption of specie payments. The fact that they were legal tender evidently had no effect whatever in maintaining their value.

In view of the evident fact that legal-tender acts do not preserve the value of money, it is clear that the demand created by such legislation must be insignificant. And this must be so in principle as well as in fact.

There is but one thing which the legal-tender quality enables money to do which it could not equally well do without being a legal tender; that is to pay past debts. An examination, however, shows that this use of money is very small compared with its other uses. The amount of past debts coming due and which might be paid in any year, month or day is insignificant when compared with the total transactions of that year, month or day—so very small as to lose all measurable value-giving power. In other words, the one thing which legal-tender money can surely do in spite of the habits, wishes or prejudices of the business community in which it exists, namely, cancel past debts, is infinitesimally small when compared with those other things which man wishes money to do for him. It is for this reason that it ceases to give value, and this is why history has shown so many instances where money endowed with legal-tender power has become utterly valueless. The legal-tender money is no longer money if it will not secure for man the things which are most important for his welfare, if it will not buy food, clothes and shelter; for it performs none of the functions of money except the subsidiary one of canceling past debts.

Moreover, the obligatory uses of legal-tender money are in fact very inconsiderable. A law requiring a past debt to be satisfied with money of a certain kind has for its essence only the payment of something of a definite value, or its equivalent; in practice it does not even bring about the actual use of a legal money, since the monetary habits of the community will not necessarily require the debt to be paid in such money. Take the extreme case of a judgment by a court against a defendant for fulfillment of a contract; in such