

## CORRESPONDENCE

## MONEY AND PRICES

To the Editor of LAND VALUES

SIR,—In October LAND VALUES "Notes of the Month" Mr. Madsen argued that another factor in relation to the rise in prices, in addition to hindrances to the production of wealth, had to be considered, namely, the continuous issue of currency notes.

In the course of discussion, first at the Glasgow meeting in November, then in LAND VALUES and by correspondence, I tried to maintain: 1st, that the amount of inflation due to paper issue was small as compared with the hindrances to production; 2nd, that the withdrawal of the existing gold and the substitution of paper money could not be a cause of inflation; 3rd, that paper currency, other things being equal (*pace*, Mr. Shaw), served the same purpose as gold, and being cheaper was a distinct advantage and not a factor in raising prices. At the Glasgow meeting and in the correspondence I affirmed that there was no evidence of a premium for gold.

Evidence was immediately forthcoming showing that the latter statement was not true, and also that there had been an issue of Bradburys tremendously in excess of the gold withdrawn. These considerations led me to admit Mr. Madsen's contention in the main, the relative amounts due to hindrances to production and inflation not being relevant.

The fact that part of the rise in prices was due to the increase of paper money was sufficient to prove Mr. Madsen's main contention, which I therefore admitted. Price being a resultant of two things, the quantity of money and the powers of production, involves the idea that price is the value of things in money. This was the basis of my discussion with Mr. Madsen. If price is something else, if it is, as Mr. Shaw assumes, the amount of service required to obtain a given quantity of wealth, it has nothing to do with the foundations of that discussion.

Mr. Shaw seems to think that the excellent scientific dictum, "One name, one thing," is equivalent to "One thing, one function." My statement was that money (one thing) had two functions (as a matter of fact, it has more), it was 1st, a medium of exchange, and 2nd, in contradistinction to cheques, bills, &c., an absolute payer of indebtedness. It is possible to give one name to one thing, but it is beyond the wit of man to limit the functions of things, nor do I think it desirable to give a thing two names because it happens to have two functions. The story comes down to us from ancient days of a man being condemned because "he could blow hot and cold with the same mouth." Mr. Shaw says that in economic discussions, when it is necessary to denote more than one fiscal idea by one word, he prefers to use "currency" and to give to "money" the strict technical definition of a medium of exchange of value.

Mr. Shaw has here confused the scientific meaning of the word "denote." We do not denote qualities, we only denote things. It is rather an interesting fact in this connection to find that Professor F. A. Walker, in his well-known and valuable work on "Money," somewhat on the lines of Jevons's work, declaring that after using the term "currency" for half a lifetime, though it is an American word, he has discarded it because of its absolute indefiniteness.

Mr. Shaw's limitation will not save him from contradiction, for the same thing (one thing, with one name) which functions as a medium of exchange of values will also function as a measure of values. He has only passed out of the frying-pan into the fire, and is thus a real example of the preacher who does not practice what he preaches. In contradistinction to him I am a veritable ascetic.

Again, Mr. Shaw says, "payment of indebtedness is the rendering of value (service or commodity) for value received; hence, bearing in mind the above definition, it is self-evident that money payment cannot be *de facto* payment of indebtedness since it is neither commodity nor service."

A parallel to the above argument might be given as follows: T.N.T., by definition being a kind of smoking mixture, cannot blow up buildings.

If anything is self-evident surely it is that a money indebtedness may be met by a money payment; evidently his definition of money has not saved *him* from lengthy explanation, or given him clarity of thought; nor can it lead him to definite results, except by discarding it and getting a correct one. Discharge of indebtedness is simply the act of rescinding the debt and may even be carried out on the will of the creditor without payment. It is not unknown for a creditor to discharge the debt of his friend rather than raise an action at law.

Payment of a debt is a different thing. Payment by Bradburys, bank notes, shillings or pence is everywhere regarded as absolute payment, because of a simple mathematical or logical axiom, that things which are equal (exchangeable) for the same thing are equal (exchangeable) for one another. Thus it is, as I pointed out to Mr. Gemmell, Lord Rosebery's cheque may be more acceptable than mine, but my money is equally acceptable with his.

Payment by cheque or by bill is not absolute payment; there may be no bank funds to meet the cheque, and the bill may never be met. In such circumstances an account still stands. Things such as cheques and bills are media of exchange, but not money; money is generally acceptable.

Mr. Shaw's argument, that carefully eliminating the concomitant causes of the enhancement of prices (this phrase is synonymous for "other things being equal") out of the calculation, the use of gold for the purchase of food and munitions from the United States and the substitution of paper money, has eased and not accelerated the rise in prices, is quite valid, as far as it goes. (We shall see directly how far it does go.) Provided he eliminates also the concomitant causes on which the gold issue was a check, *i.e.*, the causes operating to increase the issue of such paper money.

How far now did the gold easement go? The total expenditure of the country since the war began, up to March of this year, amounted to £4,318,000,000, and the total gold released on the highest estimate was 78 millions—something in the region of 2 per cent. Against this, at December, 1916, 100 millions more than the 78 millions had been issued and the Government is continuing to issue at a rate equivalent to £1,000,000 per week.

This addition of money represents neither gold, nor commodity, nor service. If it can be issued to this extent without result, why should not the whole 4318 millions have been realised in this way? This I take to be the question under discussion.

Mr. Shaw then draws certain conclusions from the definition that "price" is the amount of service required to obtain a given quantity of wealth. Suppose his deductions were valid, it would not prove his definition. John Stuart Mill, with his genius for illustration, compares a definition to the walls of a city, widening with the growth of the city, narrowing with its curtailment. In abstract form, a definition must correspond to the thing defined; it must cover the thing defined, the whole thing defined, and nothing but the thing defined. Now, if price is the amount of service required to obtain a given quantity of wealth, what shall we call the amount of wealth required to obtain a given amount of service?

