§ 7

Summary

The arguments and discussion of this chapter are important both in themselves and as preparation for the two chapters which immediately follow. At this point, however, we shall merely restate the main conclusions.

The general level of prices, like the price of any specific kind of goods, depends on demand and supply. The demand for goods-in-general, at any given price level, tends to be larger in proportion as the amount of money is larger. Hence, the larger is the amount of money, the higher must the price level be, in order that demand for goods shall not exceed supply.

The prices of goods in any community tend to be related to the prices of goods in other communities, if the money of both is based on the same material, e.g., gold, since such a common money material will flow from where prices are high to where they are lower. Tariffs interfere with this flow. And a country which, by a protective tariff, restricts the purchases of its citizens from other countries will in turn export less to other countries.

Where there is free and unlimited coinage of gold the level of prices and the value of money are related to the value

of gold as bullion. *Without coinage, government readiness to buy and sell gold at a fixed price in exchange for paper money will produce the same effect.*

Cheaper money tends to push out or keep out of circulation a somewhat less amount of dearer money when the dearer money is worth, to begin with, the same as the material of which it is made. When the dearer money is all pushed out, further increase of the cheaper money raises prices rapidly since it then means a net addition to money supply.

A fluctuating level of prices upsets the relations of borrowers and lenders, enabling the former to gain at the expense of the latter when prices rise, and enabling the latter to gain at the expense of the former when prices fall. To prevent fluctuations in the general price level would therefore be to prevent a great deal of injustice and would be to accomplish a most important economic reform.

To prevent fluctuations in the general price level, by controlling the volume of money (and, as we shall see in the next two chapters, of bank credit), does not involve regulation of individual prices. It does not involve any limitations on competition. It does not involve regimentation. Such a policy would allow prices of goods in any particular industry to rise if demand from consumers increased or if partial exhaustion of sources of raw material or other difficulties on the side of production decreased supply; and it would allow prices of the output of any particular industry to fall if inventions or other favorable conditions made cheaper production possible. A wise control of the volume of money would aim at a stable *average* of prices, a stable *general price level.* This would mean that a dollar, though it might, in succeeding years, buy less of some goods and more of others, would buy about the same amount of goods *on the average.*

In the past, the dollar has fluctuated greatly in its value or purchasing power. The situation has been much as it would be in the case of the yard if a yard meant the equivalent of what is now thirty-six inches in (say) June, forty-eight of such inches in September and, perhaps, twenty-three

of such inches in the succeeding March and if these changes were, for most or all persons, unforeseeable. A merchant ordering cloth by the yard for delivery several weeks hence would have no idea how much cloth he would get.

Or, again, the situation has been somewhat as it would be if the bushel were similarly variable, so that a miller who wished to order wheat or corn or oats for delivery at a future date, or a grain dealer or speculator who wished to promise such delivery, could have no accurate idea how much was to be received or delivered! What shall we say of those conservatively-minded men who apparently expect changes in the value of money, in terms of which practically *all* of our commercial transactions are carried on, to be less disruptive than changes in a unit of measure significant only for a *small proportion* of transactions?

It is not especially important that the dollar should always be worth a given number of grains of gold. It is of primary importance that the dollar shall be stable in its general purchasing power. And so, if and when gold fluctuates in its value in relation to other goods, it may be better that the dollar shall *not* be worth, continuously, a fixed number of grains of gold.