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Chapter 1 The Island of Stone Money

From 1899 to 1919 the Caroline Islands, in Micronesia, were a German colony. The most westerly of the group is the island of Uap, or Yap, which at the time had a population of between five thousand and six thousand.

In 1903 an American anthropologist named William Henry Furness III spent several months on the island and wrote a fascinating book about the habits and customs of its inhabitants. He was particularly impressed by the islanders' monetary system, and accordingly he gave his book the title I have given this chapter: *The Island of Stone Money (1910).*

[A]s their island yields no metal, they have had recourse to stone; stone, on which labour in fetching and fashioning has been expended, is as truly a representation of labour as the mined and minted coins of civilisation.

Their medium of exchange they call fei, and it consists of large, solid, thick, stone wheels, ranging in diameter from a foot to twelve feet, having in the centre a hole varying in size with the diameter of the stone, wherein a pole may be inserted sufficiently large and strong to bear the weight and facilitate transportation. These stone "coins" [were made from limestone found on an island some four hundred miles distant. They] were originally quarried and shaped [on that island and the product] brought to Uap by some venturesome native navigators, in canoes and on rafts....

[A] noteworthy feature of this stone currency ... is that it is not necessary for its owner to reduce it to possession. After concluding a bargain which involves the price of a fei too large to be conveniently moved, its new owner is quite content to accept the bare acknowledgment of ownership and without so much as a mark to indicate the exchange, the coin remains undisturbed on the former owner's premises.

My faithful old friend, Fatumak, assured me that there was in the village near-by a family whose wealth was unquestioned—acknowledged by every one—and yet no one, not even the family itself, had ever laid eye or hand on this wealth; it consisted of an enormous fei, whereof the size is known only by tradition; for the past two or three generations it had been, and at that very time it was lying at the bottom of the sea! Many years ago an ancestor of this family, on an expedition after fei, secured this remarkably large and exceedingly valuable stone, which was placed on a raft to be towed homeward. A violent storm arose, and the party, to save their lives, were obliged to cut the raft adrift, and the stone sank out of sight. When they reached home, they all testified that the fei was of magnificent proportions and of extraordinary quality, and that it was lost through no fault of the owner. Thereupon it was universally conceded in their simple faith that the mere accident of its loss overboard was too trifling to mention, and that a few hundred feet of water off shore ought not to affect its marketable value, since it was all chipped out in proper form. The purchasing power of that stone remains, therefore, as valid as if it were leaning visibly against the side of the owner's house....

There are no wheeled vehicles on Uap and, consequently, no cart roads; but there have always been clearly defined paths communicating with the different settlements. When the German Government assumed the ownership of The Caroline Islands, after the purchase of them from Spain in 1898, many of these paths or highways were in bad condition, and the chiefs of the several districts were told that they must have them repaired and put in good order. The roughly dressed blocks of coral were, however, quite good enough for the bare feet of the natives; and many were the repetitions of the command, which still remained unheeded. At last it was decided to impose a fine for disobedience on the chiefs of the districts. In what shape was the fine to be levied?...At last, by a happy thought, the fine was exacted by sending a man to every failu and pabai throughout the disobedient districts, where he simply marked a certain number of the most valuable fei with a cross in black paint to show that the stones were claimed by the government. This instantly worked like a charm; the people, thus dolefully impoverished, turned to and repaired the highways to such good effect from one end of the island to the other, that they are now like park drives. Then the government dispatched its agents and erased the crosses. Presto! the fine was paid, the happy failus resumed possession of their capital stock, and rolled in wealth.

The ordinary reader's reaction, like my own, will be: "How silly. How can people be so illogical?" However, before we criticize too severely the innocent people of Yap, it is worth contemplating an episode in the United States to which the islanders might well have that same reaction. In 1932-33, the Bank of France feared that the United States was not going to stick to the gold standard at the traditional price of $20.67 an ounce of gold. Accordingly, the French bank asked the Federal Reserve Bank of New York to convert into gold a major part of the dollar assets that it had in the United States. To avoid the necessity of shipping the gold across the ocean, the Federal Reserve Bank was requested simply to store the gold on the Bank of France's account. In response, officials of the Federal Reserve Bank went to their gold vault, put in separate drawers the correct amount of gold ingots, and put a label, or mark, on those drawers indicating that the contents were the property of the French. For all it matters, the drawers could have been marked "with a cross in black paint," just as the Germans had marked the stones.

The result was headlines in the financial newspapers about "the loss of gold," the threat to the American financial system, and the like. U.S. gold reserves were down, French gold reserves up. The markets regarded the U.S. dollar as weaker, the French franc as stronger. The so-called drain of gold by France from the United States was one of the factors that ultimately led to the banking panic of 1933.

Is there really a difference between the Federal Reserve Bank's believing that it was in a weaker monetary position because of some marks on drawers in its basement and the Yap islanders' belief that they were poorer because of some marks on their stone money? Or between the Bank of France's belief that it was in a stronger monetary position because of some marks on drawers in a basement more than three thousand miles away and the Yap family's conviction that it was rich because of a stone under the water some hundred or so miles away? For that matter, how many of us have literal personal direct assurance of the existence of most of the items we regard as constituting our wealth? What we more likely have are entries in a bank account, property certified by pieces of paper called shares of stocks, and so on and on.

The Yap islanders regarded as a concrete manifestation of their wealth stones quarried and shaped on a distant island and brought to their own. For a century and more, the civilized world regarded as a concrete manifestation of its wealth a metal dug from deep in the ground, refined at great labor, transported great distances, and buried again in elaborate vaults deep in the ground. Is the one practice really more rational than the other?

What both examples—and numerous additional ones that could be listed—illustrate is how important appearance or illusion or "myth," given unquestioned belief, becomes in monetary matters. Our own money, the money we have grown up with, the system under which it is controlled, these appear "real" and "rational" to us. Yet the money of other countries often seems to us like paper or worthless metal, even when the purchasing power of individual units is high.