We say "price" is the value of services or goods in money. Thus we have the following exchanges:—

Money for service=price of service.

Money for goods=price of goods

Mr. Shaw's definition involves the following exchanges:—

Service for service for goods or for money.

Goods for goods for service or for money.

Money for money for service or for goods.

Perhaps in his next letter he will tell us how such prices are to be determined, and at the same time distinguish between "price" and "value."

Immediately on the outbreak of war the price of sugar rose enormously; it was not a nominal rise, because other prices were as yet little altered. There were the usual stocks in the hands of dealers, no more labour was required for distribution. If price varies indirectly as the ratio of labour to its product, how is the rise explained? There is no "other things being equal" for Mr. Shaw, but he can, of course, "eliminate the concomitant causes from the calculation."

On his basis, "things which are equal to the same thing can be unequal to one another." The use of the words "nominal" and "real" argues failure in a definition. If price is a relative to production only, there can be no nominal price and no real price—there can only be "price."

We speak of nominal and real wages, because wages is a division of produce, it is produce—rent—interest. A rise in money wages or the price of service, while the things that money will buy remain the same is not a rise in wages, but a rise in the price of labour.

Mill's statements regarding money, based as they are on the definition that price is value in money, could hardly be expected to square with Mr. Shaw's definition, which is *sui generis*. If we all suddenly became possessed of double the quantity of money (money=purchasing power), we should have to carry double the quantity of money—that is the correct and only inference. The doubling of prices is simply the converse.

Mr. Shaw confounds "price" and "value." Value will remain the same, because value is a relation to exertion and not to money. The value of a thing is the exertion which its possession saves me; the price is the amount of money for which it will exchange. If Ricardo's theory that "other things being equal, an increase in the amount of money will raise prices" is true, it cannot be that prices are both maintained at the same level and risen at the same time; but prices may rise and values remain the same.

A law with a limiting proviso, "other things being equal," or "concomitant causes eliminated," is quite as true as a law unlimited, as a minus quantity is quite as real as a plus. By no analytical method can we eliminate "ethics," "psychology," "the higgling of the market" from the consideration of economics, if by elimination is meant absolute non-consideration. If by elimination is meant calculation of the operation of one cause where a number of causes are at work then abstraction with the minus proviso is the only possible method.

Geometry is an exact study although no one ever saw a line that had no breadth or a point that had no position. Economics has to do with the apparent variation of prices (if such a thing exists) just as logic has to do with apparent arguments and algebra with apparent equations. "Price" is value measured in money as a yard is an arbitrary measure of length. But yard and length are not the same thing, neither is "price" the same thing as "value."

"Economics," says Mr. Shaw, "does not recognise apparent variation in prices due to a greater or lesser multiplication of the signature 'John Bradbury.'" Economics, as I understand it, must account for all variations real or apparent within its province of the production and distribution of wealth; it has to account for "price," whether it be an idol of the market-place or a part or relation of reality. If the multiplication of John Bradburys is of

no importance, let us have free printing of them and we shall all live by taking in each other's washing.

The primary or fundamental law of economics, derived from psychology, "that men seek to gratify their desires with the least exertion," has in the economic sphere the universality of gravitation. The quantity theory of money is a derivative or secondary law, derived from that fundamental axiom. It is equally true when the minus proviso, "*Ceteris paribus*," "other things being equal," "concomitant causes eliminated," is added. Mr. Shaw has not disposed of this. He is a witness for the defence. We cannot believe what we will, but only according to the facts and our knowledge of them. The facts compel us to consider price as related to money.

Yours &c.,

WILLIAM CASSELS.

### GENERAL SMUTS ON THE LEAGUE OF NATIONS

A meeting to promote the objects of the League of Nations movement was held in the Central Hall, Westminster, May 14th.

General Smuts moved the following resolution:—

It is expedient, in the interest of mankind, that some machinery should be set up after the present war for the purpose of maintaining international right and general peace, and this meeting welcomes the suggestions put forward for this purpose by the President of the United States, and other influential statesmen in America, and commends to the sympathetic consideration of the British people the idea of forming a union of free nations for the preservation of permanent peace.

He said he had responded to the call of the chairman with some embarrassment because the matter was the most difficult that had arisen on the horizon of human thought. He had nothing dogmatic to say, but progress had been made; the subject was no longer merely academic—no longer Utopian. If the war had done nothing else, it had, at any rate, stamped into the hearts of millions of men and women an intense desire for a better order of things. They saw the result in a meeting like that, where they had not only gathered together the dreamers, idealists, and the visionaries, who were the salt of the earth, but the practical men, and the men of blood like himself.

They had seen in this war the most criminal disregard of all laws, human and divine, and they had seen civilization itself almost crumbling to pieces. This war was not due to any superhuman agency—it was man-made. Human intelligence, human stupidity, human greed, and ambition were the basis of this calamity, and therefore this was not the occasion to fold our hands and bow our heads before the storm. It was a time for action.

This conflict had shown that there was grave danger in believing in "scraps of paper" and in institutions. There must be created a sound, healthy public opinion. That would be the best guarantee of peace to see that Governments were kept in order, that diplomats were kept in order. This was the first and important condition of future peace. Secondly, we must conclude a good peace. He did not see how we were going to have a chance of perpetual peace in future if this war was going to be ended, like other wars, by a mere patchwork compromise between conflicting interests. The war had carried us down to the depths, and let us build from the depths. Let us not have, as after former wars, nations disposed of, parcelled out, and chopped up by the Great Powers of the world, but let there be a system international in character. It was that the society were aiming at. There must be a league for consultation and for discussion of vital issues.—THE TIMES, May 15th.